



# OAB2010

## TECHNICAL PAPER

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## Off Target

Ontario budget misses the point on economic recovery

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With Ontario only beginning to emerge from its deepest recession in at least a generation, Ontarians should have seen a 2010 budget that kept its focus on fostering economic recovery.

It should have supported those who have been hardest hit by the recession and ensured a solid foundation for the future.

It should have been a budget that set aside the deficit as an issue for another day.

Although the budget is full of lofty and self-congratulatory rhetoric on all of these fronts, in concrete terms the budget fails.

On the economic recovery front, the stimulus package announced in last year's budget is essentially unchanged, although delays in implementation have shifted some revenue and expenditure from 2009–10 to 2010–11.

While those delays mean that there will still be special infrastructure spending in the system for much of the next year, as far as economic stimulus is concerned, the government is declaring the game over at the end of the first period.

It is not investing a single new penny in stimulus investments this year, coasting instead on last year's announcements.

On the child care front, the government has finally acknowledged the obvious: the Harper government never intended to restore the child care funding it canceled three years ago. After a considerable dog fight from the child care community to save 8,500 child care spaces, the province has come up with the \$63.5 million needed to fill the void.

So we know that the government has backed away from its threat to cut child care funding when the federal money runs out. What we don't know is what will happen to child care funding overall year over year.

And that's about as good as it gets in this budget for those adversely affected by the recession.

For the longer term, the news isn't any better.

The budget goes on at length about the size of its infrastructure investment program. However, once the current stimulus dollars flow, Ontario's infrastructure investment rate will actually slow down, although the other shoe won't be fully

dropped until a promised 10-year capital plan is announced later this year.

For example, as a counterpoint to the government's highly touted green economy initiatives, support for transit capital — both the bus replacement program and Metrolinx development — is being reduced or delayed.

While the government stakes a claim for a deficit prudence award by promising to eliminate the deficit within eight years, its fiscal projections clearly follow the 1990s federal strategy perfected by Paul Martin to ensure that future departures from plan are all good news departures.

Ontarians who depend on public services and the people who deliver those services will pay a price in reduced services and lower living standards.

But as important as the government says it is to reduce the deficit, it is persisting with its unnecessary corporate tax cuts — now projected to cost the province \$2.5 billion a year by 2012–13 — tax cuts that will propel Ontario into a leading position in the race to the bottom.

Although the government takes pains to stress the cut in small business tax rates from 5.5% to 4.5%, most of the benefit from these cuts will go to the financial services industry, the energy industry and, indirectly, to the United States Treasury.

A lot of the bad news is in the details, and in critically important announcements that won't be made until later.

Supporters of the government's poverty reduction initiative weren't expecting spectacular gains in this year's budget. But they were expecting at least another down payment towards the goal of reducing child poverty by 25% in 5 years. They didn't get it. Instead, they got inflated rhetoric masking actual cuts in living standards for Ontario's most disadvantaged citizens.

For the first time since 2005, Ontario Disability Support Program and Ontario Works benefits increases are being held below inflation (1% increase compared with a 2% projected inflation rate). To make matters worse, the \$57 million cost of that increase will almost certainly be more than offset by the loss, for thousands of families living in poverty, of special diet benefits.

The special diet benefit was originally designed to supplement regular benefits to cover the costs of special dietary requirements. As social assistance benefits fell further behind basic needs, the use of the special diet benefit was expanded to support families unable to provide for nutritious meals using inadequate social assistance benefits. That change in focus was noted in the 2009 report of the provincial auditor.

Rather than acknowledge the reality that the growth in special diet funding is a symptom of the inadequacy of ODSP and OW benefit levels, the government is cutting the current \$200 million-plus program and in a future announcement will replace it with a medically driven benefit administered by the Ministry of Health. The \$200 million loss of the special diet program is more than three times the \$57 million cost of the 1% increase in ODSP and OW benefits.

In the lead-up to the budget, Premier McGuinty — the self-described education premier — got a lot of political mileage from the announcement of 20,000 new postsecondary education spaces for 2010–11 and an increase of 50% in the number of foreign students admitted to Ontario universities and colleges.

The budget claims this is fully funded through an increase of \$310 million in operating grants. But that's not what the math says. In 2009–10, according to Finance officials, college and university operating funding was \$4.6 billion. In 2010–11, that total will be \$4.8 billion. So if operating grants are being increased by \$300 million to cover new enrolment, that means base funding is actually going down by \$100 million.

On a real, per student basis, colleges and universities will be getting substantially less in 2010–11 than they received in 2009–10. Furthermore, while the budget calls for an increase of 50% in the number of foreign students (from the current level of 57,000) served by Ontario postsecondary institutions, it gives no guidance as to how nearly 30,000 new foreign students will be accommodated in the postsecondary education system.

That leads to another detail. Ontario's policy on student tuition increases expires with the current 2009–10 academic year. Tuition policy would normally be announced as part of the budget. Instead, tuition regulations for the 2010–11 academic year will be announced by the Minister of Training, Colleges and Universities at a later date. Given the gap between operating grants and funding requirements for colleges and universities implicit in the budget numbers, students and their families shouldn't be expecting good news in that announcement.

The deficit has clearly emerged as the government's budgetary political priority. The budget talks about reducing public employment, but never mentions a word about service cuts. The budget talks about restraint in public services salaries but shifts the onus to its employees by declaring that restraint will kick in only after current collective agreements expire.

More to the political important, the government employs a number of techniques to position itself for good news. The ac-

tual turn-around in the deficit for 2009–10 from the forecast in the fall economic statement would have been greater had the government not booked \$500 million for a special contribution to the Pension Benefits Guarantee Fund and delayed recognition of over \$700 million in federal infrastructure funding until 2010–11. That has the effect of making the starting point for the government's deficit reduction plan higher. In this year's budget, the contingency reserves built into expenditure forecasts are significantly higher than they have been in recent years. In addition to the normal contingency reserve (\$700 million this year), the government has built in a \$1.8 billion operating contingency fund and a \$200 million capital contingency.

As it heads into an election year, the government is virtually guaranteed to be in a position to deliver a steady stream of positive fiscal news.

For the longer term, the economic growth rates used in the government's projections are well below the private sector consensus. That will inevitably translate into better fiscal performance and more rapid deficit reduction than is forecast in the budget.

One statement in the budget papers exposes the exercise for what it is. In discussing its deficit reduction plans, the bud-

get states: "growth in the Ontario economy and revenues alone cannot bring the Province back to balance". That is simply not consistent either with Ontario's recent economic history or with reasonable projections for the future.

So just as Canadians were left wondering why they had to endure draconian cuts to health care cuts and employment insurance benefits at the federal level in the 1990s when the budget was balanced years ahead of schedule, under the government's plan, Ontarians will be left wondering why post-secondary students and poor children were abandoned and our infrastructure allowed to deteriorate further in Ontario in the 2010s.

The details of what is in and not in the documents point to two key groups of losers in this year's budget: students and their families, who face the virtual certainty of substantial unexpected tuition increases with the boasts of Ontario's "education premier" ringing in their ears; and Ontario's poorest families, who will lose ground yet again as the government trumpets its 25-in-5 poverty reduction strategy.

Beyond those groups, all Ontarians should feel short-changed by misplaced priorities that have put pre-election positioning ahead of dealing with the recession and its consequences for Ontario families.



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