'Dead' cash to blame for Ontario's stagnant growth, task force warns

By Tavia Grant
November 29, 2012 – *The Globe and Mail*

Canada's most populous province is settling into a troubling era of stagnant growth that could be alleviated if businesses stop sitting on "dead money" and ramp up investments, a study to be released Thursday argues.

"A new status quo of slow or stagnant economic growth for Ontario's economy is developing," warns the Task Force on Competitiveness, Productivity and Economic Progress. "If economic growth languishes at less than 2 per cent annually, everything from government funding and programs to private sector competitiveness and employment will be impacted."

The group singles out the "dead cash" on the balance sheets of Ontario businesses as an opportunity to boost the province's prosperity. The issue of dead money surfaced this summer when Bank of Canada Governor Mark Carney said Canadian companies are sitting on cash when they should be investing or returning it to shareholders – comments that sparked an avalanche of criticism from economists and executives.

The task force, which was established by the Ontario government in 2001, doesn't mince words. It says unlike other countries that are experiencing severe economic uncertainty, Canada's relative stability should make businesses more willing to invest. Instead, they are sitting on large cash reserves.

"Managers should take advantage of their high cash reserves and invest in areas that will help their companies grow," it says.

Ontario's prosperity gap with peers persists, it adds. Ontario's GDP per capita ranks 14th among 16 North American peer jurisdictions and lags the median of the peers by $7,500. When the task force began tracking this measure in 2001, Ontario was also in 14th place – meaning it hasn't improved. This lagging performance spells lost prosperity, the task force says, which hurts Ontarians at all income levels.

"We have so many economic advantages in Ontario," from a sound banking system to a skilled work force, said Roger Martin, chairman of the task force and Rotman School of Management dean, in a release. "But the gap in GDP per capita with North American peers shows that Ontario needs to move now to push for more growth."

Dead money could be used "to invest in the physical and human capital we need to increase our productivity and close the prosperity gap," he added.

The task force's analysis shows companies' cash and deposits have risen at a faster pace than investment, especially since 2001. Canadian cash balances as a percentage of total assets showed a "significant" increase between 1988 and 2011, rising at a far greater pace than those of the United States.

The amount of cash accumulated by non-financial corporations is at a record high of about $400-billion in Canada and $1.7-trillion in the United States.

The report urges corporate leaders to invest in information and communication technology, boost efforts to improve the skills of their work force and find ways to scale up operations. Governments ought to tackle deficits while still providing "appropriate" incentives for business to invest.

The report comes amid fresh evidence of Ontario's changing fortunes. The province has seen below-average growth in both employment and earnings over the past two years, Statistics Canada said Wednesday. Four in 10 Canadian payroll employees work in Ontario. But Ontario's share of national payroll employment has been falling since 2003, while the share has been growing in Alberta, British Columbia and Saskatchewan.