For immediate release

New approaches required to keep the Toronto region moving forward: TD Economics
Key challenges must be addressed against backdrop of modest growth and fiscally-constrained environment

TORONTO – Worsening gridlock, ageing infrastructure and issues related to social cohesion are just some of the key challenges cited in a new TD Economics report that could derail the Toronto region’s economy coming out of the global recession. The report, entitled Staying on track: Sustaining Toronto’s momentum after the global recession (www.td.com/economics), goes on to say that addressing these issues will be all the more challenging given the backdrop of slow economic growth and government restraint.

The TD Economics report, published at the request of CivicAction (www.civicaction.ca), provides a long-term economic assessment of the Toronto region in order to help frame the discussion for an upcoming gathering of civic leaders. Over the past decade, TD Economics has published three major reports on the strengths and structural challenges impacting Toronto’s future prosperity.

“Most global cities have faced a difficult ride in recent years, but the Toronto region has been resilient,” said Derek Burleton, a Deputy Chief Economist and co-author of the report. “Still, our success masks a number of growing impediments to growth and prosperity. An open and frank discussion about the immediate and longer-term challenges facing our city is a critical step forward.”

“The Toronto region has weathered the global recession in relatively good shape, which is a testament to our natural advantages,” said Mitzie Hunter, Chief Executive Officer, CivicAction. “Yet this report underscores the multiple challenges that could undermine our quality of life and standard of living. There is a pressing need for leaders in the public, private, and not-for-profit sectors to think creatively and act boldly to keep building for the future.”

Toronto the Resilient

After enduring a temporary setback in 2008-09, overall employment in the Toronto area has rebounded, while housing and non-residential real estate markets – a key gauge of confidence in the region’s prospects – have forged ahead. TD Economics calculates that the housing boom accounted for as much as 25 percent of overall economic growth and job creation in the city-region over the past decade.

Moreover the health of the region’s financial services cluster has given the economy an enormous advantage since the global financial crisis erupted. The strength and stability of the Toronto region is all the more remarkable given that its manufacturing sector has shed more than 170,000 jobs over the past decade, with approximately one-third of these taking place since the financial crisis in 2007.

There are reasons to be upbeat about Toronto’s future notes Mr. Burleton: “The region’s strengths – which include a diversified economy, solid population gains and a well-educated workforce – will help set the stage for continued expansion. The region is also poised to reap the benefits from a recovering US economy.”

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**A real drag**

However the Toronto region’s real economic growth will likely remain in sub-par territory of 2 percent over the next 2-3 years. An overvalued housing market and excessive household debt will act as a drag on economic growth. Swollen government deficits will also be a major factor. Local governments will feel the squeeze from their overreliance on property tax, downward pressure on federal and provincial grants, and pressure to take up slack in areas where other levels of government have reduced support.

**Seven risks**

Moreover TD Economics cites seven underlying structural challenges that present risks to long-term gains in economic and social prosperity:

An *ageing population* will place downward pressure on household incomes over the medium term, resulting in a slower growth economy. Municipal revenue derived from consumption and user fees will be squeezed at the same time as demand for social services such as community health programs will rise.

The Toronto region faces *competitive pressures* as its relative cost advantage with other jurisdictions has eroded. For instance right to work legislation – laws that force employee membership in a union – implemented recently in Michigan could have impacts for the Toronto region.

The higher education system in Ontario is not well integrated with employer needs and private training expenditures are relatively low, leaving *many youth in the region unemployed or under-employed*. These trends lead to other less-than-desirable social outcomes, including increased poverty, civic disengagement and higher crime rates than what would otherwise be the case.

*Congestion and gridlock* on the roads have a negative impact on the regional economy in the form of productivity loss, more vehicle collisions, but also greater social costs like pollution and unpredictable travel.

Much of the tab for the Toronto region’s *ageing infrastructure* falls on the doorstep of the municipalities. Yet these jurisdictions have lacked fiscal and administrative flexibility to adequately tackle these challenges.

Social assistance is an integral part to ensuring a social safety net is present in a time of need – especially with high levels of disadvantaged residents. However, the current system is too complex and erects a number of barriers to making work pay, thereby hindering *improved socio-economic outcomes*.

*Climate change and other environmental issues* are impacting the economic and social well-being of the Toronto region. For instance, Southern Ontario is already experiencing an increase in temperatures and erratic precipitation. As the regional population grows, landfills will slowly approach their capacity limits.

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**A framework for the Toronto region**

“The upcoming period of modest economic growth and fiscal restraint could prove a difficult combination for leaders to lay down new policies to strengthen the regional economy’s long-term foundations,” said Mr. Burleton. “That’s why, more than ever, notions around efficiency and effectiveness must underpin policy considerations.”

Specifically, civic leaders should focus in areas that bring together the region in a cohesive way, manage to tackle multiple economic, social and environmental objectives and that avoid significant negative consequences. Above all, special weight must be given to policy actions that address the Toronto region’s weak productivity performance, given their direct impact on higher living standards over the long run.

Additionally, a focus on doing more with less would involve the notion that governments focus their attention on those residents that need help the most. To the extent that new revenue-raising measures are required, emphasis needs to be placed on those sources that impose less damage to economic growth and competitiveness. Such a shift will require innovative funding approaches in areas which offer large net benefits and where broad support across the region can be galvanized.

**Public transportation – a logical move forward**

TD Economics cites transportation as a logical area of focus, and examines Metrolinx’s proposed public transit system, called the ‘Big Move.’ It will require $50 billion in capital over 25 years and $1.5 billion in annual operation and maintenance costs in order to make it a reality.

In order to put the Big Move price tag in perspective, the City of Toronto had an operating and capital budget of $14 billion in 2013. Funding just the annual operation and maintenance costs associated with the Big Move plan, would represent nearly 10 percent of the City’s entire budget. Moreover, there are limits to how much can be raised through higher transit fares and leveraging the potential efficiency benefits of public-private partnerships. At the same time, however, the $2 billion revenue raising target to fund the capital expenditures is relatively small when stacked up against a $300 billion economy. In turn, the additional hit in the form of higher taxes or levies on residents and businesses would not present a significant near-term risk to growth.

In a number of reports released over the past decade, TD Economics has come out in support of the efficient use of road pricing and/or a regional sales tax levied in the commuter area if the funds would be used towards the region’s long-term transportation needs. Measures taken through the income tax system could help to mitigate the impact of the higher cost on lower-income households.

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