



**Submission to**

**The Standing Committee on  
Finance and Economic Affairs  
Pre-Budget Consultations**

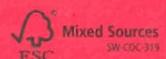
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**February 2, 2010**



**ONTARIO FEDERATION OF LABOUR (CLC) • FEDERATION DU TRAVAIL DE L'ONTARIO**

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## **INTRODUCTION**

The Ontario Federation of Labour (OFL) represents over a million workers in Ontario. Our members work in hundreds of occupations -- from government employees to construction workers; from nurses to manufacturing workers.

The combined strength of all members of all the affiliated unions stands behind each of our members. The OFL is the collective voice of union members on issues relevant to working people – from labour relations to health care to economic policy.

The OFL is pleased to be making this pre-budget submission to the Standing Committee on Finance and Economic Affairs. We are concerned that this committee will be hearing that this budget should focus on deficit reduction. Given the fragility of the economic recovery and continued high unemployment, Ontario's 2010 Budget must focus instead on job creation.

## **BACKGROUND**

### **Fragility of the Economic Recovery**

There is a consensus among mainstream economists that governments' fiscal and monetary policies pulled us back from the brink of a prolonged economic downturn, depression or economic collapse.<sup>1</sup> Stock markets are recovering and financial markets have stabilized. However the rest of the economy and in particular the labour market, remains in crisis. Now that Bay Street's needs have been met, we should not forget the lessons about the importance of the role of government to regulate and stabilize economic activities.

In their forecasts, major bank economists agree that the recovery is fragile and dependent on continued government intervention. In recent forecasts, they are predicting stronger growth in the first half of the year; but a slowdown in the 2<sup>nd</sup> half as the impact of stimulus spending is withdrawn, and there is potential for increasing interest rates.<sup>2</sup>

### **There is No Real Recovery until the Labour Market Recovers**

The economy has stabilized and economists are saying that the recession has ended. However, too many Ontarians continue to face the financial and emotional costs of unemployment, lower incomes and job insecurity. We lost more than 160,000 jobs last year and the unemployment rate rose from 6.5 per cent to 9 per cent.

Those “headline” numbers, large as they are, understate the extent of the deterioration in the working lives of Ontarians. The table below shows increases in precarious employment over the last year. While total employment sank, the quality of the remaining jobs also declined. Part-time, temporary employment and self-employment rose. At the same time, secure forms of employment fell.

<b>Increase in Precarious Employment: Ontario</b>	
change 2008 to 2009 (000s)	
Full-time jobs	-176.2
Part-time jobs	+10.7
Employees	-181.0
Permanent Employees	-201.3
Temp Employees	+20.5
Self-employed, unincorp; no paid help	+25.0
Source: Statistics Canada, Labour Force Survey	

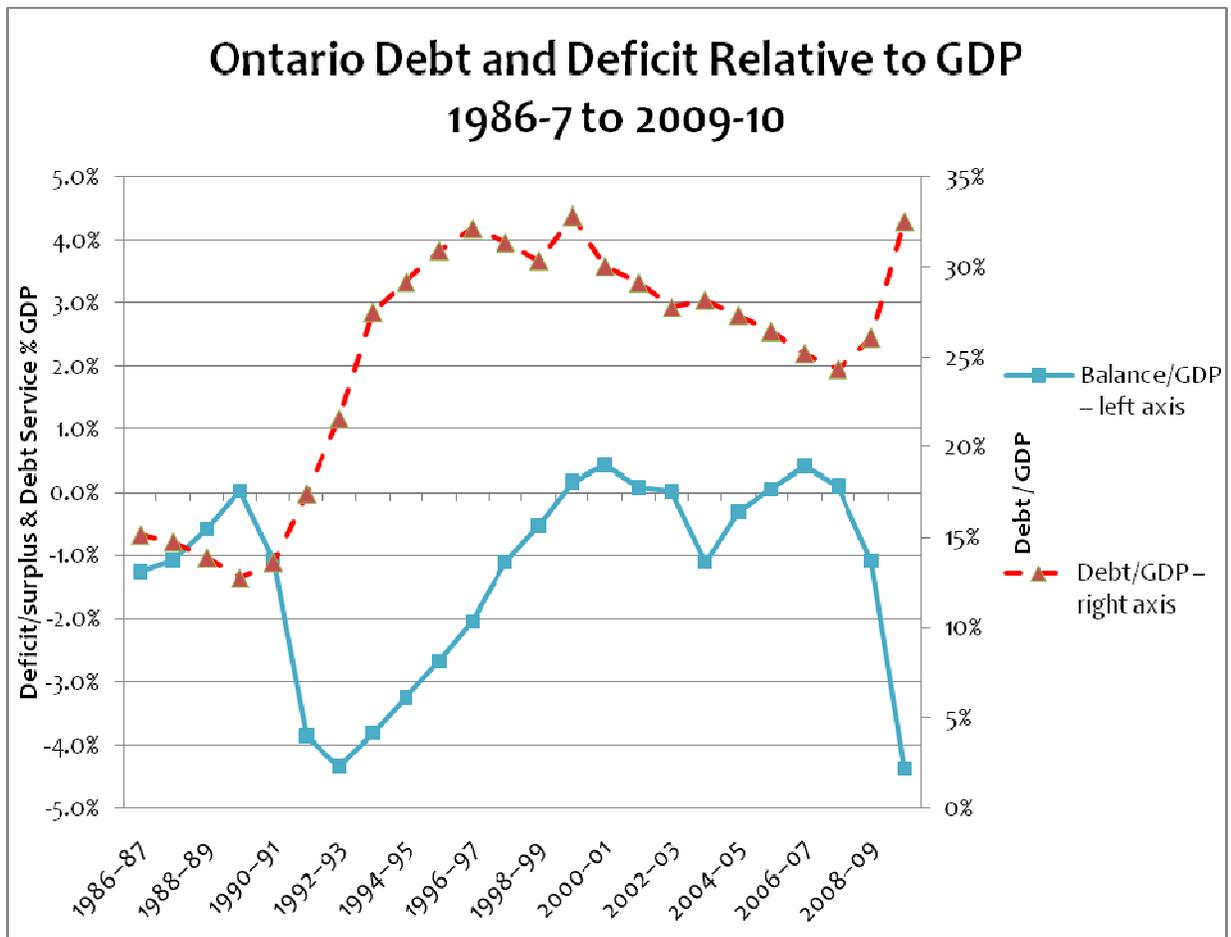
The limited data available shows that the negative labour market impact is more pronounced for racialized workers and immigrants. Census data shows that racialized workers are heavily concentrated in manufacturing, which has been hard hit by job losses.<sup>3</sup> In one recent 12-month comparison, job numbers were down 5.7 per cent for recent immigrants as compared to a reduction of 1.6 per cent for Canadian-born workers.<sup>4</sup>

### **The Government still has Fiscal Room**

The sharp rise in the projected deficit for 2009-10 to 24.7 billion from \$6.4 billion is of concern. However, the size of deficit must be put into context of the economic cycle. A cyclical deficit results from an economic downturn: tax revenues drop as corporate profits are eroded and people lose jobs and income; expenditures on programs like social assistance rise during hard times and governments implement infrastructure and stimulus programs. As the economy recovers tax revenues will rise, demands on government programs will moderate, and stimulus spending programs will be wound down. As a result, the deficit will be reduced.

The deficit must also be put in context of the size of the economy and our experience in previous recessions. Although deficit and debt-to-GDP levels have risen sharply over the last year, they are still at levels that are consistent with previous downturns.

- Forthcoming research from the Canadian Centre for Policy Alternatives shows that using conservative assumptions about the pace of economic recovery, we can expect the Budget to move back into balance within 5 to 6 years without government action of any kind.<sup>5</sup>
- This is consistent with findings about the federal government's fiscal path under former Finance Minister Paul Martin. The effect of the massive cuts to public services and social policy transfers imposed on provincial governments in the mid-1990s was to move the Budget into balance 14 months earlier than it would have had the government done nothing.<sup>6</sup> Canadians paid a high price for Mr. Martin's over-urgent response to the deficit, which included cuts to health, education and social assistance transfers.



The recovery is fragile enough that government must continue policies that will support it and ensure that the recovery in financial markets translates into a jobs recovery. The data and our previous experience show that the deficit is within historic norms. Focusing the Budget on getting Ontarians back to work is the most effective way to address both the deficit and the economic crisis.

#### **What Ontario Needs in the 2010 Budget**

##### **Continue to Support Private Sector Job Creation including Good, Green Jobs**

The Ontario government has provided important supports to industry in this economic crisis. Even during the economic downturn, these goods-producing industries accounted for more than 25 per cent of Ontario's GDP.<sup>7</sup> Ontario

manufacturing, a cornerstone of the economy, accounted for 17 per cent of the economy in 2008. These percentages understate the importance of these sectors in exports, supply chain linkages, technological intensity, and the spin-off benefits that go to other sectors. These industries are the foundations for much of the economic activity in Ontario and in particular for the communities in which they are located.<sup>8</sup> This sector will need continued support through strategic uses of infrastructure spending, education and training and procurement policies.

Ontario needs these industries. Moreover, we need to assist these industries to reduce their environmental footprint by increasing the sustainability of their processes and their products. All producers need to become more energy efficient, low polluting and use natural resources wisely to retain and expand their market share in the future. Government policies must support industries in making this transition to greener processes and products. The *Green Energy Act* provides a model of the kind of policy environment that supports this kind of transition. It set feed-in tariff rates at a meaningful level and includes procurement policies to support Ontario's industrial development.

The government should build on this effort by expanding this year's infrastructure investments in retrofit programs for public buildings, expanded transit infrastructure investments, and Property Assessed Clean Energy programs<sup>9</sup> to boost commercial and residential building retrofits. It should negotiate with the federal government to redirect more of this year's fiscal stimulus spending to these areas. The federal government has underinvested in green infrastructure investments. Research shows that only 8 per cent of federal stimulus spending was green as compared to 12 per cent in the US and 59 per cent in the EU.<sup>10</sup>

All of these programs should have a strong Buy Ontario component. This will build our industries and ensure that we get maximum value from the tax dollars that we spend.

### **Continue to Support Public Services**

The public sector is vital to our economic and social well-being. It provides public services all Ontarians need. Public sector jobs mean economic stability for families and communities at any time, but they are particularly important in hard times like these. To ensure that we do not undermine the recovery and lose more good jobs, we must allocate funding to support public services when Ontarians need them the most. Cutbacks hurt people, cost jobs and reduce economic activity. They run directly counter to the effects of other important stimulus programs already being implemented. If we are spending billions on infrastructure projects to stimulate the economy and create jobs, it doesn't make sense to cut billions out of public services at the same time. Cutting

public services can only undermine the good effects of the government's economic stimulus program.

### **Enhance Support for Employment through Training, Retraining and Support for Child Care**

A program of good jobs cannot be supported without improved access to child care, education and training. New infrastructure for workplace-based literacy, language and upgrading is crucial. This Budget must also increase funding for the Second Career program. This funding should be directed to increasing access to the program, eliminating means-testing for income support and ensuring adequate staffing for program delivery. Workers without jobs need services, including adequate funding for action centres. To improve access to jobs and reduce poverty, we need to ensure that social assistance recipients have access to Employment Ontario services.

Child care both creates jobs and facilitates employment and retraining. Currently, 7,600 subsidized childcare spaces in Ontario are in jeopardy. The government must invest at least \$64 million in child care to maintain existing service levels and recognize increases in operating costs. Funding must support both existing levels of child care services and the new services coming online.

### **Maintain the Government's Fiscal Capacity**

Given the province's fiscal situation, any measures aimed at increasing competitiveness must be the most effective possible use of scarce resources. In this regard, the plan to cut Ontario's Corporate Income Tax from 14 per cent to 12 per cent this year, and then to 10 per cent over the next three years, is a mistake.

Ontario has a very competitive corporate tax system. The Ministry of Finance has indicated that the goal of further cuts is not to *match* the combined corporate income tax rates of our Great Lakes state competitors, but to make Ontario's rate 15 percentage points *lower* than theirs.<sup>11</sup> However, competitiveness and investment location decisions are based on a wide range of factors including physical infrastructure, education level of the workforce and the quality of government programs such as health care that support investment. As a result, fiscal capacity to support these programs is an important component of the province's attractiveness as an investment location.

Furthermore, for American companies operating in Ontario, this policy change does not result in a decrease in corporate taxes paid on income earned in

Canada, but instead a transfer in tax revenues from Ontario to the United States.<sup>12</sup>

A further corporate tax rate cut would be an untargeted, ill-advised use of scarce resources. The planned corporate income tax changes should be reversed. Cancelling this tax cut would have no ill effect on the economic recovery and no fiscal impact in the short term, as the fall in corporate profits during the recession means that the amount of corporate income subject to taxes will be substantially reduced for the next few years.

Similarly, a fire sale of Ontario's assets, like Hydro, LCBO and OLG will not be in the long-term interests of the Province or its finances. The assets provide a stream of revenue. There are sound public policy reasons why they should remain under provincial control, ranging from health promotion to natural monopolies.

### **Ensure that the Recovery Provides Good Jobs**

The Ontario government has made progress on protecting vulnerable workers through amendments to the *Employment Standards Act* for workers who are employed by temporary agencies. It has also improved protections for live-in caregivers. However, these rights must be enforced. Last year's Budget made progress by increasing funding for enforcement by \$4.5 million out of a promised \$10 million. The 2010-11 Budget must follow through on the government's commitment to increase enforcement by providing the remaining \$5.5 million.

Ontarians are facing a 21<sup>st</sup> century labour market with 20<sup>th</sup> century legislation. Concurrent with the upcoming Budget, the government should commit to improving the *Employment Standards Act* and the *Labour Relations Act*.

Under the *Labour Relations Act*, these positive changes would include:

- Re-establishing card-based certification for all workers in Ontario.
- Re-establishing successor rights for unionized workers whose employers are contractors.
- Providing more protection for workers from reprisals and intimidation because of their union activities by increasing the penalties for unfair labour practices.

Under the *Employment Standards Act*, these positive changes would include:

- Expanding the definition of "employee" to cover all workers – including all those doing precarious work.

- Holding employers legally responsible for employment standards for both direct and indirect work, including workers hired through a temporary agency, as nominal sub-contractors, or on their own account.
- Guaranteeing that indirect and temporary agency workers receive the same working and employment conditions (including pay and benefits) that the client company provides to other workers doing comparable work.<sup>13</sup>

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- <sup>1</sup> See for example: *RBC Economics Provincial Outlook*. December 2009. Available at <http://www.rbc.com/economics/market/pdf/provfcst.pdf> See also Drummond, Don. "Residue of the Great Recession." December 23, 2009. Available at <http://blogs.reuters.com/great-debate-uk/2009/12/23/residue-of-the-great-recession/>
- <sup>2</sup> Reuters Canada, "Canada economists see growth risk in 2nd-half 2010." January 6, 2010. Available at <http://www.reuters.com/article/idUSN0615969120100106>
- <sup>3</sup> Statistics Canada - 2006 Census. Catalogue Number 97-563-XCB2006060.
- <sup>4</sup> *Globe and Mail*. "Immigrants take brunt of recession, recover less quickly." July 24, 2009. Available at <http://www.theglobeandmail.com/news/national/immigrants-take-brunt-of-recession-recover-less-quickly/article1231032/>
- <sup>5</sup> Mackenzie, Hugh. *Ontario Budget 2010: Deficit Mania in Perspective*. Canadian Centre for Policy Alternatives, forthcoming.
- <sup>6</sup> Ibid.
- <sup>7</sup> Ontario Ministry of Finance. *Ontario Economic Accounts*. Retrieved January 27, 2010 from <http://www.fin.gov.on.ca/en/economy/ecacct8/ecat8.html>
- <sup>8</sup> Stanford, Jim Stanford. (2008. November 14). Good Jobs Wont' Appear with out a helping hand. High value industries like the auto sector need support to create jobs vital to the economy. *The Toronto Star*.
- <sup>9</sup> Succinctly summarized by Tyler Hamilton of the *Toronto Star* at <http://www.thestar.com/business/cleanbreak/article/748956--hamilton-berkeley-s-radicals-spreading-heat-light> See also "Renewable Funding. As Obama speaks in Copenhagen, Property Assessed Clean Energy (PACE) programs spread across the country." December 16, 2009. Available at <http://www.ngenpartners.com/Files/Press%20Releases/RF%20PACE%20update%20121609%20FINAL.pdf>
- <sup>10</sup> HSBC Research "A Climate for Recovery: The Colour of Stimulus Goes Green" (25 Feb 2009)
- <sup>11</sup> Duncan, The Honourable Dwight. *2009 Ontario Economic Outlook and Fiscal Review*. Toronto: Queen's Printer, p. 75.
- <sup>12</sup> Weir, Erin. "Corporate tax cuts would hurt Canada." *The National Post*. November 18, 2009. Available at <http://network.nationalpost.com/np/blogs/fpcomment/archive/2009/11/18/counterpoint-corporate-tax-cuts-would-hurt-canada.aspx>
- <sup>13</sup> This is the principle of "equal pay for equal work" enshrined in Article 23(2) of the Universal Declaration of Human Rights and integrated into legally-binding European Union directives as the principle of non-discrimination.

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