Ontario

Ontario's Long-Term Report on the Economy

Ministry of Finance

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Rapport sur les perspectives économiques à long terme de l'Ontario

Foreword

Ontario's Long-Term Report on the Economy is the McGuinty government's second long-range assessment of Ontario's economic future. These reports are designed to highlight the long-term challenges and opportunities that will affect the province over the next 20 years.

This report and the government's first one, *Toward 2025: Assessing Ontario's Long-Term Outlook*, are part of the government's commitment to transparency and accountability. As part of that commitment, the *Fiscal Transparency and Accountability Act, 2004* requires that the government present a long-range assessment of Ontario's economic and fiscal environment.

Much has changed since we released our first report in 2005: Ontario's population has grown by 500,000 people, the oldest baby boomers are approaching age 65, there is heightened competition in an increasingly globalized world, energy costs have increased and the dollar has risen. Most notably, Ontario has been hit by the worst global recession in recent memory.

Governments cannot control the effects of global forces or demographic shifts, but we do have a responsibility to identify challenges and lay the groundwork for future prosperity. The goal of this report is to share publicly what we know about the economic challenges that Ontario may face in the next two decades. Not surprisingly, the province will be grappling with an aging population, increased urbanization and rising global competition. At the same time, Ontario will continue to be vulnerable to changes in the global economy.

The McGuinty government is committed to looking beyond the short term by positioning Ontario for long-term success. It is why this government has focused on early childhood education, investments in infrastructure and modernizing Ontario's tax system. All will have a long-term positive impact on our economy and our families.

This report is not intended to be viewed as a plan, but rather as a long-range assessment of Ontario's economic future. Its purpose is to provide a context to government policy and decision-making. Those looking for in-depth analysis of current government policy and programs can turn to other government publications including the *Ontario Budget*, *Ontario Public Accounts* and *Progress Report 2009*. In the spring, I will present the 2010 Budget, which will provide an update on Ontario's fiscal plan.

In producing this report, we consulted many expert reports including work from the Conference Board of Canada, International Monetary Fund, University of Toronto, Statistics Canada, as well as reports from other international governments. In conclusion, I would like to thank all the people and organizations that shared their expertise as well as all those in government who contributed to this report.

In the next 20 years, I am confident that Ontario will rise to the challenges it faces and be bigger, better and stronger.

The Honourable Dwight Duncan, MPP
Minister of Finance, Chair of Management Board

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INTRODUCTION

In accordance with the *Fiscal Transparency and Accountability Act, 2004*, this report presents a long-range assessment of Ontario's economic and fiscal environment.

Since the government's first report, much has changed. Ontario's population has risen from 12.5 million to 13 million people. The number of Ontario seniors (those over 65) has gone from 1.6 million to 1.8 million. At the same time, we've seen many Ontario industries face significant challenges. The slowing U.S. economy, rising oil prices and a higher-than-anticipated Canadian dollar affected growth — particularly in the manufacturing and resource sectors. The auto sector has seen a dramatic shift in employment.

Global economic crisis affected Ontario

In the fall of 2008, Ontario, like most other jurisdictions, began to experience the impacts of a global economic crisis. The effect on Ontario individuals, families and businesses was, and continues to be, profound.

While no jurisdiction, including Ontario, was able to predict this crisis, it dramatically underlined the importance of being able to adapt to challenging times. Governments have a responsibility to lead and to respond to broader forces. While the government cannot reverse the flow of globalization, undo the recession or stop population aging, it can take the necessary steps towards improving Ontario's prospects.

Leading the province forward

This report both outlines and underlines the importance of adapting to a new economic reality. To ensure that Ontario's productivity and competitiveness continue to improve, the McGuinty government has taken significant steps to lead the province forward. In 2009, the government announced a comprehensive tax package that will help create jobs and make Ontario more competitive. The government is also modernizing the province's infrastructure and building a stronger workforce with full-day learning for four- and five-year-olds.

The goal of this report is to better understand what Ontario will be facing in the coming years. It outlines Ontario's anticipated demographic changes, economic projections and the implications for public services. Finally, it summarizes the government's efforts to improve public infrastructure and to position Ontario for a prosperous and sustainable future.

CONTENT OF REPORT

This report has six chapters including an overview of the major challenges and issues that Ontario may face as well as the actions the government is taking now to prepare the province for the future.

Chapter 1: Demographic Trends and Projections

Key trends identified

Demographic change has a significant impact on Ontario's long-term economic and fiscal outlook. This chapter highlights demographic trends over the past two decades. It also provides population projections for the next 20 years and discusses some of the implications of those projections. This chapter identifies five key trends:

- population growth will be healthy but the pace will moderate;
- immigration will account for a predominant and rising share of population growth;
- seniors will make up a much larger share of the population;
- working-age population growth will slow; and
- large urban centres will experience the fastest rate of population growth.

Chapter 2: Long-Term Ontario Economic Projection

Long-term economic growth projected

This chapter provides a projection of Ontario's macroeconomic growth over the 2010 to 2030 period.

The chapter discusses:

- the fundamental determinants of long-term economic capacity — the supply of labour, the stock of capital and productivity;
- the key external factors that affect economic performance, including the performance of the economy in other jurisdictions, commodity prices, the Canadian dollar exchange rate and interest rates;
- details of the long-term economic projection for Ontario;
- risks to the economic projection; and
- the perspective of other jurisdictions regarding long-term economic growth.

Chapter 3: Long-Term Sustainability of Ontario Public Services

Demand for public services

Chapter 3 looks at the implications of the economic and demographic projections discussed in previous chapters on the demand for public services. It examines:

- demand for health care, education and training, children's and social services, and other government programs;
- the implications of an aging population for government revenues;
- other jurisdictions' long-term perspectives; and
- fiscal sustainability.

Chapter 4: Modernizing Ontario's Tax System for Jobs and Growth

Modernizing Ontario's tax system

The McGuinty government has taken action to help better prepare Ontario for a changing economy both now and for the long term. The comprehensive tax package announced in the 2009 Budget creates a more modern tax system that will better support long-term economic growth, create more jobs, raise incomes and help sustain the public services Ontarians rely on.

Chapter 4 discusses how the comprehensive tax package promotes jobs and growth through:

- sales tax harmonization;
- tax relief for people; and
- tax relief for business.

Chapter 5: Addressing Ontario's Infrastructure Gap

Ontario addresses infrastructure challenges

Good public infrastructure can boost Ontario's productivity, encourage investment, lower business costs and improve travel times. Growing urban populations, an expanding economy and climate change will increase the demand for infrastructure. This chapter outlines the Province's response to these infrastructure challenges by discussing:

- how infrastructure stimulus investments, ReNew Ontario and other measures are laying a foundation for future productivity and economic growth; and
- how key provincial investments now will better prepare Ontario for its future infrastructure needs.

Chapter 6: Towards a Prosperous and Sustainable Future

Improving productivity and growth

This chapter outlines some of the government's policies aimed at improving Ontario's productivity and economic growth over the long term. These include:

- modernizing the tax system to strengthen the long-term competitiveness of Ontario's economy by lessening the tax burden on income and investment;
- reducing regulatory barriers to innovation and economic growth by looking at ways to simplify and modernize the government's relationship with business;
- investing in infrastructure to create jobs today while increasing Ontario's productive capacity for the future;
- investing in knowledge and skills as building blocks to competitiveness;
- building environmental sustainability into Ontario's economic growth;

Fostering innovation and a knowledge economy

- fostering innovation and a knowledge-based economy, particularly in advanced manufacturing, information and communications technology, business and financial services, entertainment and creative industries, and life sciences; and
- partnering with key sectors for economic diversity.

While this paper is a summary of work and analysis on the major issues that face Ontario, it is not a fiscal plan or an economic prediction. It is a guide to what might happen; a considered list of what to pay attention to in the long term. The non-historical and forward-looking statements here are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Actual future results and trends may differ from what is presented.

Chapter 1: Demographic Trends and Projections

INTRODUCTION

Demographic change has a significant impact on Ontario's long-term economic and fiscal outlook. This chapter highlights demographic trends over the past two decades. It also provides population projections for the next 20 years. Five key trends have been identified:

1. population growth will be healthy but the pace will moderate;
2. immigration will account for a predominant and rising share of population growth;
3. seniors will make up a much larger share of the population;
4. working-age population growth will slow; and
5. large urban centres will experience the fastest rate of population growth.

The demographic outlook for Ontario over the next 20 years will have far-reaching economic and fiscal implications:

- Population aging and slower growth of the working-age group will temper Ontario's labour-force growth. This may restrain future economic performance if there are no increases in productivity growth.
- To mitigate the impact of baby boomers retiring, increased participation in the labour force and workplace flexibility will need to be encouraged.
- Population growth and aging will increase pressure on government spending, notably on health care.
- Regional differences in population growth and age structure will create challenges for government service delivery and require targeted policy responses.
- Population aging will affect the composition of personal income and the pattern of personal spending, potentially moderating the growth of government revenues.
- The wave of baby boomer retirements will test Canada's retirement income system.

Demographic Trends over the Past Two Decades

Over the past 20 years, Ontario's demographic trends have created both opportunities and challenges. The key trends over this period have included:

Strong population growth

- Ontario experienced strong population growth of three million people between 1989 and 2009.
- Annual population growth averaged 1.3 per cent during this period.
- Ontario's share of Canada's population increased from 37.0 per cent in 1989 to 38.7 per cent in 2009.

Immigration-driven population growth

- Net migration (net international plus net interprovincial migration) accounted for 61 per cent of provincial population growth over the last 20 years. Immigration was the key factor. Natural increase (births minus deaths) slowed and was responsible for the remaining 39 per cent.

Continued population aging

An aging population

- Over the past 20 years, the median age in Ontario rose from 33 years in 1989 to 39 years in 2009, reflecting the aging of the baby boom generation, low fertility rates and increasing life expectancy.
- Seniors aged 65+ now account for 13.7 per cent of Ontario's population, or 1.8 million people, up from 1.1 million people and an 11.2 per cent share in 1989.
- At the same time, falling fertility rates reduced the share of children aged zero to 14 in Ontario's population, from 20.1 per cent in 1989 to 16.9 per cent in 2009. The number of children rose modestly to 2.2 million, up from 2.0 million in 1989.
- The core working-age group, aged 15 to 64, now represents 69.4 per cent of the population, or 9.1 million people, an increase from a 68.7 per cent share and 6.9 million people in 1989.

Concentration of population growth in urban areas

Growth in urban centres

- Since 1989, 62 per cent of Ontario's population growth occurred in the Greater Toronto Area (GTA), defined as the City of Toronto and the regional municipalities of Halton, Peel, York and Durham.

Increasing demographic diversity

- About 2.7 million Ontarians identified themselves as belonging to a visible minority group in the 2006 Census, representing 22.8 per cent of the province's population, up from 13.0 per cent in 1991.
- Ontario is home to more than half of Canada's visible minority population.
- Ontarians reported more than 200 mother tongues in the 2006 Census.

Demographic Outlook over the Next Two Decades

Five key trends of Ontario's demographic outlook to 2030 are discussed in the following section. The population projections, published in the fall of 2009 and based on the 2006 Census, are the latest from the Ministry of Finance. The assumptions behind the projections reflect past trends in all streams of migration and the continuing evolution of long-term fertility and mortality patterns.

1. Population Growth Healthy but Will Moderate in Long Term

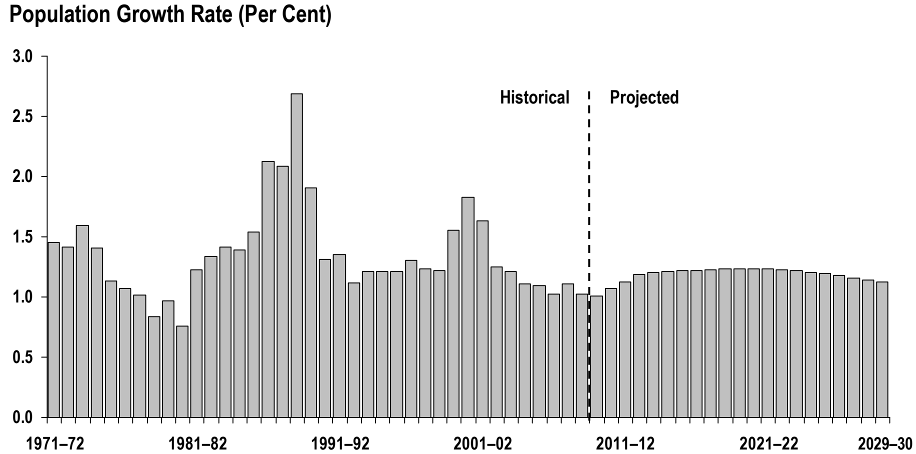
Healthy population growth projected

Over the 2009 to 2030 period, Ontario is projected to see healthy population growth of 28 per cent, a gain of almost 3.7 million people. It is projected that by 2030, Ontario's population will reach 16.7 million. This population increase is slightly slower than the 29 per cent growth over the previous two decades.

In recent years, the pace of Ontario's population growth has slowed due to net interprovincial out-migration to the rest of the country and lower-than-average immigration rates to the province. This is largely due to relatively stronger economic growth in the western provinces.

Reflecting a return to historical patterns of interprovincial migration and immigration, the pace of population growth is projected to rise gradually over the next few years, from 1.0 per cent in 2009–10 to 1.2 per cent by 2012–13. Annual population growth is projected to remain stable at about 1.2 per cent until the mid-2020s before slowing to 1.1 per cent by 2030.

Annual Rate of Population Growth in Ontario **Chart 1**



Sources: Statistics Canada, 1971–2009, and Ontario Ministry of Finance projections (Fall 2009).

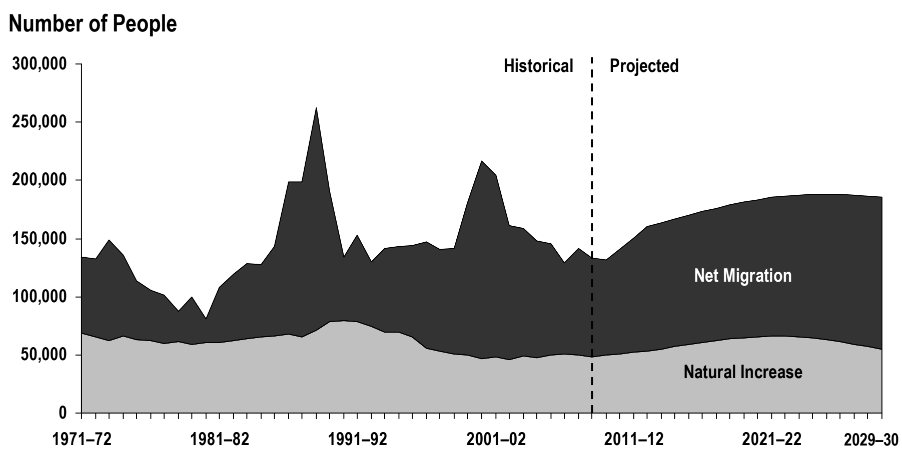
2. Population Growth Sustained by Immigration

Immigration drives population growth

Net migration (net international plus net interprovincial migration) will continue to drive Ontario's population growth. Its share of annual population growth is projected to increase from 62 per cent in 2009–10 to 71 per cent by 2029–30.

The largest component of net migration is immigration. Annual immigration as a share of population is projected to rise slightly over the next few years to reach 0.9 per cent of the population by 2012–13 and continue at this rate until 2030. This is slightly lower than Ontario's average immigration rate of about one per cent annually over the last 20 years.

Contribution of Natural Increase and Net Migration to Ontario's Population Growth **Chart 2**



Sources: Statistics Canada, 1971–2009, and Ontario Ministry of Finance projections (Fall 2009).

The share of population growth coming from natural increase (births minus deaths) will fall due to population aging and low fertility rates. It is projected to drop from 38 per cent in 2009–10 to 29 per cent by 2029–30. Natural increase will rise from 50,000 in 2009–10 to almost 66,000 in 2022–23 before moderating to 54,500 in 2029–30.

3. Population Aging to Accelerate

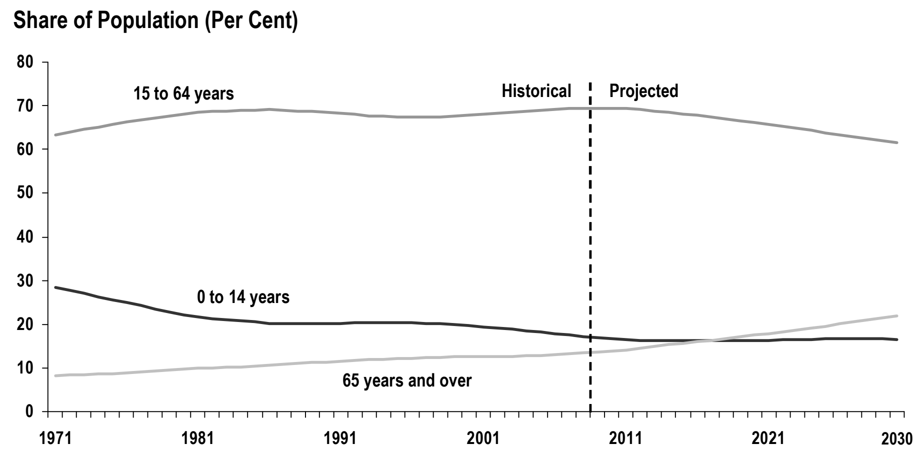
Aging population most significant trend

The rapid aging of Ontario's population is the most significant demographic trend projected for Ontario.

The arrival of baby boomers into the 65+ age group begins in 2011. The number of seniors is projected to more than double, increasing from 1.8 million in 2009 to 3.7 million by 2030. Even faster growth is projected for the oldest age group during this period, with the population aged 90+ rising by 147 per cent. By 2030, seniors will account for 21.9 per cent of Ontario's population, much higher than the current 13.7 per cent share.

The annual pace of growth of the senior population is projected to increase from 2.6 per cent in 2009–10 to about 3.5 per cent from 2013 to 2030.

Proportion of Population Aged 0–14, 15–64 and 65+ in Ontario — **Chart 3**



Sources: Statistics Canada, 1971–2009, and Ontario Ministry of Finance projections (Fall 2009).

Life expectancy continues to increase

Increasing life expectancy will contribute to the strong growth in the number of seniors. Life expectancy at birth increased from 70.8 years in 1976 to 78.9 years in 2006 for men, and from 78.0 years to 83.2 years for women. By 2030, life expectancy is projected to reach 84.4 years for men and 87.1 years for women.

Population aging will lift Ontario's median age from 39 years in 2009 to 42 years in 2030.

4. Slower Growth of Core Working-Age Population

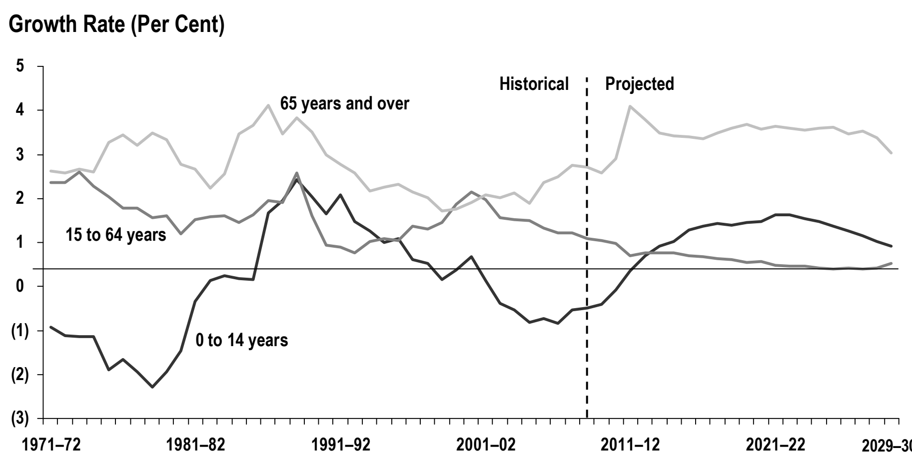
Growth in working-age population slows

Since 2001, the pace of growth of Ontario's core working-age population (aged 15 to 64) has slowed. This trend is projected to continue as baby boomers become seniors.

Over the next 20 years, the working-age population is expected to increase by 13.5 per cent — an average annual increase of 0.6 per cent. This is about half the growth rate of the past two decades. By 2030, Ontario's working-age population is projected to be 10.3 million and to account for 61.5 per cent of the population, down from 69.4 per cent in 2009.

As discussed above, the senior age group (65+) will grow at a much faster pace than in the past, more than doubling over the next 20 years. The number of children aged zero to 14 will be relatively stable at about 2.3 million over the first decade of the projection, before rising to 2.8 million by 2030. The share of children in the population will fall from 16.9 per cent in 2009 to 16.2 per cent in 2015. By 2030, this share will rise slightly to 16.6 per cent as the children of baby boomers have their own children.

Pace of Growth of Broad Population Age Groups in Ontario **Chart 4**



Sources: Statistics Canada, 1971–2009, and Ontario Ministry of Finance projections (Fall 2009).

5. Population Growth Concentrated in Large Urban Centres

Urban regions of the province will continue to experience the fastest population growth rates.

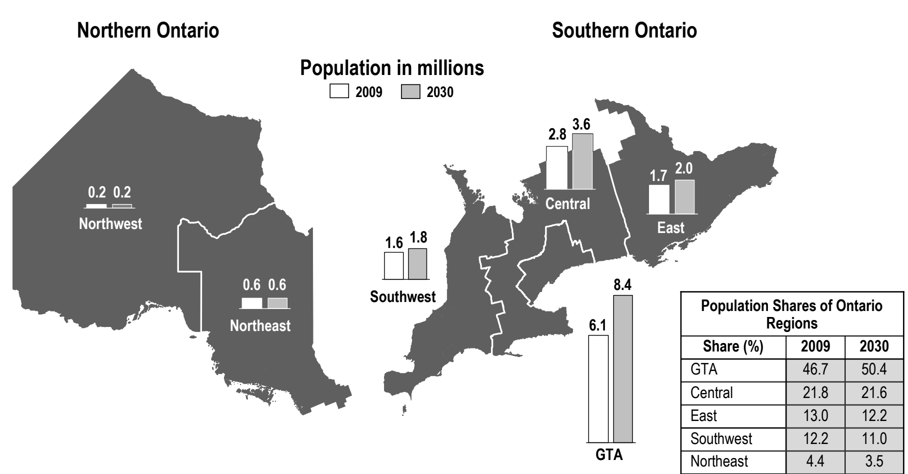
GTA to be home to half Ontario's population

The GTA is projected to be the fastest-growing region by far, accounting for almost two-thirds of Ontario's population growth over the next 20 years. The GTA's population is expected to increase by almost 38 per cent, or 2.3 million people, between 2009 and 2030. Its share of Ontario's population will rise from 46.7 per cent in 2009 to 50.4 per cent by 2030.

The population of Central Ontario is projected to reach 3.62 million by 2030, an increase of 27 per cent from 2.85 million in 2009. In Eastern Ontario, growth of 19 per cent is projected over the same period, raising the region's population from 1.70 million in 2009 to 2.03 million in 2030. Southwestern Ontario is projected to be home to 1.83 million people in 2030, a 14 per cent increase from 1.60 million in 2009.

The population of Northern Ontario is projected to be relatively stable to 2030, increasing 0.8 per cent, from 807,100 in 2009 to 813,300. Population growth will vary within the North, with the Northeast projected to see measured growth and the Northwest continuing to experience slow population decline.

Population of Ontario Regions, 2009 and 2030 **Chart 5**



Population Shares of Ontario Regions

Share (%)	2009	2030
GTA	46.7	50.4
Central	21.8	21.6
East	13.0	12.2
Southwest	12.2	11.0
Northeast	4.4	3.5
Northwest	1.8	1.4

Source: Ontario Ministry of Finance projections (Fall 2009).

Implications of Ontario's Demographic Outlook

Ontario's demographic outlook over the next two decades will have far-reaching economic and fiscal implications. Factors beyond demographics affecting Ontario's economic future will be further explored in the remainder of this report. Six implications have a strong demographic underpinning.

1. Slowing Labour-Force Growth May Restrain Future Economic Growth

Slowing labour-force growth

Labour-force growth is a key determinant of economic growth. Population aging and the slowing pace of growth in the working-age group could contribute to a slower rate of future real gross domestic product (GDP) growth.

Since participation in the job market is significantly lower for older age groups, population aging will be a factor in slower labour-force growth to 2030. As the large cohorts of baby boomers reach retirement age, the number of people turning 65 is projected to surpass the number entering the working-age group (at age 15) from 2017 until the early 2030s. As a result, the working-age group will grow solely because of net migration during this period.

Business investment fuels productivity growth

The impact of slower labour-force growth can be countered in part by encouraging faster productivity growth. One of the primary levers of labour productivity growth is business investment. New plants, equipment and technology can enable businesses and workers to produce more and better products. Tax measures recently legislated by the McGuinty government, such as the Harmonized Sales Tax (HST) and cuts to corporate income tax rates beginning July 1, 2010, will substantially reduce the tax burden on new business investment, improving Ontario's competitiveness. It is estimated that these tax measures, together with other recent tax changes, will increase capital investment in Ontario by $47 billion between 2010 and 2020.[1]

Tax cuts boost capital investment

While Ontario has put in place a solid foundation for future prosperity, it is critical that governments, employers and workers continue to work together to implement measures that promote ongoing improvements in productivity.

2. Increased Labour-Force Participation and Workplace Flexibility Will Need to Be Encouraged

Increased labour-force participation of older workers, immigrants, women and youth has the potential to partially mitigate the impact of baby boomers retiring as well as the loss of their experience in the workplace.

Policies and workplace initiatives that promote more flexible work arrangements in all segments of the working-age population can help increase labour-force participation. For example, facilitating phased retirements can encourage skilled

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[1] Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

workers to remain in the workforce longer, either full time or part time. Policies that improve work/family life balance are another example. These initiatives will be particularly important in occupations where the average age of workers is higher or where there are skills shortages, such as in many of the health professions, skilled trades and early learning areas.

The current economic downturn's effect on private pensions and savings may also change the retirement plans of some older workers in the short term.

Immigration key to labour-force growth

Immigration will be key to continuing growth in the working-age population and enriching the breadth of skills in Ontario's workforce. Attracting the best and brightest immigrants to Ontario will remain a priority. Helping immigrants integrate smoothly into the labour market and improving recognition of foreign credentials will be important policy considerations for government.

Ontario's highly skilled labour force is one of the province's key economic advantages. Government and businesses will need to continue to develop an innovative, flexible workforce to remain competitive in the global economy. This will mean encouraging skills training and continuous learning and building on the knowledge of older workers.

3. Population Growth and Aging Will Increase Pressure on Government Spending, Notably on Health Care

Aging population increases demand for health care

As the provincial population grows by 28 per cent by 2030 and the senior population more than doubles to account for over one in five Ontarians, government spending, particularly on health care, will come under increased pressure.

Average per-capita health spending by the provincial government is about three times higher for seniors than for the population overall. To maintain quality health care for seniors, the government will need to improve how services are delivered, while focusing on ways to control and manage costs.

The government is investing strategically to continue transforming the health care sector to meet the future needs of Ontarians. It is modernizing health infrastructure, improving access to the health care system, shortening wait times, promoting health and preventing illness. Over the past five years, spending on the health sector has grown by an average annual rate of 6.5 per cent and the government now invests 42 cents of every program dollar in the sector.

The health spending challenge and other expenditure pressures associated with population growth and aging highlight the need for government to create a solid foundation for future growth of the economy. This includes strategic investments in education, skills training, infrastructure and the environment as well as tax cuts for people and businesses.

4. Regional Differences in Population Growth and Age Structure Will Require Targeted Government Response

Population growth increases demand for infrastructure

Ontario's projected population growth of almost 3.7 million people by 2030 will result in significant demand for all types of infrastructure, including transportation, education, health care, power generation, water management and the environment. This is discussed in Chapter 5: *Addressing Ontario's Infrastructure Gap*.

Regional differences in the pace of population growth will create challenges for government service delivery.

In communities of the Greater Golden Horseshoe (GGH), which encompasses the GTA and a large part of Central Ontario, population is growing at a rapid pace and the demand for urban infrastructure, especially transit, will be significant. There will be a continuing need for policy responses that help manage this growth.

The *Places to Grow Act, 2005* provides a framework to implement the government's vision for stronger, prosperous communities by better managing growth in Ontario's regions. This plan will guide decisions on a broad range of issues, including transportation, infrastructure planning, land-use planning, urban form, housing, natural heritage and resource protection.

In some remote and rural communities of the province, long-term population decline is occurring. Government efforts to attract economic development and job opportunities in these regions will remain important. Maintaining a balanced level of government services in such communities will become a key policy issue.

Growth patterns vary by region

Varying growth patterns of specific age groups in regions will also require different government responses. While the number of children in Ontario is projected to grow overall through to 2030, many regions are projected to see declines in this age group. This means that school enrolment will rise in some regions and fall in others.

Moreover, population aging will not occur at the same pace in all regions. For example, the greatest pressures on health care spending will likely be in suburban municipalities, particularly in the GTA. In suburban areas, the number of seniors is projected to rise much faster than in rural and remote regions where proportions of seniors are already higher than average.

5. Population Aging May Affect Government Revenues

The rapid aging of Ontario's population will affect the composition of personal income and result in changing patterns of personal consumption expenditures, both of which could influence government taxation revenues.

A retired person generally receives more income from pensions and investments than from employment earnings, which, on average, account for less than 10 per cent of seniors' income. These different sources of income are subject to different effective tax rates, with pensions and investment earnings potentially generating less tax revenue for government.

One possible mitigating factor is that baby boomers (aged 44 to 63 in 2009) have generally accumulated more assets and investments compared to previous generations. This larger wealth accumulation could support higher levels of spending by seniors.

As people age, their consumption patterns also change, with a generally higher demand for services (such as health care or travel) and less demand for consumer goods (such as new housing or clothing). These changes might also have a negative impact on government tax revenues.

6. The Wave of Baby Boomer Retirements Will Test Canada's Retirement Income System

Reforming Ontario's pension system

As baby boomers approach retirement age and growth in the labour force is set to slow, Canada's retirement income system faces important challenges. The Ontario government is moving forward on reforming its pension system and recently introduced the Pension Benefits Amendment Act, 2009. This is an important part of the McGuinty government's plan to strengthen and modernize Ontario's employment pension system. It is part of a multi-stage process that will result in the province's first major pension reform in over 20 years.

The government is also calling for a national summit on retirement income adequacy as a follow-up to the federal/provincial/territorial meeting in December 2009 where finance ministers agreed to work together on possible solutions.

Earlier, as part of a national effort to review Canada's retirement income system, the Ontario Ministry of Finance asked pension expert Bob Baldwin to look at elements of the system and its capacity to provide secure retirement incomes for current and future generations of Canadian seniors.

Highlights of Baldwin's *Research Study on the Canadian Retirement Income System,*[2] released at the December 2009 federal/provincial/territorial finance ministers' meeting, are summarized below.

Research Study on the Canadian Retirement Income System, by Bob Baldwin

Highlights:

Canada's retirement income system is made up of three pillars:

1. Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) and provincial programs (e.g., GAINS);
2. Canada and Quebec Pension Plans (C/QPP); and
3. privately administered Employment Pension Plans and Registered Retirement Savings Plans (RRSPs).

Seniors in the lower half of the elderly income distribution rely heavily on income from inflation-indexed OAS, GIS and C/QPP, while people with higher incomes rely more on privately administered Employment Pension Plans and RRSPs. Pillars 1 and 2 allow persons with half of the average earnings to replace at least 70 per cent of their pre-retirement income and maintain their standard of living in retirement. For people with higher pre-retirement earnings, pillar 3 is needed to meet this objective.

Canada's retirement income system is generally effective, providing most senior Canadians with incomes that amount to 80 per cent or more of their pre-retirement earnings. Poverty rates of Canadian seniors are among the lowest of Organisation for Economic Co-operation and Development (OECD) countries and have declined since the 1970s from about 35 per cent to roughly 5 per cent, based on Statistics Canada's Low Income Measures (LIM). While the latter part of the 20th century was a period of significant improvement in the incomes of older Canadians, separated or widowed women still have notably higher poverty rates. A significant minority of middle- and higher-income seniors also experience a reduction in their incomes to below 60 per cent of pre-retirement earnings.

Looking to the future, there is reason to believe that many of tomorrow's seniors will be well served by existing arrangements. However, key issues remain. The relative ability of OAS and GIS to prevent poverty and maintain pre-retirement living standards may be limited if real wage growth resumes and benefits remain price indexed. Employment pension plan coverage has declined and the shift from defined benefit to defined contribution coverage raises concerns about the predictability of retirement incomes.

While provincial reviews of the employment pension system, such as the *Ontario Expert Commission on Pensions*, provide a path for the future of these plans, the question remains as to what governments can or should do to enhance the retirement income system for tomorrow's seniors. The status quo is an option but it may leave a significant minority of people with moderate to high pre-retirement earnings facing a decline in their standard of living in retirement.

[2] www.fin.gov.on.ca/en/consultations/pension/dec09report.html

CHAPTER 2: LONG-TERM ONTARIO ECONOMIC PROJECTION

INTRODUCTION

The demographic projections outlined in the previous chapter indicate a significant challenge for future Ontario economic growth. Slower population growth and an aging population would, alone, suggest a future with slower economic growth than in the past. That is why capital investment and productivity growth will be even more important in the future.

The Ontario government has implemented significant measures to enhance future growth in the capital stock as well as productivity. The tax package announced in the 2009 Budget significantly lowers the marginal effective tax rate (METR)[1] on new capital investment and is expected to result in a considerably higher rate of investment spending and a larger capital stock (see Chapter 4: *Modernizing Ontario's Tax System for Jobs and Growth*).

Ontario government enhancing capital investment and productivity

As well, government investments in infrastructure will not only support the economy while it recovers from the global recession but will also boost Ontario's productive capacity in the future, as outlined in Chapter 5: *Addressing Ontario's Infrastructure Gap*. Initiatives to preserve the automobile manufacturing sector and to attract investment in the broader economy will boost future capital stock and prosperity in the Ontario economy, and the education, training and innovation-enhancing policies outlined in Chapter 6: *Towards a Prosperous and Sustainable Future* will support future productivity growth.

The long-term economic projection in this report suggests that the impact of demographic factors is essentially offset by growth in capital investment and productivity.

Ontario Key Economic Variables **Table 1**

	Actual (Average)	Projection (Average)				
	1982–09*	2010–14	2015–19	2020–24	2025–30	2010–30
Real GDP Growth	2.6	3.1	2.6	2.4	2.3	2.6
Labour-Force Growth	1.6	1.3	0.8	0.7	0.7	0.9
Real Capital Stock Growth	1.8	1.8	3.1	2.5	2.6	2.5
Real GDP per Capita Growth	1.1	1.9	1.4	1.2	1.1	1.4

*Data for 2009 are Ontario Ministry of Finance's estimates except for labour-force growth.
Sources: Ontario Ministry of Finance and Statistics Canada.

[1] The METR is a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment (see Chapter 4).

Developing long-term economic projections

This chapter provides a projection of Ontario's macroeconomic growth over the 2010 to 2030 period. The projection is based on a set of reasonable assumptions about factors that determine Ontario's economic potential and presents the consequences of these assumptions for economic growth. The Ministry of Finance's macroeconomic model was used to develop these long-term economic projections. The results are broadly consistent with prevailing private-sector forecasts for Ontario.

This long-term projection does not attempt to predict cyclical fluctuations in the economy that will likely occur. Rather, it shows what the economy would be like when growth is averaged out over the long term. The projection focuses on commonly accepted factors that will affect the future growth of the economy, but does not attempt to explore the impact of individual extreme positive or negative events that could occur at some point in the future.

The first section looks at the fundamental determinants of long-term economic capacity, which are the supply of labour, the stock of capital and productivity. There is then a discussion of the key external factors that affect the economic projection, including the performance of the economy in other jurisdictions, commodity prices, the Canadian dollar exchange rate and interest rates. This is followed by more details of the long-term economic projection for Ontario. The final section examines risks to the economic projection and perspectives for long-term economic growth from other jurisdictions.

Ontario's Growing Economic Capacity

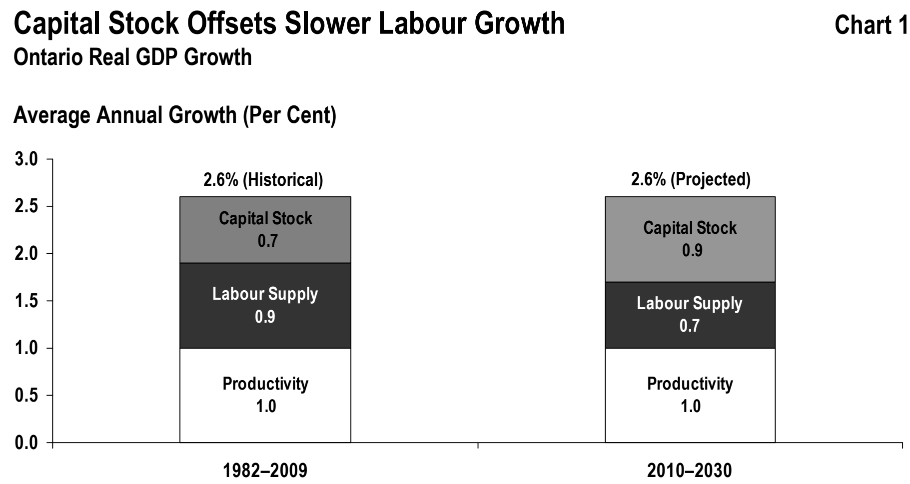
Future growth in Ontario's economic capacity, or potential output, will largely be determined by the supply of labour, the stock of capital and productivity growth.

The demographic projections outlined in Chapter 1: *Demographic Trends and Projections* indicate that the working-age population (ages 15 to 64) will grow at a slower pace in the future than in the past. This implies that the labour supply can be expected to grow more slowly in the future.

Taken alone and compared to the historical average, the projected slower growth in labour supply over the next 20 years would lead to nearly one percentage point slower real gross domestic product (GDP) growth in the future.

The capital stock is expected to advance at a relatively faster pace in the future than in the past due largely to stronger business investment spending enhanced by the tax measures announced in the 2009 Budget. Government infrastructure investments will also support increased efficiency in the economy over the long term.[2]

Tax measures boost business investment



Sources: Ontario Ministry of Finance and Statistics Canada.

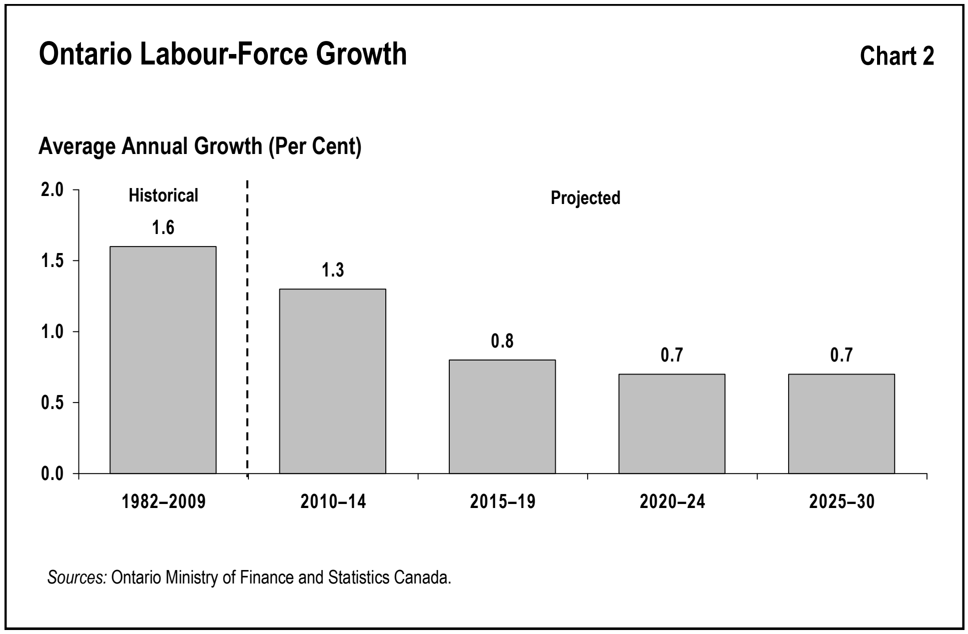
The growth in the capital stock is expected to largely offset the impact of slowing labour-force growth. In the future, Ontario's real GDP is expected to advance at a pace comparable to the past, using consistent assumptions on productivity growth.

Labour Supply

Slower labour-supply growth

Total supply of labour available in the economy depends on the population eligible to work and their willingness to work (i.e., labour-force participation).
The population eligible to work is based largely on the demographic projections presented in Chapter 1. It is projected that there will be a declining rate of growth for the core working-age population (ages 15 to 64), which will push down its share of total population from 69.4 per cent in 2009 to 61.5 per cent by 2030. This reflects relatively low birthrates in Ontario in the 1980s and 1990s, and the passage of baby boomers into the 65 and over age group.

[2] Ontario government infrastructure investments and their corresponding long-run benefits for economic growth are outlined in Chapter 5.



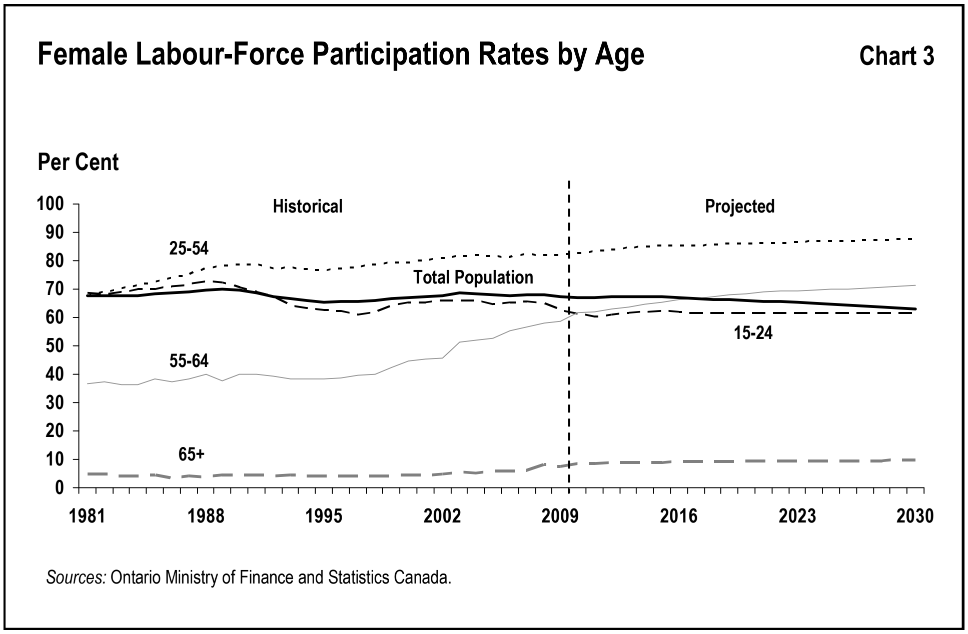
The overall labour-force participation rate is expected to fall in the future as a growing proportion of the total population grows older and has weaker labour-force attachment. This decline is expected to be partially offset by an increase in the participation rate of older workers.

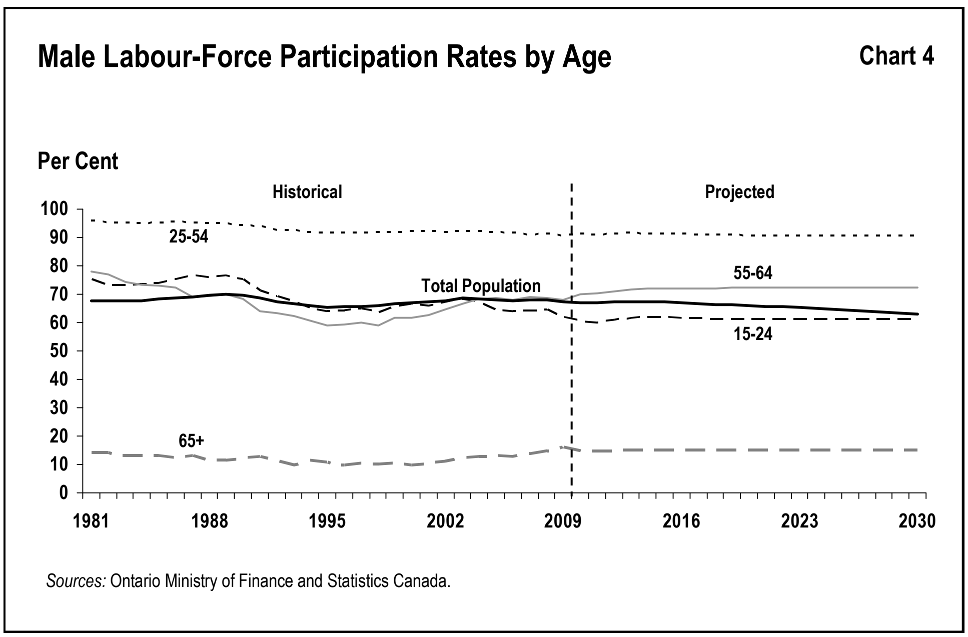
Increasing labour-force participation of women to continue

The two most significant trends currently affecting the total labour-force participation rate in Ontario are the increased participation rate of women aged 25 to 54 and the modest decline in the participation rate of males in the same age group. For these working-age females, the expectation is for the participation rate to increase from about 82 per cent currently to about 88 per cent in 2030, gradually closing the gap with their male counterparts. Higher educational attainment and the increasing share of single women are among the factors driving this trend. At the same time, the increased participation rate of women has been accompanied by a trend for men to take more time out of the workforce or to retire early. In recent years, the declining trend in working-age males has begun to level off and no further substantial decline is expected.

Labour-force participation to increase as economy improves

For youth, the participation rate for both males and females is expected to rise modestly from recent lows as the economy improves. By 2014, the participation rate for those aged 15 to 24 should level off as the returns to education increase. For individuals over age 65, modest increases in their level of participation are expected to continue as people live longer, healthier lives.





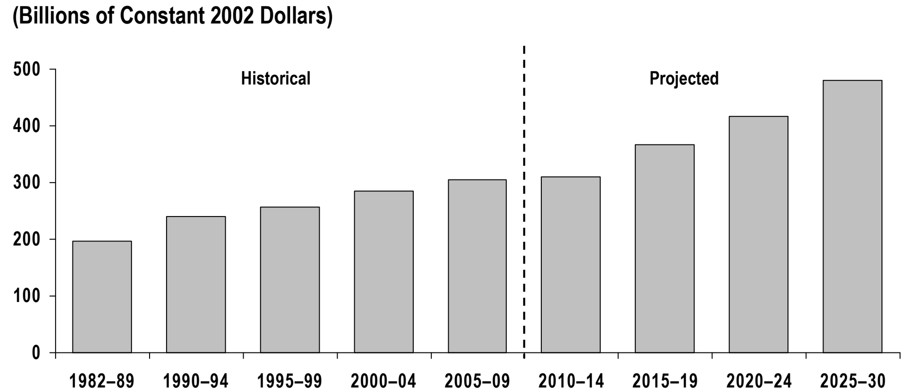
Capital Stock

Tax cuts for new investment

The growth of the stock of capital available in the economy is determined by the pace of new investment spending. The large reduction in Ontario's marginal effective tax rate on capital investment is expected to lead to a significant increase in new investment in plant and equipment. The government is also contributing to the increase in the Province's physical stock of capital through substantial infrastructure investments, which will support private-sector investment and further enhance efficiency in the economy.

Capital Stock

Chart 5



Sources: Ontario Ministry of Finance and Statistics Canada.

Productivity Growth

Productivity key to improving standard of living

Productivity describes the relationship between the physical inputs into production (such as capital, labour, energy and natural resources) and output. Productivity growth is the key factor that will determine the degree of improvement in Ontario living standards. Higher productivity means that workers will be producing more output and earning more income for each hour they work.[3]

Innovation, capital investment and education key to productivity growth

The key drivers of productivity growth are technological change, investment, and skills and knowledge. Government policy measures (outlined in Chapter 6) to encourage innovation, investment and education will all contribute to future productivity growth.

Tax measures to increase investment and productivity

The long-term projection assumes that total factor productivity (TFP) will grow by an average of 1.0 per cent per year over the next 20 years, as it has over the past three decades. There is good cause to believe that TFP growth could be stronger than assumed in this projection. The tax measures announced in the 2009 Budget are expected to increase investment and productive capacity over the medium to longer term. This suggests that future productivity growth will likely be at a faster pace than historical averages.

[3] In this document, and unless otherwise noted, "productivity" refers to "total factor productivity" (TFP, or multi-factor productivity), which measures the change in real output per unit of combined production inputs (labour, materials and capital). While labour productivity measures real output per unit of labour input, TFP looks at a combination of production inputs and is generally thought of as being a more comprehensive measure of general technological progress and efficiency.

Factors that improve living standards may not always raise measured output. For example, global measures to combat climate change will likely result in investments and production arrangements that will improve Ontarians' standard of living but not necessarily be captured in output measures.

External Factors that Affect the Ontario Economy

The performance of the Ontario economy is strongly influenced by external developments such as economic growth in other jurisdictions, commodity prices, the Canadian dollar exchange rate and interest rates. The assumptions about these key external factors that underlie this long-term economic projection are broadly consistent with prevailing private-sector views.

Assumptions Overview: Key External Factors — **Table 2**

Components	Assumptions
Global Economy	Global real growth to average 3.2 per cent in the 2010–30 period.
U.S. Economy	Real growth to average 2.6 per cent in the U.S. over the next two decades, compared to 2.8 per cent historically.
Rest of Canada	Long-term real growth to average 2.3 per cent in the rest of Canada, compared to 2.4 per cent historically.
Oil Prices	Oil prices to approach $130 per barrel (nominal U.S. dollars) by 2030. Projection adopts cautious assumption of rising real oil prices.
Canadian Dollar	Canadian dollar to remain in the 90 cents US to parity band through 2030.
Inflation	Inflation to remain near two per cent over the long term, consistent with the Bank of Canada's target range.
Interest Rates	Nominal interest rates rise from recent lows, but remain below the historical average.

World Economic Growth

Greater links to global economy

In a rapidly globalizing economy, the pace of growth around the world is becoming increasingly important to Ontario as it further expands its trade and financial market linkages with the United States and globally. As experienced over the years, and especially during the recent downturn, developments in the global economy can have a significant impact on Ontario.

According to IHS Global Insight's projection, world real GDP will advance at an average pace of 3.2 per cent over the 2010–30 period. Meanwhile, emerging economies such as Brazil, Russia, India and China (BRIC countries) are projected to grow more rapidly over the long term, averaging 6.3 per cent annually.[4]

[4] IHS Global Insight, November 2009.

World Output Shares — Selected Countries			Table 3
Nominal GDP Shares	1990 % share	2010 % share	2030 % share
World	**100.0**	**100.0**	**100.0**
G7 Countries	60.9	52.1	34.9
United States	24.6	23.6	16.8
Japan	13.0	8.7	4.2
BRIC Countries*	6.6	15.8	33.7
China	1.6	8.4	24.3

*BRIC countries are Brazil, Russia, India and China.
Sources: IHS Global Insight World Overview, November 2009 and International Monetary Fund, World Economic Outlook, October 2009.

IHS Global Insight expects the G7 countries' share of global production to continue declining in the long term. The U.S. economy's share of world GDP is forecast to decrease from just under a quarter this year to only 16.8 per cent by 2030. Burgeoning expansion in China will see its share of world output expand to over 24 per cent by 2030, as it overtakes the United States and becomes the largest economy in the world.

According to the Conference Board of Canada, "One of the most important global trends is the sagging long-term growth potential of Japan and many industrial countries in Western Europe. Economic growth potential — sustainable annual economic growth that does not feed inflation — has dipped to two per cent or lower annually for many industrial countries… Demographics are a fundamental factor in this slowing growth potential. The growth rate of the labour force is a core factor in determining any country's long-term growth potential, so an aging population has a direct impact on a given country or region's ability to sustain economic growth."[5]

U.S. Economic Growth

U.S. will remain primary trading partner

Growth in the U.S. economy is critically important for Ontario as it is the largest destination for the province's exports. While Ontario's trade with non-U.S. jurisdictions is expected to continue to increase, the United States will remain the most important destination for Ontario goods and services in the long term.

Ontario's economic projection assumes that U.S. real economic growth will average 2.6 per cent annually over the next 20 years. Though the United States is expected to remain Ontario's primary trading partner, growth in demand from other international markets, such as China and other BRIC countries, will help diversify Ontario's international trade.

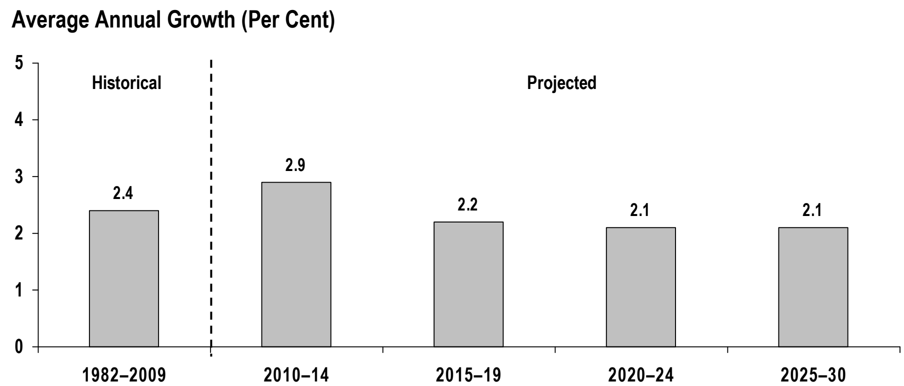
5 The Conference Board of Canada, "Canadian Outlook Long-Term Forecast 2009: Economic Forecast" June 2009, page ii.

Economic Growth in the Rest of Canada

Exports to other provinces remain strong

Other Canadian provinces will continue to be important destinations for Ontario exports. In 2008, about one-third of Ontario exports went to other provinces. This projection assumes real economic growth in the rest of Canada will average 2.3 per cent per year from 2010 to 2030. Following a period of relatively brisk growth in the near term as the other provinces emerge from recession, real growth in the rest of the country is expected to ease to just over two per cent by 2030.

Rest of Canada Real GDP **Chart 6**



Sources: Ontario Ministry of Finance and Statistics Canada.

Commodity Prices

A growing global economy over the long term can be expected to drive up commodity prices, including the price of oil.

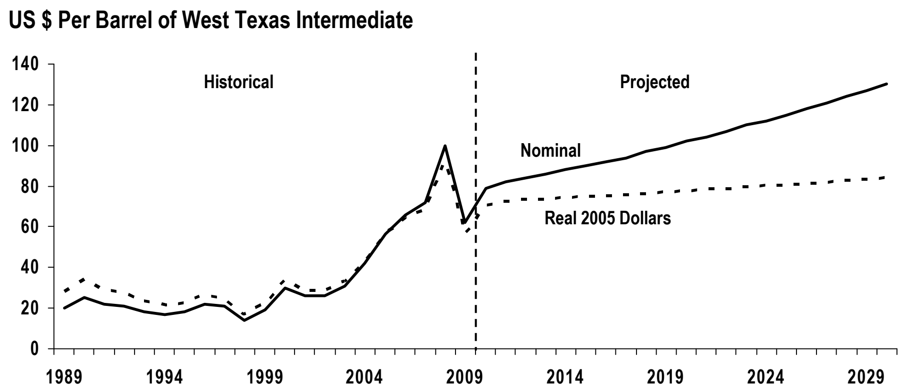
Oil price predictions vary widely

Recently, oil has experienced some of the most dramatic price swings on record, with prices falling from a record high of $145 US per barrel in July 2008 to below $34 US per barrel in February 2009. Views about future trends vary dramatically. Some argue that the world is running out of oil and that demand from newly industrializing countries will push the price back up to $100 per barrel, as early as the end of 2010. Others point to past experience and argue that demand is inelastic in the short run, but that high prices eventually elicit substitution and conservation, as well as new sources of supply.

Ontario's economic growth projection assumes that world oil prices will approach $130 per barrel (nominal) by 2030. In real terms (deflated by U.S. GDP inflation), the long-term projection adopts a cautious assumption of rising real oil prices, to nearly $84 US (2005$) per barrel by 2030, well above the historical average value.

Other key commodity prices are also expected to rise. Natural gas prices are expected to more than double from $4 US per mmBTU (nominal) in 2009 to almost $10 US by 2030.

Crude Oil Price — Nominal vs. Real **Chart 7**



Sources: U.S. Energy Information Administration, Bureau of Economic Analysis and Ontario Ministry of Finance.

Oil and gas prices affect growth

Higher oil and gas prices have a negative impact on Ontario's economy in the short term since the province consumes but does not produce oil or natural gas. U.S. demand for Ontario's exports also tends to decline with high oil prices since the U.S. economy is also a net consumer of oil. These negative impacts are somewhat mitigated since Canada as a whole is a net exporter of oil, and Ontario exports services and manufactured goods to the rest of Canada, the demand for which rises as a result of stronger growth in the rest of Canada. As households and businesses switch to more fuel-efficient alternatives due to higher energy prices, the negative impact on the economy subsides in the longer term.

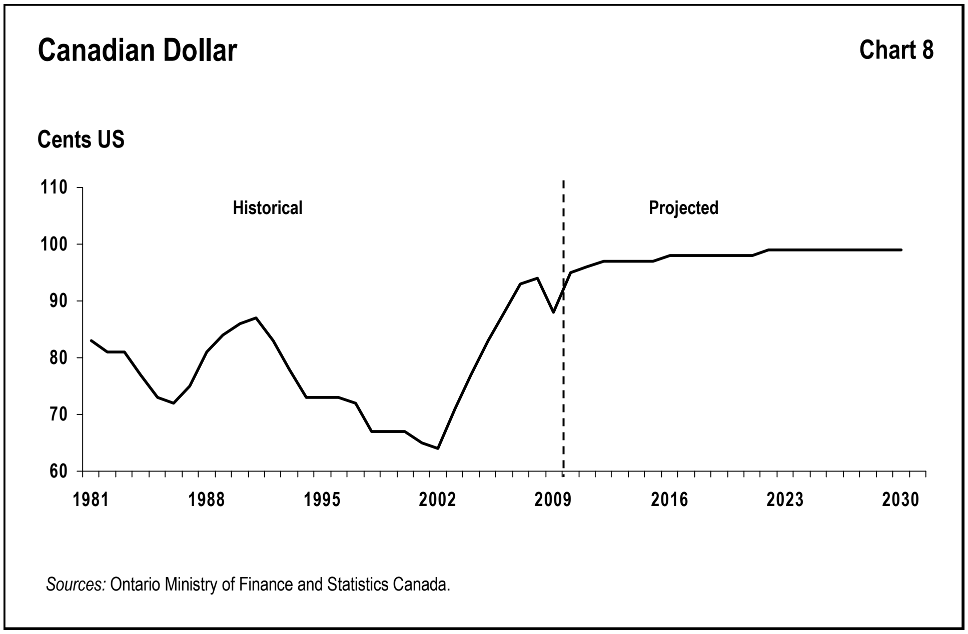
Canadian Dollar

The Canada–U.S. exchange rate is particularly important for Ontario as the United States is the destination for over 80 per cent of Ontario's international merchandise exports, and the source of some 60 per cent of Ontario's imports.

Canadian dollar to appreciate

The Canadian dollar has recently been trading above 95 cents US, close to where it was before the U.S. dollar plunged in early October 2008 when the financial crisis peaked. Private-sector forecasters project the Canadian dollar will average 96.5 cents US in 2010, rising to 98.5 cents US in 2012.

The Canadian dollar's expected appreciation reflects rising commodity prices, rising deficits in the United States and the U.S. dollar's depreciation against most major currencies.



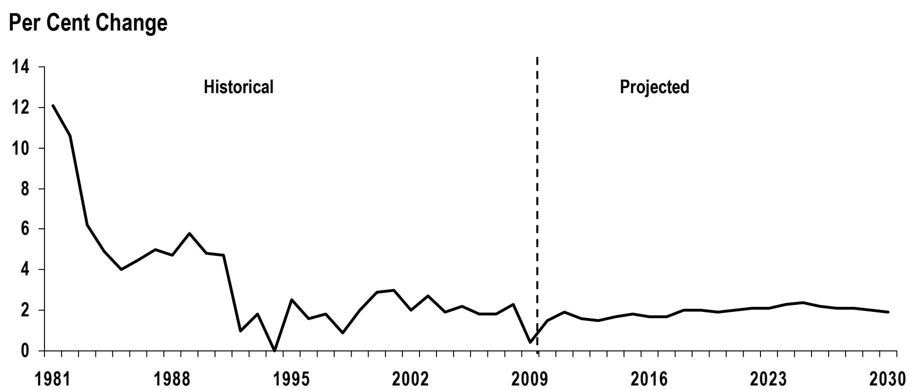
Over the long term, the Canadian dollar is expected to remain within a band ranging from 90 cents US to parity with the U.S. dollar. It is quite possible that, in the future, the exchange rate may cross the upper or lower bound of this range for brief periods, but over time it would be expected to return to this band. This is consistent with assumptions about stronger economic growth in the United States than in Canada over the next 20 years and the impact of unwinding the large U.S. current account deficit.

Inflation

Inflation to remain stable

The rate of consumer price index (CPI) inflation is expected to remain near the mid-point of the Bank of Canada's one to three per cent inflation target range over the 2010 to 2030 period. The Bank of Canada's policy of inflation targeting is widely supported. This report assumes that monetary policy will ensure inflationary expectations remain well anchored near two per cent annually.

Ontario CPI Inflation Rate **Chart 9**



Sources: Ontario Ministry of Finance and Statistics Canada.

Interest Rates

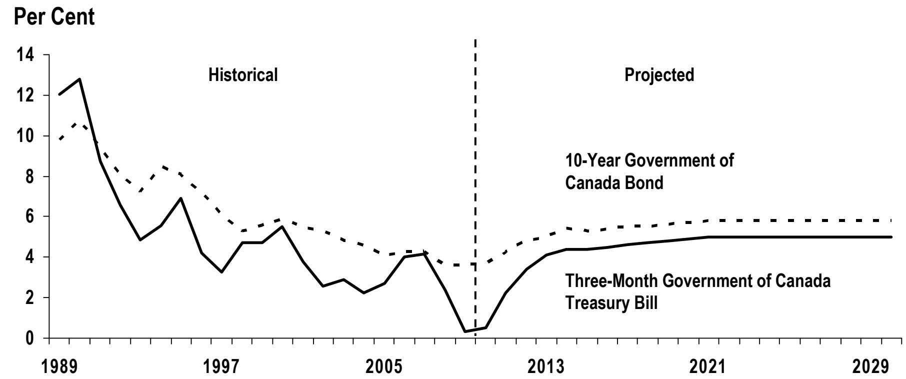
Historical low interest rates to rise

Interest rates have reached historically low levels recently as central banks around the world, including the Bank of Canada, have been providing monetary stimulus in the face of the global economic recession.

Short-term interest rates are expected to remain low in the near term, but gradually move up to the five per cent range in nominal terms over the medium term. The 10-year Government of Canada bond rate is expected to rise from the current 3.2 per cent average for 2009, to 5.8 per cent in the long term.

Although interest rates are expected to rise from what are currently very low levels, inflation expectations anchored at around two per cent should keep the rise in nominal borrowing rates to well below the double-digit levels experienced in the 1980s and early 1990s.

Interest Rates **Chart 10**



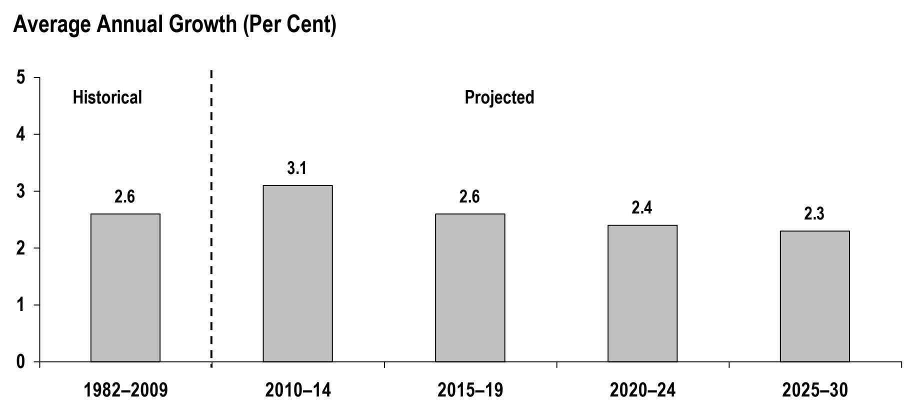
Sources: Ontario Ministry of Finance and Statistics Canada.

Long-Term Ontario Economic Projection

Average real GDP growth remains steady

Expanding productive capacity and global demand are expected to result in average real GDP growth of 2.6 per cent in Ontario over the 2010 to 2030 period, comparable to the average 2.6 per cent real growth observed in the past three decades. Growth is expected to be relatively strong over the 2010–14 period, averaging 3.1 per cent, as the economy recovers from the recent recession. Over the medium to long term, GDP growth is expected to moderate towards sustainable potential growth rates.

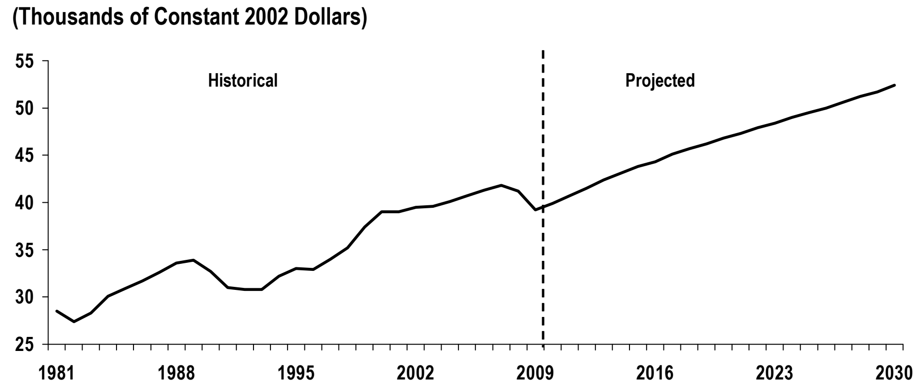
Ontario Real GDP **Chart 11**



Sources: Ontario Ministry of Finance and Statistics Canada.

Despite slower expected increases in the labour supply, strong growth in capital investment and productivity growth will support long-term growth in the Ontario economy. Slower growth in labour supply will also translate into reduced employment growth. However, real disposable income per capita will grow over the medium to long term.

Real GDP Per Capita **Chart 12**



Sources: Ontario Ministry of Finance and Statistics Canada.

Structural Evolution of the Ontario Economy

The Ontario economy has been undergoing structural changes in response to domestic and external forces. While external factors such as increasing globalization resulting from trade and investment liberalization are important, domestic factors such as changing consumption patterns, reflecting demographic shifts, and the growing relative importance of high-productivity and high-skills sectors also play a critical role. These broad structural trends influence the allocation of resources and future performance of the economy.

Composition of the Domestic Economy

Trade important to economic growth

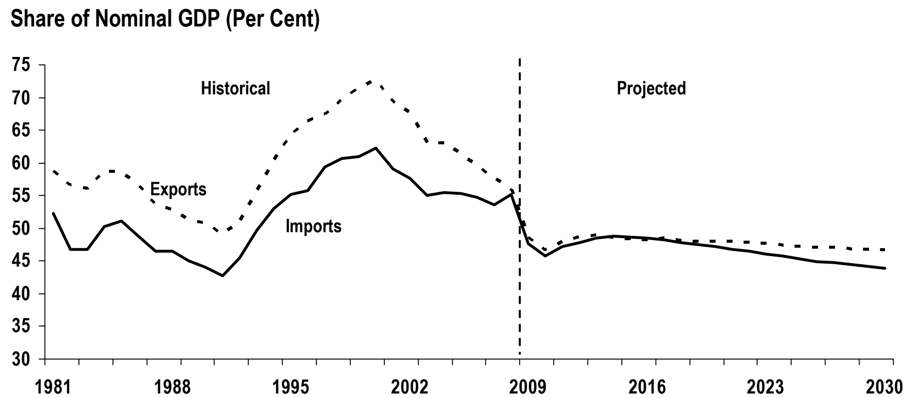
International trade will remain an important factor for Ontario's economic prosperity. Continued expansion in the world economy and the expected increase in demand for goods and services from emerging economies will support growth in international trade.

During the 1990s, trade liberalization policies leading to agreements such as the North American Free Trade Agreement translated into a rise in Ontario's trade as a share of GDP. However, since the early 2000s higher commodity prices and a rising dollar have contributed to a decline in imports and exports, as a share of GDP.

In recent years, economic growth has come increasingly from the domestic sector. Strong employment growth, rising incomes and low interest rates have resulted in strong growth in final domestic demand, especially in consumer spending.

The flipside of this development is that exports and imports have declined as a share of the economy, from peaks in 2000 of 73 per cent and 62 per cent respectively of nominal GDP, to about 56 per cent for both in 2008. Over the long term, these shares are projected to continue on a moderate decline to about 47 per cent for exports and 44 per cent for imports by 2030.

Relative Share of Exports and Imports **Chart 13**



Sources: Ontario Ministry of Finance and Statistics Canada.

Ontario International Trade

Reduced reliance on exports to the U.S.

Globalization and intense export competition are challenging Ontario's market share in the United States. Ontario has been losing market share in the United States — as is evident in the trend decline in Ontario exports' share of U.S. imports. However, since 2002, there has been a steady increase in Ontario exports' share of imports to international jurisdictions other than the United States (i.e., the rest of the world [ROW]).

- Ontario's real exports to the United States as a share of U.S. imports have declined from around 12 per cent in the mid-1990s to about nine per cent in 2008.
- Ontario's real exports to the ROW as a share of ROW imports have risen from around 0.2 per cent in the mid-1990s to about 0.35 per cent in 2008. Although Ontario's 0.35 per cent ROW market share seems low, it represents some $50 billion or about 15 per cent of Ontario's total international exports.

Real exports expected to increase

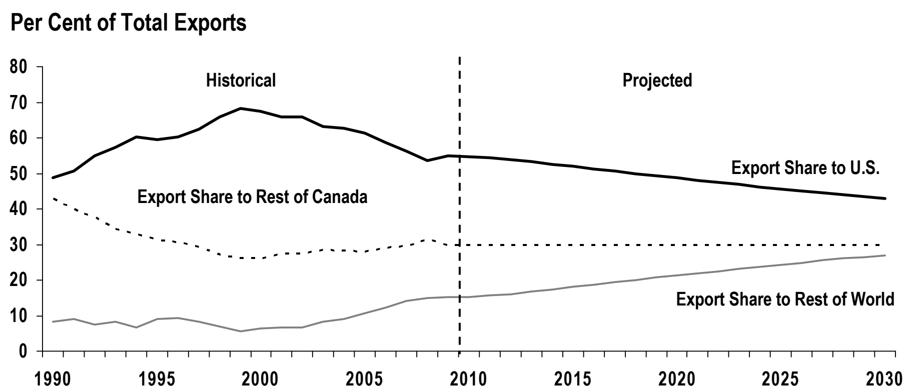
Economic growth in the rest of Canada, the United States and worldwide is expected to support growth in Ontario exports. Ontario real exports are projected to increase by an average 3.0 per cent per year over the next 20 years.

The share of Ontario's real exports sent to other countries has been in the 70 per cent range for the past decade. However, the share of Ontario exports shipped to the United States declined from 66 per cent in 1998 to 54 per cent in 2008 and will continue decreasing to nearly 40 per cent by 2030. The share of exports shipped to other Canadian provinces has remained near 30 per cent since 1998 and is expected to stay in that range through 2030.

Share of exports to rest of world expected to almost double

Exports to the ROW are expected to continue to grow as a share of Ontario exports. By 2030, over a quarter of Ontario real exports are expected to be destined for countries other than the United States, almost doubling their current 15 per cent share.

Ontario Real Export Shares **Chart 14**



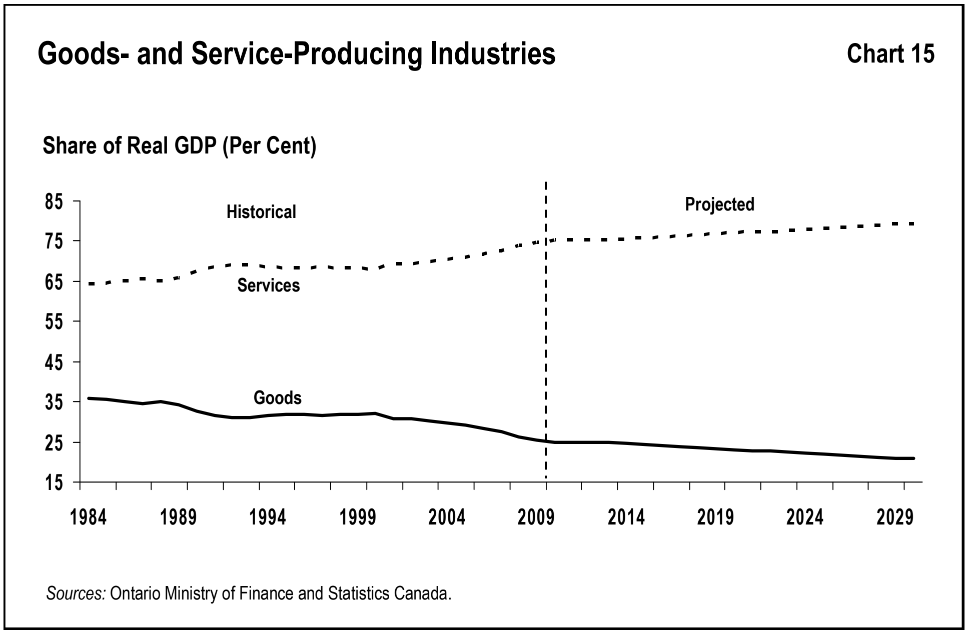
Sources: Ontario Ministry of Finance and Statistics Canada.

Output and Trade in Goods and Services

Services to gain growing share of Ontario's exports

The Ontario economy's trade in services has been outpacing its trade in goods. Between 1997 and 2008, Ontario's exports of services grew by over 80 per cent, compared to a 22 per cent increase in goods exports. As a result, services now account for almost 30 per cent of Ontario's total exports, up from about 22 per cent in 1998. This trend is expected to continue.

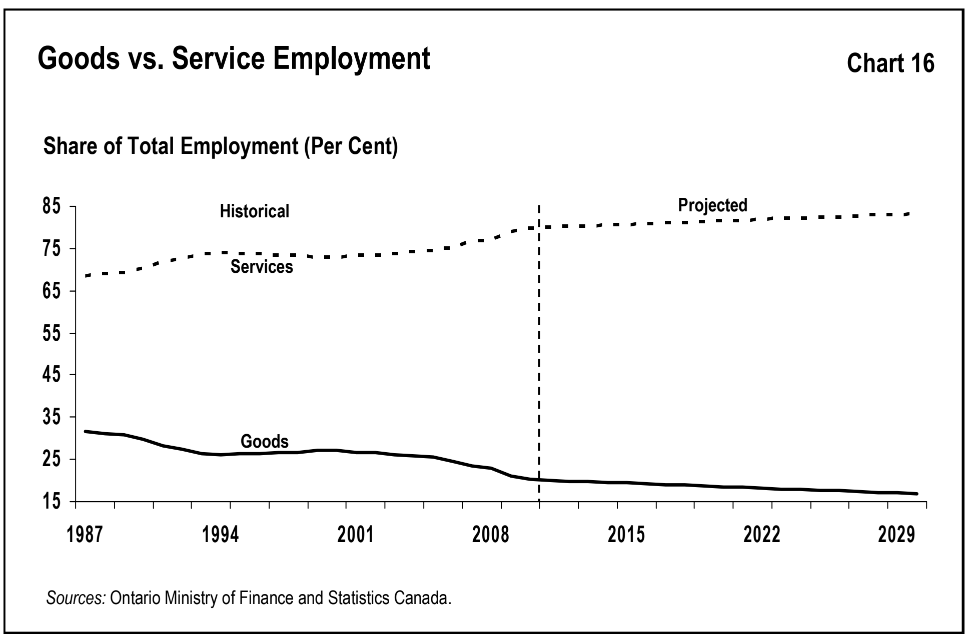
Corresponding to the changes in the composition of domestic demand and exports, economic production has also evolved with a marked shift from goods-producing to service-producing industries. In 2008, the service sector accounted for 74 per cent of real GDP in Ontario, up from 65 per cent in 1988. These trends are expected to continue over the long term, with services accounting for 79 per cent of GDP in 2030 while the share of goods will decline from 26 per cent in 2008 to 21 per cent in 2030.



More Ontario workers in service industries

The same structural shift towards the service sector is also evident in Ontario's labour market where employment has shifted from goods-producing to service-producing industries. In 2009, the service sector employed 79 per cent of Ontario's workforce, up from 69 per cent in 1988.

Within the service sector, the "business, building and other support services" and "professional, scientific and technical services" industries reported the strongest employment gains, each growing by four per cent per year on average since 1988.

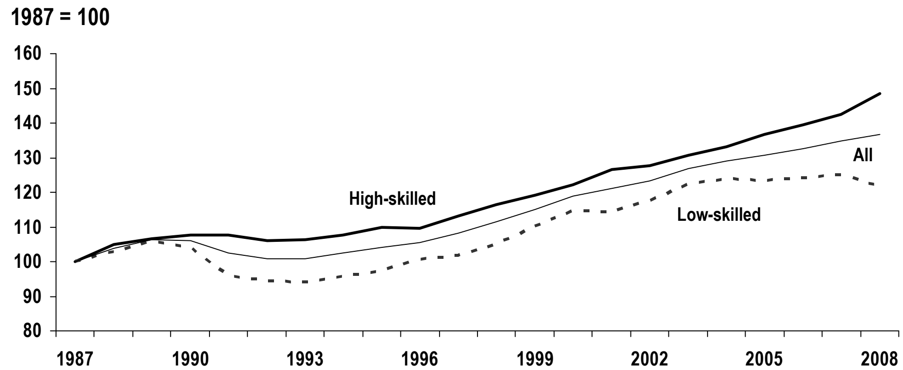


Growth in high-skilled jobs exceeds other employment

The shifting composition of demand and output has also had an important influence on the demand for labour. Growth in employment in high-skilled occupations (requiring postsecondary education or management skills) has far exceeded growth in employment for workers with lower skill levels.

Employment in high-skilled occupations increased by an average annual rate of 1.9 per cent between 1987 and 2008, while employment in low-skilled occupations grew by just 1.0 per cent (Chart 17). These trends are expected to continue in the long term, leading to an increasing share of employment in high-skilled occupations.

Ontario Employment Growth in High-Skilled* and Low-Skilled Occupations **Chart 17**



*High-skilled occupations include occupations that usually require university or college education or apprenticeship training and management occupations.
Sources: Statistics Canada and Ontario Ministry of Finance.

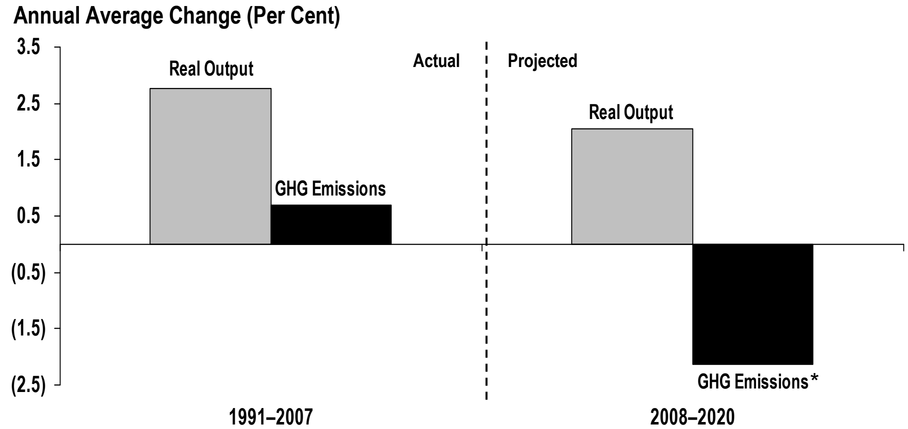
Climate Change and Cap-and-Trade Regulation

Targets for reducing GHG emissions

In August 2007, the Ontario government introduced its Climate Change Action Plan (CCAP), which provides a framework for actions to reduce Ontario's total greenhouse gas (GHG) emissions. The plan includes ambitious but achievable targets for reducing GHG emissions in Ontario:

- by 2014, six per cent below 1990 levels;
- by 2020, 15 per cent below 1990 levels; and
- by 2050, 80 per cent below 1990 levels.

Growth in Real Output and GHG Emissions **Chart 18**



*Based on Ontario's target of 15 per cent below 1990 emissions levels by 2020.
Sources: Environment Canada, Statistics Canada and Ontario Ministry of Finance.

Moving to a low-carbon economy

Historically, Ontario's GHG emissions have grown alongside real economic output, albeit at a slower pace. Ontario's CCAP*,* which contains more than 70 government initiatives to reduce GHG emissions and enable a transition to a low-carbon economy, will break the historic emissions-output link.

The CCAP continues to move forward. On December 3, 2009, legislation was passed that will allow the implementation of a cap-and-trade system in Ontario that can link to emerging North American and international systems.

Capping GHG emissions to help mitigate climate change will permanently raise the price of carbon and send a market signal to shift away from carbon-intensive activities. The effects are expected to be most apparent in energy-intensive sectors of the economy. It will be important to monitor and manage these impacts as the economy transitions to a low-carbon future.

Benefits of early action outweigh costs

Evidence from leading studies finds that the benefits of strong, early action to mitigate climate change considerably outweigh the costs. Tackling climate change helps ensure sustainable economic growth for the longer term. Measures to reduce emissions are an investment — a cost incurred today to mitigate the consequences of unabated climate change in the future. Investing in these early initiatives will keep costs manageable and open up a wide range of opportunities for growth and development.[6]

[6] For a comprehensive discussion of the benefits of early action, see the *Stern Review: The Economics of Climate Change,* HM Treasury, October 2006.

Risks to the Economic Projection

Projections based on reasonable assumptions

The current projections are based on a set of assumptions and economic outcomes that are unlikely to materialize exactly as assumed. There are risks that could delay the return of the Ontario economy to its long-term growth path, but there are also upside risks that could lead to stronger long-term growth.

Economic growth — worldwide and particularly in the United States — could be stronger than expected, leading to a potentially quicker return to historical growth trends for Ontario's economy.

Ontario's exports destined for countries other than the United States have been growing in recent years and could expand more rapidly in the future, increasing Ontario's share of their markets.

Stronger investment would boost productivity growth

Productivity growth could be considerably higher than in the past due to stronger investment sparked by supportive government policies such as Ontario's tax cuts for business and infrastructure investments.

More rapid innovation and early adoption of new technologies could not only increase the productivity of Ontario industries beyond what is projected in this report, but also turn them into leaders in emerging sectors, further enhancing GDP and income growth.

Global imbalances due to large and unsustainable current account imbalances will continue to pose risks over the medium to long term. To resolve these imbalances, net exporting countries (particularly China) that have enjoyed large surpluses in the past will have to rely more on domestic demand while net importing countries (especially the United States) will have to focus more on supplying external demand.[7] It is likely that the U.S. current account balance will improve as the U.S. dollar weakens relative to the currencies of most major trade partners. However, trade imbalances could re-emerge, particularly if China maintains its fixed exchange rate with the U.S. dollar. The long-term adjustment to a more sustainable current account balance could involve sharp adjustments and a longer period of sub-par growth.

U.S. economic growth key for Ontario

Growth in the U.S. economy is a crucial factor in Ontario growth prospects. Sub-par growth in the U.S. economy could lead to a weaker recovery in Ontario. A significant risk to the future expected growth of the U.S. economy is a slowing in the growth of the labour supply. The impact of population growth slowing and baby boomers retiring could be offset by higher rates of immigration. If this fails to happen, U.S. growth potential will be lower than expected.

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[7] IMF World Economic Outlook, October 2009.

Higher energy prices are a drag on the Ontario economy, raising costs for both consumers and business. Much higher energy prices would likely also mean a higher Canadian dollar, impacting negatively Ontario's trade competitiveness and reducing net export growth.

Other Perspectives on Long-Term Economic Growth

Projections in line with private-sector forecasts

The economic projections in this document are broadly in line with the available private-sector forecasts for Ontario's long-term economic growth (see Table 4 below).

Comparison of Ministry of Finance Projections to Other Forecasts 2010 to 2030, Average Annual Growth (Per Cent) — **Table 4**

Ontario Forecasts	Real GDP	Labour Force	Population	Real Capital Stock
Conference Board	2.7	1.1	1.4	3.0
University of Toronto Institute for Policy Analysis	2.6	0.8	1.1	3.3
Informetrica Ltd.	3.0	0.9	1.0	–
Centre for Spatial Economics	2.0	0.4	0.8	1.5
Average	**2.6**	**0.8**	**1.1**	**3.1**
Ontario Ministry of Finance	2.6	0.9	1.2	2.5

Over the longer term, all countries in the Organisation for Economic Co-operation and Development (OECD) are expected to experience a similar downward trend in the growth rate of the labour force and hence challenges for sustained rates of real economic growth as a result of declining fertility rates and aging populations. Each country faces slightly different demographic factors depending on immigration policies, age structure of the existing population and differing fertility rates. The demographic assumptions largely determine the long-term forecasts for employment growth.

According to a recent report by TD Bank on Canada's potential growth, "The longer-term 'cruising speed' of the economy is set to slow from about three per cent per year on average over the past two decades to about two per cent per year in 2009–2019. Much of the slowdown will be front-end loaded on the next few years, partly reflecting the legacy of the recent recession. However, potential growth will remain much slower beyond 2012 relative to its pre-2008 pace. Even adjusting for a trend slowdown in population growth over the next decade, gains in real GDP per capita — a proxy for living standards — are projected to rise by an annual average of about 1 per cent through 2019, half the two per cent pace chalked up over the previous two decades."[8]

[8] "A New Normal: Canada's Potential Growth During Recovery and Beyond," *TD Economics*, November 2009, p.1.

Other forecasts on long-term outlook show similar trends

The University of Toronto also released a report on the long-term outlook for the Canadian economy, stating, "In the longer term, the projection shows GDP growth entering a declining trend together with potential growth (largely due to lower labour force growth), but there are nonetheless small and steady gains made in real incomes. The longer-term projection shows a greater contribution from non-housing investment spending due in part to a more investment-friendly tax system (sales tax harmonization and lower corporate rates) which contributes to annual labour productivity growth of 1.6 per cent."[9]

The Conference Board of Canada produced a long-term economic forecast for Canada, noting, "Slower population growth and the effects of an aging population will restrain labour force growth and heavily influence income and spending patterns. With the oldest members of the large baby-boom cohort now in their early 60s, the labour market is on the verge of a massive wave of retirement that will only accelerate over the next 20 years. Even if the most optimistic immigration assumptions prove accurate, this will still result in a sharp slowing in labour force growth — which, in turn, will weaken growth in GDP. However, despite the negative effect of demographic trends on the economy, growth will remain in the two per cent range due to heavy investment in machinery and equipment and technology, and by firms utilizing more highly skilled workers and more innovative production processes."[10]

Comparison of Canadian Private-Sector Projections 2010 to 2030, Average Annual Growth (Per Cent) **Table 5**

Canadian Forecasts	Real GDP	Labour Force	Population	Real Capital Stock
Conference Board	2.2	0.7	1.0	2.9
Global Insight	2.4	0.8	1.0	1.1
University of Toronto Institute for Policy Analysis	2.4	0.7	1.1	3.6
Informetrica Ltd.	2.0	0.6	0.8	–
Centre for Spatial Economics	2.0	0.5	0.9	1.6
Average	**2.2**	**0.7**	**1.0**	**2.3**

9 University of Toronto, "Long Term Outlook for the Canadian Economy: National Projection Through 2040," PEAP Policy Study 2009-4 , October 2009, p. i.

10 The Conference Board of Canada, "Canadian Outlook Long-Term Forecast 2009: Economic Forecast," June 2009, p. ii.

In its 2009 Long Term Fiscal Statement, the New Zealand government stated: "Population ageing is likely to cause a slowdown in economic growth because of the shift to a relatively smaller working-age population."[11]

Likewise, in Australia, "Annual population growth is projected to slow to around 0.8 per cent over the next 40 years. This is largely due to the falls in fertility rates starting in the 1970s — the effects of fertility on population are manifest for a long time — which are only partly offset by increases in life expectancy. As a consequence, annual average real GDP growth is projected to slow to 2.4 per cent." [12]

[11] New Zealand Treasury, "Challenges and Choices: New Zealand's Long-term Fiscal Statement, October 2009," p. 10.
[12] Australian Treasury, "Intergenerational Report," April 2007, p. 31.

Ontario Key Economic Variables (History)						Table 6
Average Growth Rates	**Actual (Average)**					
	1982–89	**1990–94**	**1995–99**	**2000–04**	**2005–09**	**1982–2009**
Real Gross Domestic Product	**3.9**	**0.4**	**4.3**	**2.9**	**0.6**	**2.6**
Personal Consumption	3.9	0.8	3.4	3.5	2.6	3.0
Goods	3.5	(0.2)	3.9	3.3	2.2	2.6
Services	4.3	1.8	3.0	3.7	2.9	3.3
Residential Construction	7.3	(8.2)	3.4	6.5	(1.6)	1.9
Non-Residential Construction	6.3	(11.6)	7.9	(2.6)	(1.6)	0.1
Machinery and Equipment	7.9	(0.2)	11.1	1.8	(0.1)	4.4
Exports	4.9	3.8	7.9	2.1	(3.7)	3.1
Imports	6.1	3.1	7.4	2.8	(1.9)	3.7
Nominal Gross Domestic Product	**9.9**	**2.2**	**5.6**	**4.8**	**2.0**	**5.4**
Other Economic Indicators						
Retail Sales*	–	–	5.5	4.3	3.2	–
Housing Starts (000s)	73.3	52.6	50.8	79.7	68.7	65.9
Personal Income	9.7	2.6	4.3	4.5	3.6	5.4
Labour Market						
Participation Rate (per cent)	68.6	67.6	65.8	67.8	67.8	67.6
Labour Force	2.2	0.3	1.6	2.4	1.2	1.6
Employment	2.4	(0.7)	2.4	2.3	0.7	1.5
Unemployment Rate (per cent)	7.5	9.4	7.9	6.6	7.0	7.7
Productivity						
Real GDP per Capita	2.2	(1.0)	3.0	1.4	(0.4)	1.1
Real GDP per Employee	1.5	1.1	1.9	0.6	0.0	1.1
Prices						
Consumer Price Index	5.7	2.4	1.8	2.5	1.6	3.1

*Retail sales prior to 1991 unavailable.

Ontario Key Economic Variables (Projections) **Table 7**

Average Growth Rates	Projection (Average)				
	2010–14	**2015–19**	**2020–24**	**2025–30**	**2010–30**
Real Gross Domestic Product	**3.1**	**2.6**	**2.4**	**2.3**	**2.6**
Personal Consumption	2.5	2.8	2.2	2.1	2.4
Goods	2.5	2.1	1.8	1.8	2.1
Services	2.5	3.3	2.4	2.3	2.6
Residential Construction	3.5	1.6	2.1	1.4	2.1
Non-Residential Construction	7.9	1.3	2.2	2.6	3.4
Machinery and Equipment	9.9	2.2	3.0	3.1	4.4
Exports	3.8	2.9	2.8	2.7	3.0
Imports	4.6	2.8	2.7	2.7	3.2
Nominal Gross Domestic Product	**5.0**	**4.5**	**4.7**	**4.6**	**4.7**
Other Economic Indicators					
Retail Sales	4.0	4.6	4.2	4.2	4.3
Housing Starts (000s)	65.0	75.7	78.9	83.7	76.2
Personal Income	4.2	4.6	4.6	4.7	4.5
Labour Market					
Participation Rate* (per cent)	67.0	66.4	65.1	62.7	65.4
Labour Force	1.3	0.8	0.7	0.7	0.9
Employment	1.9	1.0	0.8	0.7	1.1
Unemployment Rate* (per cent)	8.0	5.2	5.2	5.0	5.8
Productivity					
Real GDP per Capita	1.9	1.4	1.2	1.1	1.4
Real GDP per Employee	1.1	1.6	1.6	1.6	1.5
Prices					
Consumer Price Index	1.7	1.9	2.0	2.1	1.9

*The 2025–30 column shows only the end of period for the participation and unemployment rates.

Ontario Key Economic Assumptions (History) **Table 8**

	Actual (Average)					
	1982–89	**1990–94**	**1995–99**	**2000–04**	**2005–09**	**1982–2009**
Rest-of-Canada Real GDP	2.5	1.8	3.2	3.0	1.6	2.4
Rest-of-Canada GDP Deflator	3.9	2.1	1.3	3.1	2.7	2.8
U.S. Real GDP	3.5	2.4	4.0	2.6	1.1	2.8
U.S. GDP Deflator	3.6	2.8	1.7	2.2	1.2	0.9
Exchange Rate (Cents per US$)	78	81	70	69	89	78
90-Day Treasury Bill Rate (%)	10.3	7.7	4.8	3.4	2.7	6.2
10-Year Government of Canada Bond Rate (%)	10.5	8.8	6.4	5.2	3.9	7.2
U.S. 90-Day Treasury Bill Rate (%)	7.8	4.7	5.0	2.6	2.8	4.9
10-Year U.S. Government Bond Rate (%)	10.1	7.3	6.1	4.8	4.1	6.9
U.S. WTI Oil Price (US$ per Barrel)	–	20	19	31	71	35*
U.S. Natural Gas Rate (US$ per mm BTU)	–	1.8	2.2	4.7	7.4	4.0*

*Historical Average 1990–2009.

Ontario Key Economic Assumptions (Projections) **Table 9**

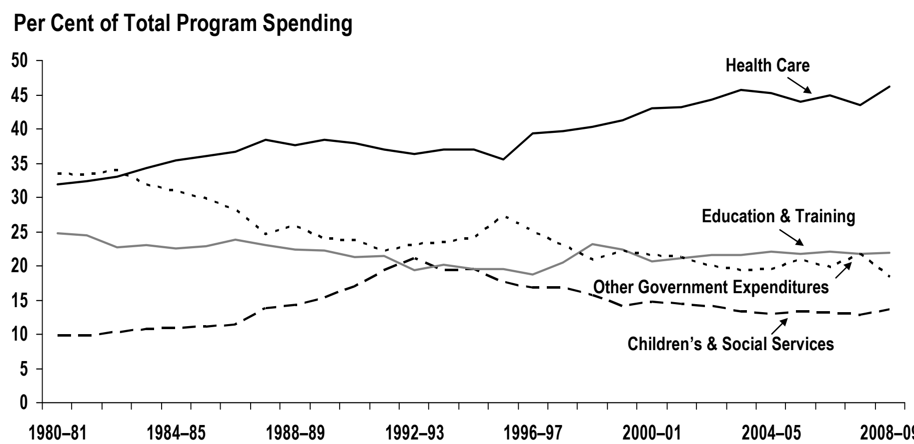
	Projection (Average)				
	2010–14	**2015–19**	**2020–24**	**2025–30**	**2010–2030**
Rest-of-Canada Real GDP	2.9	2.2	2.1	2.1	2.3
Rest-of-Canada GDP Deflator	2.2	1.9	1.9	1.9	2.0
U.S. Real GDP	2.8	2.6	2.7	2.5	2.6
U.S. GDP Deflator	1.5	1.8	1.7	1.7	1.7
Exchange Rate (Cents per US$)	96	98	99	99	98
90-Day Treasury Bill Rate (%)	2.9	4.6	5.0	5.0	4.4
10-Year Government of Canada Bond Rate (%)	4.6	5.5	5.8	5.8	5.4
U.S. 90-Day Treasury Bill Rate (%)	2.6	4.5	4.7	4.7	4.2
10-Year U.S. Government Bond Rate (%)	4.4	5.3	5.5	5.5	5.2
U.S. WTI Oil Price (US$ per Barrel)	83	94	107	123	103
U.S. Natural Gas Rate (US$ per mm BTU)	6.4	7.6	8.5	9.5	8.1

CHAPTER 3: LONG-TERM SUSTAINABILITY OF ONTARIO PUBLIC SERVICES

INTRODUCTION

This chapter outlines some of the implications of the economic and demographic projections presented in earlier chapters on the demand for public services. The chapter first discusses the impacts of an aging population and other factors on the demand for health care services. Next, the chapter describes the key factors that will determine future demand for education and training, children's and social services, and other government expenditures. It then outlines potential implications of an aging population for government revenue. Next, it summarizes the findings of long-term reports released by the University of Toronto and reports from other jurisdictions. Finally, it discusses the importance of fiscal sustainability for the long-term provision of public services.

Ontario Government Program Spending — **Chart 1**



Source: Ontario Ministry of Finance.

Demand for Health Care

Key drivers of demand for health care services

There are a number of key drivers of the demand for, and cost of, health care services. These are broadly understood to include demographics (population growth and aging), and changes in other factors such as population health status, patients' expectations, inflation, technology and medical practice. All these variables can have mixed impacts in the way they affect overall demand for health care services.

Health care costs make up 42 per cent of the Ontario government's total program spending and in the near future that could rise to 50 per cent if health care costs grow faster than other areas of government spending. Like Ontario, other provinces are experiencing similar challenges that are likely to continue into the future.

Aging population a key cost driver

Ontario's aging population is a key cost driver because use of health care rises significantly after age 65. Studies have shown that over an individual's lifetime, the greatest amount of spending on health care services will usually occur within the last years of life.

Per-Capita Provincial Government Health Spending, by Age Group, Ontario, 2007, Current Dollars **Table 1**

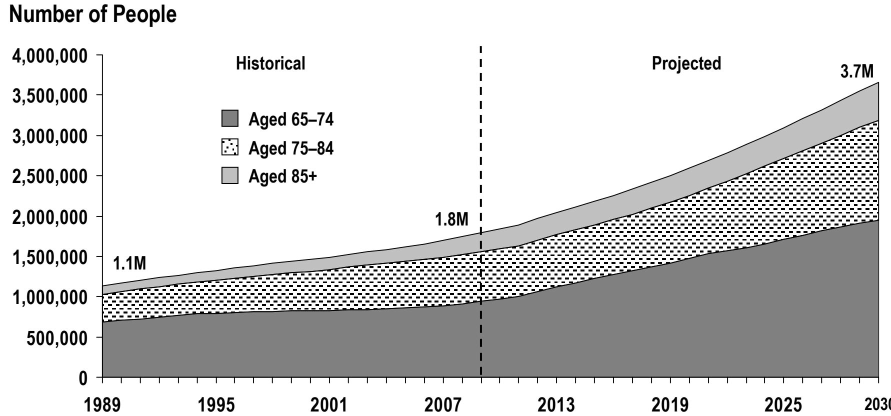
Age Group	Spending Per Person ($)[1]	Share of Population, 2007 Actual (Per Cent)	Share of Population, 2030 Projection (Per Cent)
<1	9,188.0	1.1	1.1
1–4	1,292.6	4.4	4.3
5–14	1,047.6	12.0	11.2
15–44	1,706.3	42.8	37.3
45–64	2,823.6	26.5	24.2
65+	**10,330.7**	**13.2**	**21.9**
65–74	6,883.1	6.9	11.7
75–84	11,843.7	4.7	7.4
85+	20,702.4	1.6	2.8
Total	**3,127.0**	**100.0**	**100.0**

[1] Weighted average.

Sources: Canadian Institute for Health Information, Statistics Canada and Ontario Ministry of Finance population projections (Fall 2009).

In Ontario, many health care programs and services are directed at seniors. As shown above, health care expenditures for seniors are about three times higher than the average for the overall population of Ontario. By 2030, seniors' share of Ontario's total population will rise from 13.2 per cent in 2007 to 21.9 per cent. Ontario's population aged 65 and over will more than double to 3.7 million in this same period. As a result of these demographic shifts, demand for health care services is expected to increase.

Population Aged 65–74, 75–84 and 85+ in Ontario, 1989 to 2030 **Chart 2**



Sources: Statistics Canada, 1989–2009, and Ontario Ministry of Finance population projections (Fall 2009).

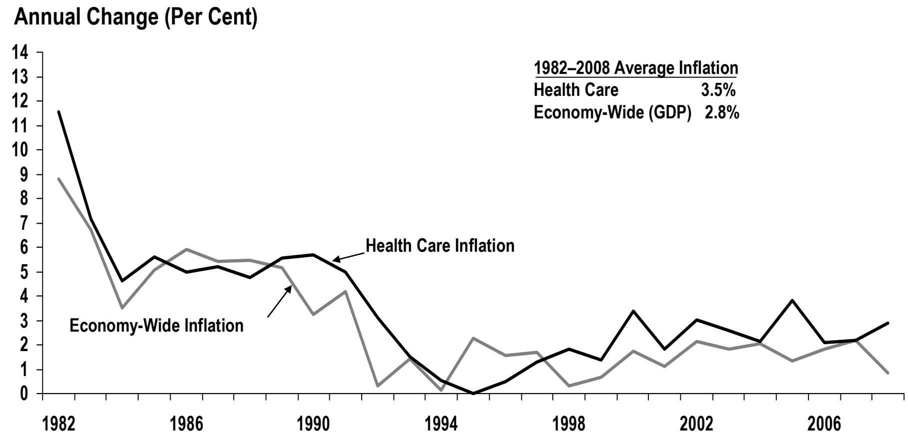
Healthy eating, regular physical activity and public education can help prevent illness and avoid costly medical care in the future. This could help offset the impact of an aging population. At the same time, medical experts are raising concerns about rising obesity, especially for younger generations. Obesity is associated with many chronic diseases such as diabetes, high blood pressure, coronary heart disease and some cancers.

Public expectations and societal influences are other factors affecting demand for health care. For example, people may require more services such as hip replacements to support more active lives as they age. An individual's use of health care is also shaped by broader societal influences. For instance, reduced social acceptability of smoking and driving under the influence of alcohol can improve people's health and thereby lower system costs.

Inflation higher in health care

In addition to demand factors influencing health care costs, as outlined above, inflation is a key driver of health care expenditures. Inflation in health care tends to be higher than in the rest of the economy. This is because health care services are generally labour intensive and can be affected by the high costs associated with the introduction of new medical technology and drugs.

Price Increases in Health Care — Ontario **Chart 3**



Sources: Statistics Canada and Canadian Institute for Health Information.

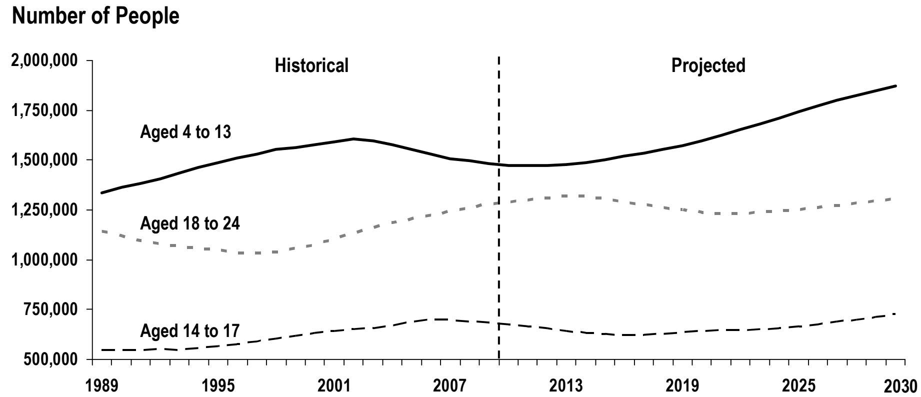
Price increases will likely continue in the future but the impact could be offset by increased efficiencies. Medical progress, which can enhance people's life span and quality of life through investments in research and development towards new medical treatments, may also offer the possibility of long-term savings in the health care system. For example, advances in genetics may help to alleviate health care costs by identifying potential health risks, which can lead to earlier and more targeted treatments. Furthermore, the dissemination of evidence-based best practices in health care can reduce unnecessary treatments and testing and increase the effectiveness of services for patients. Ultimately, this factor can work towards generating efficiencies that lead to lower costs and a more sustainable health care system.

Demand for Education and Training

Demographics drive elementary and secondary school enrolment

Enrolment in elementary and secondary schools is determined primarily by the number of children aged 4 to 17. The number of children in this age group has been declining recently in Ontario as the large cohorts of the baby boom echo move out of this age group. From 2011 to 2030, however, the number of elementary school-age children is projected to rise by about 1.3 per cent annually on average — a pace close to the overall population growth rate. This age group is projected to grow by 26 per cent from 1.48 million in 2009 to 1.87 million in 2030 — significantly greater than the 11 per cent growth seen over the past 20 years. There will be regional variations in the growth of children's population so that school enrolment will rise in some regions and fall in others.

Elementary, Secondary and Postsecondary Source Population, 1989 to 2030 — Ontario **Chart 4**



Sources: Statistics Canada, 1989–2009, and Ontario Ministry of Finance projections (Fall 2009).

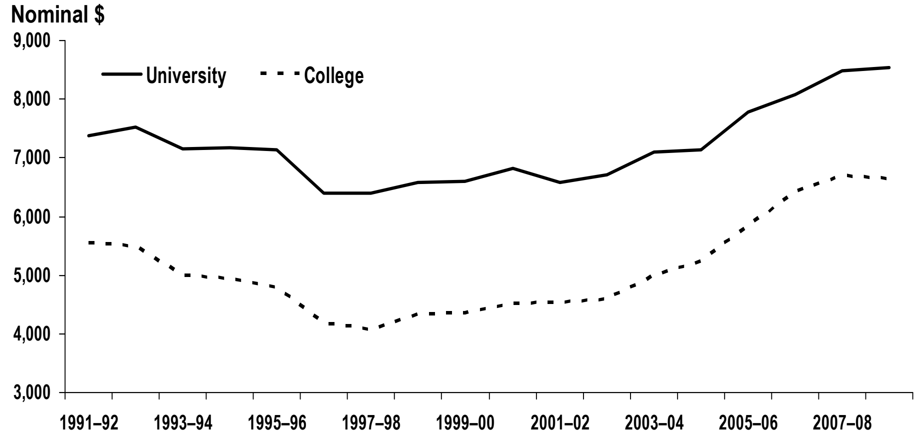
The secondary school-age group (ages 14 to 17) is projected to decline by about nine per cent by 2016 before resuming growth to reach 727,000 by 2030, slightly higher than today's level of 685,000.

In the postsecondary sector, demographics play a somewhat smaller role in determining enrolment because attendance is not universal. Postsecondary enrolment will continue to be highly influenced by a combination of demographics and demand, reflecting both economic conditions and the skills needed for employment.

Growth of postsecondary enrolment projected to continue

Significant funding has been injected into Ontario's postsecondary sector over the last several years, including an increase in operating grants per student. This funding has helped support an enrolment increase of over 100,000 students at Ontario's colleges and universities since 2002–03. Enrolment in the postsecondary sector is expected to continue growing.

Ontario Per-Student Funding for Universities and Colleges, 1991–92 to 2008–09 **Chart 5**



Note: Per-student funding is derived using total operating grants for universities and for colleges divided by the total eligible for provincial funding full-time equivalent (FTE) enrolments.
Source: Ontario Ministry of Training, Colleges and Universities.

Strong demand for training and employment services

The current economic downturn has resulted in increased demand for government training programs and other employment services. The Province has met this demand with stimulus funding, with support from the federal government. Although this demand for training and employment services is expected to decline as the economy improves, the medium-term demand for both is expected to remain strong. This reflects Ontario's continued shift towards a knowledge economy and the recognition that retraining will be required to support this transition. Increased emphasis on services for new immigrants and on lifelong learning will also contribute to demand.

Demand for Children's and Social Services

Investments to help reduce child poverty

Expenditures on children's and social services have increased in light of measures taken to support the government's commitment to reduce poverty[1] and the current economic slowdown. As Ontario recovers from the current recession, the cyclical component of demand for these services is expected to moderate. Over the longer term, the demand in this sector is expected to be driven mainly by demographics and performance of the Ontario economy.

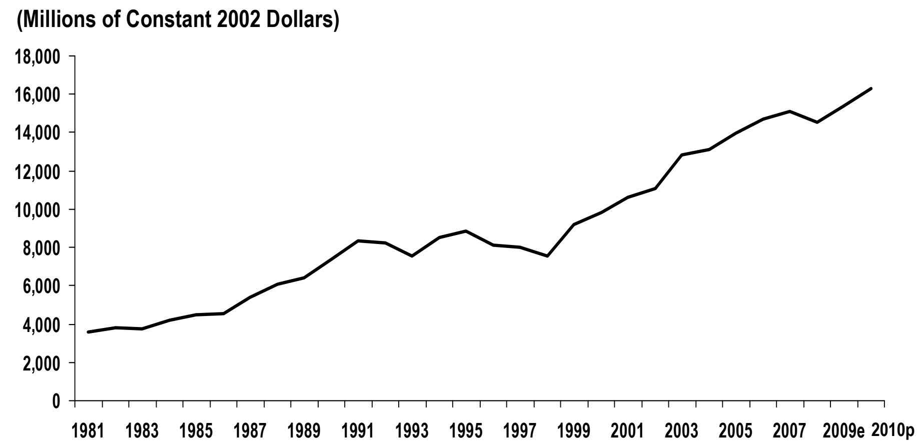
[1] The government's Poverty Reduction Strategy was introduced in December 2008 and builds on the historic introduction of the Ontario Child Benefit in 2007.

Demand for Other Government Expenditures

Measures to reduce impact of global recession

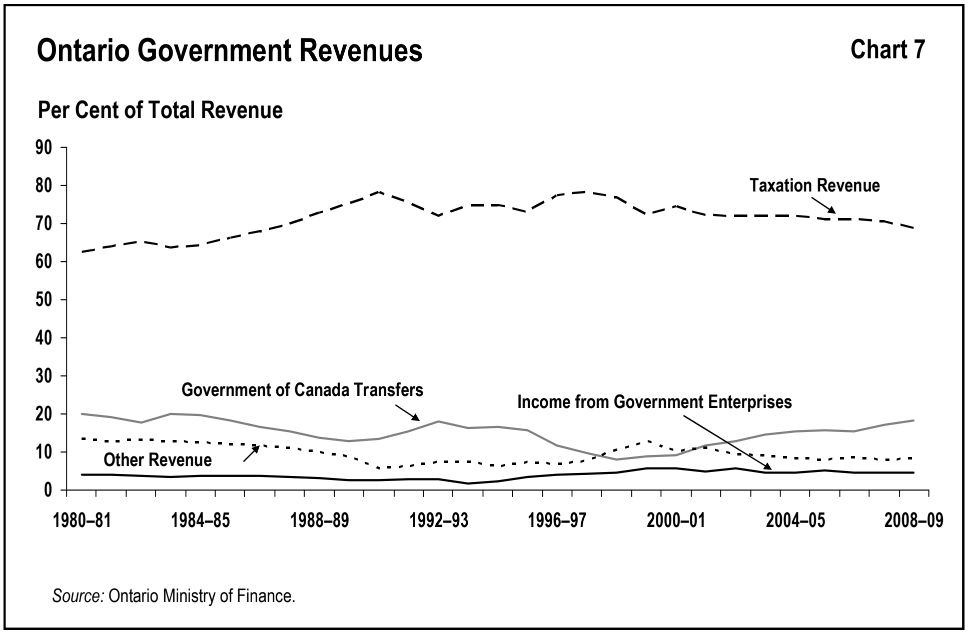
The government has taken decisive measures to reduce the impact on Ontario of the severe global recession and financial crisis by making substantial investments in infrastructure, supporting the automotive sector, investing in skills training, and sustaining public services. Over the long term, the province's infrastructure needs associated with greater urbanization (such as expansion of railway links between cities, urban transit and highway improvements) are expected to be an important component of these expenditures (see Chapter 5: *Addressing Ontario's Infrastructure Gap* for a detailed discussion of infrastructure).

Ontario Real Government Capital Spending **Chart 6**



e = estimate.
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance projections.

Ontario Government Revenues

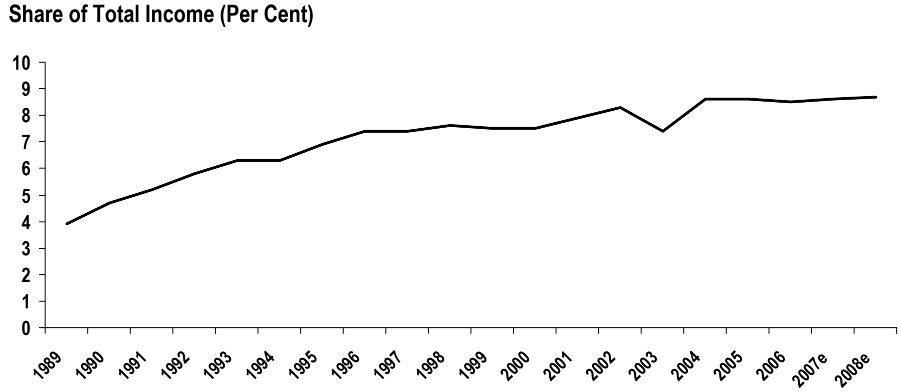


Seniors' savings withdrawals to increase taxable income base

Taxation revenues represented about 69 per cent of Ontario government revenue in 2008–09. Taxation revenue growth in the future is generally expected to be slower than in the past due to the impact of the aging population on economic growth. However, increasing withdrawals from savings by seniors over time will provide an increasing taxable income base that is not reflected in measured gross domestic product (GDP). Income from savings withdrawals subject to personal income tax (PIT) increased at an average annual pace of 8.4 per cent over the past 20 years, more than double the pace of overall income growth (4.0 per cent), increasing from 3.9 per cent of total income in 1989 to 8.7 per cent in 2008. This trend is likely to be more pronounced in the long term as a larger share of seniors in the population draws on their savings. While this income tends to be taxed at relatively lower effective tax rates due to provisions of the personal taxation system,[2] it will still boost revenues above what would be expected based purely on GDP projections.

[2] In Ontario, there are non-refundable tax credits (for 2010) for the first \$1,237 of pension income and up to \$4,366 of income for people aged 65 and over who have low to middle incomes. Seniors also have the option of transferring pension income to their spouse for tax purposes.

Income from Savings Withdrawals Subject to PIT — Ontario Chart 8



Notes:
1) Total Savings Income is the sum of other pensions and superannuation income, RRSP income and annuity income.
2) Data for 2007 and 2008 are benchmark estimates.
Sources: Canada Revenue Agency and Ontario Ministry of Finance.

Federal transfers should be responsive to provincial needs

Federal transfers to Ontario constituted about 18 per cent of total Ontario revenue in 2008–09, rising to about 21 per cent in 2009–10. In the near term, federal transfers reflect a short-term increase for stimulus programs and federal funding to support the transition to Ontario's sales tax harmonization. While the long-term trend in federal transfers is uncertain, future agreements should be responsive to expected provincial expenditure pressures by meeting growth levels in existing agreements while taking into account projected growth in demand for services and national economic growth. A recent study from the University of Toronto projects that "…continued funding pressures at lower levels of government will lead to irresistible pressures for further increases in transfers."[3]

Net Income from Government Business Enterprises (GBEs) accounted for 4.5 per cent of total Provincial revenues in 2008–09. Many of these are mature businesses, and over the long term, growth in their net income would be driven by economic growth.

Other Revenues comprised about eight per cent of total Provincial revenues in 2008–09. This category has a variety of revenue sources including vehicle and driver registration fees, other fees and licences, sales and rental revenues, and royalties. These revenues can be expected to grow in line with total population growth and inflation, and as such would increase at a slightly lower rate in the future than in the past.

[3] Peter Dungan and Steve Murphy, "Long Term Outlook for the Canadian Economy: National Projection Through 2040," University of Toronto: Policy and Economic Analysis Program, Policy Study 2009–04, October 2009.

Other Jurisdictions' Perspectives

Other jurisdictions face similar challenges

Ontario is not alone. A large number of international jurisdictions are confronting similar long-term challenges, including increasing health care costs due to an aging population and rising debt levels as growth in government revenues is offset by higher spending pressures.

The University of Toronto's Policy and Economic Analysis Program estimates that if Ontario's population in 2006 had had the same age/sex structure as projected for 2025 and the same age cohort cost structure as in 2006, total Provincial health expenditures would have been 20.3 per cent ($7.6 billion) higher.[4] Another study by the same program states for Canada: "Over the longer term, expenditures are seen to grow more quickly than GDP…the long-term projection allows for major increases in health-care and elder-care spending, but the bulk of the increases will not be felt for a decade."[5]

The U.S. Congressional Budget Office estimates that total spending on Medicare and Medicaid programs will double from about five per cent of GDP in 2009 to almost 10 per cent by 2035. Meanwhile, it estimates that the total U.S. federal government debt held by the public will grow from 55 per cent to 79 per cent of GDP over the same period.[6]

Reports point to impact of aging on expenditures

The United Kingdom's recently released 2009 long-term report as well as its 2008 long-term report both point to the impact of aging on fiscal spending, including on health. For instance, the 2008 report projects total age-related spending will rise from 20.1 per cent of GDP in 2007–08 to 26.6 per cent by 2057–58, of which health spending will rise from 7.4 per cent of GDP to 9.9 per cent over the same period.[7]

Australia's 2007 long-term report identifies aging as the primary challenge facing public finances. Australian government spending on health is projected to increase from 3.8 per cent of GDP in 2006–07 to 7.3 per cent by 2046–47, mainly driven by the development of new drugs and greater use of medical technology.[8]

New Zealand's 2009 long-term report identifies fiscal costs associated with aging as an important challenge. By 2050, while the total population is projected to grow

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4 Peter Dungan and Steve Murphy, "A Population Projection for Ontario with an Updated Application to Health Care Expenditures," University of Toronto, Policy and Economic Analysis Program, Policy Study 2009–03, June 2009.

5 Peter Dungan and Steve Murphy, "Long Term Outlook for the Canadian Economy: National Projection Through 2040," University of Toronto: Policy and Economic Analysis Program, Policy Study 2009–04, October 2009.

6 United States Congressional Budget Office, "The Long-Term Budget Outlook," June 2009.

7 United Kingdom HM Treasury, "Long-Term Public Finance Report: An Analysis of Fiscal Sustainability," December 2009 and March 2008.

8 Australian Treasury, "Intergenerational Report 2007."

by around 25 per cent, the population over age 65 is projected to increase by about 150 per cent.[9]

The International Monetary Fund's (IMF) medium-term fiscal projections (as of November 2009) suggest continued spending pressures, particularly in Japan (reflecting increased social security outlays) and the United States (from higher health and pension spending). The IMF stresses the importance of containing the growth of pension and health spending in line with GDP in advanced countries.[10]

Fiscal Sustainability

Fiscal sustainability important

The Province is currently projecting a deficit of $24.7 billion in 2009–10, decreasing to $19.4 billion by 2011–12, as published in the *2009 Ontario Economic Outlook and Fiscal Review*. These projections reflect lower revenues due to the deep global recession, as well as the impact on expenditures of policy measures including stimulus spending and funding of key priority areas such as health care. The government will ensure that Ontario returns to a firm and sustainable fiscal footing. If fiscal sustainability is not restored, it would mean a cycle of worsening budget deficits and increasing interest expense on public debt.[11] This would leave little fiscal space for other key government priorities and potentially crowd out private-sector investment.[12]

Over the long term, Ontario, like other major economies, will need to continue providing key public services in the context of growing demographic pressures, notably an aging population. Long-term fiscal sustainability must also be ensured so that the burden of public debt is not passed on to future generations.

Comprehensive expenditure review

This report has highlighted key challenges for the upcoming years that reveal the need for dialogue among all stakeholders in the province to restore and strengthen fiscal sustainability. In addition, the Treasury Board/Management Board of Cabinet is conducting a comprehensive expenditure review and the government will deliver its plan in the 2010 Budget.

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9 New Zealand Treasury, "Challenges and Choices: New Zealand's Long-term Fiscal Statement," October 2009.

10 International Monetary Fund, "The State of Public Finances Cross-Country Fiscal Monitor: November 2009," Washington: IMF Fiscal Affairs Department, 2009.

11 For example, the Ontario government's interest on debt expense as a share of total expense rose steadily during the 1990s, peaking at 17 per cent in 1999–00. Since then, it has gradually declined to about 9 per cent in 2008–09.

12 Several studies (mainly focusing on countries in the Organisation for Economic Co-operation and Development) find beneficial effects of fiscal adjustments or consolidations (e.g., Alberto Alesina and Roberto Perotti, "Fiscal Expansions and Fiscal Adjustments in OECD Countries," NBER Working Paper No. 5214, National Bureau of Economic Research, 1995; and Manmohan S. Kumar, Daniel Leigh and Alexander Plekhanov, "Fiscal Adjustments: Determinants and Macroeconomic Consequences," IMF Working Paper No. 07/178, 2007).

Chapter 4: Modernizing Ontario's Tax System for Jobs and Growth

INTRODUCTION

Rapid changes in the global economy, together with growing pressures on public services from an aging population, present challenges and opportunities in positioning Ontario's economy for growth and prosperity.

As technology advances and new economies emerge to compete with established ones, the global economy has become highly integrated. This has led to intense competition for the internationally mobile investment required to support economic growth and job creation.

Furthermore, the recession has changed the economic landscape, posing additional challenges to Ontario's traditional sources of prosperity.

A comprehensive tax package

To better position Ontario for economic growth as the economy emerges from the recession, the 2009 Budget presented a plan to modernize Ontario's tax system. This comprehensive tax package, which was passed by the legislature in December 2009 under the *Ontario Tax Plan for More Jobs and Growth Act, 2009*, will significantly improve Ontario's competitiveness for new business investment and cut income taxes for people. It will lead to more jobs and higher incomes, and help sustain key priorities such as health care and education.

The comprehensive tax package builds on a wide range of measures the McGuinty government has implemented over the past six years to improve Ontario's competitiveness. These include:

- strategic tax cuts, such as the legislated elimination of the Capital Tax and reductions in Business Education Tax rates;
- streamlining the cost of doing business in Ontario through initiatives such as the implementation of a single corporate tax administration; and
- investments in infrastructure, education and innovation.

The Comprehensive Tax Package Improves Ontario's Tax Competitiveness, Leading to New Investment, More Jobs and Higher Incomes

A recent report by accounting firm KPMG shows that the tax measures in the 2009 Budget significantly improve Ontario's competitiveness.

KPMG, "Competitive Alternatives: Focus on Tax, 2009 Update for Ontario Ministry of Finance," November 2009.

"The 2009 Ontario Budget measures, together with other recent tax changes, will have a profound impact on Ontario's competitiveness by lowering the tax burden on new business investment.

Within ten years, Ontario will benefit from:

- increased capital investment of $47 billion;
- increased annual incomes of up to 8.8%, or $29.4 billion; and
- an estimated 591,000 net new jobs."

Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009

Tax Plan for Jobs and Growth[1]

Tax relief for people and business

The comprehensive tax package delivers significant permanent and temporary tax relief of $15 billion to people and business over three years by:

- replacing the Retail Sales Tax (RST) with a more modern, value-added tax (VAT) that will be combined with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST);
- cutting personal income tax (PIT) for 93 per cent of income tax payers;
- enhancing property tax credits and sales tax credits for low- to middle-income individuals and families;
- providing temporary support to people and businesses to assist in the transition to the HST;
- reducing Corporate Income Tax (CIT) rates for large and small businesses; and
- eliminating the small business deduction surtax.

[1] For further details, see "Ontario's Tax Plan for Jobs and Growth: Cutting Personal and Corporate Taxes and Harmonizing Sales Taxes," November 2009, available on the Ontario Ministry of Finance website (ontario.ca/finance).

Promoting Jobs and Growth Through Sales Tax Harmonization and Tax Cuts for Business

Sales Tax Harmonization for Jobs and Growth

Harmonized Sales Tax for economic growth and jobs

Effective July 1, 2010, the RST will be replaced with a VAT and combined with the federal GST to create a federally administered HST. The provincial portion of the HST will be eight per cent — the same as the general RST rate — and the federal portion will be five per cent, for a combined HST rate of 13 per cent.

The HST will make Ontario businesses more competitive, increase business investment, improve productivity, create new jobs and raise incomes.

> **Harmonization Will Lead to Stronger Productivity Growth and Greater Prosperity for Ontario**
>
> "Last year, we said that Ontario needed to pursue tax reform as a high priority. Our key recommendations were to harmonize the provincial sales tax (PST) with the federal goods and services tax (GST) and to bring down corporate income tax rates that penalized new productivity-enhancing investments by business. We are pleased that these recommendations were adopted in the March 2009 provincial budget. The tax changes announced in this budget will help all Ontarians."
>
> *"Navigating through the Recovery," Task Force on Competitiveness, Productivity and Economic Progress, Eighth Annual Report, November 2009.*

The RST is charged on many purchases made by businesses in manufacturing goods and providing services. The tax becomes embedded in the cost of goods and services and gets passed through to the next stage of the production, distribution and retail processes. The result is a compounding of tax upon tax that raises the cost of running a business in Ontario. By applying to many capital purchases, the RST also increases the tax burden on new capital investment. For example, assuming that materials account for about half the cost of constructing new buildings used by business, the RST charged on construction materials adds approximately four per cent to the cost of constructing a new building.[2]

RST harms Ontario's competitiveness

This places Ontario at a competitive disadvantage with many jurisdictions when it comes to attracting investment and creating jobs. Ontario businesses have more difficulty competing in the export market, which is especially damaging since Ontario's economy relies on exports. It also makes it more difficult for Ontario businesses to compete against imports.

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[2] KPMG, "Competitive Alternatives: Focus on Tax, 2009 Update for Ontario Ministry of Finance," November 2009, p. 9.

Removing the hidden sales tax

The HST removes this hidden tax by refunding sales taxes paid on most business inputs.[3] This will reduce the cost of capital purchases and operating costs, making Ontario more attractive for new business investment, and will allow existing Ontario businesses to improve their competitiveness by lowering their prices.

By no longer taxing most business inputs under the HST, Ontario will improve its tax competitiveness internationally. Ontario will join four other provinces[4] and more than 140 countries that have already adopted a VAT. These include all the countries in the Organisation for Economic Co-operation and Development (OECD), with the exception of the United States.

As discussed in Chapter 1: *Demographic Trends and Projections*, the supply of workers in Ontario will grow slowly by historical standards. A relatively smaller share of workers in the population will have to produce the income needed to fund the public services required by a growing number of retirees. To maintain a high standard of living, it will be vital to have strong growth in productivity.
The increased investment per worker resulting from the HST will help bring about stronger productivity growth.

The increases in investment, productivity, jobs and incomes from moving to the HST are further enhanced by the CIT rate cuts and the legislated elimination of the Capital Tax.

Corporate Tax Cuts for Jobs and Growth

Permanent tax cuts for business

The comprehensive tax package permanently reduces taxes for large and small businesses across the province starting July 1, 2010. The main elements of the tax cuts are as follows:

- the general CIT rate will be cut from 14 per cent to 12 per cent and further reduced to 10 per cent over three years;
- the CIT rate on income from manufacturing and processing, mining, logging, farming and fishing will be cut from 12 per cent to 10 per cent;
- the small business CIT rate will be cut from 5.5 per cent to 4.5 per cent; and
- the small business deduction surtax of 4.25 per cent will be eliminated.

These tax cuts are in addition to the permanent tax cut for business provided by the legislated elimination of the Capital Tax on July 1, 2010.

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[3] The HST will be refunded to businesses through input tax credits (ITCs). For large businesses and certain financial institutions, the ITCs for some inputs are being phased in over eight years.

[4] These provinces are Quebec, Newfoundland and Labrador, Nova Scotia and New Brunswick. In July 2009, British Columbia also announced that it will harmonize with the GST in order to create jobs and generate long-term economic growth.

Big tax savings for business

Table 1 shows that almost all sectors of Ontario's economy will see substantial tax savings from the HST combined with the permanent tax cuts. When fully implemented, businesses will save almost $4.5 billion a year from replacing the RST with the HST, $2.4 billion annually from the CIT cuts and nearly $1.6 billion a year from eliminating the Capital Tax.

Total Business Tax Relief by Sector — Annual Savings[1,2] ($ Millions) — **Table 1**

Sector	HST	Corporate Income Tax	Capital Tax[3]	Total
Agriculture	30	15	s	45
Forestry, Fishing and Hunting	15	s	s	15
Mining, Utilities, Oil and Gas	105	110	100	315
Construction	2,335	120	40	2,495
Manufacturing	510	405	305	1,220
Wholesale Trade	440	245	100	785
Retail Trade	265	100	55	420
Transportation and Warehousing	500	60	35	595
Information and Cultural Industries	565	80	85	730
Financial Services (except Insurance)	(900)	535	520	155
Insurance	(160)	150	5	(5)
Real Estate	(20)	135	75	190
Renting and Leasing	105	25	40	170
Professional, Scientific and Technical Services	395	270	120	785
Other Services (except Public Administration)	280	170	75	525
Total Business	**4,465**	**2,420**	**1,555**	**8,440**

1 Represents the annual savings following the full phase-in of the tax measures. Savings do not include more than $700 million annually in Business Education Tax reductions, targeted tax incentives in the 2009 Budget and the enhancement to the Ontario Production Services Tax Credit announced on June 29, 2009; over $500 million in annual compliance cost savings from a single HST administration; and up to $100 million in annual compliance cost savings from a single corporate tax administration.

2 Annual savings of less than $5 million are denoted by the letter "s" (small).

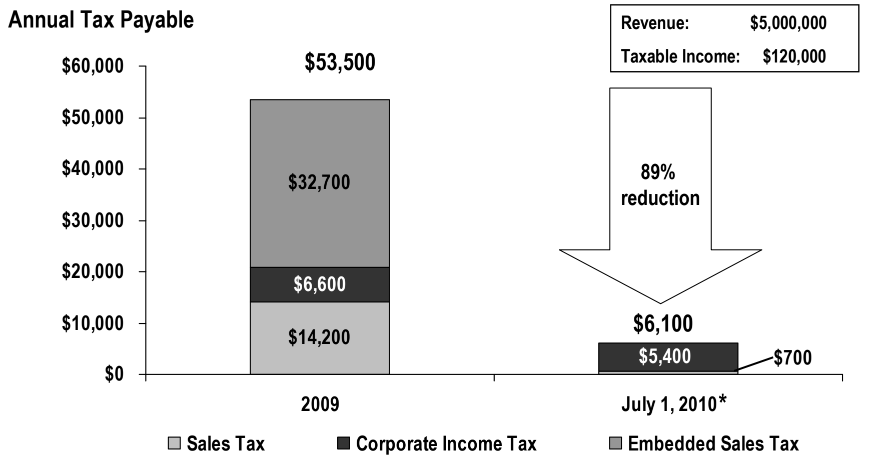
3 Capital Tax savings compared to the Capital Tax structure before the 2004 Budget measures.

The following examples illustrate the potential annual savings for several small to large businesses from the tax cuts and the removal of the RST that is embedded in the price of business inputs.[5] Charts 1 to 4 present these savings for a manufacturer, restaurant, retailer and software publisher. Further examples are summarized in Table 2. The examples show that these costs will be reduced by about 60 per cent to over 90 per cent.

5 While each example does not represent an actual company, the financial profile and corporate tax payable are based on actual corporate tax administration data for corporations in the industry. Sales tax and embedded sales tax estimates are based on effective tax rates paid by each industry, as determined using Statistics Canada survey data.

Tax Savings for a Manufacturer

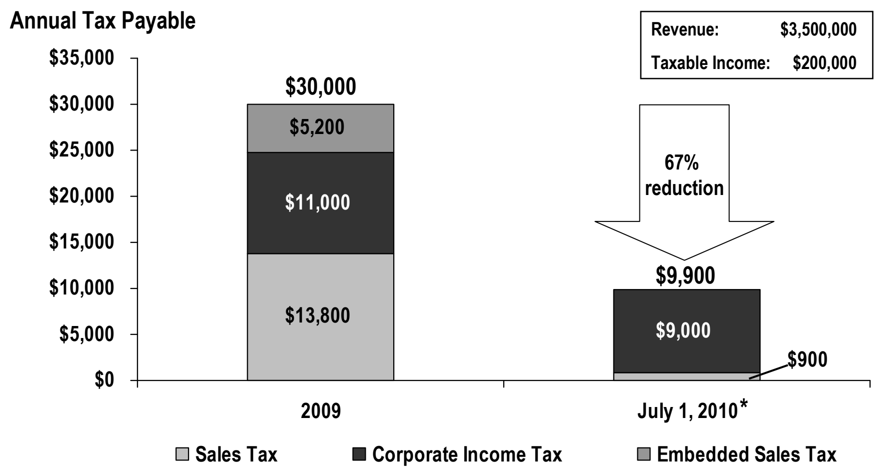
Chart 1



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

Tax Savings for a Restaurant

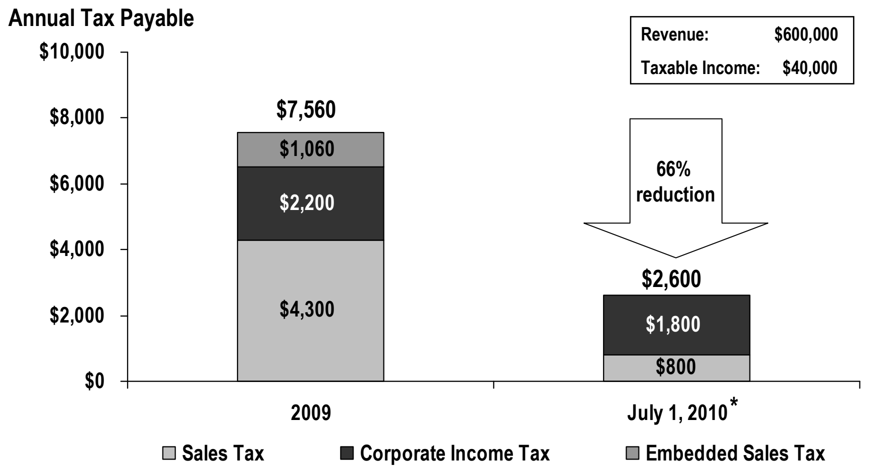
Chart 2



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

Tax Savings for a Retailer

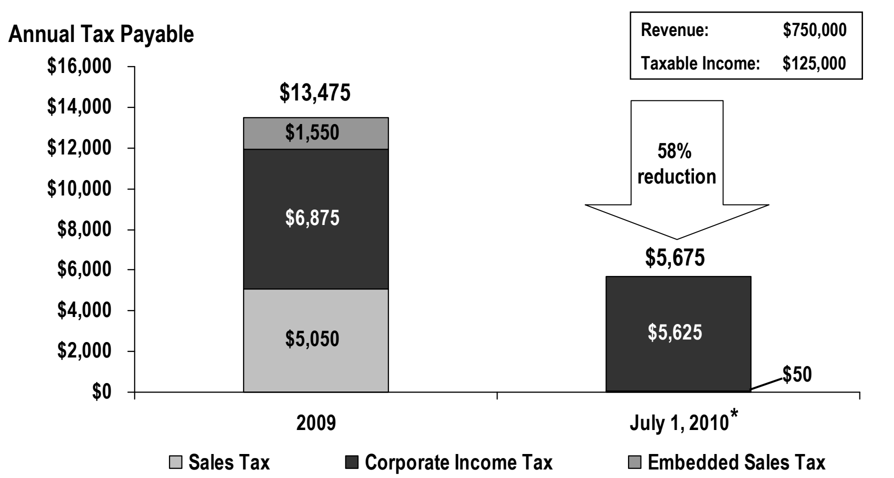
Chart 3



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

Tax Savings for a Software Publisher

Chart 4



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

Annotation	Annual Tax Savings to Business — Illustrative Examples				Table 2

Industry/Business	Revenue	Tax Payable[1] 2009	Tax Payable[1] Full Implementation[2]	% Reduction in Tax Payable
Coffee Shop	$1,000,000	$9,300	$2,500	73
Dry Cleaner	$200,000	$6,480	$960	85
Forestry	$20,000,000	$243,000	$45,000	81
Hotel	$9,000,000	$245,500	$74,500	70
Landscaping	$3,000,000	$54,600	$8,500	84
Movie Theatre	$1,000,000	$15,900	$6,400	60
Telecommunications	$250,000,000	$5,125,000	$230,000	96

1 Tax payable includes sales tax, CIT, embedded sales tax and Capital Tax (where applicable).

2 Full implementation occurs July 1, 2010 for the coffee shop, dry cleaner, landscaper and movie theatre; July 1, 2013 for the hotel, when the CIT rate cuts are fully phased in; and July 1, 2018 for the telecommunications provider and forestry company, when input tax credits are fully phased in.

Cutting the Tax Burden on New Business Investment

Tax reductions to attract investment

The tax reductions for business will dramatically reduce Ontario's marginal effective tax rates (METRs)[6] on new business investment. This reduction in the tax rates on income earned from new investment will make Ontario a highly attractive location for businesses to invest and create jobs.

Ontario's METR for medium-sized and large businesses will be cut in half, falling from 32.8 per cent in 2009 to 16.2 per cent in 2018, when the input tax credits are fully phased in (Chart 5). Most of the reduction occurs in 2010, when the METR falls to 18.6 per cent. The reduction in Ontario's METR relative to the United States and OECD averages significantly improves Ontario's tax competitiveness in attracting new jobs and investment.

Small business key to job creation and economic growth

The METR for small businesses falls proportionately more. A study has estimated that the small business METR will fall from 28.6 per cent in 2009 to 13.3 per cent in 2010.[7] With small businesses accounting for over 90 per cent of all Ontario businesses, this reduction in the METR will support a sector that is key to creating jobs and economic growth.

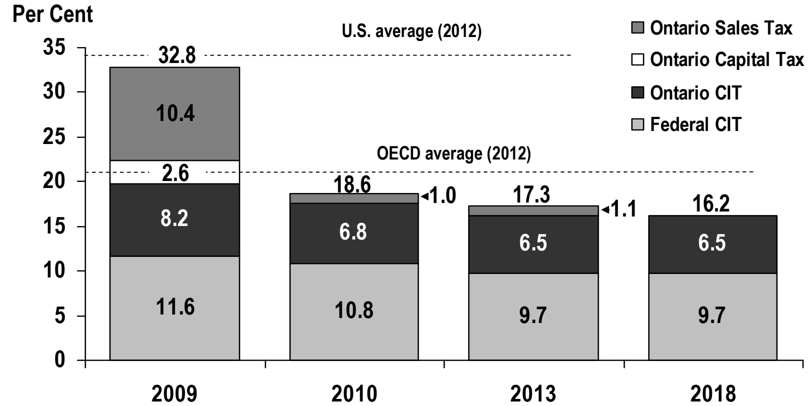
It is estimated that the improvement in Ontario's tax competitiveness will lead to $47 billion in new business investment and 591,000 net new jobs by 2020.[8]

6 The METR is a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment. It reflects the combined effect of federal and provincial corporate income taxes, rules related to depreciation, investment tax credits, and capital and sales taxes.

7 Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

8 Ibid.

Cutting Ontario's METR on New Business Investment in Half* **Chart 5**



Note: * Includes the Ontario Corporate Income Tax (CIT) rate cuts and Harmonized Sales Tax announced in the 2009 Budget, the phase-out of Ontario's Capital Tax by July 1, 2010, and the reduction in the general federal CIT rate to 15 per cent by 2012.
Sources: Ontario Ministry of Finance and Finance Canada.

Improving Ontario's Overall Tax Competitiveness

The METR analysis discussed above focuses on the taxes that apply directly to new capital investment. An alternative approach looks at overall taxation as part of the cost of business operations. This broader approach has been used in a highly regarded series of reports by accounting firm KPMG, which look at all taxes paid, including payroll taxes and property taxes. A special update by KPMG examines the impact of the 2009 Budget on Ontario's tax competitiveness.[9]

KPMG's analysis shows a significant improvement in Ontario's tax competitiveness across all industries as a result of the 2009 Budget measures (Chart 6). The Budget measures widen Ontario's current tax advantage over the United States and significantly improve Ontario's competitiveness relative to other jurisdictions in Canada and Mexico, where Ontario was less competitive in the past.

Though all sectors in the study benefit from the tax cuts, the most dramatic improvements in Ontario's competitiveness are in the services and research and development sectors (Charts 7 and 8).

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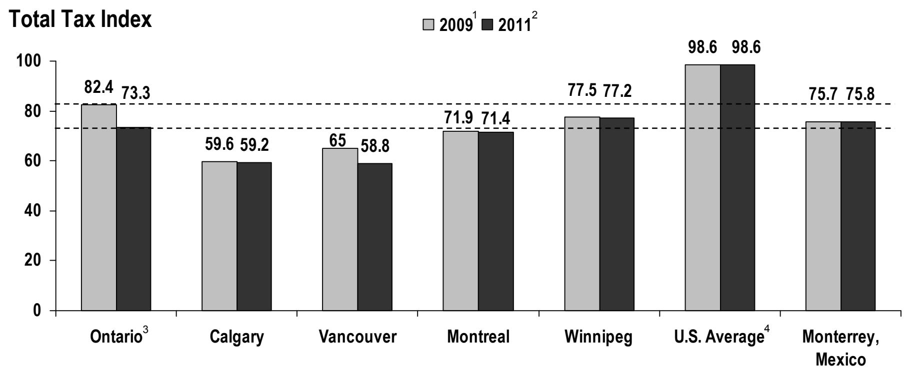
9 KPMG, "Competitive Alternatives: Focus on Tax, 2009 Update for Ontario Ministry of Finance," November 2009. The full report is available on the Ontario Ministry of Finance website at ontario.ca/finance.

Impact of 2009 Budget on Ontario's Tax Competitiveness, All Industries

Chart 6



Note: The total tax burden for each city, over a 10-year period from business start-up, is expressed as an index with the average for all U.S. cities in *KPMG's Competitive Alternatives 2008* set at 100.

[1] Reflects tax measures in effect or announced prior to the date of the 2009 Ontario Budget.

[2] Reflects tax measures announced prior to August 1, 2009 that are expected to be in effect in 2011 and subsequent years.

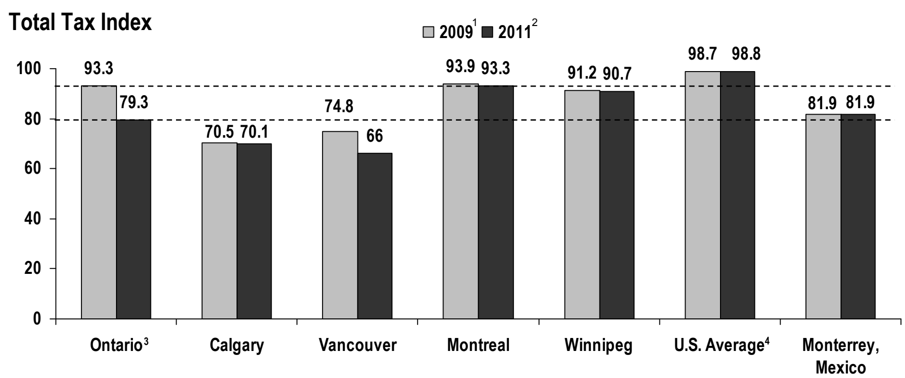
[3] Average for Ontario cities included in the study.

[4] Average for U.S. cities included in the study.

Sources: KPMG and Ontario Ministry of Finance.

Impact of 2009 Budget on Ontario's Tax Competitiveness, Services

Chart 7



Note: The total tax burden for each city, over a 10-year period from business start-up, is expressed as an index with the average for all U.S. cities in *KPMG's Competitive Alternatives 2008* set at 100.

[1] Reflects tax measures in effect or announced prior to the date of the 2009 Ontario Budget.

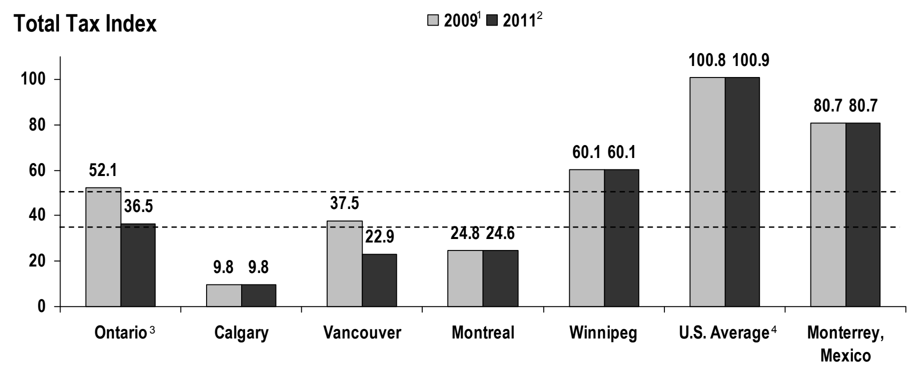
[2] Reflects tax measures announced prior to August 1, 2009 that are expected to be in effect in 2011 and subsequent years.

[3] Average for Ontario cities included in the study.

[4] Average for U.S. cities included in the study.

Sources: KPMG and Ontario Ministry of Finance.

Impact of 2009 Budget on Ontario's Tax Competitiveness, Research and Development — Chart 8



Note: The total tax burden for each city, over a 10-year period from business start-up, is expressed as an index with the average for all U.S. cities in *KPMG's Competitive Alternatives 2008* set at 100.
[1] Reflects tax measures in effect or announced prior to the date of the 2009 Ontario Budget.
[2] Reflects tax measures announced prior to August 1, 2009 that are expected to be in effect in 2011 and subsequent years.
[3] Average for Ontario cities included in the study.
[4] Average for U.S. cities included in the study.
Sources: KPMG and Ontario Ministry of Finance.

How the Tax Changes Benefit People

Tax Cuts for People

Tax relief for people

The 2009 Budget provides $10.6 billion in tax relief to people over three years by cutting PIT, enhancing ongoing sales tax and property tax relief, and providing direct payments to help ensure a smooth transition to the HST.

- Effective January 1, 2010, the tax rate on the first tax bracket was cut by one percentage point, from 6.05 per cent to 5.05 per cent. As a result, 93 per cent of income tax payers will see a PIT cut, and approximately 90,000 lower-income tax filers will no longer pay Ontario PIT.
- Two new tax credits — the Ontario Sales Tax Credit and Ontario Property Tax Credit — replace the existing combined property and sales tax credits starting with the 2010 tax year. The new credits are refundable and provide sales and property tax relief to low- to middle-income families and single people.
- To support the transition to the HST, eligible Ontario residents aged 18 or over or who have a spouse or common-law partner or live with their child will receive transition benefit payments in June 2010, December 2010 and June 2011. Eligible families (including single parents) with adjusted family net incomes of $160,000 or less will get three payments totalling $1,000. Eligible single individuals with net incomes of $80,000 or less will get three payments totalling $300.

Impact of Sales Tax Harmonization and Tax Cuts on People

No change in tax status for 83 per cent of consumer purchases

Moving to the HST will cause some consumer purchases to cost more because some goods and services that were not subject to the RST will become subject to the provincial portion of the HST for the first time. However, Ontarians will not see a change in taxable status for 83 per cent of total consumer expenditures. Table 3 shows the taxable status of certain goods and services under the HST.

Taxable Status of Goods and Services for Consumers Under HST — **Table 3**

No Change in Taxable/Exempt Status for Consumers — Examples	
Basic Groceries	Furniture
Prescription Drugs	Toys
Municipal Water	Admissions to Sporting Events
Certain Medical Devices	Movie Tickets
Most Health Care Services	Restaurant Meals
Most Educational Services	Cleaning Products (e.g., Soaps, Detergents)
Municipal Public Transportation	Cell Phone Charges
Luggage, Briefcases, Bags, etc.	Home Phone Services
Child Care Services	Cable TV Service
Books	Auto Insurance
Children's Clothing	Home Insurance
Children's Footwear	Residential Rent
Clothing	Prepared Foods Sold for $4 or Less
Child Car Seats and Car Booster Seats	Newspapers
Vehicles and Parts	Radios, Stereos, CD Equipment and Accessories
Vehicle Repairs (Parts and Labour)	TVs, DVDs and Accessories
Over-the-Counter Medication	Music Lessons
Crafting Supplies (Scissors, Yarn)	Pharmacist Dispensing Fees
Home Maintenance Equipment (Lawnmowers, Snow Blowers, Sprinklers)	Auto Rentals
Mortgage Interest Costs	Adult Incontinence Products
Refrigerators and Freezers	Feminine Hygiene Products
Prepackaged Computer Software	Diapers
Tailoring	
Change in Taxable Status for Consumers — Examples	
Electricity	Personal Services (e.g., Hairstyling)
Professional Services (e.g., Legal, Accounting and Real Estate Fees and Commissions)	Internet Access Fees
	Tobacco
Heating Fuels	Gasoline

Many prices expected to fall

Price increases will be moderated by the pass-through of business savings and, in many cases, prices are expected to fall. A study that examined the experience in the Atlantic provinces following GST harmonization in 1997 found that savings were fully and quickly passed on to consumers.[10] Similarly, the TD Bank predicts that 80 per cent of business savings will be passed along to consumers in the first year, rising to 95 per cent by the third year and eventually 100 per cent of business savings will be passed through. The TD Bank notes that "for businesses to generate an increase in demand for their products they will have to pass those savings onto consumers."[11]

The impact on people will be further mitigated on an ongoing basis through the PIT cuts and enhanced tax credits and, during the initial years of the HST, through transitional relief.

Tax measures for quality of life

Within 10 years, the HST and tax cuts for business will provide significant benefits for Ontarians through an estimated 591,000 net new jobs, higher annual incomes of up to 8.8 per cent,[12] and a stronger, more competitive economy that can better support the quality of life and public services that Ontarians rely on.

The following examples illustrate the impact of the tax changes on several types of households.[13] These impacts do not reflect the benefit from the increases in personal incomes that are expected due to stronger economic growth. Three time periods are presented for each example:

- the first full year of the HST, when families and individuals receive two of the three transition benefit payments designed to assist them while businesses adjust their prices;
- the third year, when the transition benefits are no longer provided; and
- at maturity, when the HST credits for businesses are fully phased in.

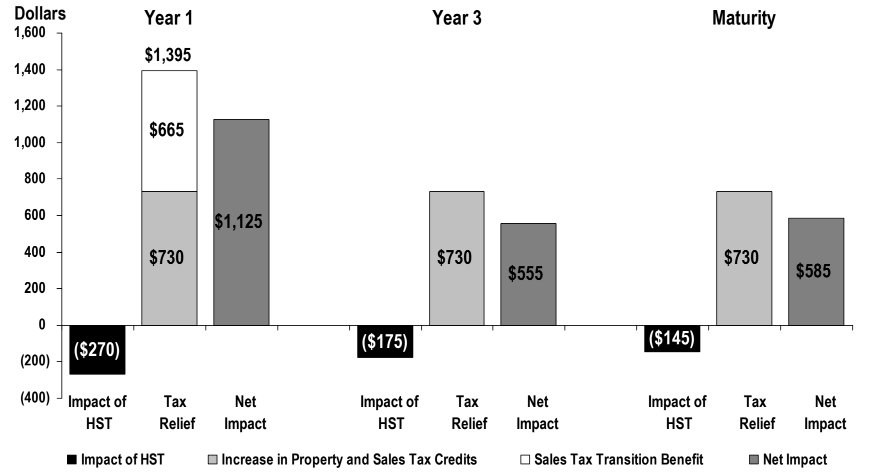
[10] Michael Smart and Richard M. Bird, "The Economic Incidence of Replacing a Retail Sales Tax with a Value-Added Tax: Evidence from Canadian Experience," *Canadian Public Policy*, Volume XXXV, No. 1, 2009.

[11] "The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation," *TD Economics Special Report*, September 18, 2009.

[12] Mintz, ibid.

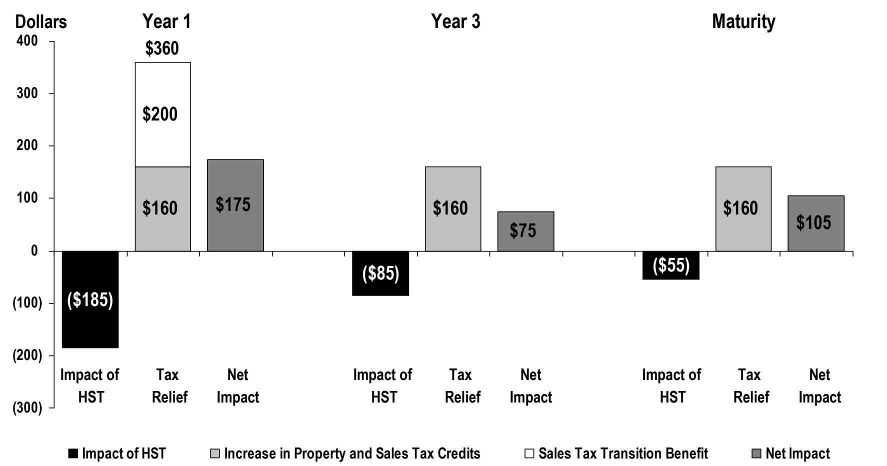
[13] These examples are for illustrative purposes only. The impact on individual households may vary depending on a number of factors, such as spending patterns, level of savings, and tax credits and deductions claimed.

Single Parent on Ontario Works, 2 Children (ages 5 & 7) **Chart 9**

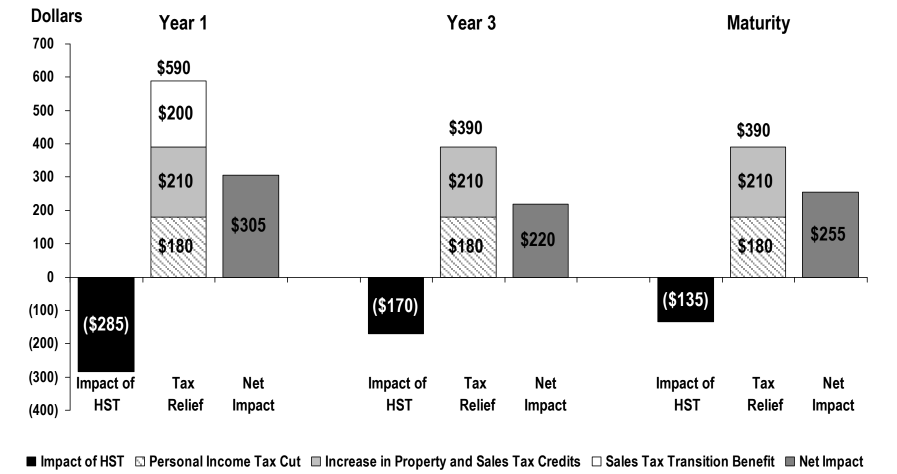


Note: Single parent with $11,532 in annual Ontario Works benefits, paying $620 in monthly rent, with no day-care costs.
Source: Ontario Ministry of Finance, November 12, 2009.

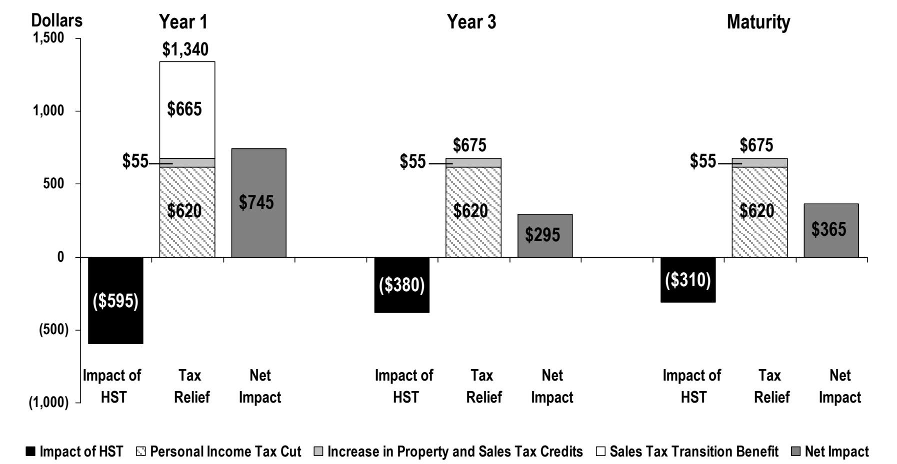
Single Senior, Pension Income $20,000 **Chart 10**



Note: Senior individual with pension income including Old Age Security, Guaranteed Income Supplement and Canada Pension Plan, and paying $600 in monthly rent.
Source: Ontario Ministry of Finance, November 12, 2009.



Note: Individual with $600 in monthly rent.
Source: Ontario Ministry of Finance, November 12, 2009.



Note: Family with income split 60%/40%, paying $4,000 in property taxes on their home, with day-care costs of $11,000 a year.
Source: Ontario Ministry of Finance, November 12, 2009.

CHAPTER 5: ADDRESSING ONTARIO'S INFRASTRUCTURE GAP

INTRODUCTION

Public infrastructure is critical to Ontario's global competitiveness and the quality of life every person enjoys. Well-functioning infrastructure boosts productivity and supports economic growth through lower business costs. Fast-growing urban areas will particularly benefit from infrastructure investments.

Since the 1980s, Ontario's infrastructure has been under stress. Underinvestment, aging infrastructure and growth needs led to a gap between actual and needed infrastructure. Greater highway congestion, schools in disrepair and outdated hospitals were the result.

Infrastucture investments create jobs and growth

The Province responded to this gap by investing more, investing smarter and building better. Ontario is investing $32.5 billion over two years to create jobs and lay the foundation for economic growth. The recently completed $30 billion ReNew Ontario plan, along with the Growth Plan for the Greater Golden Horseshoe and Building a Better Tomorrow Framework, provided a blueprint to transform public infrastructure investments. These investments in transit, green energy, hospitals and schools promise to help improve Ontario's competitiveness and enhance quality of life.

Benefits of Infrastructure

A wide range of benefits

Infrastructure has a wide range of benefits, including a positive impact on productivity. New or rehabilitated infrastructure promotes efficiency by lowering business costs. For example, reduced congestion lowers transportation costs.

Over time, the productivity of private capital is enhanced by public infrastructure investment, which increases its rate of return, leading to more business investment. Infrastructure that improves quality of life can also attract mobile, highly skilled workers, which further spurs economic growth.

Public Infrastructure Boosts Productivity

Statistics Canada research findings suggest a $1 investment in public infrastructure lowers business costs by an average of 11 cents in Canada. The gains tend to be greater for industries such as manufacturing, transportation and retail, which rely more heavily on public infrastructure for the production of their goods.

Public infrastructure's contribution to Canadian labour productivity averaged 0.2 percentage points per year from 1962 to 2006, accounting for an average of nine per cent of labour productivity growth during this period.

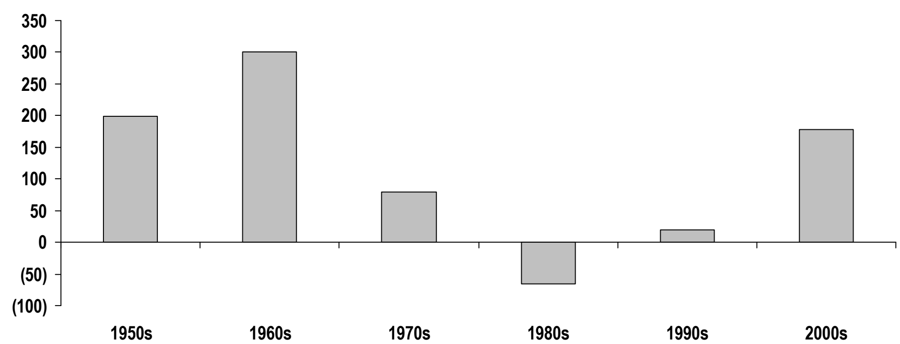
Infrastructure Gap

Infrastructure needs changing

The current infrastructure challenge is in part the result of the aging of the massive stock of infrastructure built through the 1950s and 1960s. This stock is nearing the end of its useful life and, like an old car, it is expensive to repair and replace. In addition, Ontario's infrastructure needs are changing. Infrastructure has a long life and must meet the needs not only of today but also of tomorrow. An aging population, climate change, new technology, population growth and an expanding economy add to the need to revitalize and expand Ontario's infrastructure.

Per-Capita Change in Ontario's Public Infrastructure **Chart 1**

Annual Average by Decade (Constant $2002 Prices)



Sources: Statistics Canada and Ontario Ministry of Energy and Infrastructure.

Investment Needs

In a 2006 study, the Residential and Civil Construction Alliance of Ontario estimated the cost to rehabilitate the province's public infrastructure would be $19 billion. Furthermore, it found future expansion and replacement costs of roads, electricity, hospitals and transit could be as high as $6 billion to $7 billion each year. This is in addition to the requirements for sewer and water, education facilities and social housing.

In the fall of 2008, the Provincial-Municipal Fiscal and Service Delivery Review put the cost of bringing municipal infrastructure into a good state of repair at $22.4 billion, with an additional $3.7 billion investment needed annually to meet current and future needs. Municipal infrastructure accounts for nearly half of the Province's public infrastructure stock.

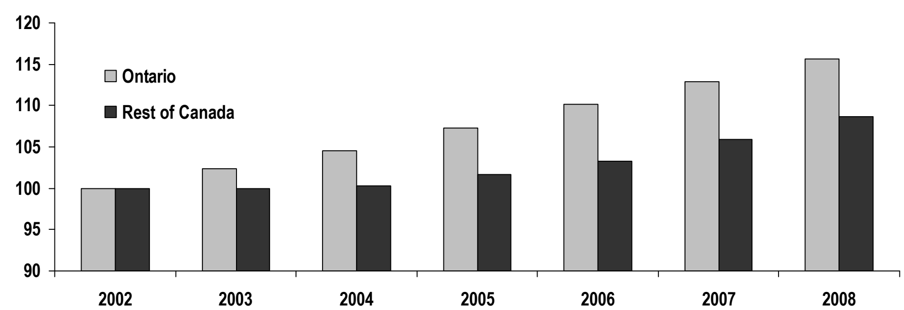
Working to Close the Infrastructure Gap

Investing for the future

The government has already made — and is continuing to make — significant contributions towards eliminating the infrastructure gap while helping to address future needs.

Ontario Infrastructure Growth Outpaces that of the Rest of Canada* **Chart 2**

(Index: 2002=100, Constant $2002 Prices)



* Data reflect the change in per-capita net public capital stock.
Sources: Statistics Canada and Ontario Ministry of Energy and Infrastructure.

Completion of ReNew Ontario

Infrastructure investment plans

In 2005, the government introduced a five-year, $30 billion infrastructure investment plan called ReNew Ontario. ReNew Ontario marked the introduction of multi-year infrastructure planning, allowing partners to plan their investments better. A year earlier, the Province also released the Building a Better Tomorrow Framework, providing a smarter way to build major projects through alternative financing and procurement. In 2006, the government introduced the Growth Plan for the Greater Golden Horseshoe, to build smarter communities in Ontario's fastest-growing region. These plans resulted in significant improvements in public-sector investments in infrastructure.

Infrastructure Ontario

In November 2005, the government created Infrastructure Ontario to help expand and renew Ontario's public infrastructure. Infrastructure Ontario's mandate includes the delivery of major infrastructure projects on time and on budget through the use of alternative financing and procurement (AFP).

Alternative financing and procurement transfers construction and other risks to the private sector while maintaining public control and ownership of the assets. Infrastructure Ontario has moved quickly to help renew and expand the province's health care and other infrastructure, with six AFP projects substantially complete, 22 under construction and another 16 at various stages of procurement.

ReNew Ontario investments in key areas

ReNew Ontario called for the revitalization, modernization and expansion of the province's public infrastructure and provided for major new investments in areas that are of primary importance to Ontarians, including transportation, health and education. ReNew Ontario was completed in 2009, a year earlier than scheduled. Below are some of the accomplishments under ReNew Ontario.

Expansion of Public Transit

The York Spadina subway extension is under construction and scheduled to enter into service in 2015. The Province has contributed $870 million to the Move Ontario Trust for this project, and for the first time subway service will be extended from the 416 to the 905 region, making travel easier in the Greater Toronto Area (GTA). The project will help to better integrate York University with GTA transit while stimulating redevelopment and intensification between Downsview Station and the Vaughan Metropolitan Centre in York Region.

Congestion Costs Are Significant

In a 2008 study, Metrolinx indicated that, within the Greater Toronto and Hamilton Area, the economic burden of congestion amounted to $3.3 billion for commuters and $2.7 billion in lost opportunities for economic expansion in 2006 alone. Economic, social and environmental costs will more than double over the next 25 years if increasing congestion is not addressed.

Increasing Efficiency and Capacity at Ontario's Borders

Improving Ontario's borders

The Let's Get Windsor-Essex Moving Strategy is starting key infrastructure improvements in the Windsor-Detroit Gateway, increasing capacity at the Windsor border crossing, Ontario's busiest gateway to the United States.

> **Borders and Gateways Are Critical**
>
> International trade is a major component of the province's economy and efficient border crossings are critical for exports. Due to the commercial shift to just-in-time inventory management, and Canada's free trade agreement with the United States and Mexico, there has been a vast increase in Ontario's trade over the last few decades. In 2008, Ontario's border crossings carried over $277 billion in trade. The increase in trade, however, has also led to congestion at Ontario's border crossings. The Ontario Chamber of Commerce estimated that border congestion costs Ontario over $5 billion every year.

Helping to Lower Wait Times

Investing in health infrastructure to reduce wait times

The new construction and replacement of 23 hospitals, the expansion and upgrade of 12 cancer centres, and the expansion of 39 emergency departments will help to reduce wait times and improve the level of care in many communities.

Other highlights include the funding of an additional 100 first-year medical school spaces beginning in 2009–10. This follows the 160 spaces the Ontario government has added over the past four years. The 260 new seats represent a 38 per cent increase in first-year spaces since 2004–05. The resulting stream of new doctors will help to address physician shortages and meet the growing health care needs of an aging population.

Improving Schools

Creating good places to learn

Under ReNew Ontario, the government enabled school boards to repair, rebuild and expand schools across the province through the Good Places to Learn initiative. A total of $4.75 billion has been invested in schools, including $2.25 billion to address school renewal needs. To date, over 15,000 renewal projects are underway or completed in schools across the province.

The government is also providing funding for an additional 15,000 new spaces for university graduate programs province-wide by 2011–12.

New Infrastructure Investment

Unprecedented $32.5 billion investment for future growth

In the 2009 Budget, the Province committed to investing $32.5 billion in public infrastructure over two years. This unprecedented investment is designed not only to create and support jobs — 146,000 jobs in 2009–10 and 168,000 jobs in 2010–11 — but also to lay a foundation for future growth. It includes:

- Providing $6.9 billion for federal–provincial infrastructure stimulus projects that will be completed over two years. These investments will improve key infrastructure, including roads and transit, colleges and universities, water and wastewater systems, and sport and recreation facilities. Many of these projects are now under construction, creating jobs and enhancing Ontario's long-term competitiveness.

Transit and Highway Investment

Northern highways get $648 million for improvements and expansion

- Construction of the Sheppard East Light Rail Transit (LRT). This new transit line will help increase ridership, improve air quality, reduce travel time and increase access to other transit systems in the Greater Toronto and Hamilton Area (GTHA).
- Construction of 37 kilometres of dedicated bus lanes in York Region that will provide faster, more reliable service to commuters.
- Expanding and improving highways, including a record $648 million investment in 2009–10 in Northern Highways. Provincial highway projects include the four-laning of Highways 11 and 69 in Northern Ontario.
- Southern highway investments include adding high-occupancy vehicle (HOV) lanes on Highway 417 in Ottawa and the Queen Elizabeth Way in Oakville. These and other projects will help reduce congestion and lower business transportation costs.

Energy Efficiency

- Committing $550 million over two years for a School Energy Efficiency initiative to fund improvements in school infrastructure that will reduce energy consumption and environmental impact while also generating economic stimulus. Another $50 million was committed to install renewable technology such as solar panels and geothermal systems to create a greener energy supply for schools.

Hospital Expansion

Major hospital expansions for better health care

- Completing more than 10 alternative financing and procurement hospital projects during 2009–10 and 2010–11, including a new hospital at the North Bay Regional Health Centre, major redevelopments at Toronto's Sunnybrook Health Sciences Centre and Sudbury Regional Hospital, and a new cancer centre in Ottawa. These new facilities will help improve area-wide health care services.

Selected Infrastructure Projects Currently Under Construction

Transportation

- Highway 17 Gateway Rehabilitation Project, Kenora
- Third Line Reconstruction and Upgrading, Sault Ste. Marie

Transit

- Southwest Transitway Extension, Ottawa
- GO Transit Improvements Across the GTHA

Health Care

- Redevelopment of Windsor Regional Hospital's Western Campus
- Redevelopment of Sioux Lookout Meno-Ya-Win Health Services

Education

- McMaster University — Centre for Spinal Cord Injury and Cancer Education and Rehabilitation, Hamilton
- Ryerson University — Image Arts and New Media Teaching and Research Building Renewal, Toronto

Energy

- Gosfield Wind Project, Kingsville
- Enbridge Inc. and First Solar Project, Sarnia

Future Needs

Committing to the future

Although progress has been made in addressing Ontario's infrastructure challenge, more work remains. The Province has made significant infrastructure commitments for the future that will improve Ontario's competitiveness and help meet future needs including rapid population growth in the GTA and other urban centres.

Infrastructure Challenges Are Not Unique to Ontario or Canada

"Demand for infrastructure is set to continue to expand significantly in the decades ahead, driven by major factors of change such as global economic growth, technological progress, climate change, urbanization and growing congestion. However, challenges abound: many parts of infrastructure systems in OECD countries are aging rapidly, public finances are becoming increasingly tight, and infrastructure financing is becoming much more complex."

Organisation for Economic Co-operation and Development Policy Brief, January 2008.

Addressing Future Needs

Metrolinx

Strong public transit has many benefits

Public transit is a vital component of the government's infrastructure strategy. A strong public transit system will help ease congestion on the province's busy roads and highways. It will improve mobility in urban centres — the areas that are expected to experience the fastest population growth over the next 20 years.

It will also provide local businesses with a wider pool of workers and customers, and help make large cities more attractive places to invest. These improvements will in turn help promote productivity, growth and job creation in the fast-growing urban centres.

Delivering a seamless public transportation network

The Province has improved the planning and coordination of public transit in the GTHA by establishing Metrolinx, an agency with a mandate to improve the planning and coordination of all modes of transportation in the region. Metrolinx aims to prepare the GTHA for growth and sustained prosperity through the delivery of a seamless, integrated public transportation network. This network will enable the GTHA to accommodate population growth while reducing congestion on area roads and lowering greenhouse gas emissions. Through its MoveOntario 2020 initiative, the Province is helping to deliver an improved GTHA transportation network by committing more than $9 billion to implement new light-rail transit lines.

Health Care

Ontario is committed to a number of major hospital projects in urban areas that will help address future health care needs related to aging population and growth. Hospitals are planned for redevelopment in a number of communities. Examples include Hamilton (St. Joseph's Healthcare, Centre for Mountain Health Services), London (St. Joseph's Regional Mental Health Care – London/ St. Thomas) and Markham (Markham Stouffville Hospital).

Education

Full-day early learning

Ontario is investing in classroom space to accommodate full-day learning for four- and five-year-olds as part of its plan to build a well-educated workforce. Across Ontario, schools will be initially expanded to accommodate up to 35,000 kindergarten students who will be enrolled in full-day learning in September 2010. The goal is to fully implement the program for all four- and five-year-olds by 2015–16. Building the skills and education of Ontario's future workforce is a key part of the government's plan to create a stronger economy.

Pan American Games

Toronto and the Golden Horseshoe region have been chosen to host the 2015 Pan American and Parapan American Games. Hosting the Pan Am Games will create economic activity and drive job creation. The Games will result in much-needed new and updated sports venues, including construction of the Canadian Sports Institute of Ontario, an aquatic centre, an athletic stadium, a velodrome and two 50-metre swimming pools. This investment will leave a legacy of facilities and programs for Ontario's amateur and recreational athletes. The Pan Am Games will bring 10,000 athletes and officials to Ontario and an estimated 250,000 tourists, providing a boost to Ontario's tourism industry. The Games will trigger 15,000 new jobs in Ontario, primarily in construction, tourism and event support.

Green Energy Act

North America's first feed-in tariff program

In 2009, the government enacted the *Green Energy and Green Economy Act (GEA)* to expedite further growth of clean, renewable energy sources such as solar, wind, hydro, biomass and biogas in Ontario. The GEA introduces North America's first comprehensive feed-in tariff (FIT) program.

Under the FIT program, Ontario is fostering more renewable energy, including solar and wind power, where generators are paid for the electricity they produce under long-term contracts. As at December 1, 2009, the Ontario Power Authority had received 1,022 FIT applications with about 8,000 MW of potential electricity generation, or more than three times the available connection capacity of 2,500 MW. The OPA is reviewing and verifying these applications and will give priority to "shovel-ready" projects. The OPA also announced that it has started sending out conditional contract offers to the first 700 microFIT applicants.

On September 21, 2009, the Province announced a set of major projects that it had requested Hydro One to immediately proceed with planning, developing and implementing to expand and upgrade Ontario's power transmission network to unlock significant opportunities for greener, cleaner electricity across the province.

Supporting conservation

Conservation is being supported through initiatives such as expansion of the Ontario Home Energy Savings Program, greening Ontario government facilities and requiring the broader public sector to develop plans and set targets for energy conservation — making energy conservation a goal of the Ontario building code.

Infrastructure Asset Management

The Province is committed to smart, strategic, systematic stewardship of infrastructure — as is evident in its new focus on asset management and long-term planning. It is taking an integrated lifecycle approach to effective investments in infrastructure assets to provide satisfactory levels of service to the public in a sustainable and environmentally responsible manner.

Benefits of Infrastructure Asset Management

"Regular infrastructure maintenance enhances Canada's productivity, growth and competitiveness, and decreases the costs of repair over the longer term.... better management techniques not only increase the lifespan of infrastructure, but also support the commercial value and export potential of Canadian innovation."

Engineers Canada, Position Statement, November 2007.

Growth Planning

The *Places to Grow Act, 2005* was passed by the legislature as the foundation for growth planning in Ontario. The act enables the development of growth plans for any area of the province.

Current plans established under the act include the Growth Plan for the Greater Golden Horseshoe and the Proposed Growth Plan for Northern Ontario.

A 25-year land use and infrastructure plan

The Growth Plan for the Greater Golden Horseshoe is a comprehensive 25-year land use and infrastructure plan that was released on June 16, 2006. It seeks to foster a robust regional economy based on strong, sustainable and complete communities that are a great place to live, work and play. To achieve this, the plan directs population and employment growth to existing built-up areas to make efficient use of infrastructure and limit urban sprawl.

The Proposed Growth Plan for Northern Ontario was released on October 23, 2009 for public comment. Consultations in the North concluded on December 3, 2009. Written submissions will be accepted until February 1, 2010. The proposed plan sets a 25-year vision that positions the North to compete and thrive in a changing global and green economy. More than 100 actions are recommended to achieve this vision.

CHAPTER 6: TOWARDS A PROSPEROUS AND SUSTAINABLE FUTURE

INTRODUCTION

Ontario's economy faces some demographic challenges in the long term: its population is aging while the pace of growth of the core working-age population is slowing. Globalization of the world economy also means that Ontario will continue to face growing competitive pressures. In addition, environmental issues such as climate change will influence the future economic prosperity of the province.

Preparing for the challenges ahead

This chapter describes how the Province is preparing Ontario for the challenges of the coming decades. The government's comprehensive set of policies focuses on encouraging business investment and reducing regulatory barriers; on investing in infrastructure and in knowledge and skills; and on ensuring that Ontario's economy has the flexibility to innovate and to seize opportunities emerging from technological progress and the development of new markets. These policies will help to improve productivity growth, which can counter slower labour-force growth.

Ontario is also playing a central role in addressing the challenge of climate change. The government's policies to green the economy and promote the transition to a low-carbon future will help Ontario meet its climate change objectives and move towards a prosperous, sustainable future.

Tax Plan for Jobs and Growth

Tax measures for a stronger economy

The 2009 Budget presented a comprehensive package of measures that modernizes Ontario's tax system. Together, these tax measures strengthen the long-term competitiveness of Ontario's economy, leading to more jobs and higher incomes.

The current Retail Sales Tax (RST) will be replaced with a value-added tax that is combined with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST). The HST will take effect July 1, 2010 and have a combined rate of 13 per cent, with the provincial portion at eight per cent (the same as the general RST rate) and the federal portion at five per cent.

Temporary and permanent tax relief for people and businesses is also provided, totalling $15 billion over three years.

- For people, the tax relief includes a permanent income tax cut for 93 per cent of income tax payers starting January 2010 and enhanced property tax and sales tax credits for low- to middle-income individuals and families.
- For businesses, corporate income tax rates will be cut starting July 1, 2010.
- People and businesses will also receive temporary support to help them adjust to the HST.

Studies predict significant benefits from comprehensive tax package

A recent study[1] concludes that the tax measures in the 2009 Budget will generate significant benefits for Ontarians. The study predicts that, within 10 years, these tax measures, together with other recent tax changes, will increase business investment by $47 billion, create 591,000 net new jobs and raise annual incomes by up to 8.8 per cent.

The tax measures are discussed more fully in Chapter 4: *Modernizing Ontario's Tax System for Jobs and Growth*.

Reducing Regulatory Barriers to Innovation and Economic Growth

To enhance productivity and economic growth over the long term, the Ontario government continues to simplify and modernize its relationship with business.

Government to become faster, smarter, more streamlined

In March 2009, the Ontario government announced the "Open for Business" strategy, an ongoing plan to make government faster, smarter and more streamlined for families and businesses while continuing to protect the public interest. To achieve this goal, the government will take action to:

- *Modernize Services:* The Province aims to redesign the structures, processes and capacities required for modern service delivery, with the following key initiatives:
  - improve business access to services through one-window, one-number, one-stop access;
  - implement a single business identifier to simplify access for business, reduce duplication and enable information sharing;
  - establish high-quality, consistent and predictable services through service standards and guarantees; and
  - provide facilitator services to support business.

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[1] Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

- *Modernize Government:* The Province is also aiming to modernize the way it operates. It will work collaboratively with business in developing regulations, change its approach to compliance and help businesses to comply.

Addressing the Infrastructure Gap

Investing now for infrastructure needs of the future

Reliable, well-maintained, modern infrastructure is important to retaining Ontario's competitive location advantage, enhancing productivity and enabling growth. Ontario's growing and aging population will put additional pressure on the significant infrastructure deficit that has built up over the past few decades.

In the 2009 Budget, the government allocated $32.5 billion for infrastructure investments over two years in all key sectors — including health, education, culture, tourism, sports and recreation, social and affordable housing, and water and environmental projects. These investments build on the $30 billion ReNew Ontario infrastructure investment plan, which was completed in 2008–09 — a full year ahead of schedule.

Further details on infrastructure investments are provided in Chapter 5: *Addressing Ontario's Infrastructure Gap*.

Investing in Knowledge and Skills

Ontarians have higher rate of postsecondary education

A highly skilled and educated workforce is a key building block for a prosperous and sustainable future. Businesses in Ontario already benefit from a talent-rich workforce. About 62 per cent of Ontarians aged 25 to 64 have completed a postsecondary certificate, diploma, degree or other training program — a higher rate of postsecondary education than in any Organisation for Economic Co-operation and Development (OECD) country. To stay competitive in the future, it will be increasingly important to build on this advantage and continuously improve the education and skills training systems in Ontario.

Over the past six years, the government has put in place programs and policies to meet longer-term skills challenges. Key initiatives include:

- implementing the $6.2 billion Reaching Higher plan for postsecondary education that is significantly improving participation in and access to higher education;
- launching Employment Ontario, the network of employment and training services in communities across the province;
- providing additional supports for workers affected by the global economic recession, including the Second Career program that helps laid-off workers get the training they need to succeed in new jobs;

- helping internationally trained immigrants gain faster and better access to Ontario's labour market through bridge training services, mentorship opportunities and other measures to break down barriers to credential recognition; and

Incentives encourage workplace training

- providing tax incentives to employers to encourage workplace training, notably apprenticeships.

In addition, Ontario will phase in a full-day early learning program as part of a comprehensive plan to increase student achievement and build a stronger workforce. The goal for full implementation is 2015–16.

The program was developed to support the Province's long-term vision of how to improve education for children up to age 12. It builds on recommendations of the Report to the Premier by the Special Advisor on Early Learning, Dr. Charles E. Pascal.[2]

Ontario has already achieved significant improvements in the performance of elementary and secondary school students. Key milestones include:

- 90 per cent of primary classes with 20 or fewer students and 100 per cent of classes containing 23 or fewer students;
- 67 per cent of Ontario Grade 3 and 6 students meeting or exceeding provincial reading, writing and math standards — a 13 percentage point increase over 2002–03; and
- raising the high school graduation rate from 68 per cent in 2003–04 to 77 per cent in 2007–08, resulting in 36,000 more students having graduated than would have had the rate remained at the 2003–04 level.

Measures to prepare young Ontarians for careers of the future

These and other measures, combined with the introduction of a full-day early learning program, should help to improve student achievement and ensure that young Ontarians are better prepared for careers of the future in a new knowledge-based economy.

Fostering Innovation

Innovation and technological change are key drivers of Ontario's prosperous and sustainable future. Technological change has far-reaching impacts on society, including on the health and well-being of people, the environment, and how products are designed, manufactured and distributed. Fostering innovation will continue to be a key government priority.

[2] Dr. Charles E. Pascal, "With Our Best Future in Mind: Implementing Early Learning in Ontario," June 2009.

Over the next 20 years, some of the following technological trends may reshape Ontario's economy:

- information technologies that enhance computational capabilities (such as cloud computing and quantum computing);
- new sources of renewable power and energy storage as well as sustainable production techniques;
- biomedical technologies that build upon advances in genomics and stem cell research; and
- smart technologies that integrate sensors, computers and communication technologies (such as smart electricity grids).

Important to support business investment in innovation

As the pace of technological change continues to accelerate over the coming decades, it will be important for Ontario to maintain a supportive environment for business investment in innovation.

Industrial research and development (R&D) is especially critical because it is linked to other business investments in innovation such as new equipment and machinery, training, recruitment of highly skilled talent, and creation of higher-value jobs, products and services.

Almost half of all industrial R&D performed in Canada in 2007 was in Ontario

In 2007, Ontario accounted for about $7.6 billion or 48 per cent of all industrial R&D performed in Canada.[3] About 60 per cent of industrial R&D in Ontario is performed in the manufacturing sector, including communications equipment manufacturing, semiconductors and electronics, automotive, pharmaceuticals and machinery.[4]

Around the world, less R&D is being done in traditional corporate labs and more is being outsourced to other companies and universities at home and abroad. For Ontario, the "internationalization" of R&D is an opportunity to attract more multinational R&D investment and talent by collaborating with the province's strong university R&D sector.

Ontario is implementing policies and programs to attract investment and expertise in new technologies and to keep the economy at the forefront of technological change. For example, businesses in Ontario continue to benefit from one of the most attractive tax environments for industrial R&D in the world. In addition, from 2003–04 to 2007–08, the government spent about $2.6 billion on R&D —

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[3] Statistics Canada, "Gross Domestic Expenditures on Research and Development in Canada (GERD), and the Provinces," Catalogue No. 88-221-X, Vol. 2, No.1, December 2009.

[4] Statistics Canada, "Industrial Research and Development: Intentions, 2008," Catalogue No. 88-202-X, March 2009.

81 per cent of which was spent on R&D performed in Ontario universities and hospitals.[5]

Transforming research into new products and services

Ontario's Innovation Agenda aims to transform new knowledge from strategic sectors into the businesses and jobs of the future.[6] Ontario government programs provide entrepreneurs and emerging companies with the support they need to turn research and ideas into new products and services for the global marketplace. These programs include:

- The Innovation Demonstration Fund, which helps companies commercialize new clean technologies. The fund was enhanced in the 2009 Budget with an additional $50 million over four years.
- The $205 million Ontario Venture Capital Fund, which helps to strengthen the ability of the province's venture capital sector to support innovative, high-growth companies in Ontario. The fund is a partnership between the Ontario government and leading institutional investors.
- The Ontario Emerging Technologies Fund, which is a $250 million direct investment fund, where the Province will co-invest, alongside qualified investors, in innovative, high-growth, private Ontario companies.

In addition, through the Ontario Network of Excellence (ONE), the government is supporting an innovation system that is responsive to the needs of Ontario's world-leading researchers, entrepreneurs and innovation-based companies. By leveraging the capabilities of key partner organizations, including the Ontario Centres of Excellence and the MaRS Discovery District, ONE is providing a comprehensive suite of programs and services to innovators, from idea to market.

Seizing Opportunities in the Green Economy

Greening the economy and promoting the transition to a low-carbon future are central to Ontario's long-term economic prosperity and sustainability. The government has set targets for reductions of greenhouse gas (GHG) emissions and is pursuing measures to help ensure these targets are met.

Ontario plans to become a leading green economy

The *Green Energy and Green Economy Act, 2009* is helping to build Ontario's green economy infrastructure by attracting new investment in renewable energy projects and promoting conservation. The Act is part of Ontario's plan to become a leading green economy in North America. It will boost investment in renewable energy projects, increase conservation, create green jobs and foster economic growth. Specifically, the Act is expected to:

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5 Statistics Canada, "Scientific Activities of the Government of Ontario," 2005–06 to 2007–08 Survey Results," May 2008; and Statistics Canada, "Scientific Activities of the Government of Ontario: 2007–08 and 2008–09 Survey Results," May 2009.

6 Ontario Ministry of Research and Innovation, "Seizing Global Opportunities: Ontario's Innovation Agenda," http://www.ontario.ca/innovation, April 2008.

- spark growth in clean and renewable sources of energy such as wind, solar, hydro, biomass and biogas in Ontario;
- create the potential for savings and better-managed household energy expenditures through a series of conservation measures; and
- create 50,000 jobs for Ontarians in its first three years.

Over $5.2 billion invested in renewable energy projects since 2003

Ontario has brought more than 1,300 megawatts of new renewable energy online since October 2003. New renewable energy projects already in place or under construction in Ontario since 2003 represent a total investment of more than $5.2 billion. In 2009, wind generation was up more than 60 per cent, compared to 2008.

The *Green Energy and Green Economy Act* builds on the government's earlier initiatives, including plans to eliminate coal from the power supply. Coal-fired generation is the single largest source of air pollution in Ontario and eliminating it from the supply mix will be the largest climate change initiative in Canada. In 2009, coal-fired generation was down about 70 per cent compared to 2003.

As well, on December 3, 2009, legislation was passed that will allow for the design and implementation of a cap-and-trade system in Ontario that can link to emerging North American and international systems. Cap-and-trade is a flexible, market-based mechanism that facilitates the reduction of GHG emissions and promotes the transition to a green economy by encouraging technological innovation.

> "The economic crisis is no excuse to delay action on climate change. On the contrary, it is a great opportunity to 'reset' our economies on the base of a new 'green growth'. Ambitious policies to move toward a low-carbon economy should be an essential element in the strategy to recover from the crisis."
>
> *Angel Gurría, OECD Secretary-General (remarks delivered at the National Forum on Energy, Environment and Climate Change Policy in Mexico City, August 24, 2009).*

Technological innovation to drive transition to a low-carbon future

The transition to a low-carbon future will drive reductions in GHG-related expenses through energy conservation and the adoption of new technology.

The Ontario Centre for Environmental Technology Advancement (OCETA) has identified more than 100 clean technology companies in Ontario that are engaged in designing, developing and manufacturing technologies that reduce environmental impacts.[7] These companies cut across nine industrial sectors, with many in the areas of water and wastewater, energy infrastructure, and recycling and waste. The broader environmental technology and services sector in Ontario

7 OCETA, "The 2009 OCETA SDTC Cleantech Growth and Go-to-Market Report," February 2009.

is already a $7 billion market, with more than 2,400 companies employing 62,500 professionals.[8] There are further opportunities for long-term economic growth in sectors such as green transportation and energy efficiency.

Partnering with Industry to Encourage Jobs and Investment

Ontario's economy, like other major industrialized economies, continues to shift from a goods-production focus to a service-sector orientation. Productivity improvements and economic growth in both sectors are increasingly driven by knowledge and creativity. The Ontario government's policies foster the development of a knowledge-based economy, particularly in advanced manufacturing, information and communications technology, business and financial services, entertainment and creative industries, and life sciences.

Strengthening established industries for long-term prosperity

The Province is also focused on building a dynamic future for its established industries such as automotive, tourism, agri-food, forestry and forest products, and mining. These industries are important to maintaining economic diversity and sustaining long-term prosperity. To that end, the Ontario government has been partnering with established industries to reach new markets and develop higher value-added activities.

Growth of the Service Sector

In 2008, the service sector (private and public) employed 77 per cent of Ontario's workforce, up from 69 per cent in 1988. Nearly three-quarters of Ontario's real gross domestic product (GDP) was generated by the service sector in 2008 — up from its share of about two-thirds in 1988.

An increasingly service-oriented economy

Over the past two decades, the shift to a more service-oriented economy has been driven by increased consumer demand and changing preferences, as well as greater demand for service inputs from the goods-producing sector. Technological change has also transformed many services, such as financial services and health care, and has enabled the growth of new areas of economic activity.

While research and development (R&D) is often associated with advances in manufacturing, important growth areas such as biotechnology and software are driven by service-sector R&D performers. In 2006, about 57 per cent of software R&D and 69 per cent of biotechnology R&D was performed in Canada's service sector.[9]

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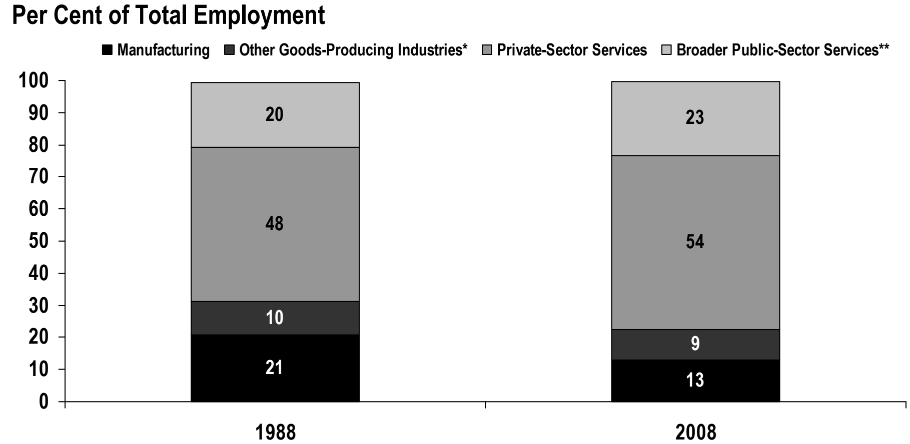
[8] Ontario Environment Industry Association, http://www.oneia.ca/about.php#4.

[9] Statistics Canada, "Industrial Research and Development: Intentions, 2008," Catalogue No. 88-202-X, March 2009.

Share of Employment by Industry, Ontario **Chart 1**



Note: Numbers may not add due to rounding.
* Includes agriculture, resources, utility and construction.
** Includes education, health and public administration (federal, provincial and local).
Sources: Statistics Canada (Labour Force Survey) and Ontario Ministry of Finance.

The service sector's share of employment is expected to continue to increase in the next 20 years. Competitive pressures can be expected to drive productivity growth in private-sector service industries as they continue to integrate into the global economy, with international service exports likely to increase. This will contribute to domestic value-added and economic growth.

Ontario manufacturers adapt to transition

The shift to a service economy has an impact on how Ontario manufacturers do business. They are adapting by building more specialized components and bundling services with finished products. The government is helping firms and employees in the manufacturing sector through this transition. Examples of key initiatives include:

- the Second Career program and Employment Ontario that help workers get the training they need to succeed in new jobs;
- the Advanced Manufacturing Investment Strategy that encourages manufacturing firms to undertake product and process innovation; and
- the Next Generation of Jobs Fund that encourages investment in areas with significant growth potential, such as green auto research, parts production and assembly; environmental technologies; advanced health technologies; pharmaceutical and biotechnology research and manufacturing; and information and communications technology.

A New Knowledge-Based Economy

Knowledge-based activities likely to lead growth over long term

Ontario's future economic success is increasingly dependent on knowledge, creativity and innovation. Knowledge-based activities in areas such as advanced manufacturing, information and communications technology, business and financial services, entertainment and creative services, and life sciences are likely to lead to job creation and output growth over the long term.

Advanced Manufacturing

Advanced manufacturers use technologically advanced methods of production to deliver high value-added products.[10] The methods are found in all Ontario manufacturing industries, but especially in the production of computers, electronic and communications products, aerospace products and parts, motor vehicles and parts, industrial machinery, chemicals and pharmaceuticals.

Advanced manufacturing industries are innovative and research intensive, and require workers with advanced education and skills training. Growth in advanced manufacturing also drives exports to international markets and creates demand in domestic markets, including demand for higher-value services.

Over the next 20 years, higher value-added products and/or operations that can employ advanced manufacturing systems will continue to be important growth areas for Ontario. Within the automotive industry, for example, advanced propulsion systems, lightweight materials and electronic sensors will continue to be researched, designed and developed in Ontario. Carbon emission standards and pricing may create further opportunities for advanced manufacturing in Ontario. Indeed, clean technologies and green energy systems already have a growing presence in the province.

Strategic partnerships with advanced manufacturing industries

The Ontario government has set the stage for continued growth of the province's advanced manufacturing industries through major investments in skills and education and infrastructure. It has also built strategic partnerships with key advanced manufacturing industries, while strengthening collaborative links between industry and the province's world-class research institutes. In addition, the Province has taken steps to modernize government-business relations and to lower business costs, including reductions in business taxes.

Recent studies predict that the tax measures in the 2009 Budget will generate significant benefits for Ontario manufacturers, including advanced manufacturers. One study estimates that the HST, combined with other tax cuts, will create 103,000 net new manufacturing jobs within 10 years.[11] When fully implemented,

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[10] Thomas Hatzichronoglou, "Revision of the High-Technology Sector and Product Classification," STI Working Paper 1997/2, OECD, 1997.

[11] Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

the HST, Ontario corporate income tax cuts and elimination of the capital tax will together provide total savings of $1.2 billion a year for the manufacturing sector as a whole.

Information and Communications Technology

Leader in information and communications technology

Ontario is among North America's largest employers in the information and communications technology (ICT) sector. The province has three main ICT centres — Toronto, Ottawa and Kitchener-Waterloo — each with its own areas of specialization. The sector, which is composed of services, such as computer software and telecommunications, and manufactured products, such as computers, is at the forefront of technological change and the shift to a knowledge-based economy.

Information and communications technologies are enabling or platform technologies, which underpin the competitiveness and efficient operation of all sectors of the economy. Increasing reliance on ICT technology in business, medicine, industry and leisure is likely to continue driving the growth of the sector over the coming decades.

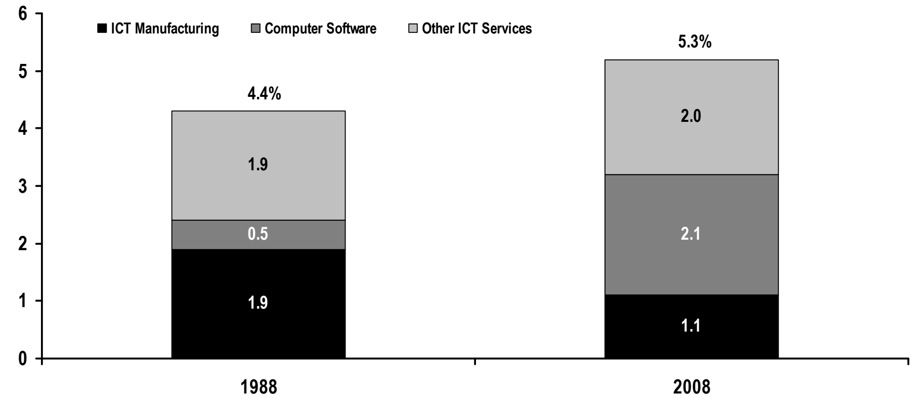
Rapid change in IT likely to keep accelerating

Led by computer software, the ICT sector's share of total employment in Ontario increased from 4.4 per cent in 1988 to 5.3 per cent in 2008. This reflects the rapid change and diffusion of information technology, which will likely continue to accelerate over the next two decades. The computer software industry accounts for more than 40 per cent of the sector's employment and will continue to rise in importance. In 2008, ICT services accounted for 4.1 per cent of employment in Ontario, an increase from 2.5 per cent in 1988. This shift reflects the widespread adoption of ICT and computer software.

With its many competitive strengths, including a deep expert talent pool, Ontario has the capacity to attract and absorb new advances in ICT. This will enable the sector to continue increasing its share of employment over the coming decades.

Information and Communications Technology Share of Employment, Ontario **Chart 2**

Per Cent of Total Employment



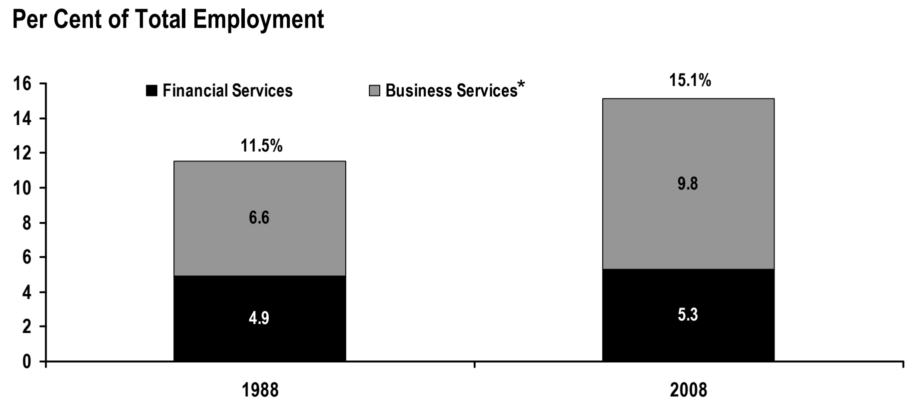
Note: Numbers may not add due to rounding.
Sources: Statistics Canada (Labour Force Survey) and Ontario Ministry of Finance.

The government supports the growth of Ontario's ICT sector through investments in skills, education and modern infrastructure. The Province also provides R&D and investment support through grants, tax credits and other funding programs.

Business and Financial Services

Ontario is the business and financial services head-office capital of Canada. Based on total employment, business and financial services are the province's largest internationally traded industries. The sector's share of total employment increased from 11.5 per cent in 1988 to 15.1 per cent in 2008.

Business and Financial Services Share of Employment, Ontario **Chart 3**



*Includes professional, scientific and technical services (excluding computer software), and management, administrative and other support services.
Sources: Statistics Canada (Labour Force Survey) and Ontario Ministry of Finance.

Shift to knowledge-based services supports growth of business services

The business services component consists of professional services, such as legal, accounting and management consulting, and other services, such as call centres. Its share of total employment has grown from 6.6 per cent in 1988 to nearly 10 per cent in 2008. The growth of business services reflects the shift to knowledge-based services and increased outsourcing opportunities from domestic and foreign businesses due to specialization and efforts to achieve greater efficiency. The competitiveness of Ontario's business services will be supported by the province's highly educated workforce.

Financial services, such as banking, life and property insurance, and securities activities, account for more than five per cent of Ontario's jobs. Output growth in the sector has been affected by changing technology and capital investment, including the growing use of the internet and ATMs. Over the next 20 years, demographic changes will create greater demand for financial services related to savings and retirement. The share of employment in financial services will rise as the sector moves from lending and borrowing to more advisory services.

Ontario expected to remain leader in business and financial services

Ontario is expected to remain a national leader in business and financial services over the long term. Major Ontario-based business and financial services firms will continue to expand and compete globally. As well, the sector is likely to become more integrated and specialized within the North American economy.

The government supports the growth of business and financial services in Ontario by investing in skills, education and modern infrastructure, and by establishing a competitive tax system and an efficient provincial regulatory climate. Building on this support, the Province is working with the recently formed Financial Services Leadership Council, which includes CEOs from Canada's major financial services companies. The Council is developing a strategy to help make Ontario one of the top 10 financial centres in the world.[12] The government is investing $1 million in the Council's plans.

Entertainment and Creative Industries

Entertainment and creative industries include firms engaged in music production, book publishing, magazine publishing, film and television, interactive digital media and theatre. Between 1988 and 2008, employment in Ontario's entertainment and creative industries grew by about 46 per cent, compared to growth of about 32 per cent for Ontario's economy as a whole.[13]

Ontario's entertainment and creative industries third largest in North America

Ontario's entertainment and creative industries are strong global competitors. Collectively, they are the third largest in North America by employment, after California and New York. Within Canada, Ontario is a hub of activity in many areas, including digital media, music production and film production.

Digital Media

Ontario is a hotbed of digital media activity, drawing on three industries in which the province already excels — creative content, computing and telecommunications. There are approximately 1,000 interactive digital media companies in Ontario.[14] These companies are well supplied with high-quality talent from digital media studies programs at Ontario postsecondary institutions.

The global digital-game and internet and mobile advertising industries are expected to continue to grow rapidly in coming years.[15] Supported by Ontario government initiatives such as expansion of the Ontario Interactive Digital Media Tax Credit and streamlining of support for large specialized game developers, Ontario digital media companies are well positioned to seize global opportunities.

Music Production

Toronto a major hub of music production

Ontario is home to a large number of critically acclaimed artists, and has the largest sound recording and music publishing industry in Canada. In 2007, Ontario accounted for about 73 per cent of total operating revenues for record labels in Canada.[16] Toronto, in particular, has developed a solid reputation in the global music industry, rivalling Nashville and Los Angeles — the two largest hubs of music production in North America.

[12] Based on recommendations of the November 2009 report, "Partnership and Action: Mobilizing Toronto's Financial Centre for Global Advantage," prepared by the Boston Consulting Group for the Toronto Financial Services Working Group.
[13] Statistics Canada (Labour Force Survey) and Ontario Ministry of Finance, 2009.
[14] Nordicity, "2008 Canadian Interactive Industry Profile," February 2009.
[15] PricewaterhouseCoopers, "Global Entertainment and Media Outlook: 2008–2012," June 2008.
[16] Statistics Canada, "Service Bulletin: Sound Recording and Music Publishing, 2007," Catalogue No. 87F0008X, June 2009.

The Ontario government is helping to build the capacity and competitiveness of the province's music production industry through initiatives such as the Ontario Sound Recording Tax Credit.

Film Production

Ontario films continue to receive attention both in Canada and internationally for their excellence. The province's film industry is well developed, reflecting its role as English-speaking Canada's film production capital. The industry covers the entire range of services required to produce and distribute film products.

Supporting the continued growth of Ontario's film industry

The Ontario government recently launched an Intellectual Property Development Fund to support the continued growth of Ontario's film industry. The $10 million pilot program will help screen-based companies move ideas from the development stage into production and marketing. This will help increase the volume of films that are created and owned by Ontario-based companies, which, in turn, will help the industry grow over the long term. The Ontario Production Services Tax Credit and Ontario Film and Television Tax Credit are also helping the province's film industry to grow and remain competitive.

Life Sciences

Ontario life scientists have made breakthrough discoveries such as insulin, stem cells, and identification of genes linked to cystic fibrosis, epilepsy, breast cancer and Alzheimer's disease — discoveries that have helped save lives in Ontario and around the world.

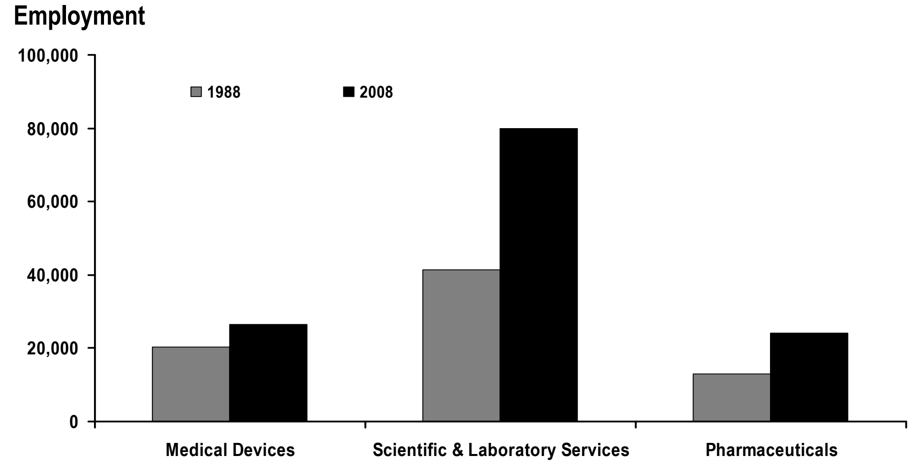
Although life sciences industries cover a very wide range of areas, they are typically thought of as ones that support human health: medical devices, pharmaceuticals, and scientific and laboratory services.

Significant employment growth in life sciences

Employment growth in Ontario's life sciences industries has increased significantly over the past 20 years. In the pharmaceutical sector, employment increased by 83 per cent from 1988 to 2008; by 30 per cent in medical devices and equipment; and by 93 per cent in scientific and laboratory services.

Assisted by strong government support, Ontario's life sciences industries are globally competitive in a number of areas including medical and assistive devices, health services, bioinformatics, medical imaging, diagnostics and pharmaceuticals. In addition, companies in Ontario's robust ICT sector are finding new business opportunities in life sciences due to the growing need to gather, store, compile, interpret and report on data, especially genomic data.

Employment Growth in Ontario's Life Sciences Industries **Chart 4**



Sources: Statistics Canada (Labour Force Survey) and Ontario Ministry of Finance.

Innovative life sciences products and services

Over the next two decades, innovative new products and services will be key to the competitiveness and growth of Ontario's life sciences industries. In the 2009 Budget, the government announced new funding that will benefit research and innovation in life sciences:

- $250 million over five years for a new Ontario Emerging Technologies Fund that includes a focus on life sciences and advanced health technologies; and
- $100 million over four years in operating funds for biomedical research, focusing on genomics and gene-related research.

Strength in Economic Diversity

The diversity of Ontario's economy is a key strength and foundation for growth. The government is committed to partnering with established sectors, such as tourism, agri-food, forestry and forest products, and mining, to help them reach new markets and transition to high value-added activities. This will allow them to continue to be globally competitive and major contributors to the Ontario economy over the long term.

Tourism

Tourism sector has untapped potential

Ontario's tourism sector is a key economic strength and is acknowledged to have unexploited potential. International tourism is expected to reach 1.6 billion people by 2020 — more than double the figure in 1997.[17] The government is working with the sector to help it benefit from this growth.

Cultural tourism is an area where Ontario has significant potential. The government has made investments to cultivate and enhance the province's cultural agencies and attractions, such as the Royal Ontario Museum, Art Gallery

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[17] World Tourism Organization, "Tourism Highlights 2009 Edition," September 2009.

of Ontario and Royal Conservatory of Music. In addition, the government has made significant capital investments that will benefit Ontario's tourism industry. For example, the 2009 Budget announced $41 million over the next three years to support revitalization projects associated with Huronia Historical Parks and St. Lawrence Parks Commission, as well as infrastructure improvements at Fort William Historical Park.

A 10-year plan to boost Ontario tourism

To further strengthen the province's tourism sector, the government asked Member of Provincial Parliament Greg Sorbara to develop a strategy to maximize Ontario's tourism advantage. The Ontario Tourism Competitiveness Study, in its final report to government released in February 2009, proposed a 10-year plan to boost tourism in the province. In response, the Ontario government is supporting the formation of 13 new tourism regions and Regional Tourism Organizations. This will help Ontario's tourism sector better coordinate marketing and management, leading to more visitors and more tourism-related economic activity across the province.

> "The economic contribution of [the tourism] sector, through tourism receipts of $22 billion annually, is significant. It ranks seventh among Ontario's export industries. The contribution from a stronger, more dynamic sector could make tourism a fundamental building block of the next Ontario economy.... And most importantly, when we invest in and develop destinations and experiences that attract the interest of tourists, those same attractions and experiences enhance the quality of life for 13 million Ontarians."
>
> *The Ontario Tourism Competitiveness Study, "Discovering Ontario: A Report on the Future of Tourism," February 2009.*

Agriculture and Food Processing

Strong base for agri-food expansion

Agriculture is important to the Ontario economy and forms the economic backbone of many rural communities. Ontario farms generate more revenue from sales of farm products than farms in any other province, including the highest cash receipts from the livestock and livestock products sector. In addition, Ontario's food processing industry is the largest in Canada, leading the nation in areas as diverse as the processing of fruits and vegetables, dairy products and meat products. This strong base will help Ontario's agri-food industries expand into new industrial markets such as bio-products and bio-energy. A continuing focus on productivity improvements and increasing international market access are key to the future success of Ontario's agri-food industries.

Several Ontario government programs under the Growing Forward Agreement with the federal government are helping Ontario farmers incorporate best practices and aiding innovation and commercialization of new products. The Ontario government has also provided $25 million to support the Agricultural Research Institute of Ontario and Vineland Research and Innovation Centre. As well, processors of agricultural products benefit from government programs that encourage capital investment in new value-added activities, such as the Advanced Manufacturing Investment Strategy.

Forestry and Forest Products

The province's forestry and forest products sector is undergoing a transition as demand for Ontario's traditional, low value-added commodities (such as newsprint) slows. Increasing competition from low-cost producers in emerging markets has also had a significant impact on the sector.

Forestry sector moving to higher value-added products

The Ontario government has been helping the sector develop higher value-added products. Supported by the creation of the Centre for Research and Innovation in the Bio-Economy in Thunder Bay, research and development is already underway in Ontario to develop new and innovative uses for forest biomaterials. Bio-energy presents new opportunities for the forestry and forest products sector and also allows companies to use some of their residues as a power source, thereby reducing energy input costs. Increasing use of wood pellets for energy production will provide a strong base of domestic demand for the sector.

The government is also in the process of developing a regulatory environment that will help forest companies make the best use of Crown forest resources by improving the design of forest tenure and pricing.

Mining

Continuing demand expected for mining commodities

Ontario is the largest producer of metallic and non-metallic minerals in Canada, and a major global centre for mining finance. Continuing demand for commodities, especially in emerging markets, will help sustain Ontario's mining sector over the long term. In addition, the sector is a source of expertise that can be exported to the rest of the world.

The government has provided $10 million to support a Centre for Excellence in Mining Innovation in Sudbury. More recently, the 2009 Budget announced support to help increase the export capacity of Ontario mining equipment and service companies. The government also announced an investment of $40 million over three years for initiatives to support *Mining Act* modernization for a vibrant and sustainable Ontario minerals industry.

CONCLUSION

This paper has outlined some of the key issues that the province will have to deal with in the coming years. Demographically, as described in Chapter 1, the province will see population aging and slower growth in the working age population. This may have an impact on economic performance and productivity growth. Economic growth, as outlined in Chapter 2, will be affected by demographics as well as ongoing shifts in world economic growth, U.S. economic growth, commodity prices and the value of the Canadian dollar. Globalization and the structural changes in the composition of the economy will also have an impact.

Chapter 3 reviewed the rising demands on public services — particularly health and education — that over time will have long-term influence on fiscal sustainability. Chapter 4 lays out the McGuinty government's comprehensive tax package that was designed to encourage competitiveness and long-term growth. Chapter 5 discussed the importance of infrastructure investments to Ontario's long-term economic well-being. Finally, Chapter 6 described a number of forward-looking programs and policies that the government has launched to prepare Ontario for the future.

The Ontario economy has had to face some significant changes over the past two decades — from the North American Free Trade Agreement to the global economic crisis of 2008–09. But Ontario's economy remains resilient in spite of those challenges. New industries, such as digital media and life sciences, have emerged. More mature industries, including financial services, have continued to flourish.

In the next 20 years, Ontario will face some of the challenges outlined in this report as well as many unforeseen challenges that will inevitably alter the economy. The government's task is to do what it can to ensure that Ontario remains a prosperous and good place to live and to do business.

Supporting higher education and training, health care, infrastructure, green energy and competitive taxation will all help to encourage Ontario's productivity — a key driver of quality of life. The government's current focus on education, innovation and tax modernization will capitalize on Ontario's key strengths: a well-educated population and a diverse economy. The Ontario economy has great potential both today and in the coming years.

GLOSSARY

Age Structure: the distribution of population by age.

Baby Boom Echo Generation: children of baby boomers, born during the period from 1982 to 1996.

Baby Boom Generation: people born during the period following World War II, from 1946 to 1965, a period marked by a significant increase in fertility rates and in the number of births.

Business Inputs: current and capital expenditures that businesses acquire to run their operations and to provide goods and services, such as vehicles and fuel, building materials, computers, office furniture and equipment, and telecommunication services.

Cap-and-Trade: a market-based system that can be used for managing and reducing greenhouse gas (GHG) emissions. Each sector will be allocated a specific emissions cap level. Companies within each sector will be allocated permits (i.e., allowances or credits) that represent their right to emit a specific amount of emissions. Should a company's emissions exceed its allocated permit, it must buy additional permits from those companies that pollute less within the same sector. Such a transfer of permits is referred to as a trade.

Capital Expenditure: expenditures to acquire or upgrade physical assets including transportation infrastructure, land and buildings, information technology infrastructure and systems, vehicles, marine fleet and aircraft.

Capital Stock: the dollar value of all the buildings, engineering construction and machinery and equipment in a country. It is difficult to estimate the value of older capital because capital depreciates and becomes obsolete over time.

Capital Tax: a tax levied on a corporation's taxable capital comprising capital stock, surpluses, indebtedness and reserves.

Cash Transfer: a cash payment made from one level of government to another.

Cohort: a group of persons who have experienced a specific demographic event during a given period, which can be a year. For example, the birth cohort of 1966 consists of the number of persons born in that year.

Constant Dollar: a notional dollar whose purchasing power remains the same every year, unaffected by price inflation. It is calculated by dividing the actual dollar price of something by a price index, which estimates the change in price from a base year.

Consumer Price Index (CPI): a measure of consumer prices, the Canadian CPI is produced by Statistics Canada on a monthly basis. The CPI measures the retail prices of a shopping basket of about 300 goods and services including food, housing, transportation, clothing and recreation. The index is weighted to reflect typical household spending patterns. The change in a price index such as the CPI is a measure of inflation. Increases in the CPI are also referred to as increases in the cost of living.

Debt-to-GDP Ratio: a measurement of the government's debt as a percentage of the gross domestic product (GDP). It is a measure of the debt in relation to the economy and its capacity to carry and repay debt.

Deficit: the amount by which government expenses exceed revenues in any given year.

Fiscal Year: the Province of Ontario's fiscal year runs from April 1 to March 31.

Greater Golden Horseshoe: an Ontario geographic region encompassing the Greater Toronto Area and a large part of Central Ontario including Peterborough, Waterloo, Niagara and Simcoe.

Greater Toronto Area (GTA): a geographical area consisting of the city of Toronto and the regional municipalities of Durham, Halton, Peel and York.

Gross Domestic Product (GDP): the dollar value of all the goods and services produced within the economy in a year.

Input Tax Credits (ITCs): a credit of Harmonized Sales Tax (HST) that registrants can claim to recover the tax they paid or owe on their supplies for goods or services they acquired to provide taxable goods and services.

Life Expectancy: a statistical measure derived from the average number of years of life remaining for a person at a specific age if that person were to experience during his or her life the age-specific mortality rates observed in a given year.

Marginal Effective Tax Rate (METR): a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment. It reflects the combined effect of federal and provincial corporate income taxes, rules related to depreciation, investment tax credits, and capital and sales taxes.

Median Age: the age at which exactly one-half of the population is older and the other half is younger. This measure is often used to compare age structures between jurisdictions.

Natural Increase: the annual number of births minus the number of deaths.

Net Migration (Ontario): the difference between the number of people entering and the number of people leaving the province both from other countries and other provinces.

Nominal: an amount expressed in dollar terms without adjusting for changes in prices (inflation or deflation).

Ontario Child Benefit (OCB): an income-tested, non-taxable benefit announced in the 2007 Budget that is provided to low-income families with children in Ontario. In July 2008, OCB benefits started to flow monthly. The OCB consolidates social assistance benefits for children and the Ontario Child Care Supplement for Working Families (OCCS) into one benefit that is paid to all low-income families with children, regardless of the source of their income.

Participation Rate: the share of the population that is in the labour force, whether employed or unemployed and looking for a job.

Population Aging: in demographic terms, population aging refers to an increasing share of seniors (ages 65+) in the population.

Productivity Growth (Total Factor Productivity): the difference between the growth in real output and the growth in combined production inputs in the economy (labour, capital and materials). It is an important measure of increasing prosperity in the economy.

Program Spending/Expense: the expense related to operating and capital programs including amortization.

Real GDP: a way to express gross domestic product or economic activity in volume terms so that the effects of changing prices are removed.

Surplus: the amount by which revenues exceed government expenses in any given year.

Surtax: a tax levied on another tax or a second tax levied on an amount that is already subject to tax.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Total Expense: the sum of program expense and interest on debt expense.

Value-Added Tax: a multi-stage tax on consumptions that applies throughout the supply chain regardless of whether the purchase is for use by a business or consumer, but that allows most businesses to be reimbursed for the tax paid on their business inputs through the use of input tax credits.

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