

**Pre-Budget
Submission**

**by the
Ontario Federation of Labour**

**to the
Standing Committee on Finance
and Economic Affairs**

February 12, 2004

**Pre-Budget
Submission**

**by the
Ontario Federation of Labour**

**to the
Standing Committee on Finance
and Economic Affairs**

February 12, 2004

Introduction

The Ontario Federation of Labour (OFL) is a province-wide federation of unions encompassing approximately 650,000 affiliated members. Our members include public sector employees, construction workers, teachers and manufacturing workers plus a growing number of private service sector employees.

We are here today to contribute to what we hope will be an open and full debate about the state of Ontario's finances and the future of its public services. That debate cannot happen without looking at both revenue and expenditure. To date, the debate has been restricted by the government's insistence that it would not raise taxes. Yet, Ontario's problem is primarily one of revenue generation, spending has already been cut.

Public services in Ontario are in desperate need of rebuilding. More cuts are simply not possible. The people of Ontario understand this. They voted for change in the recent provincial election. The people of Ontario know that for better public services, better health care and education for their children, they may have to pay higher taxes.

The Fiscal Situation

An analysis of the province's current fiscal situation suggests a series of key conclusions:

- There will be a budgetary deficit in the fiscal year 2003-04 of \$5.6 billion;
- Without a significant change in policy, Ontario is headed for a deficit in 2004-05 of \$2.5 billion;
- It is virtually impossible for the government to deliver on all three of its key election promises: to rebuild public services with new investments totaling \$5.9 billion; to balance the budget in each year of their mandate; and to accomplish this without any tax increases;

- Ontario's expenditures are not the source of the budgetary dilemma, expenditures are at record lows;
- The source of the government's budgetary dilemma is a shortfall of revenue, therefore revenue generation is central to public service needs;
- To deliver on the needed new investments promised in the election campaign, revenue must be increased by between \$3.5 and \$4.0 billion per year.¹

Recovering Revenue Lost from Tax Cuts

We believe that the people of this province value public services and are prepared to pay for them. That was the change they chose last October. The people of Ontario voted for an end to cuts, and for new investments of \$5.9 billion towards services renewal. Everyone in Ontario benefits from the renewal of public services.

If the government persists in its stated goals of eliminating the deficit next year and not raising taxes, it will not be able to deliver on its promises to renew services. The revenue/expenditure figures simply will not add up. The previous government reduced our ability to pay for public services by nearly \$14 billion in annual revenue through its ill-conceived tax cuts which favored the wealthy much more than the average taxpayer. Recovering as little as 25% of that amount would enable the government to deliver the services renewal it promised, and balance the budget in the last year of its term in office.

The OFL supports the proposal of the *Ontario Alternative Budget (OAB)* to increase each personal and corporate income tax rate by 2%. This increase would raise an additional \$1.25 billion in personal income tax in 2004-05. It would total only a modest 11% of the personal income tax cuts introduced since 1996. The median taxpayer in Ontario would only pay an additional \$60.00 a year or \$1.00 per week.

¹ All figures taken from the *Ontario Alternative Budget 2004* Technical Paper #1 and #2.

By increasing the tax rates at a constant percentage ensures that the cost of the increase is linked to ability to pay.

The proposed 2% tax increase on corporate tax rates would generate about an additional \$150 million.

It can be done. It is our contention that the public will support it. And it would improve the quality of life in Ontario by moving the province on the road towards a more healthy system of public services.

We urge you to consider ideas for revenue recovery that would enable the Government to deliver on its promises to renew public services. We are not going to pretend that this is easy. And you are not going to hear from us that we can rebuild public services by getting someone else to pay.

Everyone in this province benefits from high quality, public services and we believe that everyone in this province is prepared to pay their fair share.

No one, including the Ontario Federation of Labour, would suggest that taxes be increased just for the sake of increasing taxes. The whole point of what we have to say today is to get away from the idea promoted by the previous government that taxes are a burden that is imposed on us for no reason. We pay taxes to buy vitally important public services.

The case for increasing Ontario's revenue must be directly linked in the need to renew our public services.

Recovering Revenue Lost from Tax Loopholes

The *Ontario Alternative Budget* has put forward a plan to raise an additional \$3.75 billion a year: maximizing the revenue we get from our current tax system by closing tax loopholes and tightening up tax enforcement; and recovering a portion of the revenue foregone in the eight years of Harris-Eves Government income tax cuts.

Closing loopholes in the corporate income tax and the Employer Health Tax (EHT) would generate almost \$2 billion more. Many Ontarian's are

unaware that the previous Conservative government opened up or expanded a series of more than 50 corporate tax loopholes in their budgets. These loopholes now cost the people of Ontario over \$1 billion per year in foregone revenue. They are unfair, poorly targeted and should be closed. Only those corporate tax changes which parallel changes in the *Federal Income Tax Act* should remain in place. The preferences that went to cultural industries should be reconverted back to grants.

The largest revenue recovery problem is found in the various exemptions from the Employer Health Tax. The major loophole is the exemption for the first \$400,000 for self-employed individuals. There are also exemptions for income from stock options. These exemptions undermine the fairness of the system and cost the people of the province a considerable amount in lost revenue. They are also poorly targeted. Most employers enjoy a competitive benefit through public medicare. If everybody pays their fair share, everyone will benefit from an improved health care system. Exemptions from the EHT would raise an additional \$1.1 billion dollars of provincial revenue.

Following up on studies by the Provincial Auditor on tax administration, the OAB estimates that revenue from all taxes could be increased by at least 1%, or \$400 million, through better administration. Ontario's tax administration has been repeatedly criticized by the Provincial Auditor. Substantial portions of the tax system are largely unaudited and known to be so.

Further Revenue Generation

We would make two further suggestions beyond those of the OAB concerning revenue generation: one involves new tax brackets and the second changes to the corporate tax rate.

The OFL suggests adding two further tax brackets on individual income over \$100,000 to Ontario's personal income tax system. The first would apply to income earned between \$100,000 and \$150,000 and would be set at 2% above the current 11.19%. The second would apply to individual income earned above \$150,000 and should be set at 14.19% which is 3% above the current rate. With these changes and maintaining the current

higher income surcharge, an additional \$1.3 billion could be raised for public services.

The second suggestion is to raise the general corporate tax rate to 15.5% which is what it was set at in the late 1990's. It is currently set at 14% (up from 12.5% under the Conservative government). The manufacturing and processing rate should also be restored to the late 1990's level. By so doing, a further \$700 million in new revenue could be generated.

Public Services

We have spoken of the link between taxes and public services. This is worth further comment. Health care is a prime example, it has understandably long been the number one issue of concern to the people of Ontario. One could easily give examples of its importance to the people of Ontario in their many communities. Health care is a very basic human need, it is also a political and budget issue.

Under Canada's medicare system, hospitals and hospital services are paid for from the public purse regardless of their financing and ownership regimes. In our publicly-funded health care system, the real question isn't just who pays, but rather how much. In our view there is simply no justification for paying the additional costs associated with the so-called "Public-Private-Partnership" or P3 model. It has been estimated that such private models can be expected to cost at least 10% more than their public sector equivalents. So in addition to the evidence from other such experiments that suggests P3 hospitals would include a deterioration of hospital services and diminished accountability, Ontario simply cannot afford a private health care system.

People talk in the abstract about the billions involved province-wide in implementing the recommendations of the Rozanski Report on education funding. It is our view that this is an important investment in the future of Ontario. The report of the Education Equality Task Force (the Rozanski Report) was seen as heralding a significant change in the government's

approach to education funding. Yet after an auspicious beginning the Tories response turned into another example of political propaganda. Education is far too important to be left to political spin doctors. Ontario needs to renew its investment in young people, an investment that will be paid back in future years many times over.

In 1995, we had a thriving program that was building thousands of new affordable housing units every year. Since then, there has literally not been a single affordable housing unit built in the entire province.

In 1995, the province also cut social assistance benefits by 22%, and froze them. Let's think about this. How do you think you would survive, far less productively contribute to Ontario society if someone cut your income by 22%, and then froze it for eight years. Poverty doesn't appear by accident or out of thin air. Nor is it necessarily related to human effort or the lack thereof. Rather, it is most often the product of economic systems and labour market policies and it can be corrected by new and creative policies if there is a will to do so.

We have fewer child care spaces in Ontario today than we had in 1995. Much has been written on the benefits and need for child care. The Quebec government has made initiatives in this area that demonstrate the possibilities for increased, affordable childcare.

What the above comments highlight is that in community after community across Ontario food banks are dealing with increasing numbers of users, that we have more and more homeless people living on the streets, but also that many working people are struggling to cope with the stress of trying to survive and raise their children in far too many instances with multiple jobs and inadequate or very little support in the form of needed public services.

Time and time again, the previous government refused to respond to pressure for better public services, instead dumping responsibility down onto local governments. The result is that local public services are suffering everywhere in Ontario. There is more to do, and less money to do it with. Most people see this every day as local public services are the most immediate and the most visible public services we have. Proper funding of our cities will enable them to remain engines of economic growth and, in so

doing, generate revenue for our province.

The Role of Government

Finally, we would like to talk about the need to renew Ontario's ability to regulate in the public interest. New governments often want to change or reinvent the way things are done. This is understandable, but deregulation and privatization is not the kind of change the people of Ontario voted for or desire.

People don't want or need the high-profile events like the Walkerton water debacle, the epidemic of deaths among young workers; the crisis of quality in long-term care; the increasing encroachment of for-profit hospitals in our health care system; the weaknesses in our health protection system as exposed by the SARS outbreak; the growing number of smog alert days in the summer; the closure of public beaches and the serious problems in our education system; or the lack of adequate low-cost housing.

Every one of these headline stories stands as a symbol for countless other stories of failure to regulate to protect the public interest. The point is, they didn't have to happen. They were preventable. Good policies, good enforcement and substantive public investment can make the difference.

The previous government turned this province into a place for elites to further enrich themselves at the expense of the average working person and public interest. It's time to stop this. It's time for a new direction.

It is also our view that the people of Ontario don't want to sell off public services to enrich private interests. We do not agree with selling Hydro, selling the LCBO, delisting services such as hearing aids, destroying the universality of seniors benefits, selling TV Ontario or attacking public sector workers under the guise of "reinventing government." Asset sales are not the answer. As we have shown, revenue can be recovered in other ways.

Conclusion

The damage caused by Ontario's anti-government since 1995 is not going to go away overnight. It took the Harris-Eves era eight long years to bring

public services in this province to their current state. It will take a number of years to set the province's finances in order. Admittedly, our proposal of how to gain approximately an additional \$5.75 billion is only the first step in a long and difficult process of revenue recovery.

But we feel strongly that the current government must follow through on the first steps towards public services renewal it promised in its election platform.

It will only be possible if the government shows some courage and demonstrates some faith in the good will and good sense of the people of this province.

We realize that Ontario's public services need substantial new investment.

We know that the province's fiscal position is weak, undermined by years of ill-advised tax cuts – tax cuts that we could not afford.

We know that the Government cannot deliver on the public services renewal we so badly need without increasing revenue. Indeed, Ontario faces a revenue problem, not a spending problem. One shouldn't let the commitment to the right-wing Canadian Taxpayers Association take precedence over the promises to the people of Ontario.

We are prepared to do our part.

The stakes couldn't be higher. If the Liberal Government persists in its pledge not to increase taxes, it will be making public services renewal impossible. At the end of its term in office, its only accomplishment will be to have cleaned up the fiscal mess created by the Tories – just in time to lose the election due to a population that wants change, not more cutbacks.

We need a real debate about Ontario's future. A debate that puts everything on the table.

It is time to reinvest in Ontario. It is time to demonstrate that people's hope for a better future in Ontario is justified.

Thank you for the opportunity to participate.

Respectfully submitted,

ONTARIO FEDERATION OF LABOUR

CS/jm

opeiu343

f:\Submissions\Pre-budget Submission 2004.wpd

ENDNOTES