

**PRE-BUDGET 2005**

**PRESENTATION**

**OF THE**

**ONTARIO FEDERATION OF LABOUR**

**JANUARY 18, 2005**

## **Introduction**

The Ontario Federation of Labour (OFL) is a province-wide federation of unions encompassing 700,000 affiliated members. Our members come from a wide variety of occupations including resource and manufacturing, construction, government and broader public sector employees and most recently teachers and nurses.

We hope to contribute through this brief presentation to the Standing Committee to an open debate concerning the state of Ontario's financial situation and the future of its infrastructure and public services.

In general, the OFL finds that the government, with the exception of the imposition of a health premium/tax about which we will speak later, has been overly cautious on both the budget and legislative fronts. Rather than trying to maximize its flexibility and take substantive initiatives on public investment within its fiscal capacity, the government seems more concerned with lowering people's expectations.

## **Budget 2004 and Estimates**

There is much more to be said on the last Budget and estimates than we have space to outline in this brief presentation. The following points highlight some of our concerns:

- The government's innovative bookkeeping enabled it to show a one-time-only increase in non-tax revenue of \$3,881 million from electricity revenue. This may look good on the books, but the Provincial Auditor has a point when they question this type of lump sum reporting and suggest spreading the amount over a number of years.
- With the above 'adjustment' the deficit was shown as having been reduced to \$2,239 million. Thus the politically important reduction in the deficit was shown to be on track.
- The government's November 2004 statement made only minor revisions in expenditure and revenue projections such as sales tax, corporate tax and personal income tax. Included also is the \$800 million increase in federal health transfer revenue.

- The expenditure side saw a major increase in health expenditure (\$824 million), but this is substantially offset by a reduction in public debt interest leaving a net increase of \$610 million.

The consequences of these changes in revenue and expenditures, only briefly sketched here, is that the projected deficit remains largely unchanged, at just under \$2.2 billion.<sup>(1)</sup> The current forecast for 2004-5 however fails to tell the whole story. The provinces fiscal picture is actually more positive than one might have expected enabling the Liberal government to keep more of its election promises on important social service and infrastructure investments. The May budget, for example, included a reserve allocation and contingencies for operating and capital expenditures of \$3,115 million. As the Ontario Alternative Budget's (OAB) analysis shows the government's draw downs for the first six months only totalled \$24 million and even without realizing the projected savings of \$400 million there will be \$1.7 billion in contingencies.

Added to this picture is reduced debt financing costs on alternative projections in government revenue by the OAB forecasting model of plus \$1 billion. In short, even a fiscally prudent government has considerable room to be flexible in the coming year.

### **Medium-Term Fiscal Outlook**

Despite the room to manoeuvre over this fiscal year and despite the government's substantive electoral promises on increased investment in public services, the investment plans in the Medium-Term Fiscal Outlook are far more cautious than necessary. Increases in program spending, including health care, barely rises over the rate of inflation. Good for those that elevate accounting over human need, spending in non-health care areas actually declines in 2005-6.

In fact, overall program spending as a share of GDP continues to decline from 13.5% in 2004-5 to a projected 12.2% in 2007-8. Thus, instead of reversing this decline and renewing public investment with the necessary allocations, the government is mistakenly consolidating the reduced role of the public sector initiated by the ultra conservative Harris-Eves government with all its cutbacks, under funding of infrastructure and privatization.

The people of Ontario don't need smaller government, they need better government.

## Revenue Opportunities

Public services and infrastructure in Ontario are in dire need of rebuilding. At the same time there are opportunities for revenue generation in Ontario. We believe that people in this province value public services, better health care and education for their children. We also maintain that they are willing to pay for them as long as the tax burden is fairly distributed. It is on these issues that the Tories were voted out in the last election and that the current Liberal government was voted in. The people of Ontario want change.

Yet despite their election mandate the Liberal government has demonstrated a certain 'confusion' as to their mandate. In the last OFL Pre-Budget Submission we stated that it was "virtually impossible for the government to deliver on all three of its promises: to build public services with new investments totalling \$5.9 billion; to balance the budget in each year of their mandate; and to accomplish this without any tax increases."

These promises were dramatically 'restructured' in the last budget which thankfully rejected putting the deficit before people's needs and desire for change. But rather than rebuilding Ontario's revenue system to maintain and expand public service renewal, the government chose to delist certain services and to impose a surtax on middle and lower income people in the form of an OHIP premium come regressive tax.

At the same time the government chose not to touch the \$10.5 billion in tax cuts which went mainly to high income earners. In short, the wealthy received the tax breaks of the Tories and now under the Liberals, average and lower income earners must make up for the short fall.

The government also chose not to touch the \$3 billion in corporate tax cuts granted in the previous Conservative government's second term in office. Less visible, but a further opportunity to raise revenue for public investment, is the more than 50 corporate tax loopholes created or expanded by successive Tory budgets. Some of the corporate tax changes parallel changes in the *Federal Income Tax Act* and should be kept. But even after selected changes are retained an additional \$800 million in taxes would be generated.

There are yet more opportunities for revenue generation. Serious exemptions exist in the Employer Health Tax (EHT). These could have and should have been addressed in the government's last budget in place of imposing a regressive health care premium/tax. The

exemptions include the first \$400,000 in payroll for self employed individuals and exemptions for income from stock options.

These exemptions both undermine the fairness of system and ironically exempt some of the very employers who receive a substantive competitive benefit in the form of public medicare as compared to the American private system.

Closing the exemptions in the EHT would raise an additional \$1.1 billion of provincial revenue.

If Ontario was to follow the Federal tax system and increase the personal income tax rate by an additional 2% for incomes over \$100,000 it could raise about \$1.2 billion.

If corporate tax rates were returned to their 2000 levels and equalized with rates in the United States, it would generate more than \$1.25 billion in additional revenue.<sup>(2)</sup>

## **Conclusion**

We began these notes by suggesting that the government seemed less interested in making substantial initiatives in public service and infrastructure renewal than in presenting data and media clips in a manner that served to lower people's expectations. Evidence of this can be found in the government's November 2004 Economic Statement, press releases and in its last budget. Further, the government has indicated that the only way it can balance the budget is by cutting back on non-health care spending and not implementing key election promises.

More realistic views and initiatives on tax reform and other revenue opportunities show growing fiscal capacity. With new political will the government can fulfil its election promises for public service renewal.

Respectfully submitted,

**ONTARIO FEDERATION OF LABOUR**

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## ENDNOTES

1. More details are provided in the Ontario Alternative Budget (OAB) Technical Paper #1, 2005. All figures used herein are taken from this publication by Hugh Mackenzie, available at [www.policyalternatives.ca](http://www.policyalternatives.ca)
2. All of the above opportunities for raising additional revenue were noted in the February 2004 Pre-budget submission of the Ontario Federation of Labour and documented in the Ontario Alternative Budget 2004 Technical Papers #1 and #2 and yet again in the Ontario Alternative Budget Technical Paper #1, 2005.