

Opening Remarks

Ontario Pre-Budget Consultations

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Thank you, Mr. Chairman.

We appreciate today's opportunity to participate.

First a word about our organization. We are a unique public-private partnership between Toronto and the broader financial services sector in the region. We speak for not just the major institutions and their respective associations, for example banks, insurance, securities and pensions, but also for the various service industries that support the financial sector as well, for example, legal, accounting and consulting firms and our post secondary institutions.

Our goal is to promote and strengthen Toronto region as one of the pre-eminent financial service centers in North America. Fortunately, we all benefit from a stronger financial sector. Whether we are an entrepreneur or a business owner, a holder of mutual funds or an investor, a consumer or a pensioner, even a finance minister, we all benefit from a strong, competitive financial services sector.

Fortunately, we have a strong sector that has supported jobs and economic growth. Unfortunately, the world's financial centers are stepping up the competition, fighting to attract financial sector jobs and investment. If we want to keep what we have, if we want to grow it into one of the pre-eminent centers – with all the new jobs and growth that implies -- we need to be much more strategic and attentive.

Our submission outlines steps to do this. We touch on five general themes:

- The importance of the financial sector as a driver of the province's economic growth.
- The importance of an economic, regulatory and fiscal environment that encourages investment and productivity growth and makes Ontario's tax regime competitive with other jurisdictions in Canada and those that we compete with elsewhere.
- Support for national securities regulation and the Ontario Government's efforts to develop such a model, acceptable to other jurisdictions.
- The need for the government to restore fiscal balance as quickly as possible.
- The need to invest in Toronto infrastructure to make the city work.

First, the economic importance of the sector. As one of the largest sectors in the Canadian economy, it is even more important to Ontario and Toronto's economy. The sector employs over 220,000 individuals in Toronto region. Half that number is employed within the city itself. Moreover, these are highly-skilled and well paid individuals who contribute disproportionately to the tax base of Toronto and Ontario.

In Ontario, the financial sector represents almost 7.5% of provincial economic output, up from 5% just two decades ago.

As we watch our provincial economy adjust and our manufacturing base shrink, we should not undervalue the importance of a sector that offers such stable growth, nor can we take it for granted. To continue this record, **the sector needs a legislative, regulatory and tax environment that helps it stay globally competitive.** In other words, proactively supporting the industry has important economic benefits for all Ontarians. And fortunately, what the financial sector needs from government can benefit other sectors as well.

We can learn much from initiatives undertaken by other jurisdictions with strong financial services sectors, most notably the United Kingdom. Our brief provides examples.

Central to **the UK approach** is a recognition that to be strong, successful and globally competitive, the financial services sector needs a regulatory environment that, on the one hand, is sufficiently comprehensive and rigorous to create strong confidence in the sector – and to protect consumers and investors -- but on the other hand, does not stifle innovation nor inhibit the sector's ability to compete.

We believe this approach can be a model for Ontario to follow and we are encouraged by the government's interest in the approach of other jurisdictions. Recent initiatives to promote the sector on the international stage have been helpful and are appreciated. But more must be done, **We encourage the government to undertake comparable studies and strategies to ensure that our financial services industry plays an equally important role in the success of the provincial economy.**

We need a regulatory structure that is at least as good as, and preferably better than, that of other jurisdictions. Let me provide one example where reform is needed. Canada's current structure of 13 securities regulatory bodies is an obvious weakness. We are the only jurisdiction in the world that has not solved this problem.

Reforming the structure of securities regulation and adopting more principles-based regulation, as opposed to rigid rules, would give Canada a competitive advantage. TFSA supports the Ontario Government's creation of the Crawford Panel and its proposed model as an excellent framework by which a cooperative national securities regulator could be created. We also support reforms to create principles-based regulation. We encourage the government to continue its work with other jurisdictions to accomplish this objective.

Regulations must also be consistent with wider economic goals – encouraging financial innovation, improving productivity and by maintaining a competitive tax regime.

Ontario is slipping against its North American peer group in terms of per capita output. In 1981, we were tied for 7th out of 16 jurisdictions. Today Ontario ranks 15th in this peer group – almost dead last.

In practical terms, what does this mean? Fixing it could increase personal disposable income for the average Ontario household by \$8,400, enough to cover 70% of average annual household mortgage payments, virtually all rent obligations for average renters, or annual post-secondary tuition for two students.

These are the real costs of a lagging economic performance and they are substantial. And we know why this gap exists – over three-quarters of the gap can be attributed to differences in productivity levels.

One of the most important factors affecting this and our economic growth is the amount and vintage of capital available per worker. Investment in machinery and equipment is also slipping. It is our system of high taxes that plays a large part in this poor investment performance.

Ontario has taken the smallest steps in making the province more tax competitive. Ontario's 'provincial-only' effective tax rate is the highest of the provinces and declined by only one percentage point in the past 10 years.

With respect to corporate income taxes, businesses in Ontario now face higher statutory rates than they do in Alberta, British Columbia and Quebec. With respect to capital taxes, British Columbia eliminated its tax on non-financial institutions and investment dealers in 2002, and Alberta has wiped it out completely. By comparison, Ontario's commitment to eliminate the capital tax by 2010 'if affordable' represents a weak promise. Ontario is increasingly finding itself at a disadvantage against other Canadian provinces, not just against international competitors.

Ontario should establish a timetable to reduce corporate income tax rates to a level that is competitive with Quebec, Alberta and British Columbia. Ontario should match the tax rate of the most competitive of these provinces.

Ontario should accelerate the promised elimination of capital taxes to the year 2009 and make that commitment unconditional.

Our fourth point concerns Ontario's fiscal balance. We recognize the challenges the government faces in light of the current fiscal situation, the impact of the high Canadian dollar and high energy prices on the manufacturing sector and the below-average growth prospects for the province over 2006 and 2007.

We recognize the challenge of addressing the social program deficit and the fiscal shortfall. And we understand and support the province's push for a more equitable federal-provincial fiscal balance.

But these events should not be an excuse to allow the government's fiscal commitments to be blown off course.

In contrast to Ontario, most of the other Provinces are operating in the black and are now focusing on reducing their net debt. Achieving fiscal balance requires a disciplined

approach to spending control and a reallocation of resources to higher priority areas, as opposed to tax increases. It should entail a reform of the tax system to promote, not stifle, investment and growth. This will benefit Ontario's economy and, in turn, broaden the province's tax base.

Put simply, the decisions Ontario takes today should be based on a longer term view of the province's needs. We cannot let today's fiscal and economic challenges become tomorrow's economic problems. The Conference Board of Canada has warned that the provinces will be moving into deepening structural deficits in about five years. Unless Ontario gets its fiscal house in order soon, today's fiscal challenges will pale in comparison to the future challenges.

Our final point is that financial institutions are headquartered in large cities. So city issues are relevant to the financial sector. Toronto is Canada's financial capital. Our continued success will be greatly influenced by its continued success. Making Toronto work, making it an attractive place to live and invest will ensure that we can continue to keep the highly skilled workforce that is one of our strengths.

The case for infrastructure investment is well known. Equally well known is that estimates quantifying the 'infrastructure gap' in Canada show that they exceed current annual infrastructure spending many fold.

To date, the public policy debate has been about transferring additional funds to municipalities, via the provincial governments, with some differences of opinion as to the formula that would determine the actual distribution of funds. What has not made its way sufficiently into the discussion is the use of other sources of funds for the financing of public infrastructure. There are numerous examples of successful and non-controversial public private partnerships in Canada and we believe these can serve as models for the building of infrastructure in Ontario.

Ontario should welcome private sector financing of public infrastructure programs through public/private partnerships to address city infrastructure needs.

CONCLUSION

In conclusion then, the financial services sector is a significant contributor to our provincial economy. Its impact in terms of high-quality jobs, both direct and indirect and its economic contributions in terms of taxes, equity and the financial wellbeing of investors, savers and pensioners make it an important strategic sector for all levels of government.

Other jurisdictions understand the importance of the financial sector and are looking for ways in which its strengths can be harnessed. They ask how can it be a source of competitive advantage? That's exactly the question we need to ask in Ontario.