Enhancing GTA standard of living requires concerted effort: TD Economics

(TORONTO) A report published today by TD Economics states the relative decline of the Greater Toronto Area's standard of living against competing jurisdictions during the past five years poses a serious threat to the region's future prosperity (www.td.com/economics). Cohesive and coordinated action is required by all regional players, but future policies must be underpinned by efficiency and innovation rather than public money.

Among the GTA's challenges, co-authors Don Drummond and Derek Burleton cite:

- The region's eroding competitive position due to economic forces such as the rising dollar;
- The limited flexibility of the City of Toronto due to its structural deficit; and
- The rising number of low-income families among newcomers and the self-perpetuating cycles of poverty.

Since 2002, the GTA economy has been resilient against adverse events such as SARS. The cyclical housing boom spread benefits throughout the economy, and was responsible for a sizeable share of the 65,000 jobs created in the financial services, retail and wholesale trade and professional services sectors.

The GTA also received help from all levels of government including the moves by the federal and provincial governments to eliminate capital taxes, strengthen border infrastructure and support the growing cluster of research-intensive industries. The City of Toronto also contributed, as it began to gradually reduce property tax on commercial and industrial properties, supplementing recent action at the provincial level.

Dollar doldrums

However economic headwinds slowed growth. International competition and rising commodities prices were two contributing factors. But the primary culprit was the Canadian dollar, which appreciated by 50 percent against the U.S. dollar within five years. This upward trend virtually evaporated the GTA's cost advantage. The local manufacturing sector bore the brunt, losing 100,000 jobs during this period. (Moreover, companies did not capitalize on the stronger dollar -- and in turn enhance productivity – through the purchase of machinery and equipment imports.)

Over the past few years, economic indicators further attest GTA's declining stature as an economic powerhouse. Furthermore, some uncover a growing divide between the prospects of 905 and 416 areas.

Since 2002, the GTA's overall economic growth was 2.5 percent per year, which is 0.5 percent lower than the national average, and well below the rates of Calgary and Vancouver (5 percent and 3.4 percent respectively). The unemployment rate dropped by about one percent to 6.5 percent, but for the first time rose and remains above the national average. (The average unemployment rate in the City of Toronto is substantially higher at 8.1 percent.)

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Most troubling are measurements that track standard of living. Real GDP per capita in the GTA (0.5 percent) increased by about one-half the rate of the nation and one-third the pace of other large city-regions. The GTA's real personal income per capita also slipped $1,000 further behind major American cities to US$8,500.

"The relative decline in standard of living leaves the GTA in a competitive conundrum: At a time when we must invest more in existing and new assets to compete globally, we have fewer resources to do so," said Don Drummond, Chief Economist at TD Bank Financial Group.

A financial straightjacket

A number of financial factors, particularly in the City of Toronto, also undermine the GTA's ability to enhance the region's future prospects. Most problematic is the City's structural deficit, which runs in the range of $700-million to $1.1-billion. The $70-million shortfall in the City's 2007 budget – despite drawing down reserve funds -- is indicative of the problem. Addressing this challenge will require a multi-prong approach:

Controlling costs and improving service delivery: The City's last budget identified $124 million in savings and efficiency gains; double the previous year. Yet reviews have not included the full range of programs, agencies, boards and commissions. Increased regional cooperation could also unleash benefits. Furthermore, the City must employ innovative approaches to service delivery, such as public-private partnerships, which are an effective way to reduce public expenditures.

Uploading the costs of social services: The TD Economics report urges Queen's Park to upload a share of the City's social services and social housing costs, as it is more efficient to fund these programs through the income tax base, and could remove up to $500-million from the City's operating budget. On another front, significant resources continue to be drained away from the GTA in the form of income distribution to other parts of Canada. Policymakers must ask if this current redistribution scheme is sustainable in today's age of increased global competition among city-regions.

Choosing tax measures to increase efficiencies: Should the above two approaches fall short of addressing the structural deficit, the City must develop new revenue tools to reduce its dependency on property tax. A greater tilt toward user fees represents a more efficient way to raise public funds. They also enhance accountability, as the City faces greater scrutiny in spending money it has collected directly than through transfer payments. The garbage collection fee is a step in the right direction, though a simple "tag" system would be more efficient than a sliding scale based on bin size.

Mr. Drummond added: "The City's structural deficit acts as a financial straightjacket, limiting its flexibility in managing pressing challenges. That's why the City must consider a number of new revenue tools. However we urge it to evaluate them on their efficiency and ability to achieve social good. In this light, a road toll is a viable option. Not only is it a user-fee, it can also help to reduce gridlock and pollution. Alternatives including the land transfer tax fall short in both regards. No matter how council votes on the proposed new sources, a significant challenge will still exist, which we argue would be best addressed through more efficient tools."

3…TD Economics

Opportunity trumps poverty

The prospects of the poorest families in the GTA have worsened in the past five years. The lowest 20 percent experienced an outright decline in income from 2001 to 2005 – the only group to do so. Studies show this problem has become most concentrated in the City's inner-suburbs and within the immigrant population, despite the fact that newcomers are better educated and more highly-skilled than their predecessors in the 1980s – 90s.

A key challenge is the self-perpetuating nature of poverty. Those communities most affected tend to record high drop out rates and weak academic performances. Moreover residents rarely have the same links to opportunities as those who are better-off. All this poses a greater risk to social cohesion in the region.

Important steps have been made to address the root of the problem, including welfare reform, an increase in minimum wage, the Canada-Ontario Affordable Housing Agreement, and the Federal Working Income Tax Benefit. The private sector and community groups have also initiated important programs. Yet all parties are urged to redouble their efforts, particularly as the region's population growth will rely predominantly on newcomers and their successful transition from school to workforce is fundamental to the region's overall prosperity.

"Left on its own, the social ills of poverty spread across geographical and generational boundaries. We need to step up and stop poverty in its tracks. The best way to fight poverty is to provide opportunity. Government, business and community groups must work together towards this end."

- 30 -

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