Pre-Budget Submission

to the

Standing Committee
on Finance and Economic Affairs

by the

Ontario Federation of Labour

February 1, 2006

Introduction

The Ontario Federation of Labour (OFL) is pleased to present its Pre-Budget Submission to the Standing Committee on Finance and Economic Affairs on behalf of our 700,000 affiliated members.

In this round of discussions we would like to focus on policy issues which impact on the well-being of the people of Ontario such as:

- needed pension reform;
- rising energy costs and consequent economic difficulties;
- public-private-partnerships (P3s) and consequent understaffing;
- card certification, the missing piece in the last round of labour reform; and
- poverty and homelessness which is a debilitating situation of far too many people.

We maintain that all of these issues need the attention of government and with the suggested directions herein would assist people to lead more prosperous lives and contribute to the well-being of Ontario.

Pension Reform:

Just last November at the Ontario Federation of Labour's convention hundreds of delegates debated and passed a major policy paper on pensions. For many years the OFL has fought for pension improvements for working people in Ontario. Most recently, under the Eves Conservative Government, the OFL lobbied and made written submissions on the issue of pension surpluses.

This effort, together with the strong opposition of plan members and retirees across the province, forced the Eves Government to back off its attempt to fundamentally alter pension provisions on surpluses in favour of employers.

We would like to draw the government's attention to some of the OFL's convention policy paper's main planks which we believe, if implemented, would add to the prosperity of Ontario's citizens.

Inflation Protection Through Indexing: The indexing of pensions is one of the most serious issues facing retirees and fundamental to the right of workers to retire in security and dignity and, we might add, to be full consumers in Ontario. Many private pensions are either not indexed or not fully indexed.

Ontario Pension Benefits Guarantee Fund: This fund is important as it covers employees within defined benefit plans where pension income has been lost due to plan under funding or employer insolvency.

The Pension Benefits Guarantee Fund (PBGF) currently provides for a benefit guarantee only to a maximum of $1,000 per month, an amount unchanged since 1988. In other words, there has been no increase to this amount in 18 years. For the prosperity of Ontario's citizens this needs to be increased as soon as feasible. The changes to the *Bankruptcy Act* under Bill C-55 make improvements that should lessen the shortfall for the PBGF providing some room for improved compensation.

***Pension Benefits Act*:** The Ontario *Pension Benefits Act (PBA*) Regulation 5.1 allows employers who administer pension plans with assets greater than $500 million who are deemed too big to fail, to waive the solvency funding requirements under the *Act* if they make an additional contribution to the PBGF.

Stelco was granted this option in 1996 and was able to divert millions in otherwise required pension contributions into company general revenue adding considerable risk to the pension fund and considerable difficulties for all concerned which was only settled recently.

All parties in Ontario would be better off if Regulation 5.1 was completely repealed.

Income Tax Act: The *Income Tax Act* currently places limits on the maximum amount that can be contributed to a registered pension plan. In general terms the

Income Tax Act limits the ability to contribute to a registered pension plan that has a surplus of more than 10%. This elimination of contributions is often referred to as a "contribution holiday."

It is our view that the Ontario Government should support changes to the *Income Tax Act* to substantively reduce the requirement that employers take contribution holidays.

Vesting: While workers are changing jobs more and more frequently it has been 15 years since Ontario's law on pension vesting has been changed. Under these circumstances, we think that the people of Ontario would be better off if the *PBA* was amended requiring immediate vesting when an employee joins a pension plan instead of the current rule of vesting after two years.

Joint Trusteeship: The last two decades have brought significant victories in the area of pension plan governance. Yet there is still a long way to go if workers are to gain control over their deferred wages. Many unions are still fighting for joint trusteeship. Despite the fact that joint trusteeship has improved pension plan administration, the Ontario Government has not followed the lead of other jurisdictions in Canada and mandated shared trusteeship. We think the people of Ontario would be better off if the government moved forward on this issue.

Crisis in the Forest Industry:

While overall the economy of Ontario is growing, a number of sectors are in real difficulty as recent layoffs and plant and mill closures in the auto and forest industry attest. Stelco is only now, after 22 months, out from under bankruptcy with new financing and restructuring. Added to the competitiveness climate in the forest sector, for example, are a number of factors that lie outside of Ontario's direct jurisdiction such as the rise of the Canadian dollar against the U.S. dollar, the world-wide forest products market, the weakening of the consumer market south of the border and the ongoing softwood lumber dispute. Thrown into this mix, however, is both the lack of any forest industry strategy on the part of the Government of Ontario and rising energy costs. The *Minister's Council on Forest Sector Competitiveness*, Final Report, May 2005, reports that "Between 2000 and

2004 some large industries experienced electricity cost increases of an estimated 30% as previous “special rates” were phased out and all industrial users moved to full market pricing.”

In short, Ontario moved from publically owned and operated energy at cost, a key reason Ontario industrialized, to energy at market for profit prices. As a result, Ontario’s paper products sector finds its products are 40%-50% higher that its competitors in the southern states of the U.S. It should be obvious that this is far from a recipe for success. Given that the forest sector contributes $19 billion in sales and exports of $8.5 billion (2003) (all figures from the report cited above) making it the largest sector in Ontario after auto in terms of contributions to the provincial balance of trade, it would seem only rational that the government move to bring energy costs under control. The re-regulation of costs needs to be a major part of a province-wide forest industry strategy. Beyond the dollars and cents involved are the human impacts. Hence the trade union movement is faced with the effects on its membership. Far too many mills have been closed down, far too many workers have been thrown out of work and far too many families thrown into financial crises.

P3s, Privatization and Understaffing:

Ontario Premier Dalton McGuinty recently announced that his Liberal government was planning 14 P3 hospitals around the province. This, after he spent considerable time and effort campaigning against them in the last provincial election. In our view, McGuinty was correct in denouncing the previous Tory government, saying that P3 hospitals were too expensive, had excessively long contracts and would lead to US-style health care.

So after campaigning and being elected on an anti-P3 platform the McGuinty Government has nonetheless, albeit with minor changes, moved to adopt the P3 model. Where is the democracy in such an about face? Indeed, P3s have become the centerpiece of the government’s financing strategy. At the same time it claims that its model is really not a P3 at all. This is because in their calculated narrow definition a project is not a P3 if the ownership of an asset is not transferred permanently to the private sector. So even though the asset will be built by the private sector and operated by the private sector on a for-profit basis and even though the private operator will have a long term contract, because the asset is formally still owned by government the Liberals are saying it is not a P3. This is hardly convincing and not even agreed to by other branches of government such as Industry Canada which projects a broader and more accurate definition of a P3 (see "The Canadian Experience" The Public-Private-Partnerships (P3) Office, Industry Canada, 2005).

The attraction of P3s for the government is its economic function that enables it to structure capital financing in such a way as to avoid political and budgetary obstacles to conventional debt financing of public capital. P3s offer a range of mechanisms to alter the timing of payments or revenue flows from infrastructure projects. Most often, a P3 converts the initial cost associated with a project into a flow of payments over time. From a strictly budgetary perspective, this means that governments can amortize their accounting for major capital expenditures over an extended period thereby hiding the financing costs in annual operating payments to the P3 operator.

In essence a P3 is a mechanism for borrowing money for public capital projects. But putting aside for the moment issues of ownership, control and profit, **P3s are a very expensive way for governments to borrow money**. Thus, the P3 model is in the long run more expensive for the taxpayers of Ontario and for the government itself. Due to the assurances that government can provide to lenders with respect to repayment, governments can borrow at significantly lower rates of interest than private corporations. Given that these financing vehicles typically cover a relatively long period of time even minor differences in interest rates can result in substantial differences in cost.

Without detailing all the complexities of financing, for our purposes it is sufficient to note that the cost factors are a major reason why we oppose P3s. In short, P3s are appallingly bad economics (see *Public-Private-Partnerships (P3s) and the Transformation of Government*, OFL policy paper, November 2005, for specific information on P3 financing).

There are other effects of P3s and they concern the altered method of production of public services. In this respect, a P3 is similar to both contracting out or complete privatization. Control of the production of a service is transferred to a private, for-profit organization. The public, formerly through what ever community specific bodies are associated with the service as well as through democratic government, no longer has any say over it. In our view this is a step backwards, not forwards. We favour people having more democratic control over things that impact upon them in their community and their valued services such as health care, not less.

Finally, with P3s and other forms of privatization the service is no longer delivered by public employees with decent wages and benefits, but rather by employees of a private provider and in our experience this usually means lower wages, lower benefits, poorer working conditions, and of course, no union.

Thus, as a society we end up with higher costs to the public, little to no democratic control over the operation and poorer income and circumstances for employees all for ideological and budgetary reasons. We firmly suggest that this is not the road we want to go down.

The Ontario Federation of Labour (OFL) strongly urges the McGuinty Government to drop its P3/privatization proposals and positively act to address a number of pressing issues in the health care sector inclusive of the substantive understaffing of health care workers. Political spin aside, the government has the resources to do so. The *Ontario Alternative Budget*, 2005, notes that:

> Contrary to the explicit premise of the government's approach, health care costs in Ontario are not spiralling out of control. Provincial program spending on health care has fluctuated in a narrow range of between 5% and 6% of GDP over the last ten years.

A May 30, 2005 report entitled *Response to OHA's Rebuttal of Ability to Pay: A Review of Trends in Public Finance for Ontario's Hospitals Economic Analysis for 2004/05 Round of Bargaining with the Ontario Hospital Association and Incorporation of the Province of Ontario's 2005 Budget,* prepared by Armine Yalnizyan supports the notion that there are sufficient funds.

> There remains $1,136 billion in revenues that are dedicated to health care but as yet unallocated in the Province of Ontario up to March 31, 2008. Further, there is a historical pattern of "finding" new funds in the public purse over the course of the year particularly for the hospital sector.

A report released by the Ontario Federation of Labour in October 2005, entitled *Understaffed and Under Pressure - A Reality Check by Ontario Health Care Workers*, calls on the Ontario government to:

- Declare an immediate moratorium on layoffs in hospitals.
- Establish a required minimum standard of 3.5 hours per day of nursing and personal care for residents in nursing homes for the aged.
- Establish required minimum standards for staffing with an appropriated complement of full-time workers in all heath care sectors.

Labour Law Reform:

With Bill 144 the government finally made some changes to the Mike Harris/Ernie Eves regressive labour law amendments. Decertification posters are no longer to be posted in unionized workplaces, interim relief is again available under the *Act* for workers terminated during an organizing drive. The Ontario Labour Relations Board (OLRB) has again been given the authority to certify a bargaining unit without a vote under certain circumstances wherein the Employer had grossly violated the law and intimidated employees such that their true wishes regarding unionization could not be determined by a second vote.

While literally dozens of regressive amendments to labour legislation occurred under the former Conservative government these changes of Bill 144, while few in number, are significant and the OFL supported each of them. They move labour legislation back in the direction of fairness.

There was one major omission in Bill 144. A further amendment which would greatly assist the fairness and equity in the industrial relations system that was only partially addressed. This concerns the issue of card-based certification. The card-based system for selection of a union is prevalent in most Canadian jurisdictions and ensures much more effective freedom of association. Card-based certification was in effect for decades in Ontario and endorsed under previous Conservative, Liberal and NDP governments. Where a clear majority of employees (55%) indicated that they wished to be represented by a union by signing a union membership card, the Ontario Labour Relations Board (OLRB) would certify the union as the bargaining agent.

The mandatory vote system, which the previous Conservative government imposed on industrial relations in Ontario, with no independent study and no meaningful consultation, abolished this cornerstone of our industrial relations system. By its nature the mandatory vote system leaves employees vulnerable to employer coercion and unfair labour practices so they cannot fully and freely express their true wishes. At the very least, employers use the five day period between the application for certification and the vote to campaign against unionization. The right of employees to select the union of their choice is thus often thwarted. The card certification system eliminates this major problem.

Yet only the building trades unions had card-based certification restored, leaving the vast majority of unions (industrial, public and broader public sector unions) still having to use the vote system. In our view, good, fair, industrial relations fosters productivity and economic growth. We therefore ask the government to revisit the issue of card certification and extend it to all workers seeking to unionize.

Poverty and Homelessness:

Government budgets and the consultation process that enables parties to express their views to the government of the day allows one to metaphorically step back from the details of everyday life and view the “big picture”. That is, to examine the general nature of the economy and life in Ontario society as a whole. What stands out most dramatically when one engages in such an exercise, is the growing inequality plaguing our society and at the same time the gap between the government’s policy and this reality.

Back in 1995 when the current Liberal party was in opposition and the Harris Conservatives were elected to government the latter’s first major policy change was to slash the social assistance benefits by a whopping 21.6% and to freeze benefits for recipients of disability benefits. To say that these cuts made life substantially more difficult for those most in need would be an understatement. Indeed, the cut and the freeze that followed it came to symbolize the cruel attitude of the Harris Government to those less fortunate. These substantially cut benefits remained frozen for the entire Conservative mandate.

Surprisingly to many, the reality of the McGuinty Government is that **social assistance rates are in real terms lower today than when they took office**.

Elected on the rhetoric of change the Liberal Government has failed to provide a better life for those most in need. Families and individuals who depend on benefits from Ontario Works and the Ontario Disability Support Plan (ODSP) are worse off today than they were when the Conservatives were thrown out of office. A more detailed picture and data on the Ontario Works rates, the ODSP rates and the Ontario CPI can be found in the Technical Paper #1 of the Ontario Alternative Budget 2006. Indeed, the depths of poverty and homelessness are so profound and pervasive in Ontario that we have attached this paper and its data charts in the hopes that increased documentation of the issues concerned would lead to decisive action (see Appendix 1).

While the poorest in our society live far below the poverty line so do thousands of workers existing on a minimum wage that despite annual 30 cent increases, during the government's mandate, maintains earnings of under what Statistics Canada terms the Low Income Cut Off (LICO), popularly know as the poverty line.

We have a generation of working immigrants and women trapped in minimum wage jobs.

We have a generation of children who are missing out on the opportunity to thrive because they don't have access to quality, affordable early childhood education.

We have a generation of students from middle-income families who are forced to avoid the high cost of post secondary education by opting out.

We have a generation of teenagers who have grown up in poverty and see no hope for the future.

We have a generation of newcomers and immigrants to Ontario who face rising rates of poverty because of inadequate job training, accreditation for overseas education, and a lack of services.

We have a generation of contingent workers – part-time, casual, contract, and self employed own account (without employees) – who have yet to secure full-time employment.

We have a generation of full-time workers working at minimum wage who have yet to experience work that enables them to earn an income above the poverty line.

This is no time for token measures. Ontario's failure to deal with deepening poverty costs us. It puts a greater burden on our health care system. It reduces our economic potential. It spawns neighbourhood poverty. It feeds crime in our cities. It hurts people: immigrants, women, people of colour, seniors, children. Wasted time means wasted lives. It's time for this government to get serious about fighting poverty.

We can't afford poverty.

Conclusion

We ask the Government of Ontario to seriously consider our proposals on pension reform, on the need for controlling electricity costs and developing an industrial strategy in the forest industry seriously. There is no reason not to move on these issues. The issue of P3s and privatization generally is not only far more costly to the people of Ontario and extremely disruptive to the workers involved, but also runs counter to the values of Ontarians. The government should directly borrow the monies needed and keep hospitals and all other valued services in the public sector with adequate staff levels. The issue of card certification is a major one for the trade union movement, to reinstate it for the building trades only is highly misguided. Finally, we ask you to move beyond the to-date token efforts extended to address the issue of poverty.

Respectfully Submitted,

ONTARIO FEDERATION OF LABOUR

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APPENDIX 1

Technical paper #1
Ontario Alternative Budget 2006
Hugh Mackenzie

Destination unknown – the McGunity Government past the half-way mark

When the Ontario Liberals were running for office in 2003, it was a challenge to figure out where a McGuinty Government would be heading after it took office. The campaign was about rebuilding public services fundamentally weakened by nearly a decade under Conservative premiers Mike Harris and Ernie Eves and about restoring a sense of decency in public policy in the province. But the campaign also featured supposedly iron-clad promises to balance the budget without any tax increases in every year of the new government's mandate.

Because it was so obvious that these two sets of promises were incompatible, the campaign gave little indication of where the new government would actually be heading once it took office.

The first, most obvious and most celebrated casualties were the iron clad commitments on taxes and the deficit. The promise to balance the budget in every year was replaced by a commitment to balance by the last year of its mandate. And the no-tax-increases commitment was replaced by a health "premium" that amounted to the most regressive change in Ontario's personal income tax since Mike Harris's decision to reduce taxes on capital gains.

Since very few observers had expected the government to be able to deliver on these commitments, beyond the predictable expressions of political outrage, no-one was particularly surprised.

The government's record on the public services front is more of a mixed bag.

In the wake of the Rozanski report on funding for elementary and secondary education, the Eves government had already begun to renew funding for school boards. And while the McGuinty Government has notably not addressed the basic structural and policy problems with the funding formula for education, the government has allocated additional funding each year to support its own priorities.

Thus, the government has provided increased funding to reduce class sizes, the funding formula still does not provide boards with enough money to pay the teachers they are legally required to employ. Similarly, the government has put up billions in new funding to address the deteriorating physical infrastructure of the school system, but has not addressed the underfunding of school operations that created the problem in the first place.

In postsecondary education, it has followed the recommendations of the Rae task force and set out a schedule for increased funding for colleges and universities over the next few years. But it has developed a bad case of amnesia when it comes to student tuition, ignoring the fact that tuition more than doubled during the years that Harris and Eves were in power and accepting current levels as a floor for future increases, beginning in the 2006-7 academic year.

In health, the government's twin commitments to put all of the proceeds of the health premium and all increases in federal funding for health into the health care system has resulted in substantial increases in overall funding for the system. However, the government has done little to change the system itself. The home care system is still fragmented, still privatized, still a shambles.

The government has backed away from the conflict with major entrenched interests in the system: physicians, hospitals and private long-term care facility operators that would be inevitable if real reform were attempted. It is one of the last jurisdictions in Canada to move to a regional model for health services delivery, but has done so in a way that actually reduces system accountability. After attacking the P3 model for capital financing, it has adopted an approach that is indistinguishable from that of Harris and Eves – one that will drive health care capital costs through the roof.

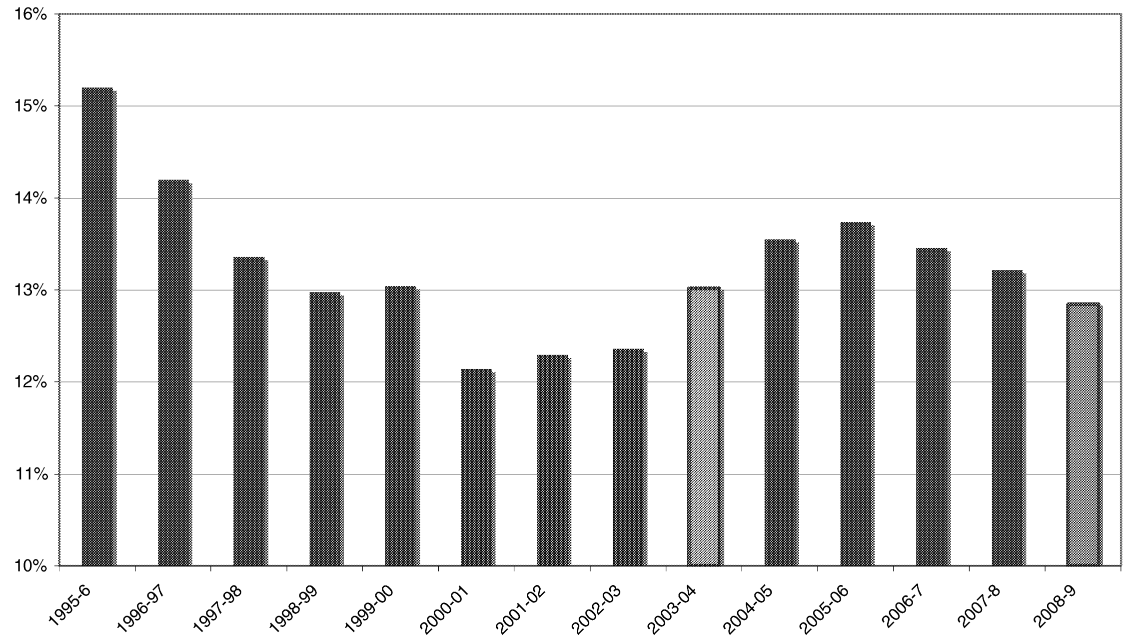
Funding has increased substantially. But we are missing an opportunity to use that increased funding to make the system work better for people.

If one looks only at these specific high-profile areas of public policy, it would appear that the government is making good on its promise to rebuild Ontario's public economy in the wake of the Harris and Eves governments.

Look at the aggregate numbers, however, and the picture that emerges is totally different. One of the hallmarks of the Harris and Eves governments was an overriding goal of reducing the size of government.

Chart 1 shows provincial program spending as a share of GDP in Ontario from 1995-6 to 2005-6, with projections to the end of the McGuinty Government's planning horizon.

Progam and capital spending as share of GDP, Ontario



The government's current fiscal plan would result in program spending dropping to 12.8% of GDP by the end of its planning period in 2008-9 – lower than it was in the last budget year for the Eves Conservative government.

If the Harris and Evens Governments were about reducing the size of government, the record to date indicates that the McGuinty Government is about consolidating the cuts to government services imposed under the Harris / Eves regime.

How is that possible, given the evident increases in funding in key areas? While the government has moved forward on some of the priorities it identified in the election campaign, it has done little or nothing to address public services gaps in other areas.

For all of its talk about fiscal imbalance, the government has done nothing to address the problems created for local governments by the downloading of provincial services to the local tax base. It has done nothing to support public transit beyond allowing federal funding to flow through to local governments. The government has talked a great deal about meeting the needs for infrastructure renewal, but in concrete budgetary terms, it has done nothing beyond making itself into an even bigger booster of privatization through P3s than its predecessor. And beyond a couple of high-profile moves like the creation of the green belt around Toronto, there has been no progress on environmental issues whatsoever.

The most telling gap between rhetoric and reality, however, is in the government's policies to deal with poverty and homelessness. When it was in opposition, the Liberals were quick to attack the Harris and Eves governments for their decisions to cancel Ontario's affordable housing programs and to download responsibility for an ageing public housing portfolio onto local governments without adequate compensation, and for those governments' savage treatment of people forced to rely on social assistance, yet nothing has been done in housing beyond finally allowing federal housing dollars to be spent in this province.

The situation with respect to social assistance is even worse. The first major policy announcement of the Harris Government – less than six weeks after it took office – was to slash social assistance benefits by 21.6% and to freeze benefits for recipients of disability benefits. The initial cut, and the freeze that followed it, came to symbolize the attitude of the Harris Conservatives towards the less fortunate in this province.

Those reduced benefits remained frozen for the entire period of Conservative government.

Shockingly, however, social assistance rates are lower today – in real terms – than they were when the McGuinty Government took office.

Charts 2, 3 and 4 illustrate.

Chart 2

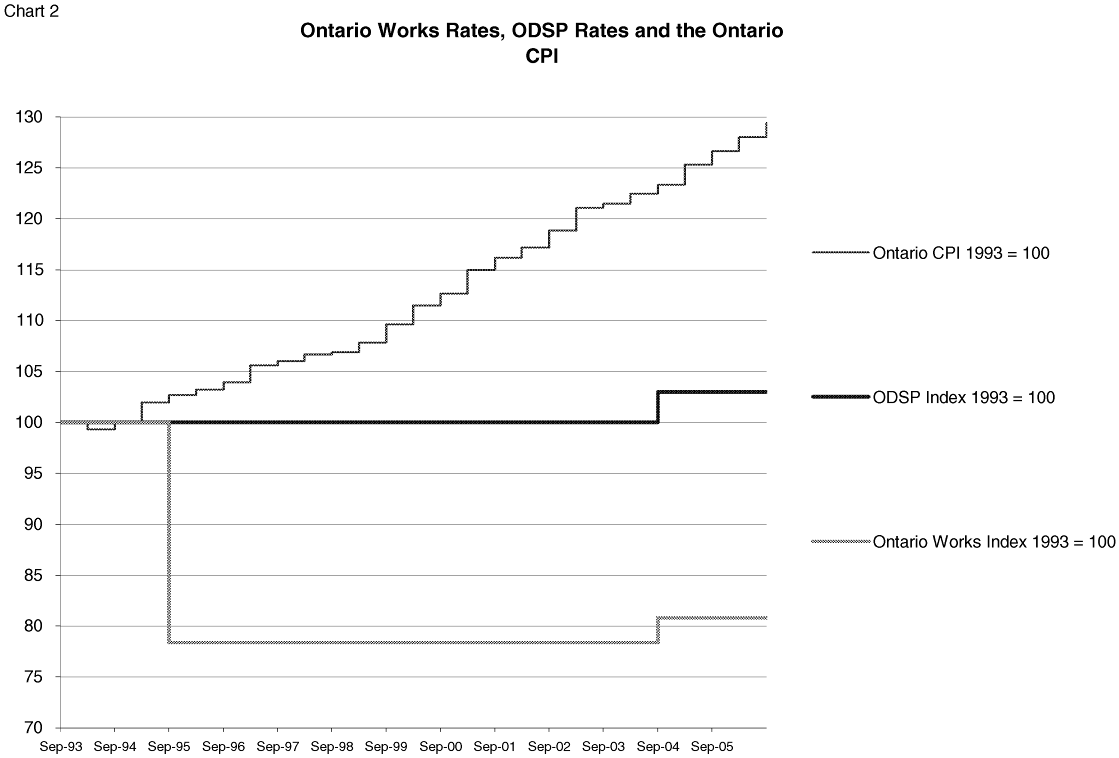


Chart 2 shows Ontario Works and ODSP rates since 1993, compared with the Consumer Price Index for Ontario.

Chart 3

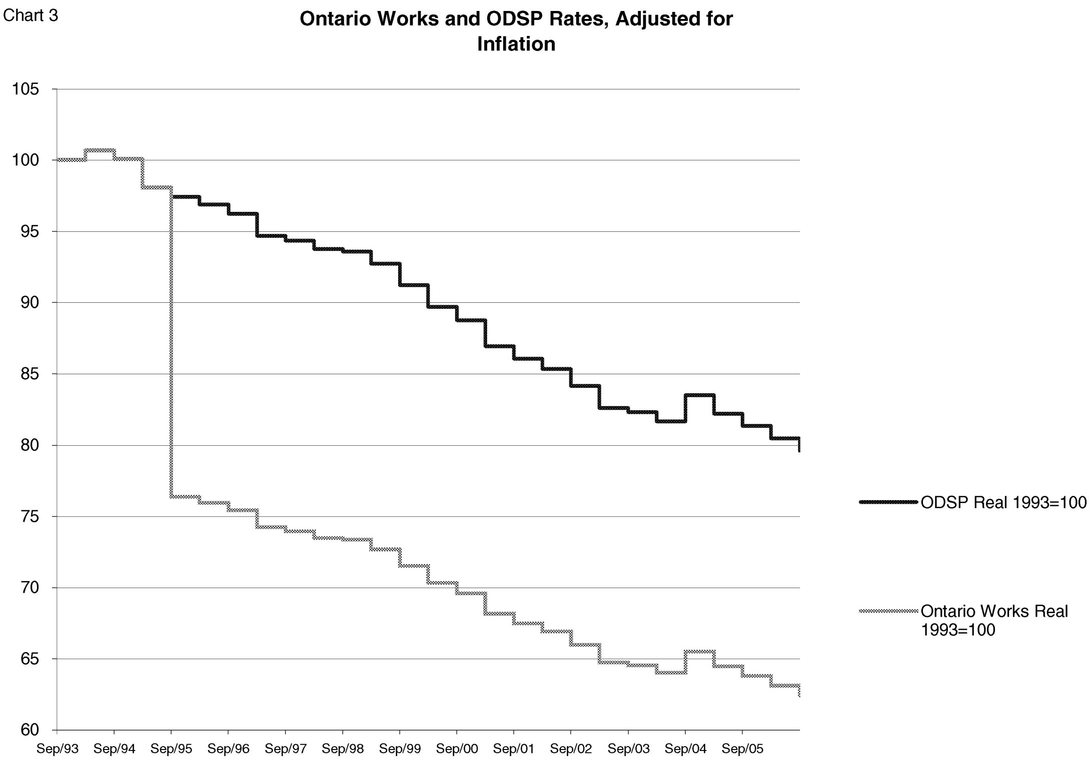


Chart 3 shows Ontario Works and ODSP rates since 1993, adjusted for inflation.

Charts 4 and 5 present the same information in a form that highlights the abject failure of the McGuinty Government to address the financial crisis visited on Ontario's most vulnerable families and individuals in the Harris-Eves era.

Chart 4 shows the percentage increase in Ontario Works benefits that would have been required to restore those benefits to their 1993 real value, in each year since 1993. It shows clearly that Ontario Works benefits are further behind inflation now than they were at the time of the election in September 2003.

Chart 5 shows the percentage increase in ODSP rates that would have been required to restore their 1993 real value, for each year since 1993. Again, the data show clearly that Ontarians dependent on ODSP benefits are worse off today than they were when the McGuinty Government took office.

Chart 4

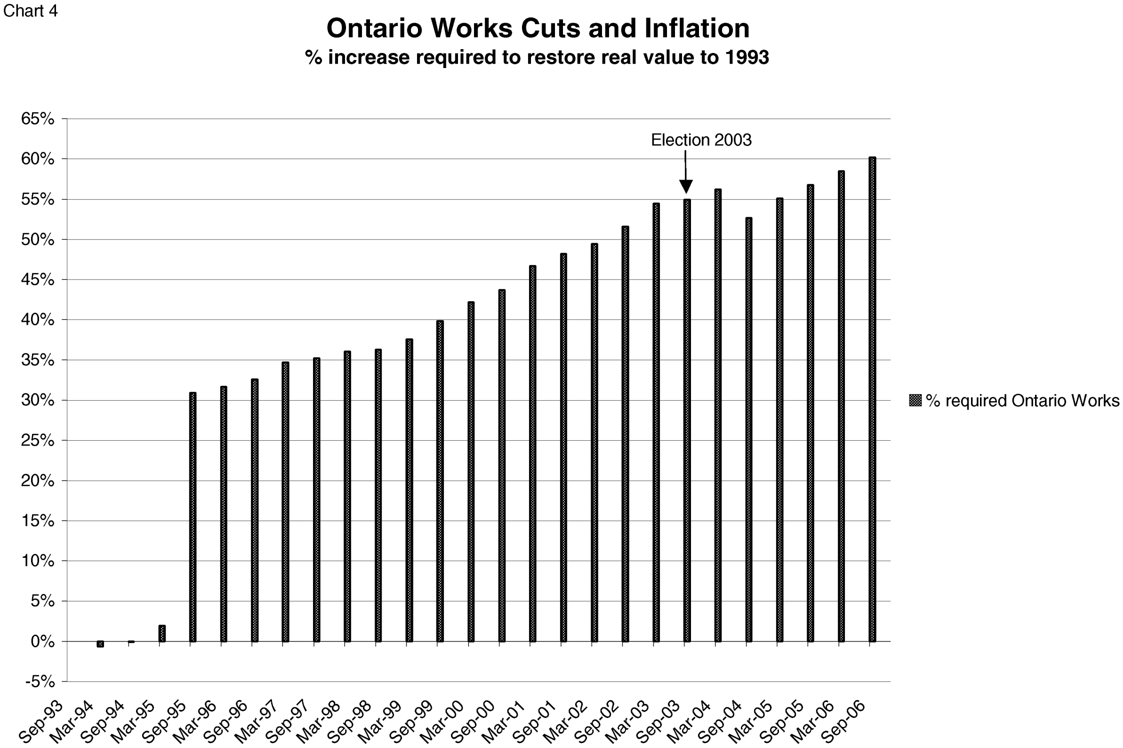
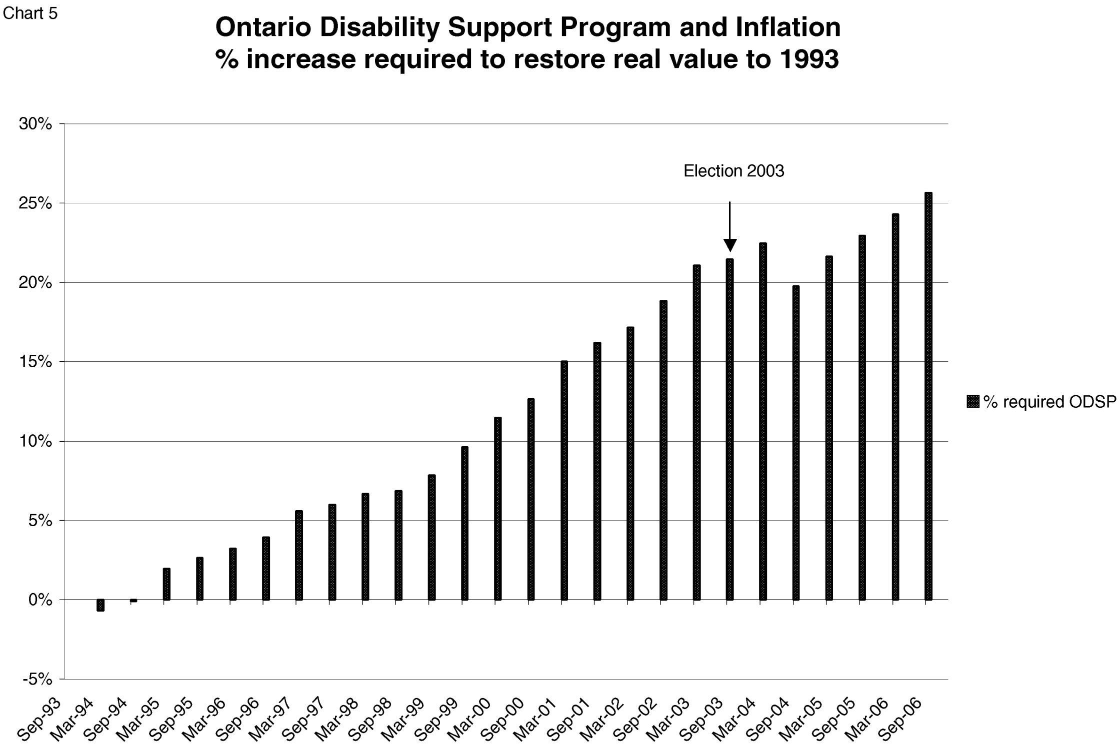


Chart 5



That bears repeating. Families and individuals who depend on benefits from Ontario Works and the Ontario Disability Support Plan are worse off today than they were when the Conservatives were defeated.