



Policy Solutions for Ontario's Prosperity

# Taking Productivity Seriously: The Case for an Ontario Productivity Commission

By  
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*Ontario 360's* purpose is to scan Ontario's economic opportunities and challenges and develop evidence-based public policy ideas to inform and shape the Ontario government's own policy planning and development.

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# Introduction

Ontario has an economic prosperity problem. In a recent [analysis](#) by University of Calgary economist Trevor Tombe on average income levels of Canadian provinces and US states, Ontario's were equivalent to Alabama's, ranking 51<sup>st</sup> out of 60. In dollar terms, Ontario's GDP per capita (adjusted for prices and exchange rates) in 2022 was estimated at \$55,000 USD, not much more than half of the state with the highest average income level—New York—at \$104,000 USD.

What is even more troubling for Ontario is that the prospect for future income growth appears to be minimal. Real incomes across Canada are currently [lower](#) than they were pre-pandemic, and the OECD projects that Canada will be the worst-performing economy in the group of advanced economies over the next decade and out to 2060 in terms of growth in real incomes. This reality prompted economists David Williams and Jock Finlayson to declare in a recent *Globe and Mail* [column](#) that “young and aspirational Canadians face 40 years of stagnant average real incomes.”

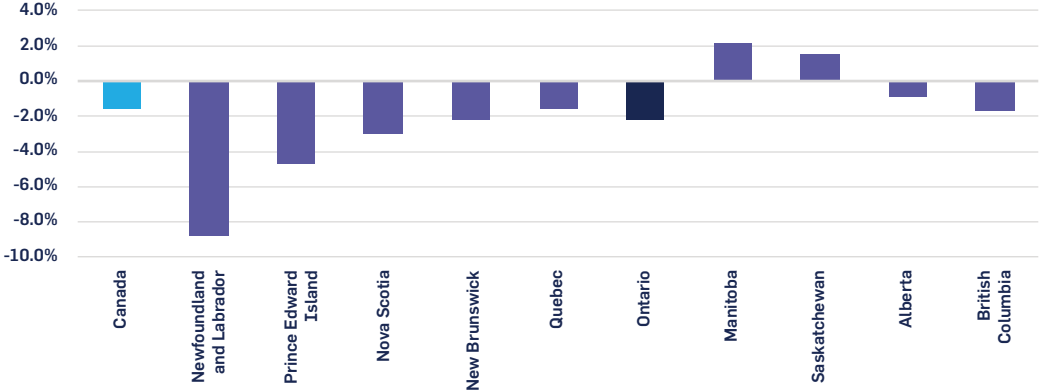
There is also no indication that Ontario will buck this trend in the short- to medium-term. RBC is [projecting](#) annual real GDP growth for Ontario to be 1.1 percent in 2023 and 0.2 percent in 2024, the lowest of any province in that year. Yet, the Ontario government [projects](#) that annual population growth in 2023 will be 3.2 percent, and in 2024 to be 2.7 percent. This means that Ontario will be experiencing real GDP per capita losses.

While a myriad of factors contribute to these economic headwinds, one stands out above all others—stagnant productivity growth.

Productivity is a measure of how efficiently an economy can turn inputs like hours worked into outputs, commonly measured by GDP. Productivity is the fundamental driver of income growth and living standards. The more an economy can produce for a given amount of input, the better the society will be materially. Tangibly, higher productivity levels translate into higher incomes, more leisure, lower prices, and additional funds for public services like healthcare and education, all else being equal.

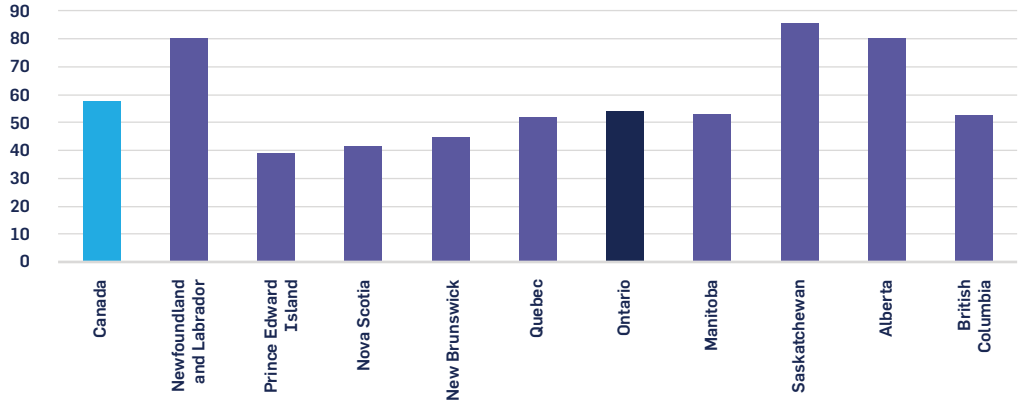
Unfortunately, Canada and Ontario have a longstanding productivity problem. Canada had the second lowest level of labour productivity in the G7 in 2022, and in the same year, Ontario experienced a 2.2 percent [decline](#) in business sector labour productivity (see Figure 1). Compared to other provinces, Ontario's labour productivity in 2022 is in the middle of the pack, ranking fourth, but below the Canadian average that is pulled up by the oil- and gas-producing provinces (Figure 2).

**Figure 1: Labour Productivity, Business Sector Industries, 2022 (annual % change)**



Source: Statistics Canada. Table 36-10-0480-01, author’s calculations

**Figure 2: Labour Productivity, Business Sector Industries, 2022 (Chained 2012 Dollars per Hour)**



Source: Statistics Canada. Table 36-10-0480-01, author’s calculations

A key explanatory factor for poor productivity performance is [low levels](#) of business investment, among other issues ranging from high levels of [immigration](#) to the rise of a service-driven economy. However, the stark reality of the situation is clear. Ontario faces a future of low productivity growth and, in turn, lower economic prosperity relative to a high productivity growth scenario.

Ontario needs to take bold steps to address its productivity challenges. The current government has signalled that it wants to “[Build Ontario](#)” and support economic growth. A key part of their plan needs to be a focus on productivity growth.

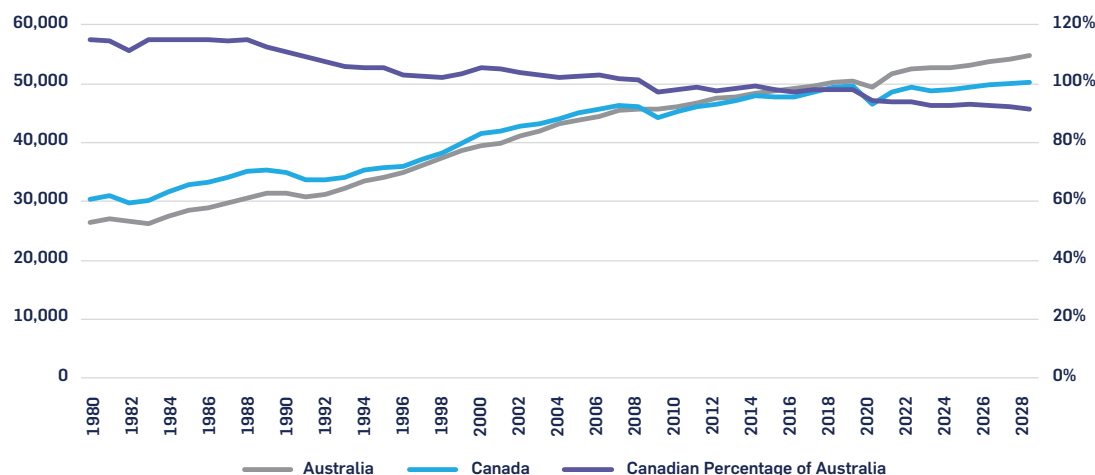
One policy move that could help Ontario is to learn from Australia and create a productivity commission. Multifaceted policy problems like low productivity levels and growth are hard to solve unless they are well understood. An Ontario Productivity Commission would harness a wide range of voices to understand the headwinds holding back Ontario’s productivity while also working towards developing public policy solutions that the government could implement to address its problems.

This policy brief makes the case that it is time for Ontario to take productivity growth seriously and establish an Ontario Productivity Commission.

# Australia's Productivity Commission

Consider first the economic trajectories of Canada and Australia over the last several decades. In 1980, Canada's GDP per capita, controlling for prices and exchange rates, was nearly 15 percent larger than Australia's (see Figure 3). Since then, the gap between Australian and Canadian living standards has consistently shrunk, culminating in Australia overtaking Canada in 2009. In 2022, Canada's per capita GDP sat at 94 percent of Australia's, and according to the latest projections in the IMF's World Economic Outlook series, by 2028, Canadian living standards will only be at 91.5 percent of Australia's.

**Figure 3: GDP Per Capita (Purchasing power parity; 2017 international dollar)**

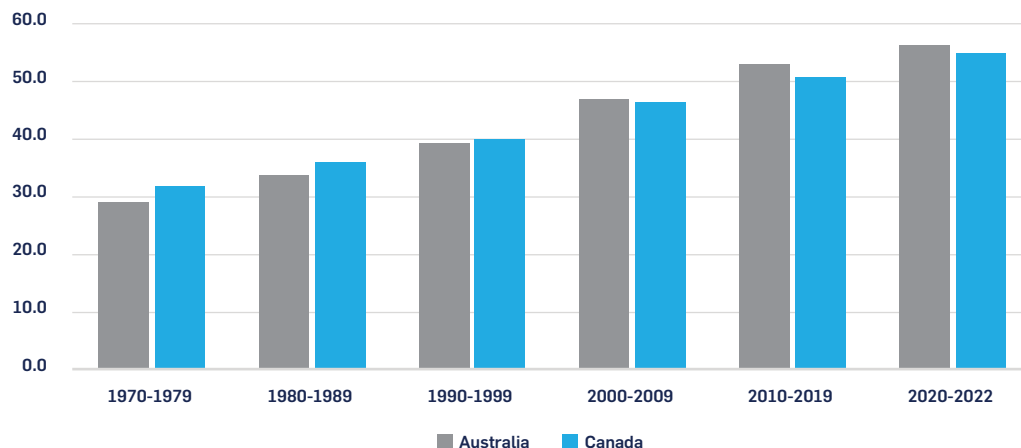


**Source: IMF, World Economic Outlook, October 2023, author's calculations**

Why the dramatic shift in relative living standards? Undoubtedly, given the connection between productivity and GDP per capita, one key driver is that Australia has become more productive than Canada. During the three decade between 1970 and 2000, the average Canadian worker was more productive than their Australian

counterparts (see Figure 4). However, this changed in the 1990s when Australian labour productivity surpassed Canada's. In 2022, Australian GDP per hour worked, a standard measure of labour productivity, was \$55.90 USD, while Canada's was \$53.70 according to OECD estimates (adjusted for exchange rates and inflation).

**Figure 4:** Average Labour Productivity by Decade (USD, Constant Prices, 2015 PPPs)

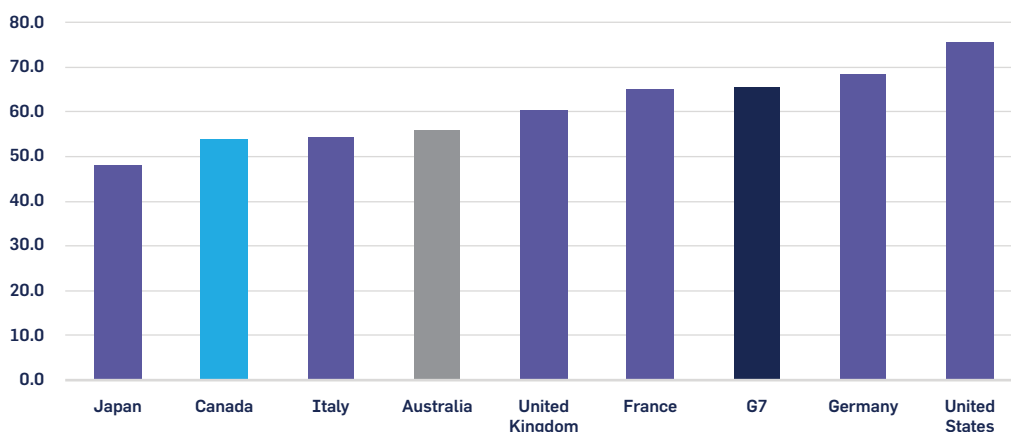


**Source:** OECD, Level of GDP Per Capita and Productivity, author’s calculations

Canada is also not just a productivity laggard relative to Australia but also relative to the G7. Canada has the second lowest labour productivity in

the G7, only ahead of Japan and well behind competing economies like the United States (see Figure 5).

**Figure 5:** Labour Productivity, 2022 ( GDP Per Hour Worked, USD Constant Prices, 2015 PPPs)



**Source:** OECD, Level of GDP Per Capita and Productivity, author’s calculations

One major difference between Canada and Australia is that Australia has taken its productivity challenges more seriously and systematically. In 1998, Australia established a productivity commission that has played a key role in the country's policy development and pro-growth orientation.

Australia's Productivity Commission was the [culmination](#) of a long evolution of industry-related commissions dating back more than a century. These institutions primarily promoted anti-competitive and protectionist policies that ultimately hindered productivity growth, but the Productivity Commission, in its mandate, takes a distinctly pro-economic growth orientation. The Productivity Commission's history [emphasizes](#) this in reflecting that:

*“Australian economic policy, driven by market pressures and the contributions of many institutions and individuals, has changed over the past three decades from a narrow, protectionist and anticompetition focus to a more open, pro-competition and community-wide focus. The Commission has helped to lay the foundations for these new policy directions.”*

Principally, the Productivity Commission is an advisory body. It [does not](#) actively implement or administer government policies. Rather, it advises the government on the nature of problems and the potential effectiveness of public policies while also engaging directly in the communication of policy ideas. To achieve its mandate, the Commission's resourcing includes a 2023-24 annual [budget](#) of approximately \$68 million CAD and a staff of 187.

The Commission was legislatively [created](#) through the *Productivity Commission Act 1998*. The Act sets out the advisory body's mandate (see Appendix), structure, and function. The Commission is an agency of the Australian government housed within the Treasury portfolio.

The central purpose of the Commission is to conduct public inquiries and offer policy advice based on requests from the Australian government, considering policy and regulatory impacts on the country's economic performance and aspects of community well-being, social, and environmental issues where appropriate. Indeed, as stated in the Act, the Commission must work “to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community.” In addition, it must also give consideration to ensuring equitable adjustments to those who may face economic hardships from structural economic changes while promoting regional development and industrial growth that is ecologically sustainable.

Overall, the Act sets out the three central [features](#) that govern the Commission's structure and operations: independence, transparency, and a community-wide perspective.

***Independence*** – The Commission's governing legislation grants formal independence through several mechanisms. The first is the organization's governance structure, which is through the appointment

of a chairman, deputy chairman, and commissioners by the Governor General for fixed periods. The agency has its own budget allocation and a permanent staff that operates independent of government departments. Despite the government largely determining the Commission's work program, the findings and recommendations are based solely on the analysis of its own staff and leadership. Moreover, the Commission is statutorily required to communicate the understanding of policy issues to the broader public, independent of government messaging.

**Transparency** – All of the Commission's analysis, recommendations, and advice are publicly available. In drafting its reports, the Commission is mandated to seek extensive public input through formal hearings and through the release of draft reports and preliminary findings.

**Community-wide Perspective** – As mentioned previously, the Commission is mandated to take a broad perspective, considering the holistic interests of the economy and Australians as a whole rather than the narrow interests of a particular industry or firm. Likewise, the Commission's work must consider environmental, social, and regional dimensions of economic and productivity growth.

In terms of outputs, there are four main [streams](#) of work:

1. Public inquiries and studies requested by the government – these are the backbone of the Commission's output and are the most intensive. The production of these inquiries and reports comes at the government's behest, and they provide an opportunity for the Commission's recommendations to be informed by several community perspectives. Recent examples of inquiries include drought relief (2023), carer leave (2023), a five-year productivity review (2023), maritime logistics (2022), and mental health (2020).
2. Commission-initiated research and annual reporting on productivity, industry assistance and regulation – the Commission can also initiate its own research to provide advice on pressing policy problems. For example, recent reports looked at the impact of ageing and demographic change on Australian public policy, as well as the impact of housing assistance on participation in employment.
3. Performance monitoring and benchmarking – the Commission provides support to the annual Report on Government Services that evaluates the equity, effectiveness, and efficiency of government services.

4. Competitive neutrality complaints – the Commission also provides independent advice to the government about complaints related to unfair competition from government businesses under Australia’s competitive neutrality legislation that aims to ensure that government businesses do not enjoy competitive advantages over private sector businesses.

An example of a recent report that directly shows the benefit that a productivity commission could provide to Ontario is the 2023 release of the Commission’s second five-year productivity [review](#). The report begins by assessing recent productivity growth, noting that labour productivity growth is at its slowest in the last 60 years. The report goes on to discuss several of the headwinds hindering Australia’s productivity growth, including the rise of the services sector as a dominant part of the Australian economy and rising geopolitical tensions.

Regarding services, the Productivity Commission emphasizes three trends that weigh on labour productivity growth: 1) the growth of non-market services<sup>1</sup> since competition and cost-reflective pricing are typically absent, 2) productivity gains in services tend to be harder to achieve, and 3) the transition to a services economy will require greater investment in skill development.

To combat Australia’s slowing labour productivity growth, the Commission [made](#) 71 policy recommendations under the themes of building an adaptable workforce, harnessing data, digital technology and diffusion, creating a more dynamic economy, lifting productivity in the non-market sector, and securing net-zero at the least cost. Several of these recommendations would be well placed for Ontario to consider, including expanding school choice by enabling experimentation with alternative approaches to schooling (recommendation 8.3), better targeting of investment in higher education (recommendation 8.5), improving occupational licensing arrangements to reduce barriers faced by skilled migrants (recommendations 7.7 and 7.8), creating a risk protection system that encourages entrepreneurship and a long term view (recommendation 3.1), more flexible and streamlined planning and zoning (recommendation 3.2), improving competitive pressures in highly regulated sectors (recommendation 3.3), and transitioning the tax system to reinvigorate productivity growth (recommendation 3.4). This is far from an exhaustive list, but it represents the type of pro-growth policy reforms that could set Ontario apart.

While the focus has been on Australia’s national Productivity Commission, several Australian states have their own, including Australia’s largest [state](#), New South Wales. These sub-federal agencies focus

<sup>1</sup> Non-market services are those that are provided free of charge or substantially below cost. They tend to be funded and regulated by the government and include services like schools, hospital, childcare, and national defence.

on productivity-enhancing policies and regulatory reform initiatives within the state. For example, a [recent](#) White Paper from the NSW Productivity Commission focused on recommendations to develop a high-skilled labour pool, leverage innovative technologies, improve housing affordability, and enhance productivity-boosting infrastructure. Beyond working at a state level to understand regional productivity problems and solutions, the sub-national commissions can also help understand how federal policy impacts productivity growth within states, thereby helping to direct advocacy toward the federal government.

## Conclusion

Ontario's productivity growth challenges are real, and they threaten the future living standards of Ontarians. To better understand what is weighing on Ontario's productivity and to develop policy solutions, Ontario should follow the approach of Australia and create a productivity commission. In his forward to Ontario's 2023 [Fall Economic Statement](#), Minister of Finance Peter Bethlenfalvy

remarked that the government's focus is on "building a strong economy to get the province through these uncertain times and create prosperity for future generations." A commission could play an important role in supporting the government's focus on creating economic prosperity for future generations.

# Appendix

Select sections of the *Productivity Commission Act, 1998*:

## 6 Functions of Commission

- (1) The functions of the Commission are:
- (a) to hold inquiries and report to the Minister about matters relating to industry, industry development and productivity that are referred to it by the Minister; and
  - (b) to provide secretariat services and research services to government bodies as directed by the Minister; and
  - (c) on and after 1 July 1997, to receive and investigate complaints about the implementation of competitive neutrality arrangements in relation to Commonwealth government businesses and business activities and to report to the Minister on its investigations; and
  - (d) to provide advice to the Minister about matters relating to industry, industry development and productivity, as requested by the Minister; and
  - (e) to undertake, on its own initiative, research about matters relating to industry, industry development and productivity; and
  - (f) to promote public understanding of matters relating to industry, industry development and productivity; and
  - (g) to perform any other function conferred on it by this Act; and
  - (h) to do anything incidental to any of the preceding functions.

## 8 General policy guidelines for Commission

- (1) In the performance of its functions, the Commission must have regard to the need:
- (a) to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community; and
  - (b) to reduce regulation of industry (including regulation by the States, Territories and local government) where this is consistent with the social and economic goals of the Commonwealth Government; and
  - (c) to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive; and

- (d) to facilitate adjustment to structural changes in the economy and the avoidance of social and economic hardships arising from those changes; and
- (e) to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission; and
- (f) to increase employment, including in regional areas; and
- (g) to promote regional development; and
- (h) to recognise the progress made by Australia's trading partners in reducing both tariff and nontariff barriers; and
- (i) to ensure that industry develops in a way that is ecologically sustainable; and
- (j) for Australia to meet its international obligations and commitments.

(2) In the performance of its functions, the Commission must also have regard to any other matters notified to it in writing by the Minister.

(3) The Commission, in all reports on matters referred to it, must provide a variety of viewpoints and options representing alternative means of addressing the issues in the report. If the report relies on formal mathematical economic modelling, the Commission must either:

- (a) if practicable—utilise at least 2 different economic models, with the assumptions and results of those models made explicit in the report; or
- (b) if it is not practicable to utilise at least 2 different economic models, appoint, and report on the views of, an independent reference panel on the modelling.



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