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Steering Ontario Out of Recession

A plan of action

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Introduction

More than a year into a global recession that hit Ontario harder than most provinces, there is renewed pressure on the provincial government to steer a fragile economic recovery into the safe zone.

While some pundits argue that balancing the provincial budget should be the government's main concern, caving into deficit hysteria at this tenuous point in the province's economic recovery could come at too great a price.

This paper makes the case for stronger provincial leadership to save and create jobs as well as to ensure the vulnerable and the unemployed aren't left behind.

There is a very good reason why this leadership now falls at the feet of the provincial government on the eve of the March 25 budget: there are no other actors left to step up.

The 'market' isn't doing the job. Despite green shoots of hope, Ontario's economic recovery remains relatively jobless. Private job creation is sluggish, leaving many unemployed Ontarians scrambling to stay afloat with lower paying part-time and temporary jobs or by venturing into self-employment and hoping for the best.

The news could easily go from bad to worse, since hundreds of thousands of Employment Insurance (EI) recipients are on the verge of running out of benefits with nowhere else to go.

To add to the province's troubles, the federal government's early March budget confirmed Ontario can expect little help from its senior partner. The federal government refuses to extend EI benefits to alleviate pressure on provincial social assistance rolls and its recent budget offers no new initiatives to counteract the lingering effects of the global recession.

In fact, the federal government may well make things worse with its plan to cut public sector jobs. Provincially, the government has floated the idea of public sector cuts, asset sales and other desperate measures to combat its $24.5 billion deficit.

Charting that course of action would be tantamount to repeating the mistakes of the 1990s and possibly risk dipping Ontario's fragile economy back into recession.

Ontario has a deficit because our economy is weak, not the other way around. We have a deficit because a weakened economy means reduced public revenue, because Ontarians need help from their government when jobs disappear, and because Ontario joined governments around the world in accelerating public service projects to fill a yawning gap in private sector demand.

Had Ontario and governments around the world not stepped in to fill the gap, we would all be dealing with an economic depression of breathtaking proportions.

In short, we have a deficit for good reasons.

Understanding the origins of Ontario's deficit helps to put it into perspective. It also points to the solution.

Just as the deficit has grown largely because the economy weakened, Ontario's deficit will take care of itself within one fiscal year of returning the economy to its trend level — no public spending cuts required.

That means the first priority of the Ontario government must be to promote economic recovery in the near term and to build the foundation of a healthy, productive mixed economy for the future.

In the short term, Ontario must keep the stimulus going into 2011 — without it, the province's economy will remain sluggish. It will take a private sector recovery in the United States to get Ontario's private sector moving at top speed again. Until then, it's up to the provincial government to keep the fire burning.

Keeping the stimulus going means two things: it means making investments that create jobs today and contribute to a stronger economic future. And it means doing no harm — avoiding mindless public service cuts that counteract the impact of investments in stimulus.

Ontario's private sector will recover. Government's job is to fill in the gap, to support that recovery, to maintain the services we need, and to reorient our economy towards a more sustainable and resilient future.

The focus has to be on jobs, because in the aftermath of the worst recession to hit Canada in a generation, jobs are more important to strengthening our economy than balanced budgets. Cutting the deficit won't create good jobs, but creating good jobs will reduce the deficit.

Deficit: the "useful crisis"

Some conservatives are working overtime to turn the worst recession in a generation into a useful crisis.

Instead of acknowledging the free market principles they espouse were largely responsible for the 2008 global economic meltdown, they would like to pretend Ontario's fiscal deficit is due to a depressingly familiar list of scapegoats:

- "Out of control" increases in public spending;
- Out of control increases in health care spending;
- "Bloated" government;
- Public employees;
- Public employees' pensions; and
- High taxes.

There is no acknowledgment that governments were the sole actors protecting their citizens from the ravages of one of the worst recessions of our time. Equally, there is no acknowledgment that the deficit Ontario incurred is manageable — fire sales and panics are wholly unwarranted at this stage.

In fact, the argument is strong for further provincial government investments to keep the economy rolling, Ontarians working, and families fed.

Rather, some conservatives are pressuring the Ontario government to make the same mistakes the Harris government made in the 1990s, including:

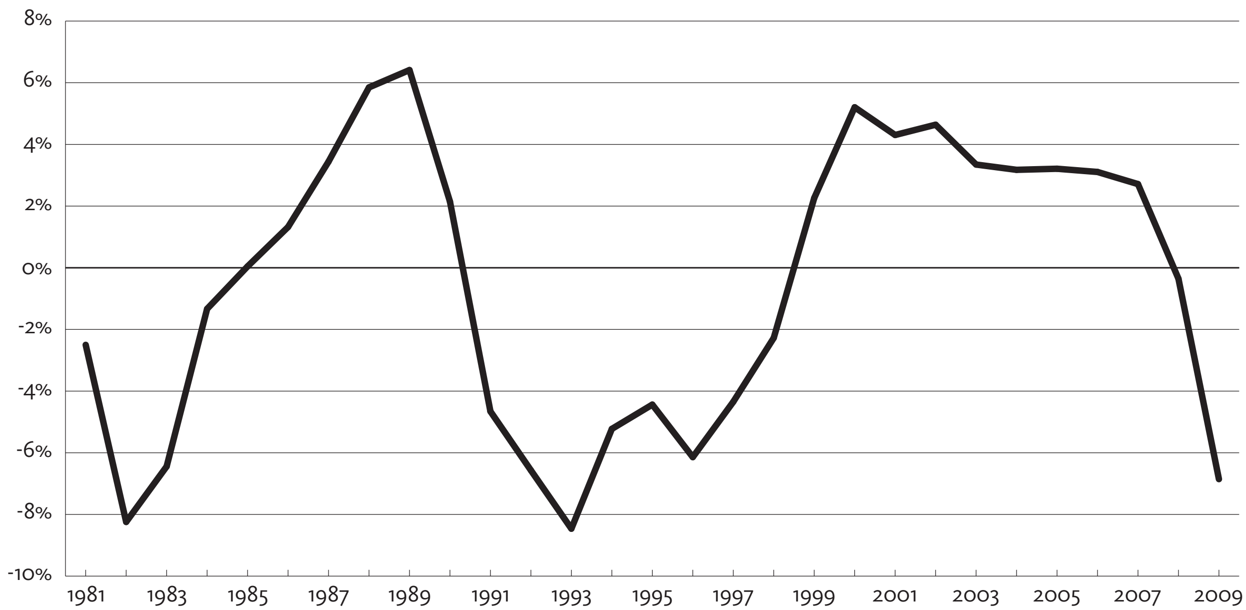
- Freeze public employees' wages;
- Reduce the scope and level of public services;
- Shift the funding of key services like health and education from public to private;
- Shift the delivery of public services from public employees to private contractors;
- Reduce taxes on corporations and the wealthy; and
- Sell off public assets.

These measures fail to address the root of Ontario's deficit and they are not in the long-term interest of Ontarians.

The economy and the deficit

There is no question that what is being called the Great Recession of 2008 is a significant event, both for economies around the world and for the fiscal balances of governments.

CHART 1 Actual GDP vs. Long-Term Potential Trend % gap actual vs. trend, Ontario 1981–2009



The deterioration in fiscal balances in the recession is not a reason to panic or to lurch immediately into a draconian program of spending cuts.

Deficits are a fact of life during economic downturns. Taxation revenue generally moves with GDP while public spending is more closely tied to inflation and population growth. That tends to increase in economic downturns, pushing government budgets into deficit.

Add to that the economic stimulus initiatives that have been taken in Canada and Ontario, and a substantial deterioration in the balance between revenue and expenditure is the result.

That is the deliberate objective of the stimulus initiatives. Fiscal stimulus has an impact on economic activity precisely because it is funded from borrowing rather than from taxation. Indeed, had governments attempted to maintain budget balances in the face of the recession, that would have deepened the recession and extended its duration.

What's more: it is completely within Ontario's grasp to deal with its current deficit. A reflection on history shows that we have had recessions before. Budgets have fallen deeply into deficit before. Our economy has recovered from recessions before. And fiscal balances have recovered after recessions before.

In the two major recessions of 1981 and 1991 — and the more limited slowdown in 2001 — within four to eight years, post-recession economic growth had taken the economy back to its longer-term trend line.

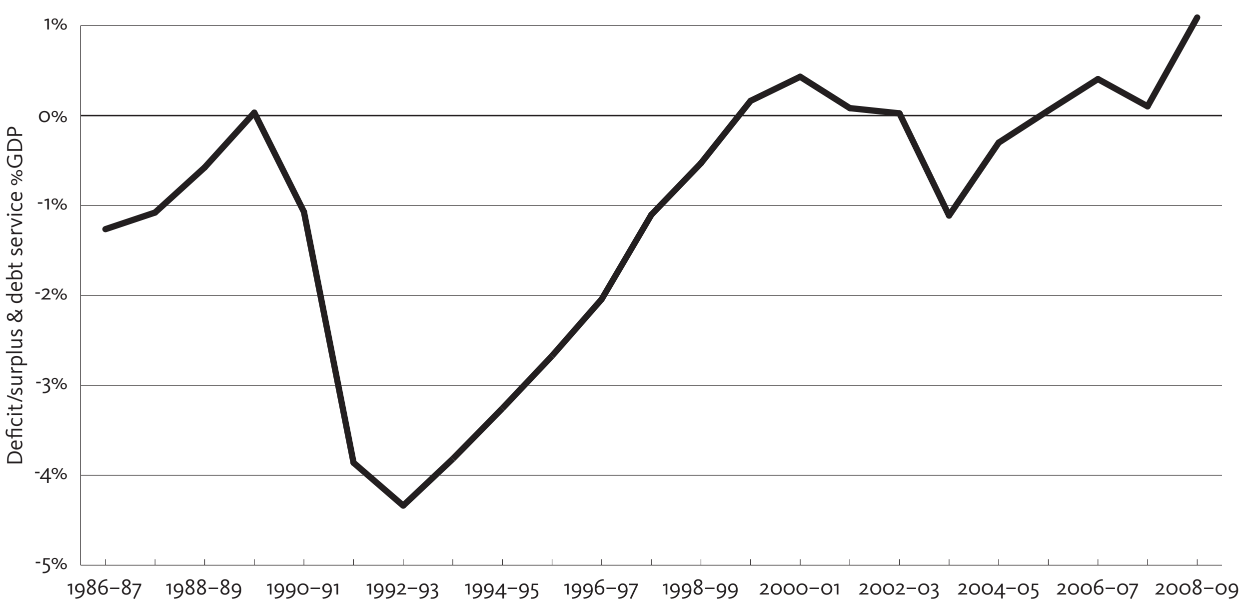
Ontario's economy was well on the road to recovery after the bottom of the cycle in 1992–3 when disastrous fiscal and monetary policies produced a so-called "double dip". Three years into the recovery, spending cuts both in Ottawa and Queen's Park acted as a fiscal drag on the economy. And ill-advised Bank of Canada policies pushed interest rates and exchange rates up, choking off the recovery just as it was gaining traction.

Even with that interruption, however, the economy had pushed above its trend line by 1999.[1]

Because Ontario's revenue base is so closely tied to the province's GDP growth, one would expect that a return of the economy to its long-term trend line would be mirrored by an improvement in the province's fiscal position. And that is exactly what happened.

The projected analysis in the OAB technical paper on the deficit released earlier in 2010 demonstrates that using relatively conservative fiscal assumptions, Ontario's budget returns to balance within one fiscal year of the economy returning to its trend level without any action on public services spending beyond assuming that public capital spending will return to pre-recession levels gradually as the economy recovers.

CHART 2 **Deficit Relative to GDP, Ontario** 1986–87 to 2009–10 (est.)



Public employees are a false target

The focus on public employees in "deficit panic" takes a number of different forms, none of which stands up to careful examination.

The most simplistic invokes an expectation of shared pain. Everyone else is suffering from the recession so public employees should suffer as well. And the way to make public employees suffer is to reduce their numbers, cut back on their paid work time, or cut their wages.

This argument doesn't make sense. In the first place, suffering from the recession is very unevenly distributed.

The rate of unemployment has increased from 6% to 9%. Many people have lost their jobs and their income. People who work for businesses that got into serious financial trouble have been forced to take wage and benefit cuts, or have seen lower pay increases than they would normally have expected.

Those who are, indeed, suffering from the recession need public services more now than they did before the recession. Cutting back on public services isn't free. The costs are borne disproportionately by those who need public services most.

Sharing the pain by cutting public services doesn't make sense for those who are bearing the pain of the recession themselves.

Forced time off — "Dalton Days" — accomplishes nothing of substance. It reduces the level of service available to the public and temporarily saves money, but has no impact whatsoever on the long-term fiscal position of the government.

Calls for pay cuts for public sector workers are also misguided. Any employee who is covered by a contract of employment, in the public or private sector, will continue to receive the pay increases covered by that contract until it expires and must be renewed. It is inevitable that employees who are in the later years of a contract negotiated before a recession will receive pay increases higher than those received by employees whose employment contracts are renewed during recessions.

Because most public employees in Canada are represented by unions, their wages and working conditions are determined by contract. As a result, there is a tendency in Canada for public employees' wage increases to lag behind changes in the economy. But the same phenomenon operates during an economic recovery. Contracts negotiated during a recession generally fall behind as the economy recovers. For public sector workers in Ontario, it is true that since 2002 or 2003, public sector wages have increased more rapidly than private sector wage increases. However, between 1993 and 2001, public sector wage increases lagged behind increases in the private sector.

More important, from an economic perspective, cutbacks in public sector employment and pay are precisely the opposite of what is needed in a recession, and would counteract the effect of the economic stimulus governments have tried to induce to fill the demand gap left by the recession and to kick-start a recovery.

Selling public assets in a panic really doesn't make sense

A sell-off of public assets has emerged as the quintessential solution looking for a problem at all three levels of government in Canada.

From the perspective of the investment industry and other vested interests, it is not hard to see why. It's all about the deal. A sell-off of provincial assets would generate fees literally in the billions of dollars.

For the investment industry, a large-scale asset sell-off in Ontario would be a welcome boost to an industry that has been hard hit by the recession of 2008–09. Over a period of a few months, a business model that had mobilized billions of dollars in investment capital every year virtually collapsed. Widening interest rate spreads and tighter lending standards imposed by financial institutions reduced the economic leverage available to these deals — leverage that was essential to the generation of the attractive returns that drew investors to these assets in the first place. Established infrastructure funds have been wound up or sold off. Existing funds have faced problems securing new deals and have been forced to scale back their leverage in existing investments.[2]

The provincial government is reportedly considering partially privatizing a 'super corporation' of several crown corporations, including Ontario Lottery and Gaming, the Liquor Control Board of Ontario, Hydro One and Ontario Power Generation. While it is easy to understand the attractiveness of asset sales to the investment industry, it is much more difficult to understand why Ontario would be interested in doing so.[3]

As a general proposition, for an asset sale to make sense to a government, it would have to make it possible to generate substantial savings or a significant new stream of income not available under public operation. Since the putative purpose for selling these assets would be for the province to reduce the cost of carrying its debt, the relevant comparison here is to the Ontario's borrowing cost. The difference would have to be significant, because the underlying financing for these assets is much more attractive under public ownership than under private ownership, for three reasons.

First, as noted above, fees for putting these deals together are significantly higher than the underwriting costs for public debt. Whereas the underwriting fees for public debt would typically be less than 10 basis points (0.1%), fees for these deals would typically fall in the 8–10% range. Selling off assets will net roughly 90% of what public borrowing would realize after financing costs.

Second, a portion of any deal will inevitably end up being financed by floating debt. That debt would be credit rated significantly below the rating of public debt. Whereas debt for privatized public services is typically rated BBB or below, Ontario's credit rating is AA. In current market conditions, the spread between AA debt and BBB debt would be approximately 1.25%; the spread between AA debt and BB debt would be in the 3.25% range. Since any deal would have to cover the purchaser's borrowing costs, Ontario would end up absorbing that difference in costs in the purchase price.

When each percentage point difference between the Province's borrowing cost and the return demanded by a buyer translates into a difference of 20–25% in value, the offsetting gains would have to be substantial indeed to justify an asset sale.

The problems with sales or monetization don't stop there, however. Most public assets aren't public assets because the province suddenly decided it would be fun to own them. Generally speaking, public entities play a key role in the implementation of public policies. For example, Hydro One has become a key player in the delivery of Ontario's shift towards renewable energy and its focus on energy efficiency.

To make sales a viable proposition economically, the upside in reduced costs or increased revenue generation would have to be substantial and obtainable only through private ownership. There are some circumstances under which it might be argued that a private operator is in a better position to realize savings or extract additional revenue than a public operator. For example, it is possible that political considerations could be an obstacle to cost-saving changes or increases in user charges. That proposition would, however, have to be demonstrated on a case-by-case basis.

Finally, it should be noted that even the proponents of asset sales are not suggesting that the proceeds should be directed towards alleviating Ontario's current operating requirements. In other words, asset sales are not advocated as a response to current financial needs. Advocates of asset sales are urging the provincial government to do something in a budgetary panic that will not address our immediate problems and that we will regret later.

It's the economy...

At the peak of the previous economic cycle, there were 1.1 million manufacturing jobs in Ontario. In 2009, our manufacturing jobs total had slipped to under 800,000. Half of those 300,000 manufacturing jobs were lost before the recession, thanks in large part to the impact of high and fluctuating exchange rates on Ontario producers. Another 150,000 jobs have been lost since 2007. More than 100,000 of those jobs were lost in 2009 alone.

Despite the effect of stimulus spending, total employment dropped by 161,000 in 2009. Between October 2008 and February 2010, the rate of unemployment rose from 6.5% to 9.1%.

Even those deteriorating numbers mask the full economic and social impact of the economy's weakness.

The loss of 161,000 jobs in 2009 was made up of a loss of 176,000 full-time jobs combined with an increase of 15,000 in part-time jobs. The number of temporary jobs in the total increased by 20,500; permanent jobs dropped by 201,000.[4]

Immigrants have also been particularly hard hit. While employment among Canadian-born workers was down by 1.6% between June 2008 and June 2009, employment among recent immigrants was down 5.7%. Even among established immigrants — immigrants in Canada for more than a decade — employment was down 3% — nearly twice the rate of decline among the Canadian-born.[5]

As of February 2010, there were 654,000 people recognized as unemployed in Ontario. That compares with 471,000 in October 2008. Over that same period, the labour force grew by less than 20,000. To put that into perspective, the number would normally grow by more than 90,000 in that time period.

Canada's Employment Insurance (EI) system continues to fall far short of what is required. As of December 2009, there were approximately 251,000 Ontarians receiving employment insurance regular benefits, compared with a total number of unemployed that month of 667,000. To put that into perspective, in October 2008 there were 149,000 regular beneficiaries and total unemployment of 471,000.

While the coverage ratio has improved — to 38% from 31% — it is still far below the 60–70% range covered in the last major recession in 1991 and far below what is required.

To fall from employment to unemployment (with or without EI) to social assistance requires that a family use up its savings — including its retirement savings — and sell off assets. Despite that draconian requirement, tens of thousands of Ontarians have been forced to do just that.

From October 2008 to December 2009, Ontario's social assistance caseload increased by 23%. The number of beneficiaries increased by 70,524 or 19%. Significantly, both the caseload and number of beneficiaries for categories of claims other than single parent families increased by 30%.

If you only paid attention to the stock market, you could believe that the recession is over. The unemployment numbers tell a different story. In December 2009 — the most recent month for which data are available — 85,100 Ontarians filed new or renewed claims for EI benefits.

The numbers from the United States are just as telling. The number of employed people in the United States declined again in February 2010 — the 26th consecutive month in which employment has declined — despite the creation of approximately 200,000 jobs per month through the Recovery Act — a total of roughly two million jobs.[6]

Now is not the time to withdraw economic stimulus. Now is not the time to declare victory over the recession and go back to the policies that created the recession in the first place.

We don't need to imagine what might happen if policymakers hit the brakes now. We have the experience of the 1990s to inform us. In the 1990s, Ontario was just beginning to emerge from the 1991–1993 recession when the province was hit by a triple-whammy. Federal finance minister Paul Martin slammed the brakes on transfer payments and public services and cut back on employment insurance. The provincial government of Mike Harris slashed public services. And the Bank of Canada abruptly hiked interest rates, choking off the early stages of a rebound in investment and leading to a jump in the exchange rate, rolling back an improvement in export performance.

Those policy mistakes delayed recovery in Ontario by 2–3 years and laid the foundation for the fiscal and economic weakness that continues to plague the province.

A focus on jobs

A focus on jobs for Ontario in 2010 must involve more than simply allowing the fiscal stimulus introduced in 2009 to run its course, as the federal government has proposed in its 2010 budget.

First, with respect to infrastructure-related stimulus spending, it is true that thanks to the federal government's political foot-dragging in 2009 there is a substantial amount of infrastructure investment in the pipeline and scheduled to roll out in the 2010 construction season and beyond.

Given the inevitable lags, it is critical that the government maintain the momentum of infrastructure project approvals to ensure that this source of economic revival does not run out of gas, figuratively and literally.

Second, it is clear that the infrastructure stimulus program starts from a pre-recession level of public investment in infrastructure that was unsustainably low. Particularly in light of the fact that the federal government's financial support for infrastructure investment is winding down, it is critical that Ontario establish an ongoing level of investment and reinvestment in public infrastructure that is consistent with the need to pay down the infrastructure renewal backlog and to continue to make strategic investments for the future.

Third, as Ontario refocuses its infrastructure program in particular and its stimulus and economic renewal programs in general, it is critical that we move away from the federal government's scatter-gun approach to a more strategic and focused program.

Fourth, while efforts to rescue General Motors and Chrysler from bankruptcy commanded public attention in 2009, the importance of those efforts themselves underlines the significance of the goods-producing sector for Ontario's economy in the future. Of course, Ontario is not in a position to ensure directly that goods production thrives in this province. What Ontario can and must do is ensure that it responds effectively to the legitimate needs of manufacturing businesses.

- Ensuring that our transportation and other public service infrastructure meets the highest standards of quality and performance;
- Enhancing our investment in the education and training of all Ontarians, both children and adults;
- Investing in programs to enhance the ability of immigrants to this province to succeed in our economy;
- Supporting the efforts of Ontario businesses to increase their energy efficiency and reduce their environmental footprint.
- Establishing an early warning and action team to identify economic pressures before they become layoffs and shutdowns, and to focus the efforts of government to assist businesses and workers in the required economic adjustments.

Fifth, Ontario's economic recovery plan must recognize that investments in people are just as important as, if not more important than, investments in physical infrastructure. The recession has highlighted the importance of education to this province, both in the short term as young people choose to continue their education rather than face continued unemployment in the current job market, and in the long term.

Sixth, no economic recovery plan will work if it eliminates public services and the jobs that go with them at the same time it is putting money into infrastructure-related economic stimulus. Not only does this not make sense on the jobs front in the short term, it makes no sense in the long term as services that are essential to the longer-term development of our economy are weakened. Child care is a perfect example. Ontario avoided the immediate consequences of the federal government's withdrawal from child care program funding by spreading one-time-only funding that accompanied the cancellation of the national child care program over a number of years. That funding is now gone. Ontario stands to lose 7,600 subsidized child care spaces this year if that funding — amounting to $63.5 million — is not replaced.

We cannot rebuild the economy by cutting back on important public services and eliminating the jobs that go with them.

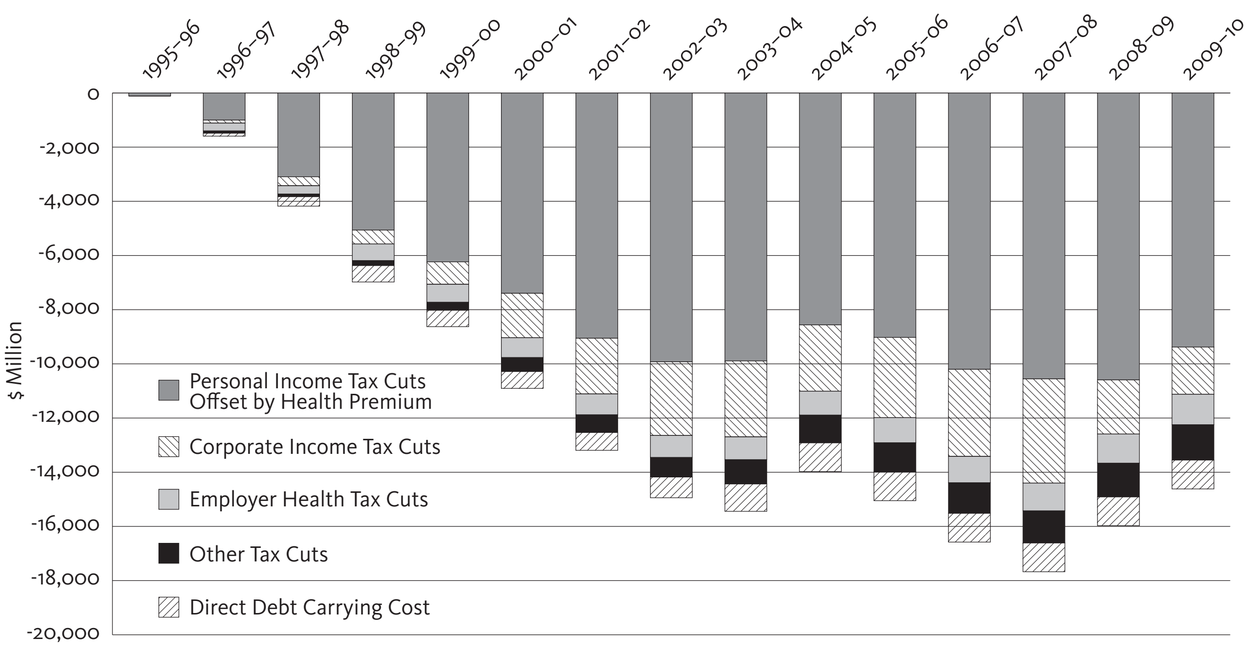
Building for the future

A return to trend in economic growth will be critical to alleviating unemployment and bringing Ontario back into fiscal balance. The budgetary deficit we face today will disappear as the economy gets back to trend. However, economic growth alone cannot pay down the more significant deficit we face in Ontario — the gap between the public services we need and our fiscal capacity to pay for them.

Ontario's fiscal capacity gap is not attributable to expenditure growth, despite what conservative critics claim. For all of the fear and loathing cultivated by conservatives over health care spending, Ontario's health care spending grew by only 1% of GDP from the peak of the economic cycle in the late-1980s and the peak of the cycle in the mid-2000s. Furthermore, an analysis of the relationship between age and health care costs shows that population aging will add only another 1% of GDP to health care costs over the next 20 years.[7]

Current stimulus spending packages have been introduced as short-term measures, but reinvestment in Ontario's aging, and in some cases, out of date social and physical infrastructure was long overdue before the recession. Much of that reinvestment should continue past immediate stimulus spending requirements.

CHART 3 Annual Tax Cut Impact on Fiscal Capacity in Ontario 1995–96 to 2009–10



Significant additional investments are needed in public education, at all levels.

Low- and moderate-income Ontarians have been waiting for nearly 15 years for a response from government to the disastrous policies of the Harris Conservatives in the mid-1990s.

Ontario's contribution to the effort to slow down the pace of global warming will require significant new public investments.

The fact that Ontario's fiscal capacity doesn't match its program needs cannot be attributed to out-of-control spending.

The proverbial elephant in the room is not health care spending, nor education spending, nor the aging of the population. It is the massive loss of fiscal capacity Ontario suffered with the Harris government's tax cuts.

Chart 3 shows the annual impact of the Harris government's tax cuts on provincial budgets from 1996–7 to 2009–10.

Even allowing for an offset in 2004–5 for the McGuinty Government's Health Premium, and given the dramatically negative effect of the 2008 recession, the ongoing effect of the Harris government's tax cuts in the 1990s has been to reduce Ontario's revenue raising potential in 2009–10 by approximately $15 billion — more than $18 billion at full economic potential. In isolation, the Harris government's cuts are gouging Ontario's fiscal capacity by approximately $18 billion per year.

The point at which we are beginning to recover from the most significant downturn in economic activity since the Great Depression is not a time to expand the province's fiscal capacity. But as the economy recovers to potential, Ontario will finally have to turn to the task of rebuilding its fiscal capacity if we are to address today's services gap and meet the growing needs for public investment in the future.

Unsustainable corporate tax cuts

Ontario will begin its latest round of corporate tax cuts on July 1, 2010, with a cut in the general corporate tax rate from 14% to 12%. Ontario's general corporate tax rates are scheduled to continue to decline annually until they reach a target of 10% in 2013. The federal government is also cutting its corporate tax rates. The schedule of rate cuts is summarized in Table 1.

Continuing with corporate tax cuts now is pointless economically and counterproductive fiscally. It is pointless economically because there is such an accumulation of tax losses that the goods producing sector will not be affected for years. Most of the benefit from reduced tax rates on large corporations will flow to the financial services and energy sectors. Economic activity in these sectors is clearly driven by factors other than differences in corporate income tax rates.

It is also pointless economically because there is no evidence to support the claim that differences in corporate in-

TABLE 1 Corporate Tax Rates Applicable in Ontario (as of July 1)

Year	Ontario	Federal	Total
2009	14%	19%	33%
2010	12%	18%	30%
2011	11.5%	16.5%	28%
2012	11%	15%	26%
2013	10%	15%	25%

come tax rates, by themselves, will cause economic activity to migrate from the United States to Canada. Indeed, to the extent that reduced fiscal capacity will limit our ability to invest in the health care, education and infrastructure development programs that really do attract investors, the cuts may be actively counterproductive.

The cuts are also counterproductive fiscally. The United States is the home jurisdiction for 55% of the foreign investment in Canada. The United States taxes corporations based on their worldwide income. It deals with the income that is generated outside their home economy by crediting tax paid on that income against their domestic tax payable. That means when Canada reduces its tax rates below those of the United States, the effect is simply to transfer revenue from Canadian governments to the United States Treasury. Canada, in fact, cannot reduce the tax paid by American corporations on their repatriated Canadian income. All it can do is change the jurisdiction to which those taxes are paid. And low rates in Canada result in more taxes being paid to the United States.[8] For U.S. based corporations operating in Canada, every percentage point that Canada's combined corporate income tax rate falls below the standard U.S. rate of 35% ultimately results in a transfer of that percentage of corporate profits earned in Canada to the U.S. Treasury. A cut in Canada's combined corporate tax rate below the U.S. federal rate of 35% does not result in tax savings for the corporate taxpayer. It simply transfers the revenue from Canadian provinces and the federal government to the government of the United States.

It makes no sense. Ontario should drop out of this particular race to the bottom, immediately.

Federal government missing in action

Virtually the only positive news for Ontario in the 2010 federal budget was that it repeated the Harper government's assurance that it does not intend to reduce its transfer payments to provinces and territories as part of its budget balancing exercise. It appears that Ontario will be spared the extreme pain inflicted by the Chretien-Martin government in the mid-1990s as the federal government used provincial transfer payments as cannon fodder in its battle with the deficit.

Unfortunately, that's the only good news. The federal government has clearly decided to gamble politically that enough Canadians can be persuaded the deficit is the only important issue in Canada to give it a majority in the next election. Infrastructure funding will expire once current commitments have run out. Child care funding is a non-starter. When it comes to international assistance, Canadians' generosity as individuals is to be matched by a freeze in foreign aid. When it comes to global warming, the government may say it isn't among the deniers, but its fiscal decisions say it is.

When it comes to meeting the needs of individual Canadians affected by the recession, the federal government is prepared to do nothing more than pat itself firmly on the back and declare that the job is done. Indeed, it intends much worse. In an unfortunate echo of the 1990s, when growing EI surpluses contributed significantly to the Chretien-Martin government's deficit reduction program, the Harper government has announced that it intends to recover the additional EI benefits paid out in the recession by increasing EI premiums on employers and employees over the next five years.

From a fiscal perspective, the federal government has served notice that it has no intention of playing a role in rebuilding this country's fiscal capacity. In the face of widespread criticism from across the political spectrum, it refuses to acknowledge that cutting the GST by two percentage points was a mistake. And it is persisting in driving Canada's corporate income tax rates further into the lead in the race to the bottom in North America.

Of course, federal policies vary over time, and it would perhaps be unduly pessimistic to assume that no federal government will again play a constructive role in public finance at the provincial level. It is sobering, however to reflect on the fact that, with the exception of a brief period in the early-2000s when a public uproar over health care cuts and a short-lived Liberal minority government reversed the trend, the federal government has been withdrawing from these responsibilities for more than 15 years.

In the short term, however, it would be unrealistic to expect a change from the position adopted in the 2010 federal budget. And it would be imprudent long term planning to assume a substantial change in direction at the federal level.

Ontario's approach to federal engagement must be to be open to a future revival while assuming no change for planning purposes.

A plan to get Ontario working again

In the absence of leadership from the federal government, the challenge before the Ontario government is to fill the void or risk long-term economic pain.

The good news is there are plenty of solutions at hand — solutions that allow Ontario to keep its valuable assets, save jobs, create new ones, and get the provincial economy back on track. This year's Ontario Alternative Budget recommends the provincial government implement a strategic plan to get Ontario working again in 2010, including:

Support job creation in the private sector: To get the private sector hiring full-time again, the province should deploy several strategic initiatives, including: offering a refundable tax credit for new investments that create jobs; making new investments in green jobs strategies, including transitional assistance to Ontario manufacturers who take advantage of green job opportunities; and appointing a jobs ombudsman to monitor threats to manufacturing jobs and to promote ways for the government to save jobs.

Invest in social and physical infrastructure: Investments in infrastructure creates jobs today and helps Ontario meet the long-term public service needs of the future. The province should develop a long-term target for annual infrastructure reinvestment and broaden its criteria for infrastructure investment to include all public and non-profit infrastructure, including social housing.

Support Ontarians hurt by the recession: Far too many Ontarians are ineligible for EI and many who qualify for benefits are about to run out within the coming months. The province should develop and implement an Ontario add-on to EI to fill the gaps in coverage left by the federal government. As an interim measure, the province should also suspend its asset test requirements for social assistance claimants who have exhausted EI or have been unable to qualify. We should use all tools at our disposal to raise social assistance incomes, from tax benefits to child benefits and basic rates. The province should also establish a special program for permanently displaced older workers, modeled on the former Program for Older Worker Adjustment, to support transition to retirement.

Support skills development for all Ontarians: Ontario's economic recovery and future prosperity will rely on an educated workforce. The province should expand access to adult education and training, including basic skills — literacy, numeracy, grade 12 equivalency — and advanced work-focused skills, for current employees as well as the unemployed and underemployed. It should also encourage school boards to expand adult academic programs by making funding equivalent to regular secondary school funding. A comprehensive education strategy begins in the early years. The province should accelerate its implementation of its promised early learning program and implement the recommendations of its own Early Learning Advisor. That includes preventing the collapse of Ontario's child care system for children 0–3 by maintaining $63.5 million in funding for subsidized child care spaces. The province should also reinvest savings in elementary and secondary education arising from declining enrolment in programs for students at risk, follow through on its commitment to review its elementary and secondary education funding formula, and ensure quality is maintained in postsecondary education by funding additional teachers in step with increases in enrolment.

Proceed with the implementation of the poverty reduction strategy: The middle of a recession is the worst possible time to put the brakes on poverty reduction. For the province to meets its own target of reducing child poverty by 25% by the year 2013, it needs to make serious investments in this, and future budgets.

Stabilize public services spending at the current real, per capita level: The core challenge for the province is to avoid pressing the deficit panic button. Service cuts are not a "free" route to a balanced budget. When services are cut, Ontarians lose. And when services are cut, we lose the economic benefit of stimulus spending at a time when Ontario still needs it.

Generate health care savings to improve quality: The province should replace its P3 hospital construction program with a public investment program managed centrally by Infrastructure Ontario and invest the savings in restoring balance to the health care system. It should also increase pressure for service delivery change to improve services and efficiencies.

Fiscal capacity for Ontario's future: The province needs to act today to create and save jobs but it also needs to develop a long-term plan to rebuild Ontario's fiscal capacity to meet the public services needs of tomorrow. This includes setting corporate tax rates at a level that would protect Ontario from revenue loss to the U.S. Treasury.

There is more than one way to put Ontario on the road to economic recovery and there are alternatives to pressing the deficit panic button. These measures invest in Ontarians at a time when they need it most and they are well within the ability of the province to fund over the next four to six years. They get Ontario working again — which is the primary challenge in Budget 2010.

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Notes

1 For more detail, see Hugh Mackenzie, "Deficit mania in perspective", Ontario Alternative Budget Technical Paper #1, Canadian Centre for Policy Alternatives, February 2010.

2 For a more detailed analysis of the impact of the economic downturn on the P3 industry, see "Bad before, worse now: The financial crisis and the skyrocketing costs of public private partnerships (P3s)", Hugh Mackenzie & Associates, June 2009, available from the Canadian Union of Public Employees.

3 Erin Weir, "Privatization a bad deal for Ontarians," *Toronto Star*, March 10, 2010, page A19.

4 Source: Statistics Canada, Labour Force Survey.

5 *Globe and Mail*. "Immigrants take brunt of recession, recover less quickly." July 24, 2009. Available at http://www.theglobeandmail.com/news/national/immigrants-take-brunt-of-recession-recover-less-quickly/article1231032/

6 Lawrence Michel, Prospects for Economic Growth: is Additional Stimulus Needed?, Economic Policy Institute, testimony before the Senate Committee on Financial Services, 12 February 2010.

7 *Is BC's Health Care System Sustainable? A Closer Look at the costs of Aging and Technology*. Lee, Marc. (2006). Canadian Centre for Policy Alternatives.

8 For a more detailed review of this issue, see Erin Weir, "The Treasury Transfer Effect: Are Canada's corporate tax cuts shifting billions to the US Treasury?", Canadian Centre for Policy Alternatives, November 2009

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