

The background features a stylized map of Ontario in shades of green and blue, set against a bright yellow sunburst pattern. The word "Ontario" is written in a light green font at the top of the map. The main title is overlaid on the map.

Ontario

TOWARD A PEOPLE'S BUDGET

A GREEN PAPER

FROM THE

ONTARIO FEDERATION OF LABOUR



Toward a People's Budget

A green paper from the Ontario Federation of Labour

February 2013

For more information, and to become involved, please visit

www.thepeoplesbudget.ca



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Ontarians have a proud history of accomplishing great things when we work together for the common good: developing public schools that are the envy of the world, building a province-wide network of community colleges, and creating institutions such as TVO and TFO, to name just a few.

In challenging times we have turned to each other, sought refuge as members of a community who share common values and a commitment to helping those who are struggling. We have done this by relying on the old adage that we are stronger collectively, that we can accomplish more together than any one of us can on our own. This idea is at the very heart of government.

We must call on this same resolve today, for these are uncertain times in Ontario. Many families are struggling. Proud men and women who have been the casualties of corporate layoffs or public sector job cuts have to make difficult choices, such as the choice between paying for housing or paying for food. Recent graduates who once brimmed with optimism have felt that optimism wane under the weight of exorbitant student debt and few career prospects. Seniors who dedicated a working life to once powerful corporations or dutifully saved through RRSPs have had their trust – and their incomes – eroded by the poor, and sometimes fraudulent, decisions of others. Those trapped in a perpetual cycle of poverty are finding fewer reasons to hope they will be able to improve their situation.

It is time to change the conversation about Ontario's future

The next provincial budget presents an opportunity for Members of Provincial Parliament to demonstrate bold leadership. Unfortunately, this necessary leadership has been missing, lost amid a stagnant economy that is having a regressive influence on many Ontarians and a political discourse dominated by voices calling for even harsher austerity measures.

It is time to change the conversation about Ontario's future. We may begin this change by challenging some of the more common myths that served as the foundation for the 2012 Ontario Budget. Ontario cannot afford a budget based on myths.



Myth 1

The government can no longer afford to deliver the same level of services to Ontarians

While it is true social spending increased in many areas under the Liberal government, following the Conservative government of 1995-2003, the real story is the obsessive zeal with which the Province pursued personal and corporate income tax cuts, starving the treasury of badly needed resources. In fact, these tax cuts have left a gaping \$15 billion-per-year hole in potential annual revenue that could be put toward improved public services. These choices, combined with less generous transfer payments from the federal government, have resulted in once-proud Ontario trailing the country in a number of key measurements of a fair and just society. Consider the following:

- » 40 per cent of Ontarians – over 600,000 families – are struggling with incomes that are stagnant or declining, and Ontario's poverty rates are rising faster than almost every other province.
- » Between 1981 and 2010, Ontario had the second-highest increase in poverty in the country (*Source: Lars Osberg and Andrew Sharpe, Centre for the Study of Living Standards, Beyond GDP: Measuring Economic Well-Being in Canada and the Provinces 1981-2010 (September 2011)*).
- » With more than 152,000 Ontario households on wait lists for assisted housing, Ontario has the worst record of all provinces in affordable housing investments. In 2009, Ontario spent \$64 per person on affordable housing, compared to the average among all provinces of \$115 per person (*Source: Michael Shapcott, Wellesley Institute (March 23, 2011)*).
- » Ontario now provides less funding for public programs and services – from health care to education, from justice to disability benefits – than any other province in Canada (*Source: Ontario Ministry of Finance, Ontario Budget 2012*).

This underfunding of public services is especially bewildering given the positive economic contribution of public service spending. The Centre for the Study of Spatial Economics, in its report *Budget 2012 and the Public Sector's Contribution to Ontario's Economy*, uses Statistics Canada research to calculate the economic value of public services. It found that for every provincial government dollar spent on services such as health or education, 87 cents is added to Ontario's gross domestic product (GDP). Contrast this with just 61 cents of value added to the GDP for each dollar of private-sector company spending on machinery and equipment.

Make no mistake, we are still paying – but rather than sharing costs proportionally based on income, Ontarians who can most benefit from public programs, yet least afford to pay for them directly, are paying higher user fees while receiving reduced services.



Myth 2

Cutting the deficit will grow the economy

Cutting our way to economic growth failed as a budget strategy in the 1930s and it will not work now. Referring to the current deficit obsession in the United States (which is similar to our own), Nobel Prize-winning economist Paul Krugman has said the deficit is a “side-effect of an economic depression, and the first order of business should be to end that depression — which means, among other things, leaving the deficit alone for now.”

The “cut it and they will come” mantra sounds eerily similar to the drive to cut corporate taxes in Ontario over the past many years, to the effect that the province is now one of the lowest tax jurisdictions in North America. Yet there is no evidence to suggest corporations are repaying this bounty through investments in Ontario to stimulate economic growth and create new jobs. In fact, as Bank of Canada Governor Mark Carney lamented last summer, corporations are hoarding money rather than investing it.

If the private sector is not spending money and governments slash public sector spending, where will the growth come from? If there are not enough Ontarians with the means to purchase goods and services the businesses providing those goods and services, and their employees, will suffer too. This fundamental concept, which no less a capitalist than Henry Ford grasped, is ignored at the government’s, and the province’s, peril.

Cutting our way to economic growth failed as a budget strategy in the 1930s and it will not work now

Myth 3

The experts are never wrong

The political conversation in the province of Ontario is dominated by what is colloquially called the “austerity agenda.” This agenda is advanced most forcefully by foreign credit rating agencies, in spite of a severely diminished level of credibility following their role in the 2008 global financial meltdown. These credit rating agencies have no direct public accountability and many are aligned with – and in the case of Standard and Poor’s, owned by – large multinational corporate interests.

In fact, a large majority of Canadians who hold a Chartered Financial Analyst designation (71%) believe credit rating agencies such as Moody’s Investors Service, Standard & Poor’s, Fitch Ratings and DBRS contributed to the financial crisis, according to a 2011 *Globe and Mail*–CFA Institute survey. Moreover, more respondents found debt ratings to lack credibility (30%) than those who found them sound (24%).

Yet it is not just credit rating agencies who are advocating austerity. Many Canadian corporate voices – including those in the financial services industry – are continuing to publicly lobby for severe public spending cutbacks while failing to acknowledge the economic impact such cuts can have on economic growth. The International Monetary Fund (IMF) was recently forced to make just such an acknowledgement in its paper *Growth Forecast Errors and Fiscal Multipliers*. Referring to austerity measures in advanced European economies such as Greece, the IMF concluded, “in advanced economies, stronger planned fiscal consolidation has been associated with lower growth than expected.”

Before Ontario strips away cherished, effective public services, it is worth further examining the credibility of its most influential advocates and ensuring all Ontarians have a say in the future of their government.

Myth 4

Everyone is being asked to do their share to reduce the deficit

This is an equitable idea with no basis in reality, as lower-income families have been paying more than their fair share already. Consider that last year's Ontario Budget maintained corporate tax cuts while delivering hundreds of program and service cuts that hurt Ontario families, particularly children and the most vulnerable citizens.

There were cuts to public education and health care. Public sector employees, including daycare workers and school maintenance workers, were singled out and risk having new labour contracts imposed on them. Some arts program funding was eliminated, money to support environmental initiatives was

reduced, benefits and services for injured workers were cut, and badly needed infrastructure funding was delayed. Ontarians relying on social assistance, public housing, and other supports saw their circumstances worsen in real terms.

At the same time, a modest proposal to raise income taxes on Ontario's highest income earners was bargained down to a two per cent increase on only individuals earning more than \$500,000 per year (a measure supported by 78% of Ontarians according to a Forum Research poll), with a stipulation directing all revenue raised from the new tax to the deficit.

Beyond the myths

Once we look beyond these myths and challenge the political and corporate conventional wisdom of what can and cannot be included in the next provincial budget, new possibilities arise. A People's Budget would address real issues concerning Ontarians, such as these:

SPURRING GROWTH AND JOB CREATION

Hard-working Ontarians want an opportunity to participate in, and contribute to, a sustainable economy that benefits all of us. Yet their best efforts are not being rewarded. Consider this fact, revealed in *The Relationship between Labour Productivity and Real Wage Growth in Canada and OECD Countries* from the Centre for Study of Living Standards: "Between 1980 and 2005, the median real earnings of Canadian workers stagnated, while labour productivity rose 37 per cent."

Recent plant shutdowns, and job growth limited to part-time and temporary work, are having a chilling

effect on economic growth and putting further strain on our public services. There is absolutely a role for the government to play – especially in difficult economic times – in spurring activity and helping to facilitate new jobs.

The Jobs and Prosperity Council specifically highlights the need for a comprehensive manufacturing strategy in its report *Advantage Ontario*. A comprehensive industrial strategy with a focus on research and development that leverages the province's academic institutions and skilled workforce is an essential and overdue first step to Ontario's maintaining its economic competitiveness and standard of living. The Province should also weigh opportunities to exploit lower electricity rates as a tool for economic

Hard-working Ontarians want an opportunity to contribute to a sustainable economy that benefits all of us

development, carrying on the tradition of Ontario Hydro. The Province can also build on and expand its successful model of partnerships, including with the Centre for Research and Innovation in the Bio-Economy, which is working to promote the bio-wood industry in Northern Ontario. Further public partnerships with constituencies such as First Nations communities to share in the development of natural resources could lead to even greater success.

But first the Ontario government must respond to external threats to its capacity to nurture manufacturing industries in this province. Modest measures to encourage “Buy Ontario” procurement policies for municipal infrastructure development and to foster green energy job creation need to be pursued as part of efforts to “re-shore” Canadian companies. These sectors of the economy are ripe for growth and contribute positively to the province’s social and environmental well-being. There is a wealth of research to indicate that the Province’s infrastructure deficit and the looming impact of climate change demand a pro-active government response. These are not only public policy priorities that must be addressed; they are also long-term economic stimulus opportunities.

In fact, the government needs to embrace a green jobs strategy with renewed vigour, building on its efforts to date. As other jurisdictions across the country and around the world begin to respond to the demand for renewable energy and more efficient water systems with their own home-grown industries, Ontario cannot afford to lose out on or mismanage this economic growth opportunity. In fact, energy efficiency initiatives could double as an economic stimulus if the provincial government would consider small financial loans to homeowners to make energy efficiency retrofits more affordable.

ADDRESSING INCOME INEQUALITY

Over the period stretching from 1981 to 2012, Ontario experienced the largest change in income equality anywhere in Canada; in percentage terms this came to 17.2 per cent. (Source: Lars Osberg



and Andrew Sharpe, *Centre for the Study of Living Standards, Beyond GDP: Measuring Economic Well-Being in Canada and the Provinces 1981-2010* (September 2011).) In a wealthy province such as Ontario, this is unacceptable.

Income inequality has consequences that extend far beyond the devastating personal impact on individuals and families living in poverty. For example, the social determinants of health can be negatively affected by income inequality, leading to greater usage of health services at an increased public cost. Further, there is an economic cost to the province if it is unable to leverage the maximum contributions of all members of society – from a single-parent or low-income family requiring affordable day care so they can work, to opportunities for skilled immigrants to enter the workforce.

Real economic growth must also lift all boats. The reality is too many workers – temporary foreign workers, new Canadians, students – are at risk of being exploited. There is dignity in all work, but the proliferation of part-time, service industry jobs means government has to ensure fairness in the workplace for those individuals contributing to the economy but

Over the period stretching from 1981 to 2012, Ontario experienced the largest change in income equality anywhere in Canada

not being fairly rewarded. Increases to the minimum wage, protections for migrant workers, and support for trade unions are all part of a necessary recipe to ensure shared economic growth.

To effectively address – and reverse – Ontario’s growing income inequality epidemic, the Province needs to consider policies specific to unique constituencies, among them greater pension protection for seniors, more supportive housing for people with mental and physical disabilities – and expanded affordable housing generally, additional daycare spaces for single-parent and low-income families, lower tuition for post-secondary education students, and greater opportunities for new Canadians to enter the workforce.

PRESERVING PUBLIC SERVICES

A strong economy requires effective public services to ensure stability – consider the basic necessity of fire, police, ambulance, education, health and justice services to maintain peaceful, functioning communities.

A strong economy requires effective public services for stability

Ontarians and Canadians receive a tremendous, quantifiable benefit through access to public services as well. As the Canadian Centre for Policy Alternatives noted in its 2009 study *Canada’s Quiet Bargain: The Benefits of Public Spending*: “Looking at Canadians in median income households, their benefit from public services amounts to \$41,000 — equivalent to roughly 63% of their total income.”

Clearly this is a benefit worth preserving. Yet politically motivated attacks on the value of public services continue. Ontario is better than this. Access to services that allow an aging widow to live comfortably in her own home or a laid-off worker to be retrained for a new job or a racialized student to attend university benefits not just the immediate recipients of these services, but whole communities. At a time when many Ontarians are suffering, and relying on public services

is not a choice but a necessity, it would be the worst kind of short-term thinking to cut back these services.

Finally, it is simply not enough to have public services: Ontarians deserve public services of the highest quality, the kind delivered by dedicated public sector workers and professionals who are respected by their government employer, not bullied and treated as scapegoats.

FAIR TAXATION

We cannot have a serious discussion about our province’s finances without addressing revenue. After years of massive tax cuts that benefited wealthy Ontarians and corporations the most, Ontario is losing out on \$15 billion worth of revenue. Further, as Auditor General Jim McCarter noted in December, the provincial government is writing off \$1.4 billion in unpaid taxes. This is no longer sustainable.

Last spring saw a concerted campaign by a group called Doctors for Fair Taxation, who made the important point that fair taxes were consistent with a just and prosperous society. In fact, the group noted that in the 1960s when the marginal personal income tax rate was at its highest, the province and country enjoyed record economic growth.

The province must consider new revenue tools that bring balance and fairness back to Ontario’s taxation system. For a sustained period, the wealthiest among us and rich corporations have been contributing less than they are able, with negative consequences for public services and government budgets. Now is the time to look at reasonable tax increases – and the closing of tax loopholes – for Ontario individuals and corporations that have disproportionately benefited from economic gains and tax cuts.

Moving forward

While the evidence against the rationale behind the austerity agenda mounts, we should also not ignore its incompatibility with the values that have defined Ontario for generations: our empathy, tolerance and commitment to fairness.

It is time for a budget that reflects the ideas and hopes of hard-working Ontarians, not discredited credit rating agencies; a budget that restores the principle of fairness in our taxation system; a budget focused on jobs and economic growth, not austerity; a budget that puts people first.

Over the next several weeks the People's Budget campaign will be holding community consultations in nine cities across the province to gather feedback on this green paper and to listen to the ideas of Ontarians. The campaign will also provide

opportunities for discussion online and via social media. This feedback will inform a white paper that will be submitted to the Ontario government in late winter proposing a positive, fair and responsible approach to addressing the province's economic, social and fiscal challenges – a budget that puts the interests of Ontarians first, a People's Budget.



For more information, and to become involved, please visit www.thepeoplesbudget.ca

Follow us  The People's Budget and  @thepplsbudget and start the conversation #pplsbudget

How to participate in The People's Budget

- » First, review this "Green Paper" entitled *Towards a People's Budget for Ontario*. It is also available from www.ThePeoplesBudget.ca
- » Then prepare your comments or ideas on how the next provincial budget can make Ontario better for everyone. It can be a few sentences, a report, or even a video you record yourself.
- » Now, send it in to us by doing any of the following:
 - Mail or fax it to the address below.
 - Visit www.ThePeoplesBudget.ca and leave your comments, or upload a document, photo or video.
 - Send it by email to Ideas@ThePeoplesBudget.ca
- » Register to attend a community consultation near you. Events are planned for Brampton, Hamilton, Kitchener-Waterloo, London, Ottawa, Sudbury, Thunder Bay, Toronto, Windsor.

It's that easy!

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