

The  
Ontario  
Alternative  
Budget 2002

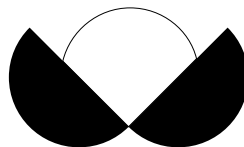
**Budget  
2002-03**



Canadian Centre for  
Policy Alternatives/Ontario

# **2002-03 Ontario Alternative Budget Document**

**Ontario Alternative Budget  
A project of the Canadian Centre for Policy Alternatives  
June 2002**



# Acknowledgements

The Ontario Alternative Budget Working Group is a coalition of labour, social action, community and church groups which have come together to develop alternatives to the Common Sense Revolution of the Harris-Eves Government. The participants in this year's budget project are listed below. The OAB is a project of the Canadian Centre for Policy Alternatives -Ontario Office.

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The Ontario Alternative Budget is a project of the CCPA-Ontario. [www.policyalternatives.ca](http://www.policyalternatives.ca)

The 2002 Budget was printed by the Ontario Federation of Labour OPEIU local 343.

# Section I:

## Introduction and summary — Connecting the dots

In the children's puzzle games of "connect the dots", seemingly randomly-placed elements gradually turn into a complete picture as the dots are connected.

As with the puzzle game, funding cuts and freezes and service delivery restructuring exercises in Ontario since the Conservatives were elected in 1995 appeared at first to be randomly distributed, and isolated from each other.

And as with the puzzle game, seven years into the Conservatives destructive reign, the picture of weakened and truncated public services is becoming clearer and clearer and the bills are coming in.

The government started out with its campaign "wedge" issue: attack on the poor, with social assistance cuts and the elimination of the only successful affordable housing program in Ontario in the past 30 years.

It went after so-called "red tape", and proceeded to dismantle much of Ontario's environmental regulatory system, with the rest off loaded to the private sector or downloaded to municipalities.

It made a frontal assault on the child care system, undermining a service that is both essential for the survival of working families and an important contributor to early childhood learning.

It forced a massive "restructuring" on the hospital system, closing hospitals and laying off tens of thousands of health care system workers.

It went after school boards, claiming to be focusing on wasteful spending. It went

after municipalities, downloading over a billion dollars in spending responsibilities, all the while claiming it was revenue neutral. In the process, it walked away from provincial responsibilities for public transit, housing and public health.

It claimed to be providing relief to local property taxpayers, but delivered real relief only to commercial and industrial property taxpayers, while leaving most municipalities with more responsibilities and less tax room to pay for them.

In the name of accountability and fiscal responsibility, it forced massive hikes in user fees ranging from drugs for seniors to park permits to college and university tuition.

Repackaged in the form of "public-private partnerships", spending on capital infrastructure in Ontario has shrunk, as the private side of the partnerships failed to materialize.

All the while, the government used the deficit to justify its actions while it used all of the savings, and more to cut taxes. It touted its tax cuts as tailored to provide tax relief to middle-income Ontarians, while most of the benefits went to the highest-income 20% of the province, and to profitable corporations.

The picture that is emerging is not a pretty one. Our environmental protection system is in shambles. Ontarians can't even trust the quality of their tap water.

In the elementary and secondary education system, the effects of over \$2 billion in cuts since 1995 are being felt across the

province. Schools are closing. Those that are stay open are deteriorating. Programs are being shut down. Waiting lists for special education programs, and even for assessments, are growing.

In school boards across the province, parents are being asked to fundraise for basics like books and gym equipment. School libraries are closing. Physical education programs are being restricted. Many school boards have hit the wall financially, and will operate in deficit in 2002-3.

After closing hospitals and laying off nurses, the Government went on a hospital building spree and created an emergency program to deal with a shortage of nurses. Waiting lists for basic services are growing. Emergency rooms are routinely closed to new patients arriving by ambulance.

Many working families live from crisis to crisis, as they scramble to fill the void created by child care funding cuts.

College and university tuition and fees have soared, putting post-secondary education out of reach for many families, and saddling many of those who experience post-secondary education with crippling levels of debt on graduation.

Shamefully, in Canada's wealthiest province, homelessness and hunger are growing, and increasingly obvious.

Not one unit of affordable housing has been built in Ontario since the Harris Government was elected. And since social assistance was cut by 21.6% in 1995, there has not been a rate increase. In total, the purchasing power of the poorest families in the province has been reduced by 32.5%.

A deficit in the tens of billions in investment in public infrastructure has emerged. Our sewer and water systems have been found by public inquiry to be substandard.

Roads are deteriorating. In the highest profile of Ontario's public-private partnerships, the construction and sale of Highway 407, the people of Ontario were taken to the cleaners, selling an asset for \$1.6 billion that is now valued on the books of the company at more than \$5 billion. And in the Government's most embarrassing fling at privatization of a major public asset, the abortive sale of Hydro One, the Government was rescued by its own ineptness. As Doug Peters, a former chief economist of the TD Bank put it, "Why would anyone sell an asset such as Hydro One that delivers income of \$641 annually, and growing, in order to pay a debt that costs only \$324 million annually?"<sup>1</sup>

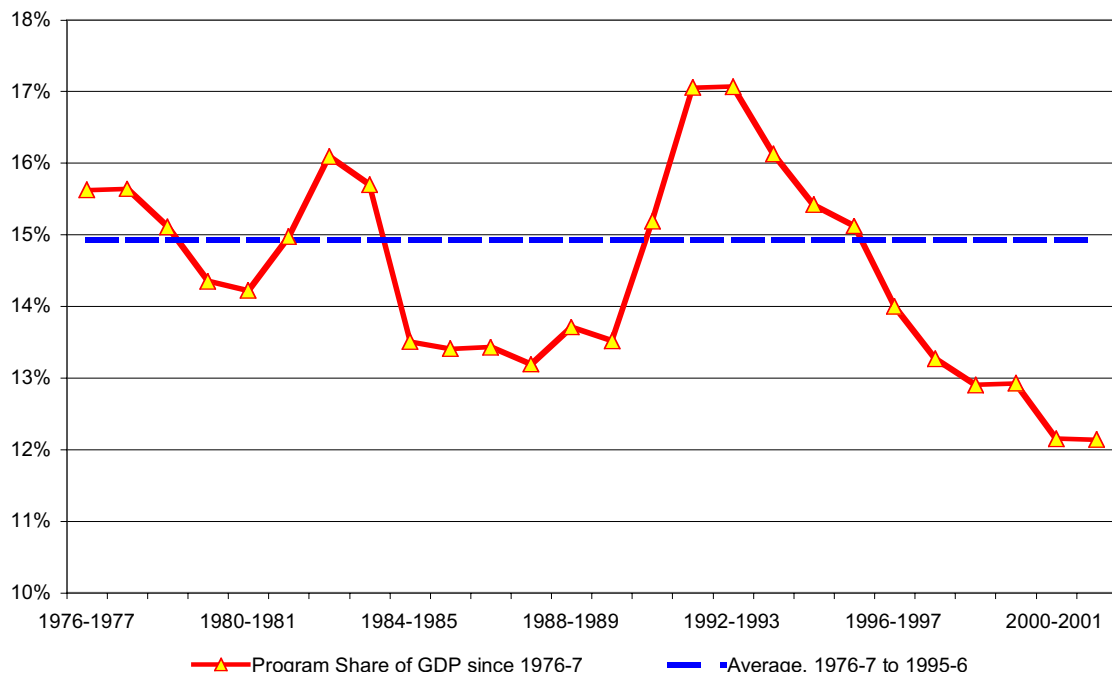
Workers' rights have been curtailed; standards weakened; enforcement cut back. Working people have been consistently under attack, treated as if the worst sin an Ontario worker could commit would be to be adequately paid for his or her work. What a comment on the Conservative Government, that improving living standards for its own citizens would be considered a bad thing.

For most people, even the vaunted benefits from the tax cuts have evaporated: looking a lot smaller than advertised, once the truly regressive nature of the cuts became clear; and gobbled up in user charges and increased costs to provide services privately that used to be public.

These changes add up to a huge change in the public economy of this province. Chart 1 shows the overall impact of the Conservatives' policies since 1995. Public services spending on programs and capital improvements have dropped from 15.1% of GDP in 1995-6 — just above the average for the previous 20 years of 14.9% — to 11.9% forecast for 2002-3. That repre-

Chart 1

Program and capital spending as a share of Ontario GDP



sents a cut of nearly 20% in the relative size of Ontario's public economy.

No wonder the threat to public services has become so obvious.

## Ontario's weakened revenue base

In concert with its decimation of the expenditure side of Ontario's public economy, the Government has wiped out a substantial proportion of our revenue base.

A recent estimate by the Federal Department of Finance puts the impact of provincially-initiated corporate and personal income tax cuts at \$12.3 billion for 2002-3.<sup>2</sup> The Ontario Alternative Budget estimates the impact of all Ontario tax cuts, including corporate property tax cuts and employer health tax cuts, at \$13.4 billion.<sup>3</sup>

Whichever figure is used, the impact of six years of "Tax Cuts First" policies on On-

tario's ability to deliver public services is obvious.

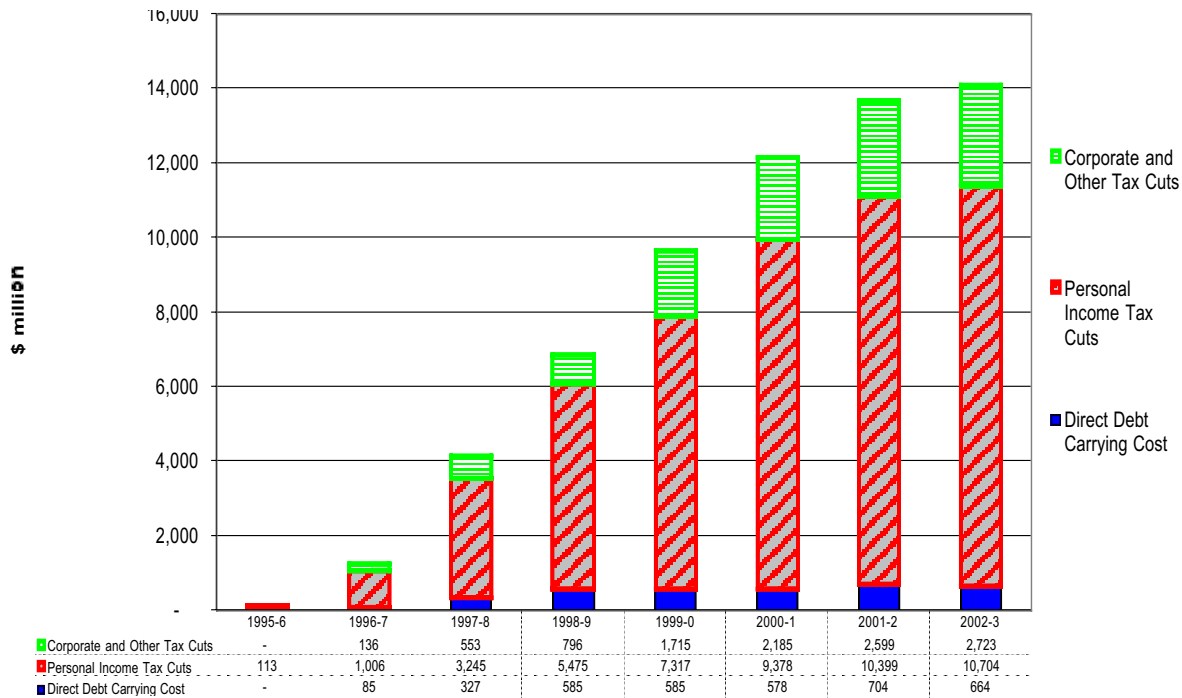
In the absence of this policy of deliberately destroying Ontario's revenue base, we would not be facing a public services crisis in this province. Ontario's revenue base would be more than \$12 to \$13 billion higher in 2002-3 than is currently forecast. And had the Government not chosen to cut taxes before balancing its budget, debt servicing costs would be lower by nearly \$700 million.

## The Alternative Budget for 2002-3

This year's Ontario Alternative Budget is driven by the deficit that has grown to crisis proportions in virtually every area of vital public service in this province.

It lays out a plan to rebuild and renew public services in Ontario over a four-year period.

**Chart 2 – Tax cut impacts**



It calls for a reinvestment of just over \$11 billion, in 2002-3 dollars, in public service operations and capital.

In the first year, its goal is primarily to deal with the most urgent of crises, in areas like social assistance, education, health care, housing, child care and environmental protection, stabilize other areas of public service to forestall further damaging cuts.

In subsequent years, the OAB proposes to set out a careful and responsible program for the renewal of Ontario’s public economy.

It also puts public services back on track for longer-term stability by stabilizing the real, per capita value of our public services, reversing the years of slow starvation by the Conservatives.

Over the four years of the program it generates a cumulative surplus of \$4.2 billion.

Because it is spread out over a four-year period, the program can be funded in part through the natural growth in Ontario’s revenue base.

But there is no sugar-coating the extent of the problem we face in erasing the public serviced deficit. Tax rates will have to be increased.

Most important, under the OAB, Ontario will be withdrawing from the race to the bottom in corporate tax rates. The corporate tax rates that existed in 1998 clearly were not an obstacle to this province’s economic recovery. Indeed, the data show clearly that exports led, and were largely responsible for, Ontario’s growth in the late 1990s.

To make a point that seems obvious to everyone other than the tax cut cheerleaders in the provincial government, people in other countries who purchase goods and services made in Ontario clearly cannot be responding to income tax cuts that apply

only to Ontario residents. Rates will be restored to their 1998 levels.

In response to the flattening of the tax structure over the past decade, the Alternative Budget proposes to increase the number of tax brackets for those earning above \$100,000 per year. This will reinforce our commitment to the ideal of taxation based on ability to pay.

We also believe that it is important that the vital services on which we depend be paid for appropriately and visibly.

There will be a modest, but important, increase in personal income tax rates (0.25%) for all taxpayers in Ontario.

The Employer Health Tax will be restructured as a universal, and uniform payroll tax earmarked for the funding of health care. Increased revenue from tobacco taxes

will be directed towards health promotion and health care renewal.

These revenue changes will put Ontario's public services system back on track for long-term sustainability at a level consistent with what the people of this province want, need and are willing to pay for.

In Section II, the Ontario Alternative Budget leads off with a program of public services renewal.

Section III presents the fiscal framework for this year's budget.

Section IV presents our 2002-3 to 2005-6 tax program.

Section V concludes with a commentary on the contrasts between the Ontario Alternative Budget for 2002-3 and the official budget released on June 17, 2002.



## Section II: Program Spending

**A**fter eight years of tax-cut driven spending cuts, Ontario's public sector – as a share of the overall Ontario economy – has been reduced by over 20 percent.

Restoring the public sector to the average of the twenty-year period 1976-7 to 1995-6, i.e. to 14.9% of GDP, cannot be done in the short term, let alone a single year, without massive and sudden increases in taxation.

The Ontario Alternative Budget believes, though, that Ontario's vital public sector goods and services, which are the foundation of Ontario's quality of life, can and must be restored.

To that end, we propose a realistic and do-able program of reinvestment phased in over a four year period.

Our program would see a reinvestment of \$11.2 billion in 2002-3 dollars, phased in over four years.

Allowing for adjustments for population growth and inflation, the actual reinvestment would amount to \$18.6 billion in 2005-06 dollars.

Even this very large reinvestment does not restore the long-term relationship of the public sector to the private sector over the last 20 years.<sup>4</sup> This range of investments in public life will put out a number of fires that threaten to consume Ontario's ability to provide health, education and welfare supports, the tools for achieving sustainable development and the broader goal of social justice.

### Education

#### Restoring full funding to elementary and secondary schools

Ontario's public education system has been in a state of upheaval since the Tories were first elected in 1995. They determined that the way to focus on the classroom was to cut money from everything that supports education. Funding for public schools is \$2.3 billion less on a real, per pupil basis than it was in 1995.

In 1994-95, Ontario's per pupil expenditures ranked 42<sup>nd</sup> of 63 jurisdictions in North America (10 provinces and 51 jurisdictions in the U.S.). In 1999-2000, Ontario ranked 56<sup>th</sup>, behind every state in the U.S. and behind Manitoba and B.C. In U.S. dollars, the highest per pupil expenditure was \$11,315 in New Jersey. The average for the U.S. was \$7,577. Ontario's per pupil expenditure was \$4,939 (U.S. dollars).

This affects the education that Ontario's students are receiving. There has been a loss of specialized teachers and programs. There has been an increase in class sizes in the early years. There are insufficient textbooks and learning materials. There are fewer adults per pupil in the schools. Decisions increasingly are being made not based on pedagogy but on the bottom-line of the funding formula. Kindergarten is increasingly being offered as an all-day, every-other-day program; community schools are being closed; field trips are being cut; mu-

sic and library programs are being reduced and eliminated.

There is a better way. Funding for education must be increased. It must be increased to put the programs back in the schools. It must be increased to ensure that students and teachers have the resources they need. It must be increased to provide all students with the education they need and deserve.

Funding would also be increased to allow for reduced class sizes in the early grades. The research on the benefits of small class sizes in the early grades (kindergarten to grade three) continues to mount. Students in small classes (fewer than 20 students) in the early grades, who then return to regular class sizes (of about 25)

- do better on measures of achievement;
- are in school more;
- are less likely to display problem behaviors;
- are less likely to repeat a grade or a course;
- are less likely to drop out of school; and
- are more likely to take advanced level courses.

No other single education reform can produce these results. Students learn best in small classes.

We would phase in a reduction in class sizes in the early grades to ensure a smooth transition. Without capital expenses, ensuring an average class size of 20 for grade one would cost about \$80 million. An average class size of 20 for kindergarten to grade three would cost about \$350 million. We would work towards ensuring a maximum

class size of 20 in the early grades. Allowing smaller, community schools to remain open would alleviate some of the pressure.

Our plan would cancel the standardized testing for students. There is mounting research to show that this is the wrong way to assess students. There is also strong evidence to show that such an approach does more harm than good. This would save about \$50 million a year.

Our plan would also cancel the teacher testing program. Teachers have always taken the professional development courses they need. The money would be put back into ensuring such courses are available at the local level.

Reform of the funding formula is urgently needed. We also need to restore local democracy in our education system. We would permit school boards to levy additional funds up to 10 percent of the provincial allocation to meet local needs.

### **Post-secondary education – ensuring opportunity for Ontario's students**

For over forty years, successive Ontario governments have grounded their post secondary education policies in the belief that every able and motivated Ontario student should be assured access to a high quality college or university education. A corollary of this principle was, of course, an obligation on the government to provide the requisite resources to maintain both the highest quality of education and access to the system. The recent years of government under funding, however, have undermined those goals.

<b>What elementary and secondary schools need</b>	
Restore 1995's real, per student funding	\$2,300 million annually
How to get there: 1 <sup>st</sup> year phase-in	\$550 million

The government contended that the cuts could simply be absorbed, by making universities more efficient. The evidence is now in: classrooms bear the brunt of cuts to post secondary education. And that means that the corrosive impact of the spending reductions is being felt most immediately by students, both through deteriorating conditions of learning, and through the skyrocketing costs of paying for that education.

Provincial grants to universities for 2001-02 were more than \$400 million below their 1995-96 level, after adjustment for inflation and enrolment growth. Operating grants for colleges have also been severely reduced during this period. Deferred maintenance costs of university and college buildings and general infrastructure are conservatively estimated at \$1.2 billion, posing a health and safety hazard for students, faculty, staff and the general public.

The most dramatic downloading of costs has occurred with respect to tuition fees. Between 1995 and 2001, the government allowed university tuition and fee revenue to increase by 70% in real terms while increases of similar magnitude have taken place in the college sector. The Ontario government has also permitted unlimited tuition fee increases for all graduate programs as well as certain professional and post-diploma programs. The result has been 300% to 700% tuition fee increases for programs such as Computer Animation, Dental Hygiene, Law, Medicine and Dentistry.

This means that students are now responsible for funding more than 40% of university operating revenue. To put this into perspective, in its 1992 education policy document, *New Directions II: A Blueprint for Learning in Ontario*, the Conserva-

tive Party called for an increase in tuition to 25% of the cost of higher education. In the Conservative Party's 1999 election platform document, also called *Blueprint*, the government credited itself with raising tuition fees "to the reasonable and affordable 35%" of the cost of providing university and college courses. Tuition fees have now exceeded a target that even the Conservative government deemed acceptable.

There is mounting evidence demonstrating that tuition fee increases compromise access to post secondary education among students from middle and lower income backgrounds. Yet government funding cuts have intensified the pressure on colleges and universities to increase tuition fees as a means of salvaging the quality of education. However, tuition fee increases have typically allowed governments to further reduce public funding for higher education. Consequently, the more tuition fees increase, the less public money is made available for colleges and universities, compromising both the quality and accessibility of higher education.

The impact of this rise in tuition is, of course, compounded by the government's punitive approach to student assistance. While the average debt load of a graduating university student is now in the range of \$21,000, the government is focusing on reducing loan default rates, rather than ensuring that students won't need to amass that debt in the first place.

That won't solve the problem of access. And neither will permitting private universities to operate in the province.

A much more responsible approach to keeping universities accessible would be for the government to:

- freeze and then reduce tuition fees;

- create grants for students in need to help reduce their debtload;
- provide targeted assistance for students with dependants or special needs;
- expand work/study opportunities for students to earn while they learn;
- expand interest relief for students;
- aid debt reduction for borrowers who have significant difficulties in meeting debt obligations; and
- create a deferred tax status for interest paid on student loans.

Enhancing accessibility by introducing up-front, needs-based grants and other student financial assistance reforms will require an investment of an additional \$135 million while freezing tuition over the next two years followed by a 10% roll back will require an extra \$750 million in supplemental funding.

### *The double-cohort*

Compared to last year, by 2005 an additional 100,000 students will be enrolled in Ontario's universities and colleges as a result of demographic changes, an increase in participation rates and government-mandated secondary school changes. This growth in student demand, representing a 25% increase in enrolment, will continue well into the next decade. At the same time, faculty and staff will have to be hired to meet the increase in students, to replace one-third of faculty and staff who will re-

tire by the end of the decade and to reduce the student/faculty ratio which is now the highest in the country.

Substantial new investment is essential to ensuring that Ontario's students have an opportunity for a high quality, affordable and accessible post secondary education. To reverse the damage of the past seven years and to provide for the large growth in student demand, the Ontario Alternative Budget will invest \$2 billion in new funding over the next four years.

In post secondary education, as with other areas of social policy, provincial governments confront the reality that essential public programs require the active support of the federal government. As in the case of public health care, the challenges facing post secondary education cannot be solved by the provincial government alone. In the 1960s and 1970s, the last major expansion of higher education, the federal government provided the resources needed to complement the necessary provincial investment. Ontario should negotiate with the Federal Government to ensure that transfer payments under the Canada Health and Social Transfer contain a component dedicated to post secondary education.

Should not the children of the baby boom generation be given the same advantages as their parents? Public investment in our young people is critical to their future and to Ontario's.

<b>What post-secondary education needs</b>	
Restore post-secondary funding, accommodate the double-cohort, freeze tuition, improve student aid and provide for catch-up maintenance	\$2,000 million
1 <sup>st</sup> year funding	\$300 million

## Building a system of early childhood education and care for Ontario's children and families

*"It is clear the early years must be a high priority for investment if we wish to have a competent, educated population for the future and that the Ontario government must put in place a long-term policy to make early child development and parenting a priority for public and private investment." Early Years Study, Dr. Fraser Mustard and the Hon Margaret McCain, 1999*

The OAB project believes that we must move towards progressively reforming and gradually expanding Ontario's system of Early Childhood Education and Care (ECEC). The goal of this system is to fulfil the principal recommendations of both the 1994 Royal Commission on Education and the Final Report of the *Early Years Study* (The Mustard-McCain report) and would be the next step towards the creation of a seamless, inclusive and affordable ECEC system for our young children.

Our vision for the implementation of a long-promised and much-needed ECEC system combines the gradual expansion of child care and ensures the affordability of new and existing services for families. The OAB's proposal sets out two major goals for the system's reform:

- **Ensuring Affordability:** we will replace the current crippling child care fees of up to \$1,000 a month for full-fee paying parents with a flat rate of \$5 a day. We will also ensure that 45% of the total spaces receive further subsidies to guarantee access to families with low

and modest incomes as well as families with more than one child in care.

- **Expanding Access:** we will also take the first steps in the expansion of Ontario's child care system by introducing 20,000 new child care spaces by 2005-06.

Considerable research now supports the view that high quality ECEC services can meet multiple goals simultaneously:

- ECEC services support and enhance children's well-being, development and lifelong learning;
- Support parents in education, training, employment, socially and personally;
- Are key to an anti-poverty strategy as a component to enable parents to move into the world of training and work;
- Are central to a long-term human development strategy where for every dollar invested in high quality early childhood education and care there is a two dollar long-term benefit for children, families and society in terms of increased productivity and reduced costs for social welfare and social services;
- Foster social solidarity and social cohesion; and,
- Facilitate equity for diverse groups in society.

In Ontario, there were almost two million children age 0-12 who require some form of non-parental care. At the same time, there are approximately 167,090 regulated child care and nursery school spaces. This means that there is regulated ECEC available for less than 12% of children.

Since 1995, child care has suffered a \$90 million budgetary reduction. The proportion of child care centres' revenue from gov-

ernment continues to decline while operating costs increase. The annual provincial allocation for each child in regulated child care declined 18% since 1995. As a result, *Ontario has the highest monthly fees for full-time, centre based care in Canada.*

The provincial decision in 1997-98 to download responsibility for early childhood education and care to municipalities and regional service units did not include a commensurate transfer in funding. The result is that municipalities are overburdened and have had to assume some of the costs of wage grants, family resource centres and special services that were previously paid for by the province. In some regions, municipalities have been forced to cease funding of some non-mandatory services such as ECEC.

The Federal Provincial Agreement on Early Childhood Development (September 2000) promised action on common priorities for children, including child care. However, the Ontario government passed up an opportunity to strengthen the child care system in the province when it chose not to use any of the \$114 million in federal funds to invest in high quality ECEC in the first year.

Over the next four years, the federal Early Childhood Development transfer to Ontario will total \$730 million. Allocating two-thirds of this transfer to high quality child care can begin to make a real difference for families in Ontario who have a desperate need for services. For example, \$100 million, or approximately two-thirds of

next year's federal transfer, can cover the costs of 9,090 new \$5 a day high quality, regulated child care spaces.

## Ensuring Affordable, high quality \$5 a day child care

The first step towards improving Ontario's system of ECEC is to address the current exorbitant child care fees for parents and ensure affordability through a \$5 a day program. The Quebec child care plan has captured the public imagination as a bold and visionary initiative that has won widespread support by offering \$5 a day child care.

In Ontario, the present model of child care subsidies for low-income families and crushing fees of up to \$1,000 a month per child for everyone else is a huge barrier to the creation of a truly accessible and affordable system. The existing system sees about fifty-five percent of spaces paid for through full parent fees, and the remaining forty five percent being fully or partially subsidized. We would replace the current system with a flat rate for spaces that are currently full fee, whereby no parent will pay more than \$5 a day. We are also committed to promoting social inclusion within the system by ensuring that forty-five percent of all provincial child care spaces benefit from subsidies that will guarantee access to families with low and modest incomes, as well as families with more than one child in care.

Federal Transfer to Ontario for Early Childhood Development Services (\$ million)					
Year	2002-03	2003-04	2004-05	2005-06	TOTAL
Federal Transfer	152.8	191.7	192.4	192.9	730
Proposed two-thirds Allocation to child care	100.8	126.5	127	127.3	481.8

We will invest \$597 million towards ensuring that all parents who are currently using unsubsidized child care spaces do not pay more than \$5 a day. To meet our goals of an inclusive system, we will also invest almost \$200 million to buffer the costs of child care so that those families whose subsidies do not cover the full costs of access, do not pay more than \$5 a day.

### **Expanding access to child care**

Families who need child care in Ontario currently face a scarcity of spaces and long waiting lists. Our four year target of 20,000 new high quality, affordable spaces would begin to address the needs of parents throughout the province and would signal a concrete, progressive first step forward for ECEC in the province. The need for a more aggressive expansion is great and the only stumbling block has been the lack of political will on the part of both levels of senior government. Our expansion represents an achievable first step in a long-term strategy to increase child care spaces at a rate that meets the growing demand from families.

The large scale expansion of the provincial child care system to meet the needs of all parents in Ontario will require substantial resources and will have to be phased in over a number of years. Expanding Ontario's child care system to the point where it can respond to the needs of all families will require the training of new staff, a new institutional framework, building of new facilities, and garnering of financial support.

The OAB's plan for ECEC expansion includes the introduction of 11,000 new \$5 a day child care spaces at a cost of \$71.5 million (55% of expanded spaces). To ensure the goals of social inclusion we will further

introduce an additional 9,000 fully subsidized spaces at a cost of \$70.2 million (45% of expanded spaces). Capital expenditures to accommodate the new spaces will require an investment in the order of \$90 million. To ensure equitable expansion, the distribution of new child care spaces will be proportionate to the population in each age cohort (0-2, 3-5, 6-12).

### **Moving forward on the early years**

The OAB is committed to the stabilization and measured expansion of Ontario's early childhood education and care system. Ontario can no longer afford to neglect the developmental needs of our youngest children and to deny support to parents enrolled in training or in the workforce. Our plan will provide the ECEC program with a major investment of \$1.195 billion. Of this amount, \$800 million will replace the cost of the current exorbitant child care fee system with a \$5 a day fee structure. A second amount of \$230 million, including capital and operating costs, will result in 20,000 new child care spaces. Nearly half of all of the spaces of Ontario's ECEC system will be further subsidized to accommodate the needs of low and modest income families, as well as those families with more than one child in care.

As well, the OAB will invest an additional \$170 million in proxy pay equity measures to contribute to continuing child care quality standards and to ensure the adequate remuneration of early childhood educators.

In the context of buttressing a provincial child care system that has been largely neglected over the past seven years, the prudent course is to lay a foundation for expansion and to continue to allocate resources that will allow the system to grow

<b>What child care and early childhood education need<sup>3</sup></b>	
Reduce current fees to \$5 a day for unsubsidized parents	\$597 million
Further subsidies for currently partially subsidized spaces	\$196.5 million
Operating costs for 11,000 new spaces at \$5 a day	\$71.5 million
Operating costs for 9,000 new fully subsidized spaces	\$70 million
Capital costs for 20,000 new child care spaces	\$90 million
Pay Equity Measures (by year four)	\$170 million
Total (Year Four)	\$ 1.195 billion
1 <sup>st</sup> year phase-in	\$300 million

over time. The ultimate goal of a quality ECEC system is to ensure that all families, regardless of income, job status or geography, have access to seamless, co-ordinated, and inclusive care services. Such a benchmark will require that ECEC be viewed as a public priority with concomitant substantial multi-year investments. These investments coupled with planned systematic reforms and strong partnerships with the education system are essential to the ongoing expansion of ECEC and towards the goal of universal access to care.

### **Promoting social inclusion and fighting poverty**

The OAB is committed to promoting social inclusion and fighting poverty through a new model for income security and a system of services and supports to meet the diverse needs of Ontarians and their com-

munities. Tackling deepening and persistent poverty and ensuring the well-being of all Ontarians requires a three-pronged strategy that focuses on the following interrelated factors:

- a healthy labour market, where individuals and families have access to jobs with good wages and decent working conditions;
- quality social and community services that include affordable housing and community programs such as child care; and,
- strong income security programs.

Building a system that promotes the inclusion of all Ontarians should be based on the principles of universality, accessibility, comprehensiveness, accountability and democratization, preventive care and quality public services provided by unionized public sector workers.



## A new model for income security

The OAB's plan for building a quality income security system is part of a broad social inclusion strategy that includes a wide range of quality and accessible programs. Such a strategy is based on the premise that many Ontarians will need some form of assistance at some point in their lives to deal with such contingencies as unemployment, inadequate income, disability and the eventuality of retirement. This plan also recognizes that ensuring the well-being of all of Ontario's people is a long-term investment rather than a short-term drain on resources. Investments in Ontario's social infrastructure result in a socially inclusive society that is healthier, cohesive and productive.

Poverty has become, unfortunately, entrenched in Ontario. Continuing cuts to Ontario's social safety net and the growth of contingent employment have resulted in a situation where too many Ontarians find themselves and their families in poverty with little access to resources or opportunities to reverse or improve their situation. Over the six year period between 1993-1998, one in five people in Ontario experienced poverty at some point. For 60% of these people their spell of poverty lasted more than one year. Among children, one in six remains in poverty despite a period of unparalleled economic prosperity in the province. The erosion of Ontario's social safety net has had a particularly negative impact on those social groups that have historically experienced exclusion and disadvantage.

Social assistance in Ontario was slashed by 21.6% within two months of the election of the Progressive Conservative Government in 1995. Since that time, those families that remain on social assistance due to

a lack of good secure jobs, quality training and supports such as child care, have lost more than 35% of their purchasing power. While Ontarians with disabilities were spared from cuts in 1995, they have seen their benefits eroded by 15% as a result of inflation.

The restructuring of Ontario's system of social assistance since 1995 has worked to stereotype vulnerable individuals and families and to justify meagre benefits and punitive policies such as workfare.

The current system makes it harder for individuals who need support to access it. It is increasingly difficult to gain access to the Ontario Disability Support Program (ODSP) and Ontario Works (OW) systems. For those who get support, the benefits are so meagre and the system is so complex that beneficiaries use most of their energy managing program requirements rather than stabilizing their lives. With the system's primary emphasis on caseload reduction, many families are pressed to attempt to join the labour market without the adequate supports that would prevent them from returning to the social assistance system.

Other "reforms" of the workers' compensation system lowered benefit/retirement payment levels for injured workers while also lowering employer assessment levels with the result that many of these workers are left without compensation and are no longer able to work.

The provincial downloading of responsibilities to municipalities without sufficient resources has resulted in the erosion of the effectiveness of needed programs. The increasing use of the private sector in the development and implementation of programs and policy has financially benefited private sector contractors but has done little to improve services for its users or to

strengthen the public provision of these needed services.

The OAB wants to make it difficult for people to slip into social assistance in the first place, because they find real and supportive alternatives.

For those for whom the alternatives don't work right now, we want to make it easier for them to get the supports they need. Children, who make up about half of social assistance beneficiaries, are now living with families whose benefits are only about half of the poverty line. The National Child Benefit (NCB) would provide families on social assistance with some relief. But, Ontario along with many provinces, deducts the full amount of the NCB supplement from social assistance cheques. A single mother with one child on social assistance sees her family's annual NCB payment of \$1,250 deducted dollar-for-dollar from her monthly social assistance payment. These "savings" by the government are then reinvested in "new" programs for working poor families.

We want to make it simple for those receiving support to make the transition out of social assistance when they are ready to do so, through constructive rather than punitive policies. To make a productive and sustainable transition from social assistance, people require individualized opportunity planning that takes into account particular needs and matches those with supports such as child care and quality training.

We want to make it comfortable for those who require support for extended periods — such as those with disabilities — to continue to receive adequate financial supports and other needed services.

A new model is needed for income security that promotes the social inclusion of

everyone in Ontario. Many Ontarians and their organizations could play a positive role in developing and implementing such a system. Within the wider context of building a new system of income security that can meet the needs of all Ontarians, there are a number of pressing policy priorities that can begin to make a real difference for many Ontarians and their communities:

- More good jobs, better wages and better job protection are a good first step in stopping the slide into social assistance and in helping people out of it when they are ready.
- Fair work. People already on social assistance say they don't want 'workfare', they want work. Workfare is an impediment to work. The Ontario Alternative Budget proposes to replace workfare with a *Fair Work Program*. \$150 million in existing Employment Support funding will also be reallocated, to ensure people have access to real work with a future.
- Raise the minimum wage. We want to make sure that work is compensated fairly, by increasing Ontario's minimum wage to at least 60% of the average wage in Ontario for hourly-rated workers (currently \$8.75 per hour).
- Affordable, high-quality child care. The OAB's early childhood education and care program proposed in this document would expand access and ensure the affordability of child care to support parents in education, training and employment while promoting the full development of young children.
- Housing. Affordable Housing is an absolute necessity. The OAB believes it is an area of utmost priority that has been addressed in this document.

- Raising income levels. A more humane benefit level, including for persons with disabilities, must be established. We will allocate \$850 million to bring benefits to the level paid five years ago. The Ontario Alternative Budget would also end the claw-back of benefits offsetting the National Child Benefit Supplement. To ensure that other low income families continue to receive the Ontario Child Care Supplement for Working Parents, an additional \$180 million would be allocated.
- End discriminatory policies. We would also end punitive measures that stereotype low income people such as the demeaning mandatory drug testing plans for persons in receipt of social assistance. We would also end punitive rules that disallow persons with disabilities from partial participation in the workforce while collecting benefits under the Ontario Disability Support Program (ODSP).

## Housing the homeless

The 1.7 million renter households in Ontario (40% of all the households in the province) continue to sink deeper into a province-wide housing crisis and homelessness disaster. The rental vacancy rate is stuck at a dangerously low 1.7% and rents are in-

creasing at more than double the rate of inflation – signalling both an affordability and a supply crisis.

All the indicators are grim: social housing waiting lists are years-long, food bank line-ups are growing, homeless shelters in many parts of the province are over-capacity and even the volunteer programs in church basements are overwhelmed. Almost 61,000 renter households faced eviction in 2001 because they couldn't afford to pay the rent.

And the crisis is bound to get worse. The latest population projections from the Ontario Ministry of Finance suggest that the province will need about 18,400 new rental units annually over the next two decades. With no new social housing units being funded and only a tiny number of private sector units being built (most of them at the upper end of the rent scale), there is no relief in sight for this desperate housing situation.

Two technical papers on housing in Ontario have been released by the Ontario Alternative Budget Working Group and the Canadian Centre for Policy Alternatives. The first was issued in April of 2001 and the second in May of 2002.

Ontario's housing crisis has been manufactured by a series of policy decisions of the provincial government. In 1995, Ontario killed 17,000 units of co-op and non-profit

Income security	
Restore the purchasing power of social assistance recipients (fully funded in year 1)	\$850 million
End the claw back of the National Child Benefit (fully funded in year 1)	\$180 million
Replace workfare with a fair work program (reallocated from existing programs)	\$150 million

housing and cancelled all funding for new social housing construction. Later that year, the province cut shelter allowances paid to welfare recipients by 21.6%, and those low rates have been frozen since then despite seven years of rent increases.

In the late 1990s, spending on existing provincial housing programs was cut by more than \$300 million (25% of the overall housing budget). Then, in 1998, Ontario downloaded virtually the entire cost of provincial social housing programs to municipalities. The province went from spending \$1.1 billion on affordable housing in 1994 to practically zero in 1999.

The private sector has built less than 2,000 new units of rental housing annually in recent years. In a number of communities, there has been a net loss of private rental housing as demolitions and conversions have outpaced new rental construction.

Meanwhile, rapidly rising rents have created an affordability squeeze for renter households, most of which have faced stagnant or declining household income in recent years. The so-called *Tenant Protection Act*, which came into power in 1998, makes the problem worse by allowing landlords to raise the rents as high as they want on vacant units. Private landlords can take advantage of the province's new fast-track eviction process, which allows tenants to be evicted in a few days.

The newly elected Conservative Government announced in 1995 that it was planning to "get out of the housing business". The disastrous consequences of that decision are plain to see throughout the province.

The Ontario Alternative Budget proposes that the province get back into the housing business with a set of programs

that address both affordability and supply. About 15,000 new affordable units would be funded annually under our plan, two-thirds of which would be geared to the lowest income households. In addition, the OAB would make the rents affordable for more than 27,000 households living in existing private or social housing. And we would upload the cost of provincial social housing programs from municipalities back to Queen's Park, where the responsibility should be.

On the supply side, the OAB would provide \$49 million annually as the province's matching share of the Affordable Housing Framework Agreement. Ontario signed this agreement in Quebec City last November, and agreed to match the \$49 million annually over five years that the federal government has promised to spend on new housing in Ontario. Despite its commitment in Quebec City, Ontario has only promised about \$4 million annually. Matching the full federal share will help to generate about 2,000 new affordable rental units in Ontario each year over the next five years.

That 2,000 is a good start, but it's not enough. The OAB will also provide an additional \$650 million a year to fund 13,000 new rental units annually. About 15,000 units would be created under these two initiatives. The supply dollars would fund a one-time capital grant to housing developers to build affordable housing. The program would be simple and cost-efficient, unlike the administratively-cumbersome social housing programs of the 1980s and early 1990s.

Add to the 15,000 new affordable units the expected 2,000 or so private sector rental units, and the total number of units comes close to the need estimated by the Ministry of Finance.

On the affordability side, more than 47,000 renter households would receive rent supplements annually to help them pay their rent. About 10,000 of these households would be in the units that will be funded by the OAB supply programs. Subsidizing two-thirds of the new units ensures that low and moderate-income households will find a place to call home. Ensuring that the remaining one-third of units are set at market rents will create mixed-income communities, the model that has been used so successfully in the past 30 years in Ontario.

The remaining 27,200 rent supplement agreements will cover renter households living in existing private or social housing units.

The OAB sets aside \$850 million to return the funding responsibility for provincial social housing programs back to the province, where it belongs. Many tenants, co-op members and housing providers believe that the administration of housing programs can remain at the municipal level, but the funding should come from the province.

The capacity of co-op and non-profit housing providers to build new units has

been severely cut during the Harris-Eves years. The OAB housing program would be phased in. The first year would see the full Provincial share of the new Federal-Provincial program (2,000 new units) plus almost half of the planned new annual allocation of units (6,000 new units out of the planned total of 13,000). In addition, half the new rent supplement units (28,500 units) would be funded in the first year, with the full annual allocation in subsequent years.

## Health

### Stop the bleeding: fixing Ontario's Hospital Crisis

Nowhere is the aftermath of eight years of tax-cut financed spending cuts more evident than in Ontario's health sector and, especially, in our hospitals.

As the OAB demonstrated in its May health care paper "*Health Spending in Ontario: Bleeding Our Hospitals*", Ontario hos-

<b>Affordable housing</b>	
A new Ontario Housing Supply Program @ 13,000 units per year (\$300 million in year one, full funding by year two)	\$650 million
Ontario's share of Federal-Provincial Housing @ 2,000 units per year (fully funded as of year one)	\$49 million
Rent supplements for new units (\$25 million year one)	\$50 million
Rent supplements for existing units (\$68 million year one)	\$136 million
Province re-assumes responsibility for housing (partially offset by property tax reductions (phased in by year four)	\$850 million

pitals have not benefited from the increases in provincial health spending since 1999.

In 1994-95, Ontario hospitals got 41 cents of the provincial health dollar. By 2001, the hospitals' share was cut to 37 cents. And while hospital funding has increased since 1995, fully 51% of the increase in hospital spending went to pay for restructuring. In other words, more than \$2 billion in new hospital money was spent to pay for closing hospital beds, shutting down hospitals and firing health care workers.

The legacy of the Tory hospital cuts between 1995 and 1998 is seen in comparison with other provinces.

- Ontario hospital stays are shorter than the Canadian average i.e., Ontarians are discharged quicker and sicker
- Ontarians have less nursing care i.e., fewer nurses per capita than nine of ten provinces
- Ontarians have the second lowest number of acute care beds
- We have lost 5,672 hospital beds since 1995
- Our bed availability is in a perpetual state of crisis i.e., above 90% occupancy, vs. a US average of 60%
- While the Ontario Government has "balanced" its budget, Ontario hospitals will be carrying a total debt load of \$2.5 billion in 2002-03. (991 operating, 1,483 capital)

- The operating deficit of \$991 million for 2002-03 threatens another 9,500 full time employees and represents a potential catastrophe.

In this plan, we allocate \$900 million immediately to hospital funding.

And job one in Ontario's health care system must be to rehire our lost health care workers and restore excellence and quality to medicare in Ontario.

### Long term care

Once again, the OAB deplores the introduction of American-style privatized health care as the model for Ontario's provision of care to the ageing and special needs population.

Privatization of long term care must be stopped. Private for profit medicine based on low-wage job ghettos and unstable, insecure employment is not the way to get quality care for elderly and disabled Ontarians.

Long term care programs must become core medicare services, governed by the five medicare principles, offering stable, career based employment for care givers.

### Primary care reform

Primary Care Reform will transform Ontario's medicare program. The present doctor-dominated fee-for-service solo-practice medicare would be reoriented to a net-

<b>Health</b>	
Restore and stabilize hospital funding (full funding as of year one)	\$900 million
Invest in long term care reform (funded at \$200 million in year one)	\$500 million
Primary care reform (funded at \$100 million in year one)	\$300 million

work of Community Health Centres, open 7 days a week, 24 hours a day. Salary based teams of health care workers, including doctors, nurses, nurse practitioners, therapists and councillors will make the most of all the talents of the health care team. Centres open on a 24/7 basis will cut our dependency on hospital emergency departments.

Significant start-up and transition costs require an investment of \$300 million.

## Environment

### Ontario's environmental deficit

Public health, an efficient economy, our children's future: all of these depend on a clean environment. Repeated public opinion polling shows that a huge majority of Ontario citizens support strong environmental laws, even in times of recession and government deficit cutting. Yet the present Ontario Government has been undoing the entire environmental protection regime in this province. Its four-part strategy – dismantle environmental laws, weaken the role of government, shut out the public, and sell off our natural heritage – has essentially crippled the province's ability to regulate environmental quality in the public interest. This budget would begin to change that reality.

The massive cuts of the last eight years have left staff capacity down 40% and the combined operating and capital budgets of the Ministry of the Environment (MOE) and the Ministry of Natural Resources (MNR) cut by over \$100 million. As our environmental challenges escalate, Ontario no longer has the capacity (let alone the political will) to even monitor environmental performance, much less to enforce existing

environmental standards or to develop and implement the new standards that are badly needed.

An effective environmental policy, which seriously intends to address Ontario's growing "environmental deficit", must start by reinstating the enforcement and planning capacity in both the MOE and MNR. We are committed to doing that.

We would increase funding to MOE by \$80 million to restore capacity, and to MNR by \$150 million to develop the tools and policies needed to manage our province's resources well.

The catastrophe at Walkerton has delivered a clear message. We cannot take safe, clean drinking water for granted. It also points to the need for Ontario to rebuild its sewer and water infrastructure. A new Clean Water Fund would devote \$250 million per year in new funding to sewage and water treatment capital projects.

Adequate funding for these two key ministries would provide the capacity to embark on the fundamental reforms that are needed in Ontario. It will not be easy to undo the impacts of the recent gross mismanagement of environmental issues, but with adequate resources we can develop the initiatives we will need.

A start would be the development of creative technology, forcing regulation which can make an important contribution to bringing Ontario the clean air, clean water and healthy food that we need. Making a priority the development of a more energy and materials efficient economy, less dependent on fossil fuels and rooted in innovation, would pay dividends to all of Ontario residents, not just high-income earners.

Ontario pays a tremendous price every day for the environmental recklessness of

this government. The Ontario College of Family Physicians is concerned that in southern Ontario Canada's highest levels of smog caused by urban sprawl, automobiles, industry and coal-fired power plants, on both sides of the Canada U.S. border, cause premature deaths for up to 6,000 Ontarians each year. If the government really was concerned about "health issues", as it claims, it would get serious about Ontario air issues immediately.

It would be providing funding for extensive additions to public transport all over Ontario, rather than new spending on highways. It would be providing funds to promote more sustainable forms of energy and energy conservation, not looking to privatize Ontario's "white elephant" nuclear plants.

This budget commits \$300 million for support to public transport and other energy-efficient transportation options. And a significant amount of the community economic development funds can be used for energy-efficient renovations and water conservation initiatives, which deliver employment at the local level while accomplishing larger environmental goals. (See "Restoring Basic Public Services", below)

Urban sprawl is at the heart of many of the environmental challenges we face. Whether it is on the car-choked freeways of southern Ontario or the short sighted development proposals to pave over much of the Oak Ridges Moraine, the lack of effective

land use planning and the Government's abdication of responsibility is handcuffing our ability to act in our own best interests.

One of the first acts of the Government was to throw out key changes to the *Planning Act* in Ontario which had been developed over four years of consensus building under the Sewell Commission. Effective land use planning must be at the heart of Ontario policy development to provide the vision and the ideas that we need to confront the mistakes of the past. Confronting urban sprawl and reintroducing public control over the development industry would be a key part of our agenda to reduce greenhouse gases produced in Ontario and to promote the intensification of housing in urban areas.

We need to extend the Countdown Acid Rain Program. We need a Safe Drinking Water Act and a comprehensive Water Policy, a Pollution Prevention Planning Act, and new Pesticide Standards. We need an 80% reduction in garbage disposal and a commitment to meet or exceed Canada's commitments under the Kyoto Protocol, complete with a strategy to make it happen.

Ontario needs a public lands policy respectful of: First Nation treaty rights and the constitutional obligation to consult before decisions are taken; the need to manage Crown lands in the public trust; biodiversity protection which assures long-

<b>Restoring Regulatory Capacity</b>	
Rebuilding the Ministry of Environment (fully funded in year one)	\$80 million
Rebuilding the Ministry of Natural Resources (funded at \$20 million in year one)	\$150 million
The Clean Water Fund (funded at \$150 million in year one)	\$250 million



term ecosystem sustainability; and the need for “real” protected areas safe from mining, hunting, and forestry, rather than the Lands for Life set of policies which promote the intensification of forestry and mining on public lands.

There is much that needs to be done to address Ontario’s environmental deficit, but an excellent place to start would be to re-orient the Ontario tax system.

We should penalize excessive energy use and material-through-put in our economy and use incentives to promote efficiency and creative solutions to our pollution challenges. Investments in energy efficiency have been found to produce four times more jobs than equivalent spending in new supplies of conventional energy. We are lagging behind Europe and Japan in utilizing new energy-efficient technologies and techniques, even though these new approaches could reduce energy cost, improve air quality, improve public health, stimulate new industries, and create new jobs. We must begin the transition to a renewable energy economy now and abandon the deadly coal-fired energy stations Ontario Hydro is so dependent upon.

Many of the ideas we can use have already been developed in other jurisdictions around the world. In these days of rising

world-wide temperatures and shrinking ice caps, what we need in Ontario is the political will to take on our environmental deficit for the crucial challenge it really is. This budget would be an important first step in the right direction and provide a base for much more innovative and creative solutions for the future.

## Restoring basic public services

### Worker protection

Over the past eight years, the Conservative Government has destroyed the Ministry of Labour’s capacity to enforce Ontario’s worker protection laws. Huge cuts to budget and staff, and to the laws themselves, have given bad bosses a green light to exploit. The OAB would restore the budget to the Ministry of Labour with an investment of \$25 million, and re-establish the Wage Protection Fund.

### Community development

One of the many unfortunate consequences of the transfer of more than \$12 billion in tax cuts to Ontario’s upper middle class has been the elimination of hundreds of millions of support dollars for essential social and economic infrastructure.

<b>Protecting working people</b>	
Restore Ministry of Labour (fully funded in year one)	\$25 million
Wage Protection Fund (\$10 million in year one)	\$20 million
<b>Supporting communities</b>	
Community Economic Development (\$100 million in year one)	\$225 million
Transportation and Transit	\$300 million
Native Affairs (fully funded in year one)	\$8 million

Thousands of voluntary cultural, social, recreational and community action groups have been de-funded.

This key component of Ontario's social fabric will be supported by the OAB at \$225 million per year.

**Table 1**  
***Increased program spending***

	<b>2002-03</b>	<b>Total by 2005-06 (2002-3 \$)</b>
<b><i>Rebuilding Social Programs</i></b>		
<b>Health Care</b>		
Hospital Stabilization	650	900
Home Care Reform	200	500
Primary Care Reform	100	300
<b>Social Assistance</b>		
Increase social assistance rates (incl. shelter allowance to 85% of market rent)	850	850
End the National Child Benefit Clawback	180	180
Fair Work Program	50	200
<b>Housing</b>		
New Ontario Housing Supply Program (13,000 units)	650	650
Federal-Provincial Program (2,000 units)	49	49
Province re-assume responsibility for housing -partially offset by property tax reduction		850
Rent supplements for new housing (10,000 units)	25	50
New rent supplements for existing units (27,200)	68	136
<b>Education</b>		
The Early Years Program and \$5 a day child care	300	1,195
Restore real per student funding - elementary and secondary	550	2,300
Restore post-secondary funding	300	2,000
<b><i>Restoring Regulatory Capacity</i></b>		
<b>Environmental Protection</b>		
Restore the capacity of the Ministry of Environment	80	80
Restore capacity of Ministry of Natural Resources	20	150
Clean Water Fund	150	250
<b>Protecting Working People</b>		
Restore Ministry of Labour	25	25
Wage Protection Fund	10	20
<b><i>Supporting Communities</i></b>		
Community Economic Development	100	225
Transportation and Transit	265	300
Native Affairs	8	8
<b>Total program funding increase, 2002-3 \$</b>	<b>4,630</b>	<b>11,218</b>
<b>Other funding to offset inflation and population growth (partial in 2002-3)</b>	<b>297</b>	<b>7,353</b>
<b>TOTAL PROGRAM SPENDING INCREASE, current \$</b>	<b>4,927</b>	<b>18,571</b>

## Section III: Fiscal framework

In the 2002-3 tax year, the budgetary impact of past tax cuts will reach \$13.6 billion per year: \$10.2 billion in personal income tax cuts; \$2.7 billion in business tax cuts; and \$0.7 billion in carrying costs for money borrowed to finance tax cut deficits.

Fortunately, the extended period of export-led growth that coincided with the first six years of the Harris Government gave rise to substantial growth in Ontario's tax bases. As a result, it is not necessary to replace all of the foregone revenue to bridge the gap between Ontario's fiscal capacity and the funding needed to rebuild public services.

But even after allowing for the impact of growth on public revenue, a substantial gap remains – a gap that must be filled by rebuilding Ontario's fiscal system.

The OAB fiscal framework for 2002-3 sets out the basis for financing public services renewal in Ontario over a four-year term of office beginning in 2002-3.

The framework is based on the following goals and assumptions:

- Financing of \$11.2 billion in new spending over a 4-year period;
- Maintaining the real, per capita value of the spending base as it existed in 2000-1;
- Real economic growth for 2002 and 2003 as forecast by the five largest chartered

banks in their spring, 2002 forecasts<sup>5</sup> and 3.5% per year thereafter;

- Inflation as forecast by chartered bank for 2002 and 2003, 1.75% for 2004 and 2005 and 2% thereafter; and
- A balanced budget over the portion of the business cycle captured by the 4-year budget planning cycle.

The key economic assumptions, on a fiscal year basis, are presented in table 1.

The substantial fiscal stimulus from the implementation of this fiscal framework is assumed to add 0.45% to growth in 2002, 0.9% in 2003 and 0.45% in 2004.

Financing for the fiscal program is drawn approximately equally from revenue growth in excess of inflation and population growth and from a series of tax changes, detailed below.

The framework is summarized in table 3.

Over the four-year OAB planning cycle, the framework provides for a total spending increase of \$18.6 billion, \$11.2 billion for public services renewal, \$4.0 billion to maintain the real value of 2001-2 and increased program and capital spending on public services and \$3.2 billion to protect the per-capita 2001-2 base.

Over the four-year period, the framework generates a surplus of \$4.2 billion,

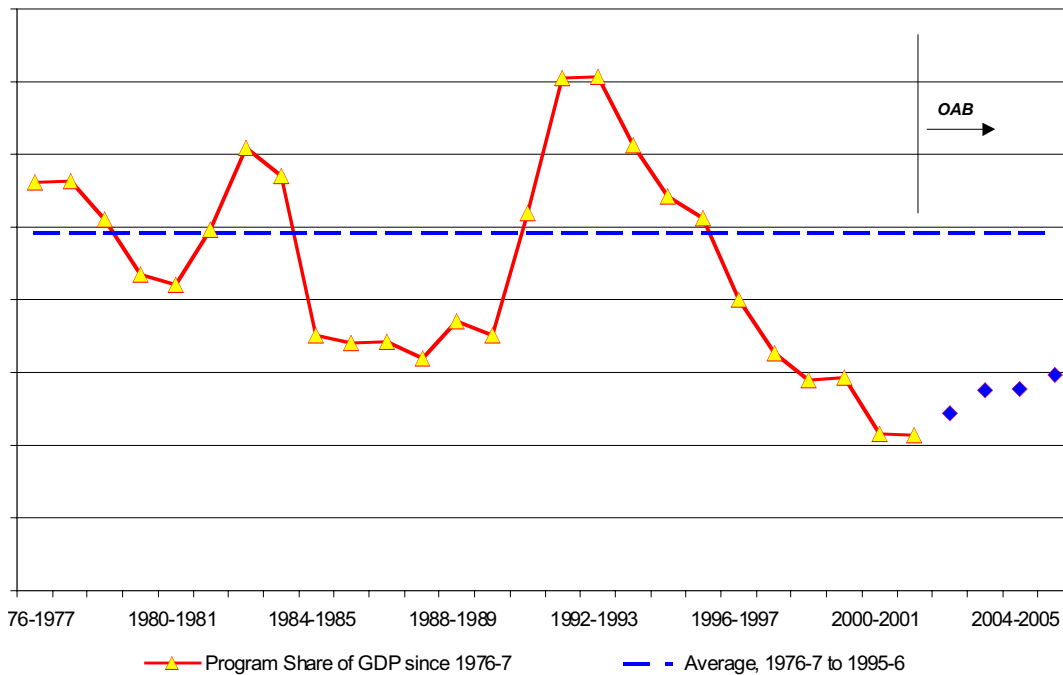
**Table 2 — Economic assumptions**

	2001-2	2002-3	2003-4	2004-5	2005-6
Inflation	2.6%	1.4%	1.9%	1.8%	1.8%
Real Growth	1.6%	3.4%	3.8%	3.5%	3.5%
Interest rate	5.38%	5.06%	5.31%	5.56%	5.75%

**Table 3 — Fiscal framework summary (all figures \$million)<sup>6</sup>**

<b>OAB 2002-3 Fiscal Framework Summary</b>						
	2001-2	2002-3	2003-4	2004-5	2005-6	4-yr. total
Program + capital	54,263	59,372	64,582	68,243	72,923	
Public Debt Interest	8,553	8,369	8,117	7,826	7,711	
Ontario Hydro	589	589	589	589	589	
Reserve	0	1,000	1,000	1,000	1,000	
Total Revenue	63,463	68,539	75,405	79,658	84,082	
Budget Deficit (-) / Surplus (+)	58	(791)	1,118	2,000	1,859	4,186
New spending	n/a	5,109	5,210	3,661	4,680	18,660
Inflation coverage	n/a	651	1,009	1,130	1,194	3,985
Population growth coverage	n/a	713	772	840	887	3,212
Net new real, 2002-3 \$	n/a	3,744	3,371	1,635	2,468	11,218

**Chart 3 – Spending and GDP, historical and OAB forecast**



even after allowing for a Contingency Reserve of \$1 billion in each fiscal year.

Spread out over a four-year period, this plan calls for a substantial increase in public services spending in Ontario.

However, it does not take the share of GDP devoted to public services spending to levels that are beyond our ability to pay. By the end of the phase-in period, program

and capital spending will have reached 13% of GDP – below the level in the last two years of the first Harris Government and substantially below the 14.9% average that had prevailed in the 20 years before the Conservatives were elected in 1995, under governments of all three major political parties.

## Section IV: Financing the fiscal framework

The 2002-3 OAB fiscal plan is supported by increased revenue generated in part from economic growth and in part from changes in the structure of the revenue base.

Revenue growth finances 100% of the cost of maintaining the real, per capita value of the 2001-2 public services base and contributes approximately 65% of the cost of public services renewal. The remainder is financed from a series of modest tax measures spread over a number of different tax bases – corporate and personal income taxes, tobacco taxes and employer health taxes.

The general financing framework is summarized in table 4.

After allowing for inflation and population growth coverage, economic growth generates approximately \$7.3 billion as a potential contribution to program expansion and deficit reduction; \$3.9 billion is generated from new revenue measures.

### Revenue package

The OAB revenue package for 2002-3 to 2005-6 is based on the following objectives:

- Generate the revenue needed to finance services renewal;
- Ensure that all Ontario taxpayers share in the financing of public services renewal through the personal income tax.
- Spread tax increases over the four-year period;
- Abandon and reverse the Harris Government's race-to-the-bottom in corporate tax rates, restoring rates to their 1998 levels;
- Establish a structure for the Employer Health Tax that reflects the substantial benefit to ALL Ontario employers from publicly funded health insurance;
- Restore tobacco taxation to its 1993 level;
- Reaffirm commitment to progressive taxation with new tax brackets applicable to income in excess of \$100,000.

Table 4 – growth and revenue over 4 years.

<b>Summary of 4-year impact of economic growth on revenue</b>			
Growth in 2001-2 tax bases			14,266
Growth in bases for increased taxes from 2002-3			676
Revenue increase in plan attributable to growth			14,943
LESS-- funding to offset inflation and population growth			7,624
Net contribution of growth to program expansion			7,319
Contribution from tax increases and structure changes			3,918
Total available for program expansion and deficit reduction			11,237
Required for program expansion			11,218

All Ontarians have paid a price, in reduced or deteriorating public services, to achieve the Ontario Conservatives' single-minded goal of reducing taxes. And we believe that all Ontario taxpayers can and should share in the cost of rebuilding public services.

Much of the additional fiscal capacity we need can be recovered by restoring business tax rates that should never have been cut in the first place, and by introducing fairness into the system for funding health care.

We believe that a portion of the cost should be generated through increases in the Personal Income Tax – increases that would be paid by all Ontarians, based on their ability to pay.

Spreading the renewal of public services over a four year period means that it does not require substantial additional sources of revenue to get us back on a sustainable track. The recommended tax increase is modest: an across-the-board increase in personal income tax rates of 0.25%. This is a very important element of the OAB in that it acknowledges that, since everybody benefits from a better public economy, everybody, who is able, should pitch in to help rebuild it. That means all taxpayers have a role to play.

In addition, to offset some – but by no means all – of the exceptional tax reductions provided to high-income Ontarians by the Conservative government, we call for marginal tax rate increases of 1% for income above \$100,000 per year and a further 1% for incomes above \$200,000 per year. Again, these are modest changes that will secure the tools for economic success for everyone, and for the Province of Ontario as a whole, while distributing the cost equitably.

The revenue package is summarized in table 5.

Table 5 — Sources of additional revenue

## Revenue summary

### Personal Income Tax

- A 0.25% increase across-the-board in all Ontario tax rates;
- Introduce two new tax brackets applicable to individuals with incomes over \$100,000; 1% more on incomes over \$100,000 and an additional 1% more on incomes of over \$200,000.

Each of these changes will increase Ontario's total tax revenue by approximately 3.7%.

### Corporate income tax rates.

- Cancel future corporate tax rate cuts; restore rates to levels existing before Harris 2<sup>nd</sup> term.

### Employer Health Tax

- Eliminate graduated rate structure and replace it with a flat rate tax of 1.95% on all payroll, and on the incomes of self-employed individuals.

### Tobacco Taxation

- Increase tobacco tax rates to those in effect prior to 1993 reductions.

## Revenue details

### Personal Income Tax

The OAB 2002-3 proposal is for two new income tax measures:

- An across-the-board increase in tax rates of 0.25%; and

**Table 5 — Sources of additional revenue**

	Current Dollars				Total new revenue in 2002-3 Dollars
	2002-3	2003-4	2004-5	2005-6	
Restore all corporate tax rates (non-incl. Post 2001)	807	850	900	950	807
EHT Cuts Not Counted In EHT Restoration Calculation	103	109	115	121	103
PIT Cuts Not Counted in PIT Cabulation	82	87	92	97	82
Tax Changes					
Uniform Health Funding -- Flat Rate EHT No Exemptions	-	1,057	1,116	1,175	997
Tobacco taxation increases	509	540	570	600	509
0.25% increase in all PIT rates	-	734	780	826	710
New brackets (+1% @ \$100k; +1% @ \$200k)	-	734	780	826	710
<b>TOTAL ADDITIONAL FROM TAX CHANGES</b>	<b>1,501</b>	<b>4,111</b>	<b>4,353</b>	<b>4,595</b>	<b>3,918</b>

- Two new tax brackets on incomes over \$100,000: an additional 1% on incomes over \$100,000 and a further 1% on incomes over \$200,000.

Each of these measures would raise approximately \$650 million.

These two measures combined would raise an additional \$1.3 billion, and would take effect in the 2003-4 budget.

### **Paying for health care – the Employer Health Tax**

When the Ontario Employer Health Tax (EHT) was introduced in the late 1980s as a replacement for OHIP premiums, it included a graduated rate structure. The rate was 0.98 per cent for employers with total payrolls of less than \$200,000, increasing on a graduated scale to 1.95% on payrolls exceeding \$400,000.

It was the only payroll tax levied in Canada with a graduated rate structure. In its analysis of the tax, the Ontario Fair Tax Commission concluded that the graduated structure in place at the time was not appropriate. Although it was presumably designed to provide relief to small business, benefit from the rate structure concession actually bore very little relationship to the size or nature of a business or its ability to pay the tax.

For example, families employing caregivers would benefit from the graduated rate, as would large businesses which happen to have a small number of employees. The fact that payroll taxes tend to be

shifted back onto employees raised further questions about the fairness of the system.

Since the graduated rate was based on total payroll rather than the pay of individual employees, an individual earning \$200,000 a year in a oneemployee business would pay the preferential rate whereas a minimum wage employee in a supermarket would pay the full rate. In its first budget, the Harris Government compounded the unfairness. It replaced the graduated structure with a blanket exemption for the first \$400,000 of annual payroll. In addition to being unjustifiable on fairness grounds, ironically, this exemption is not even primarily of benefit to small business.

The Fair Tax Commission’s analysis of the Employer Health Tax found that two thirds of the benefit from an exemption for the first \$100,000 of payroll would go to employers with annual payrolls in excess of \$400,000. Using data from the same Fair Tax Commission Technical Paper on the EHT, we estimate that the Harris Government’s EHT exemption reduces EHT revenue by a total of \$626 million in 1999-2000 compared to what would have been raised on the preCSR graduated scale. More than 54% of the benefit from the Harris exemption went to employers with payrolls in excess of \$400,000 a year.

In addition to the problems of fairness and targeting of the EHT exemption, there is a further problem in principle. Public health insurance is not only a major benefit to Canadian individuals and families,

<b>Examples of personal income tax impacts</b>	
<i>Income level</i>	<i>Impact of PIT changes</i>
\$30,000	\$40 increase
\$50,000	\$80 increase
\$100,000	\$500 increase
\$185,000	\$1,400 increase



it is also a significant competitive advantage for Canadian business. The EHT is the only tax levy that reflects in any way that competitive advantage, and in fact covers only a fraction of the cost of OHIP.

Eliminating the Harris Government's EHT exemption give-away and moving to a single rate of EHT would raise an additional \$1.1 billion. This change would take effect with the 2003-4 budget.

### **Tobacco taxation**

In the early 1990s, the tobacco industry persuaded the Government of Canada that high taxes on tobacco products in Canada were giving rise to a massive increase in tobacco product smuggling. According to tobacco industry reports, a substantial proportion of the market for Canadian cigarettes was being taken up by Canadian-manufactured cigarettes exported to the United States and smuggled back into Canada.

Despite widespread evidence that steady increases in tobacco taxation over the years had a real impact on smoking by young people, the Federal Government met the industry's request and reduced its taxes. But rather than simply lower federal excise taxes on cigarettes, the Federal Government chose to lever corresponding reductions in provincial taxes. In provinces which chose to lower their taxes, federal taxes would be reduced. In provinces which did not choose to give the industry a break, there would be no federal tax reduction.

Ontario reduced its taxes, as did Quebec. Other provinces either reduced taxes by lesser amounts, or did not reduce taxes at all.

It is now evident that this policy shift was a significant mistake. Tobacco use by young, first-time smokers is on the increase.

The promised dramatic reductions in smuggling activity did not materialize, and to the extent that smuggling has declined, the change has been attributed to other factors.

The Federal Government has already signalled its view that this policy was a failure by restoring a portion of the tax that was cut in 1993.

In the 2002-3 budget, the Provincial Government moved part way. Ontario should fully restore its tobacco tax rates to those that were in effect before the 1993 cuts. That would raise approximately \$500 million.<sup>7</sup>

### **Corporate income taxation**

In the recovery from recession in Ontario and in Canada, corporate income fared much better than the incomes of average families. Corporate profits soared to record heights; real median family incomes are still stuck at their 1986 levels. We believe that it is important for corporations to make an additional, visible, contribution to addressing the problems in public finance in Ontario created by the recession.

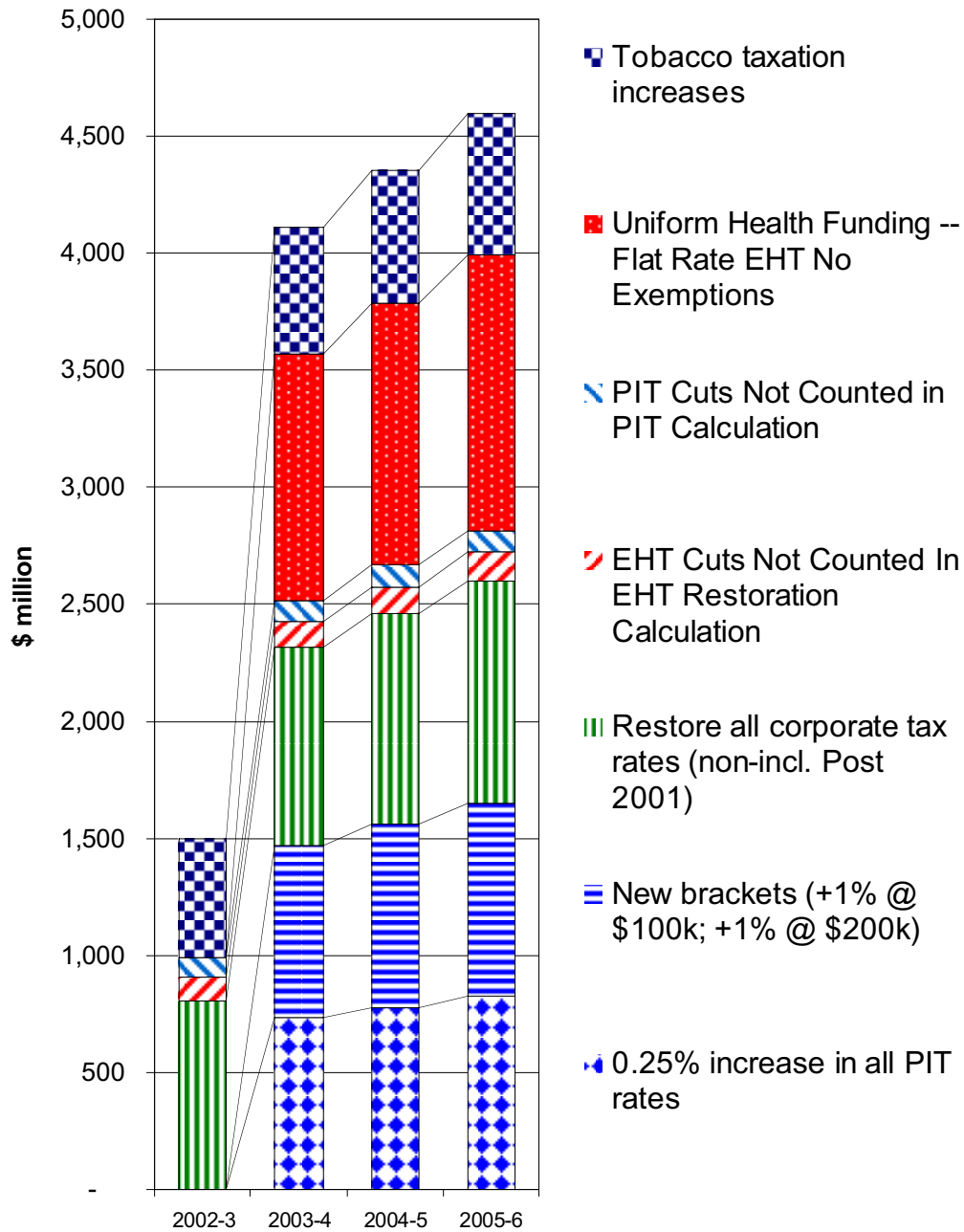
The Harris Government has proudly declared its intention to start, and win, a race to the bottom in corporate taxation in North America.

There is no evidence that this policy will have any impact, other than to deprive the people of Ontario of revenue from the profit-making activities that take place here and to reduce the contribution of the corporate sector to the financing of the public services on which much of their earnings potential depends.

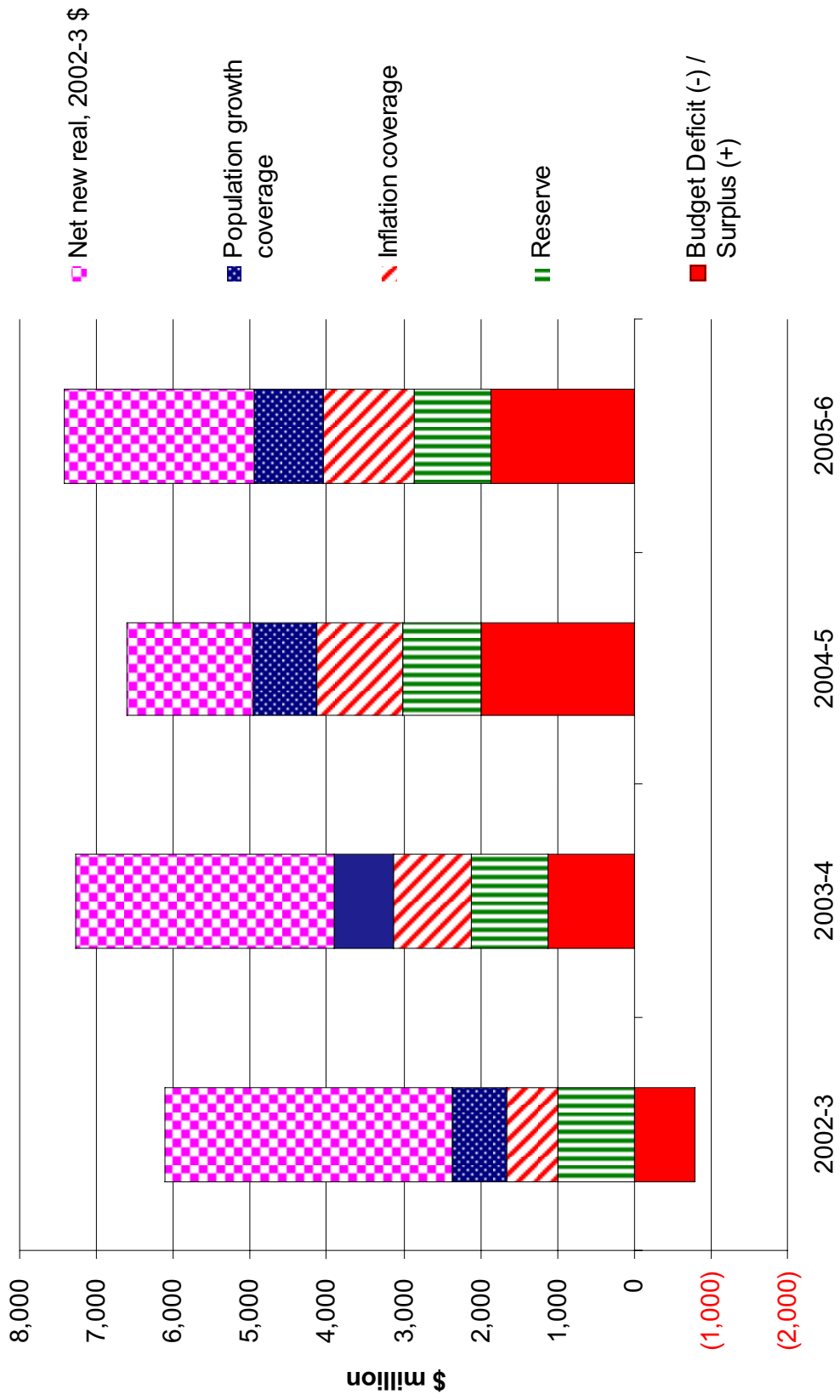
All corporate tax rates – including the small business rate – will be rolled back to their 1998 levels. This will generate \$800 million in additional revenue and avoid further revenue losses in the future.

Chart 4 – Revenue summary

Summary of Revenue Package for OAB 2022-3



## Fiscal Framework Summary



## Section V: The 2002-3 Provincial Budget

Ontario Premier Ernie Eves is proving to be a moving target as he attempts to create space for himself as a departure from Mike Harris.

Despite all of the rhetoric about addressing priority needs, under this budget, spending on provincial public services will continue to shrink as a share of the provincial economy, from 12.2% of GDP to 11.9%. And with only a brief hick-up, the trend of tax cuts piled upon tax cuts will continue.

The hospital sector is the only area in which the Government appears to have responded to evident funding crises. The budget shows an increase in operating funding for hospitals, close to the \$900 million the hospital sector has been saying it needs. But the funding announced for home care simply repeats promises made in the year 2000 and never kept; there is nothing in the budget to follow through on primary care reform; and the budget makes no commitment to multi-year funding for the future.

The budget provided \$75 million more to post-secondary educational institutions to avert a crisis this fall, as colleges and universities faced the prospect of not having enough funding to accept the early wave of the double-cohort of high school graduates created by the elimination of grade 13.

But there is nothing in the budget to reverse the long-term deterioration in the budgets of post-secondary institutions, and nothing beyond a vague promise of future consultations to acknowledge the impact of tuition increases on access and levels of stu-

dent debt. Tuition will continue to increase. Accessibility will continue to be compromised. And the system will continue its longer-term decline. The Ontario Alternative Budget estimates that a minimum of \$300 million is needed this year simply to stabilize the system.

The budget responded to widespread calls for a delay in the implementation of corporate and personal income taxes planned to take effect in this budget year.

However, the changes in timing are designed so that they will have their greatest impact in the 2003-4 budget, expected to be Premier Eves' election budget.

It also lays out a schedule for future tax cuts that makes it clear that the long-term priorities have not changed, and that the Government has learned nothing from the public services crises its tax cut mania have created.

We are also back to the use of "innovations" in accounting and asset sales to make the budget picture look better than it actually is. This year's budget includes an estimated \$1.8 billion in revenue from extraordinary asset sales, strongly reminiscent of the sale of Highway 407 in the lead-up to the previous election. \$750 million of that amount is attributed to the sale of Hydro One.

In the rest of the budget, even the script has not changed.

On the spending side, there is a lot less than at first appears.

There is nothing meaningful in the budget for elementary and secondary edu-

cation, beyond what was announced with the General Legislative Grants in May. The \$45 million in additional funding announced in the budget falls far short of what the system will need to avoid a program melt-down beginning next school year.

The total of \$400 million in additional funding for elementary and secondary education does not even keep up with costs and enrolment changes since 2001-2, much less make a dent in the shortfall in funding since the Conservatives were elected in 1995.

Indeed, the Government continues to deny that there is a problem with funding adequacy, repeating again its claim that funding has increased by \$1.4 billion, or 11% — more than the increase in enrolment. A claim that ignores increases in school board costs since the Government was elected. When those cost increases are taken into account, funding for elementary and secondary education will be more than \$1,000 per student lower in 2002-3 than it was in 1995, a total of more than \$2 billion in total.

Perhaps the most outrageous example of inflated rhetoric in the budget is the assertion that funding for special education has increased by 17% since 1998-99. True

enough, but what the Government doesn't say is that the budget for special education is far short of what is needed, or that this year's budget increased at only half the rate of growth in enrolment.

The budget speech allocates a good deal of rhetoric to environmental protection, and allocates substantial capital funds for local sewer and water treatment at the local level. But it does nothing in the operating budget to restore the ability of the Ministry of Environment to enforce the tougher regulations required as a result of the O'Connor inquiry. Tougher regulations don't mean much if the Ministry doesn't have the ability to enforce them.

In the end, this budget appears to be designed more to position the Ernie Eves' Government for the next provincial election than to address the public services crises his government's tax cut policies have created.

This budget keeps Ontario in the race to the bottom of corporate tax rates; it just takes a break for one year. This budget promises to continue with personal income tax cuts, only this time, by eliminating the first stage of the surtax, it will be even more focused on Ontarians with higher incomes than previous cuts.

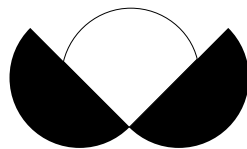
# Endnotes

- <sup>1</sup> Toronto Star, May, 2002
- <sup>2</sup> Source : Provincial estimates and Finance Canada estimates, unpublished back-grounder to The Fiscal Balance in Canada: The Facts, January 2002, Department of Finance Canada.
- <sup>3</sup> Mackenzie, Hugh "The Phantom Fiscal Crisis", Ontario Alternative Budget Technical Paper #3, Canadian Centre for Policy Alternatives, April 2002.
- <sup>4</sup> See Chart 3.

<sup>5</sup>

2nd quarter 2002 forecasts Ontario			
Growth			
	2001	2002	2003
BMO	1.0%	3.7%	5.1%
CIBC	1.0%	3.1%	3.2%
RBC	1.0%	3.7%	3.7%
Scotia	1.3%	3.1%	3.5%
TD	0.9%	2.6%	4.0%
Average	1.0%	3.2%	3.9%
CPI			
RBC	3.1%	1.3%	1.3%
BMO	3.1%	1.4%	1.7%
TD	3.1%	1.0%	2.2%
Average	3.1%	1.2%	1.7%

- <sup>6</sup> The line "New spending" includes inflation adjustments to maintain the real value of the phased-in \$11.2 billion in "Net new real, 2002-3 \$" spending. Accordingly, the lines "Inflation coverage" "Population growth coverage" and "Net new real ..." add to less than "New spending".
- <sup>7</sup> Gerry Phillips, MPP, Treasury Watch Vol. 5 No. 2, June 2002



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