
ONTARIO AS A NORTH AMERICAN REGION STATE

by

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OUTLINE



I: Present analysis and evidence supporting the following conclusion:

Ontario has donned the mantle of a North American region state, anchored around the Greater Toronto Area (GTA) as a global city-region.

II: Address the implications for

- A. Ontario**
- B. Rest of Canada**
- C. Canada and Canadian policy (taxation, exchange rates, etc.)**

I:A Region States: Backdrop



- **Not a new concept:**

On the global economic map, the lines that now matter are those defining what may be called “region states” (Kenichi Ohmae, 1993). “The Rise of the Region State,” *Foreign Affairs* vol. 72, 78-87.

- **Mid-1980s “Four Motors of Continental Europe”**

Rhône-Alpes – (Lyon)

Lombardy – (Milan)

Catalonia – (Barcelona)

Baden-Wurtemberg – (Stuttgart)

Premier Peterson made Ontario an Associate Member of the Four Motors Association in the late 1980s.

I:B Region States: Analytics



- **Comparative advantage is progressively a regional, not a national, phenomenon;**
- **Regional-international interface replaces traditional national-national interface;**
- **Role of government in a region state is to create “untraded interdependencies” or positive locational advantages.**
- **Region states tend to tilt their policies toward wealth creation rather than income redistribution.**

I:C Ontario and NAFTA Economic Space



SHIFT FROM E-W TRADE TO N-S TRADE

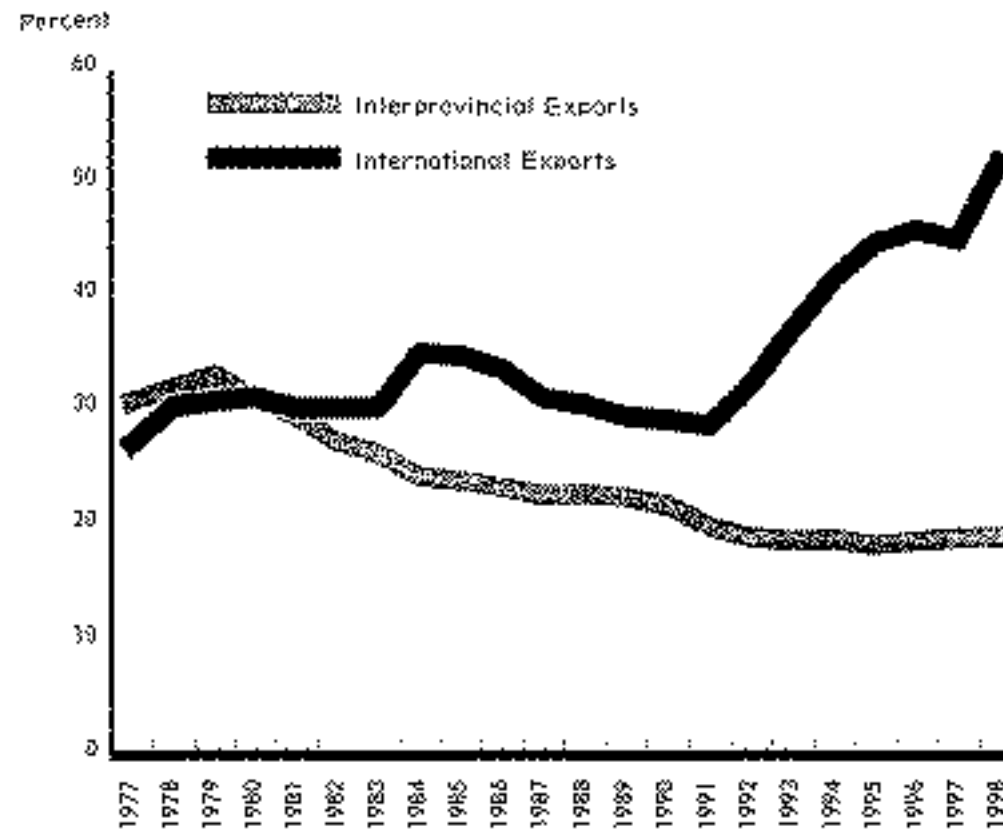
- Chart I (Ontario trade as a % of GDP).
 - In 1980 domestic exports equaled international exports at about 30% of Ontario GDP.
 - By 1998 international exports were about 52% of Ontario's GDP while interprovincial exports fell to under 20%.
- Given that over 90% of Ontario's international exports go to the US, this means that N-S trade represents about 45% of Ontario's GDP.

Hence, Ontario's economic future progressively lies in
N-A economic space

North-South and East-West Trade



Ontario Trade
as Percent of GDP



Source: Ontario Ministry of Finance and
Statistics Canada

I:C Ontario and NAFTA Economic Space (cont'd)



ONTARIO'S STRATEGIC LOCATION IN N-A ECONOMIC SPACE

- **Two-thirds of the Canadian consumer market and one-half of US consumer market is within one-day's trucking of Ontario;**
- **On Industrial side, three-quarters of Canadian and over one-half of US manufacturing firms are within one-day's trucking;**
- **Household income market within 400 miles is at least as large as the 400-mile market for New York or Boston;**
- **Ontario has 91% of Canada's foreign banks: 90% of top advertising companies, 90% of public accountants, 80% of top law firms, 58% of foreign-owned companies, and on and on.**
- **Ontario is a leading N-A centre for finance, research, culture, etc**

I:D Toronto As A Global City-Region



- **Global city-regions are the dynamic motors of the information and global economies;**
- **Without Toronto and the GTA as an economic engine with an international reach, there would be no Ontario region-state.**
- **The GTA with 4.5 million people has 40% of Ontario's population and 50% of its GDP – this means that it has roughly 1/5 of Canada's GDP.**
- **The GTA is Canada's financial, industrial, services, R and D, knowledge and (for English Canada) cultural capital.**

I:E Queen's Park and Untraded Interdependencies



- **To be a meaningful North American region state, Ontario must not only focus on N-A economic space, but Queen's Park must engage in policies designed to privilege Ontario and Ontarians in North America.**
- **The Common Sense Revolution (1995):**

Goal: Generate Fiscal and Economic Viability

.budget balance by 2000

.major decreases in Ontario's PIT

.cut in bureaucracy and politicians

I:E Queen's Park and Untraded Interdependencies (continued...)



- **Municipal/Institutional Revolution (1996+):**

Goal: generate a more efficient public sector;

- .property tax reforms (market-based assessment);**
- .amalgamation of cities (including Toronto megacity);**
- .restructuring of provincial-municipal powers and financing;**
- .consolidation of school boards;**
- .reworking of health-care;**
- .privatization of Ontario Hydro.**

I:F Ontario Economic Mission Statement



- ***A Road Map To Prosperity: An Economic Plan for Jobs in the 21st Century* (1999) presents an Economic Mission Statement for Ontario:**

Vision: Ontario is the best jurisdiction in North America to live, work, invest and raise a family.

Mission: Ontario will achieve sustainable economic prosperity with the best performing economy and highest quality of life in North America over the next ten years.

- (full text at www.ontario.canada.com/jobgrow)

CONCLUSION:

ONTARIO HAS DONNED THE MANTLE OF A NORTH AMERICAN REGION STATE WITH TORONTO AS A GLOBAL CITY-REGION

...with what implications?...

II:A Implications: General



- **With other provinces/regions also actively pursuing N-S trade, Canada is less and less a single E-W economy and more and more a series of N-S, cross-border economies;**
- **Hence, much of the east-west economic infrastructure mounted over our 135 years is in danger of becoming what economists' call a "stranded asset," and in any event must be re-oriented N-S.**
- **Challenge is to maintain east-west social and economic union in face of north-south trading nexus. AIT and SUFA are creative responses in this context.**
- **Not so creative was the response to bank mergers. Ottawa (and some provinces) said banks' E-W social and economic infrastructure must dominate. But Ontario needs to be a major NA financial player to be an effective NA region state. Stay tuned...**

II:B Implications: Ontario



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- **Ontario's focus will be on succeeding in N.A. economic space;**
 - **The tax rates that matter to Ontario are not those in B.C. and N.B. but rather in Michigan, Ohio, Illinois, New York, etc.**
 - **Recent Ontario-Michigan discussions of “extending” NAFTA for their purposes will be the way of the future**
 - **Ontario will remain a supporter of east-west transfers but will insist that all preferential transfers to provinces be put in the equalization program – hence Ontario's demands (and victory), for more equality in per capita CHST transfers;**
 - **Faced with the choice of seeing a new car plant locate in Michigan or in B.C., Ontarians would (or should!) choose Michigan. This is the very definition of a NA region state.**

Comparison: Old Ontario vs Region-State Ontario (appended)

II:C Challenges for Ontario: Taxation



- **Ottawa's recent tax cuts put much more emphasis in social concerns rather than economic concerns. Ottawa affectively told the provinces: if your top marginal tax rates are too high (on cross-border competitive grounds), then its up to you to reduce them!**
- **Led initially by Ontario but now by Alberta on the PIT and Alberta and Ontario on the CIT, the richer provinces did cut their tax rates to remain competitive, north-south.**
- **But apart perhaps from Alberta, provinces such as Ontario and B.C. cannot afford these tax cuts in light of their growing demands for public services (medicare, etc.).**
- **Ottawa needs to reduce its top marginal rates to ease pressure on the provinces, as well as to play its appropriate role on the competitive front. Should Ottawa system not do this, it can expect that Ontario may well set up its own PIT and selectively cut rates and redefine income for tax purposes. Alberta would follow here (or perhaps lead!)**

II:C Challenges For Ontario: Toronto



TWO CHALLENGES RELATING TO TORONTO

1. Freedom within Ontario to have the flexibility to allow it to become a global city-region.

.This is a Queen's Park issue – If QP does not allow Toronto the powers and resources to compete with US global city-regions, then Toronto will force the issue at the federal and/or all-city level.

● Freedom within Canada to become a global city-region

.Americans do not care what New York or Chicago decides to do. But Canadians are concerned about what Toronto does because it is so big (20% of Canadian GDP). Bank mergers, for example. But, as T.D. Bank study noted, prosperous global city-regions are the *sine qua non* for a prosperous Canada.

II:D Implications for the Provinces



- **The federation is becoming more decentralized and also more asymmetric. The possibility exists for an internal brain drain from high-tax to low-tax provinces, *inter alia***
- **Good news here is that access to NAFTA economic space allows have-less (equalization-receiving) provinces to build their future in North America and to break some of the existing transfer dependence (e.g. McKenna's digitization of New Brunswick).**
- **Issue will become: How and how far to pursue east-west cohesion while ensuing north-south competitiveness? As noted, premiums will be on creative instruments (SUFA).**
- **Recent focus on diverging interprovincial fortunes is in part the result of the vertical fiscal imbalance in the federation e.g., the tax cuts in the rich provinces triggered by the vertical imbalance have in turn decreased the equalization standard**

II:E Implications for Canada



- **As already noted, on the tax front Canada has abandoned its appropriate leadership role in terms of ensuring international competitiveness. Yet, the more that Ottawa focuses on redistribution rather than competitiveness, the more will be the pressure on (region-state) provinces to pursue north-south competitiveness and, in the process, create east-west tensions across provinces. *This is not the way for Canada to address competitiveness in the NAFTA era.***
- **Ottawa needs to recognize the inevitability of increasing north-south economic integration and to play the leader and facilitator in allowing this to occur in ways that will not unravel our east-west social, and human-capital union.**

II:F Ontario-Canada Flashpoint: Exchange Rates



- **HYPOTHESIS: It is no longer in Ontario's interest to have flexible exchange rates:**
 - .Exchange rate is too volatile and uncertain in terms of attracting investment in a human-capital environment;
 - .Utilizing the exchange rate to buffer falling commodity prices serves to perpetuate a low-value-added resource economy and to deter both the acquisition of technology (priced in US\$) and the transfer of resources into information/human-capital economy;
 - .The low dollar does serve to give a temporary boost to exports but at the expense of a) decreasing Canadian productivity relative to the US, b) generating fire-sale prices for our assets, and c) making Canadians poorer;
 - .Arguably, Ontario's preferred approach ought to be exchange-rate fixity and, specifically, a North American Monetary Union along Euro lines.

III: Region States and Canadian Sovereignty



- **Region State Ontario is about freedom to implement policies to privilege Ontarians in NAFTA economic space. It is not about Canadian sovereignty.**
- **Indeed, NAFTA serves to guarantee Canadian sovereignty.**
- **This is so because what we want from the US is their market, not their values or institutions. And NAFTA gives us their market, so we are now free to pursue our own domestic priorities.**
- **Ontario has taken a lead role in developing SUFA and is fully supportive of Canada's equalization program.**
- **Finally, many assert that Ontario as a region state is a fiction since Ontarians are the least "hyphenated" of all Canadians. Respectfully, this is a wrong interpretation. With two-thirds of Liberal MPs coming from Ontario, Ontarians have typically elected two governments in this country – Ontario's and Ottawa's. Why should they not like them both, especially when the capital is in Ontario?**

Table 1
Heartland vs. Region State Ontario

<p align="center">Panel A Heartland Ontario: Selected defining characteristics</p>	<p align="center">Panel B Region-state Ontario: Selected defining characteristics</p>
<ul style="list-style-type: none"> • Ontario was so prosperous and so diversified economically – and so powerful politically – that Canadian policy had little choice but to be cast in a pro-Ontario light. • Relatedly, the management of the big levers of economic power always kept a close eye on Ontario, e.g., if the Minister of Finance was not a Toronto MP then at least Toronto would be well represented in the key economic portfolios. • Since Ontario could generally count on the federal government to further the province’s interests, Heartland Ontario was in favour of a strong central government. For example, Queen’s Park did not assume the role of economic policy maker that L’Assemblée nationale did for Quebec. There was no need for this since Rideau Street was essentially an extension of Bay Street, and Ottawa delivered – the auto pact, the NEP, nuclear power for Ontario Hydro. • Not surprisingly, therefore, Ontarians tended to direct their attention and loyalties to Ottawa, more so than other provincial residents. • While Ontario obviously desired sufficient influence to defend its own interests, its preference was to block offending legislation of a sister province rather than by acquiring further provincial powers. For example, it did not take up Ottawa’s invitation to opt out of federal programs, as did Quebec. Had it done so, other provinces would surely have followed and this would have served to reduce Ottawa’s influence. <ul style="list-style-type: none"> • With aspects of the National Policy still in play, Ontario’s interests were more in the direction of freeing up internal trade than in pursuing freer trade with the US. This was especially true in the high-energy-price era where Ontario wanted full access to the energy-related mega-projects of the energy provinces in tandem with a “buy Canadian” preference. • Ontario was not a leader in social policy. Some of this related to the economic diversity of the province and some of it to innate conservatism, but there was also an understanding that social policy leadership by Ontario would trigger regional equality concerns from other provinces, with Ontario ultimately playing a large paymaster role. <ul style="list-style-type: none"> • In general, Ontario was able to wheel, deal and compromise and to manage its privileged position to ensure that Canada’s interests coincided with Ontario’s interests. 	<ul style="list-style-type: none"> • Ontario is a North American region-state and the province will advance its interests within this larger, and effectively, global environment. Specifically, Ontario will pursue this new (largely) economic role by actively promoting a regional-international interface and, in particular, by attempting to create a favourable set of untraded interdependencies (positive locational externalities) designed to privilege Ontario and Ontarians within North America. • Queen’s Park is evolving and will continue to evolve in the direction of assuming powers and influence sufficient to deliver on this new role. <ul style="list-style-type: none"> • Ontario remains fully committed to the “Canadian dream.” But this will not be the former Heartland relationship. For example, Ontario will give high marks to Ottawa policy that maintains fiscal integrity, low inflation and an overall competitive environment. • Ontario will become much more involved in issues relating to interprovincial redistribution. It will remain a strong supporter of equalization, but will insist on equal treatment for its citizens from other federal redistributive programs (“fair shares” federalism). • In protecting its own interests, Ontario may still wish to block offending legislation in a sister province (as under Heartland), but it now will have no qualms about acquiring greater powers. This is “provincial rights if necessary but not necessarily provincial rights.” • International free trade is “in.” Nonetheless, Ontario will also attempt to preserve and promote east-west markets. Part of this will be via the pursuit of an effective economic union. Indeed, Ontario will likely attempt to link its commitment to the social union to the commitment by other provinces to the economic union. <ul style="list-style-type: none"> • As a result of increased decentralization and the likelihood of increased asymmetry as different provinces choose alternative approaches to forge their human capital subsystems, intergovernmentalism or co-determination will emerge as new governance instruments. Ontario will play a leading role here. • To be a successful region-state, Ontario will have to become a leader in policies related to the creation of human capital. With human capital at the cutting edge of competitiveness and with skills and education the key to a high-wage economy, an integrated approach to this subsystem must become a defining characteristic of Ontario a region-state. Ontario is not yet on track here.

Source: Courchene (1999) and Courchene and Telmer (1998, Chapter 2 and 10).