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Alternative

Budget 2001

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Ontario Alternative Budget 2001

**Ontario Alternative Budget
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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 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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Introduction

The Mike Harris Conservatives may not have invented the political strategy of “manufactured crisis,” but they have most certainly embraced it as their own.

Since the Speech from the Throne, the Government has been on a public relations offensive behind the message that there is a public spending crisis in this province – specifically in health and education – and that drastic measures are required.

The “crisis” has been the launching pad for Premier Harris’s musings about two-tier health care. It has served as the argument for caps on elementary and secondary education funding that fall far behind enrolment growth and inflation. And it has served as the justification for calls – yet again – for public sector wage restraint.

The Government cites two key pressures that it says contribute to the crisis: the economic slowdown in the United States and the resultant precarious state of Ontario’s finances; and unacceptably rapid increases in spending in health and education.

The first pressure – the narrow margin for error in Ontario’s finances – was entirely created by the Government. Ontario is now reaping the whirlwind created by its decisions since 1995 to spend the fiscal dividend from economic growth in advance through deficit-financed tax cuts.

The second pressure simply does not exist. Inflation-adjusted elementary and secondary education funding per student has dropped by nearly \$2.4 billion since the

Harris Government took office. And while it is true that health care spending has increased in the past two years, it only looks like a substantial increase when measured against the post-cut levels of the first few years of the Government’s mandate. In fact, when account is taken of population growth, inflation, and the effect of ageing on health care utilization, recent increases have simply put us back to where we were before Mike Harris launched his attack on health finances.

The fact is that, even after six years of the Government’s attack on our ability to fund public services, the only thing that stands in the way of managing through the impact of the economic slowdown on Ontario’s finances is Mike Harris’s ideological “don’t confuse me with facts” commitment to tax cuts for business. If the Government were simply to postpone implementation of further tax cuts until the economy improves, there is easily enough revenue available to avoid further damage to public services.

Ontario is in crisis. But it is not the crisis of the Conservatives’ spin masters. It is a revenue crisis. And it is a public services crisis. Harris Government policies are the reason for its existence. And the Harris Government’s devotion to ideology over common sense is the only reason why it has any influence whatsoever on the 2001-2 budget.

In this year’s Alternative Budget, we set out the origins of Ontario’s current fiscal situation. We spell out the spending program needed to fill the large and growing gap between needs and delivery in public services. And we set out the measures needed to re-

store the fiscal capacity needed to pay for that program.

The Anatomy of a Manufactured Crisis

Fiscal Capacity

The government has always been careful to frame its policies as efforts to improve the efficiency of government and its tax measures as improving competitiveness. It is clear, however, that its real objective has been to reduce the role of government in the economy, and to do so by limiting its ability to raise revenue.

The attack on fiscal capacity has been particularly effective.

As the government never tires of saying, it has cut taxes repeatedly throughout its nearly six years in office. The personal income tax accounts for the largest share of the tax cuts implemented to date. Personal income taxes were cut by 30% in the govern-

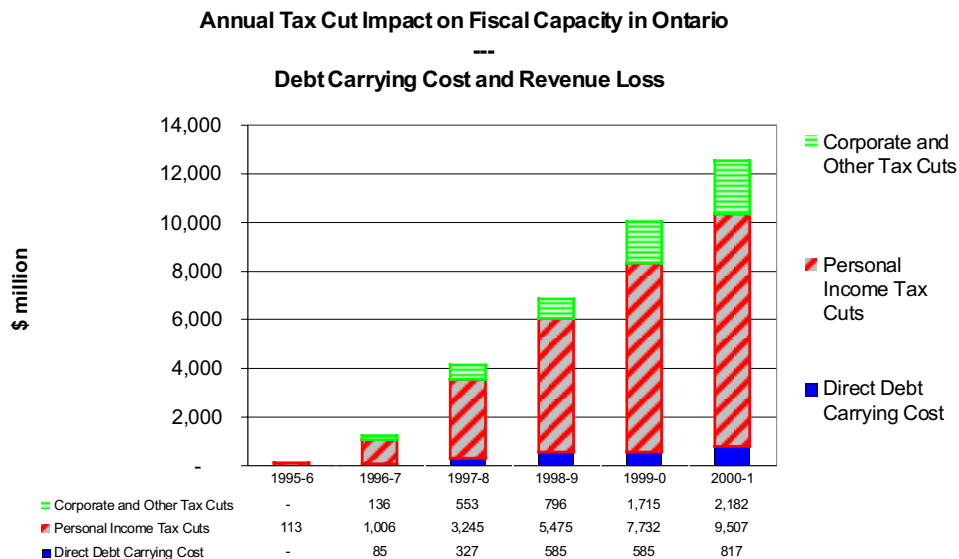
ment's first term of office. A further 20% cut promised for the second term has not yet been fully implemented.

Although much less visible, there has been a lot of activity on the corporate side as well. In the first term, corporate tax cuts consisted of large numbers of small write-offs and other tax exemptions for corporations. Rates were largely left unchanged. The second term tax plan features substantial reductions in tax rates for all corporations. In fact, in the remaining two years of its second term, corporate tax cuts will dwarf personal tax cuts.

Ontario's corporate tax cuts are listed, in detail, in Appendix B.

The total impact of Ontario's tax cuts on this province's fiscal capacity has been dramatic.

In fiscal year 2000-1, we estimate that Ontario's revenue base was reduced by a total of \$11.7 billion — \$2.2 billion from corporate tax cuts; \$9.5 billion from personal income tax cuts.



From the election of the Harris Government in 1995 until the end of fiscal year 2000-1, tax cuts had reduced public revenues by a cumulative total of \$32.3 billion.

Debt

The loss in revenue tells only part of the story. Because the Government cut taxes at a time when it had to borrow funds to cover its costs, a substantial proportion of the revenue shortfall from the cuts each year has been paid for with borrowed money. By the end of 2000-1, the amount of additional debt directly attributable to Ontario's tax cuts had grown to more than \$14 billion. The estimated carrying cost for that portion of Ontario's debt is more than \$800 million a year.

Personal income tax cuts – myth and reality

One of the most interesting phenomena of the Harris years in Government has been the amount of energy – and public money – that has gone into showing people that their

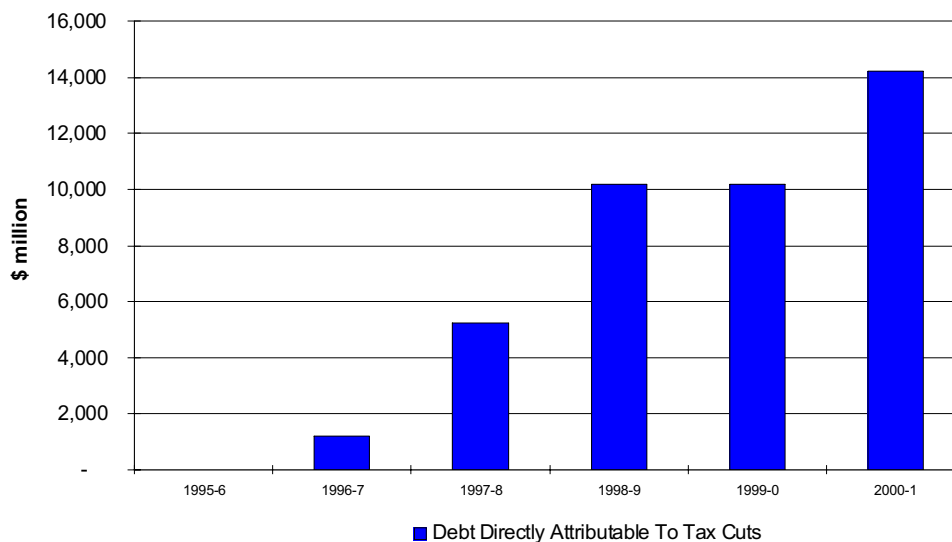
taxes have been cut and attempting to persuade people that cutting their taxes is a good idea. Interesting, because one would have thought that tax cuts would sell themselves.

The problem for the Harris Government, however, is that, while tax cuts in general might sell themselves, these particular tax cuts and the fiscal package of which they are a part do not.

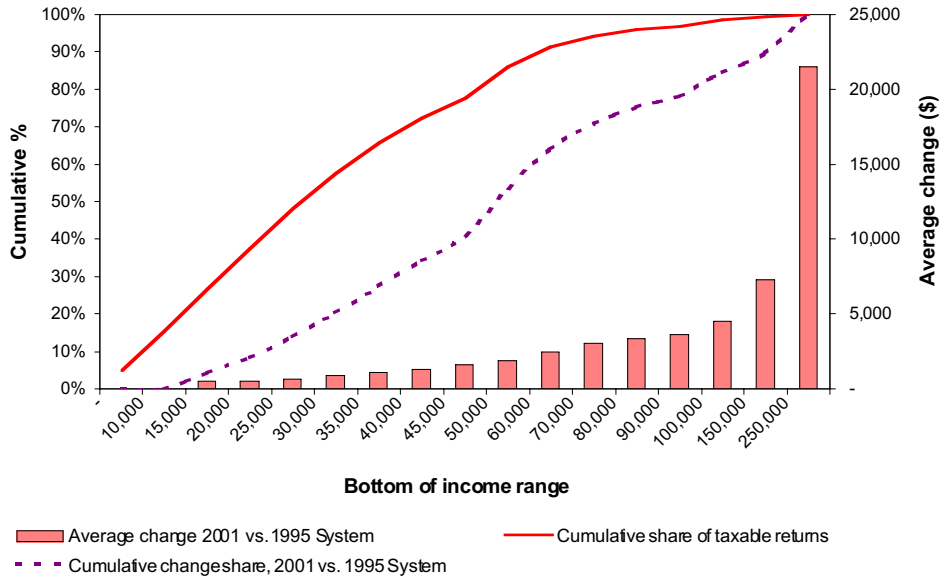
First, the benefit from the Mike Harris income tax cuts is heavily skewed towards individuals at the top of the income scale. The tax cut ads may feature smiling bus drivers and mechanics; the reality is that the lion's share of the benefit goes to the people who own the bus company.

Based on the most recent public data available on the Ontario personal income tax system, an Ontario Alternative Budget analysis shows that half the benefit from all of the personal income tax cuts brought in since the Harris Government was elected in 1995 have gone to the highest-income 18%

**Debt Directly Attributable to Ontario's Tax Cuts
1st & 2nd Term Total Tax Cuts**



Comparison of 2001 System with 1995 System, Tax on Tax



of taxpayers. The highest-income 10% received nearly 40% of the benefit.¹

These results are summarized in the following chart. The bottom axis is individual income reported for tax purposes. In the chart, the solid line represents the distribution of taxpayers, by income. For each income range, the line shows on the left axis the percentage of taxpayers whose incomes fall in or below that range. For example, the solid line shows that roughly 95% of taxpayers had incomes below \$80,000 (the top of the range that begins at \$70,000).

The dotted line represents the distribution of the total savings from the Harris tax cuts. For each income range, the line shows on the left axis the percentage of the total savings from the tax cuts that went to individuals with incomes in or below that range.

For example, the dotted line shows that 20% of the savings went to individuals with incomes below \$35,000.

The bars represent the average savings realized by taxpayers in each income range. For each income range, the bar shows on the right axis the estimated average savings for taxpayers whose income falls in that range. For example, the chart shows that taxpayers with incomes in the range \$150,000 to \$250,000 saved an average of approximately \$15,000.

The power of the analysis lies in its ability to suggest one reason why a tax cut which is so large in percentage terms has been such a hard sell politically. The rhetoric aside, most taxpayers have realized relatively modest benefits from the Harris income tax cuts; most of the benefit has gone to the few with incomes at the top of the scale.

The other reason for the hard sell is that, much as Mike Harris might wish otherwise,

¹ Using 1997 personal income tax data for Ontario reported by the Canada Customs and Revenue Agency as the base, the analysis models the 1995 and 2001 tax systems and compares tax levels, by income range, for the two years.

taxpayers aren't just income tax payers. They live in communities. They pay property taxes and user fees. They attend colleges and universities, or have children who attend colleges and universities. They have children in the public school system. They use the health care system.

Even a partial analysis of the offsetting negatives from the Harris Government's fiscal regime makes it clear that for a great many Ontarians, the Harris package isn't such a good deal.²

When virtually everyone is either significantly negatively affected by other parts of the Harris program, or knows someone who is, it is small wonder that people have to be "reminded" – at public expense – that tax cuts are good for them.

Ontario Alternative Budget 2001 Program

Our analysis has demonstrated that, even with its six-year legacy of tax cuts, the Government already had the fiscal capacity to protect public services from further erosion in 2001-2 – if Mike Harris had been prepared to suspend implementation of further tax cuts.

Unfortunately, however, because so much damage has been caused to Ontario's public services since the Harris Government was elected in 1995, it is not good enough simply to run on the spot.

The effect of six years of Mike Harris Government on public services in Ontario is evident, both in the aggregate and in the details.

Program and capital spending and GDP

Since the Harris Government was elected in 1995, public services spending in Ontario has declined from 14.7% of GDP – just slightly below the 20-year average at that time of 14.8% — to 12% in 2000-1.³ The ratio is projected to drop below 12% before the end of this term of office.

Real public services spending per capita is now more than \$500 below its 25-year average level of approximately \$4,600.

Ontario has a manufactured crisis in public services. That crisis demands a crisis response.

The Ontario Alternative Budget for 2001-02 continues our tradition of showing that it is possible to rebuild Ontario's network of public services even after seven years of the Harris spending cuts.

As we have pointed out in previous years, the Harris tax cut agenda has resulted in a public service that has been shrunk by 20%. In the 20 years between 1975 and 1995, program spending in Ontario averaged 14.8% of GDP. Today program spending has fallen below 12% of GDP.

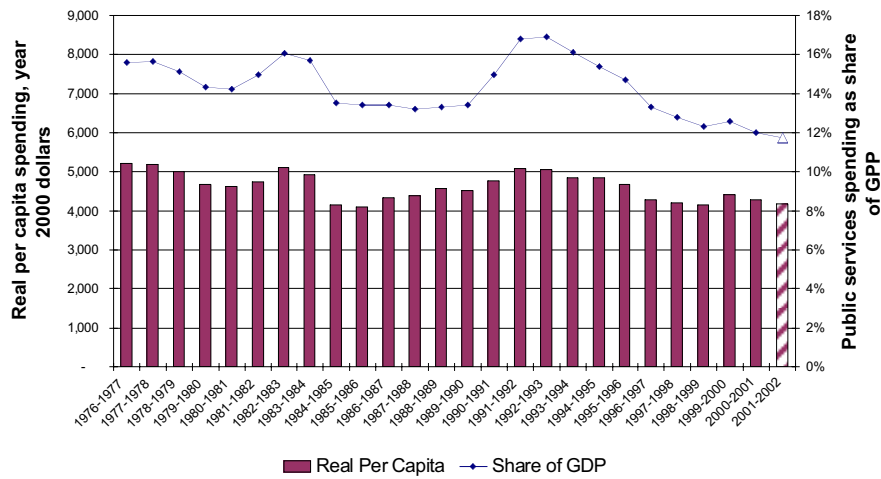
A shrinkage of this magnitude cannot be restored in a single fiscal year. Once again, we have phased our rebuilding program over two fiscal years.

The reinvestment program which follows represents a consensus among the participants in this project about priorities. Oth-

² See Ontario Alternative Budget 1999 for a partial analysis of the net impact of the Harris Government's first term program.

³ In calculating these ratios, program and capital spending has been adjusted to reflect full implementation of local services restructuring.

Ontario Public Services Spending in Perspective
Real Per Capita (year 2000 \$) and GDP Ratio
Actuals, 1976-1977 to 2000-2001
OAB Projection for 2001-2002



ers may have different priority for reinvestment. The main point remains: the destruction of the Harris years was not inevitable, and it can be undone. There are alternatives. It truly is a matter of choice. And we can choose to put people first.

Housing for all Ontarians

The Harris government’s radical experiment to stimulate the private rental market by deregulating private housing and throttling Ontario’s vibrant social housing sector has been a costly failure.

Homelessness has reached disaster levels, not just in Toronto, but in Sudbury, Peterborough, Barrie, Ottawa, Kitchener, Windsor, and many other parts of the province.

The province’s rental vacancy rate has dropped to its lowest level in a decade, signalling a critical shortfall in the supply of affordable housing.

Meanwhile, rents continue to increase dramatically, even as tenant incomes stagnate. Last year, the average rent for a two-bedroom apartment in Ontario jumped by double the rate of inflation.

The tragic proportions of this “made-in-Ontario” housing crisis are set out in a current research paper from the Ontario Alternative Budget Working Group, as well as previous alternative budgets.

The crisis touches almost every part of the province – cities, towns, rural and remote areas, and northern Ontario. It has been triggered by a series of deliberate policy decisions at Queen’s Park. Since its election in 1995, the Harris government has:

- cancelled 17,000 units of co-op and non-profit housing that were under development;
- downloaded the cost of existing co-op and non-profit housing to municipalities;
- cancelled thousands of rent supplement agreements for private sector tenants;

- cancelled laws which protect existing private rental housing from demolition or conversion;
- cut shelter allowances paid to welfare recipients to help them pay their rent; and
- gutted rent control and other tenant protection laws.

The Harris government has attacked social housing (which includes co-op and non-profit housing) to stimulate the private rental market. The government gutted rent control laws to allow private landlords to make massive rent increases. It slashed tenant protection laws to allow landlords to “fast-track” the eviction of tenants in as little as five days. The Harris government then offered a package of incentives (including grants, tax cuts and rent supplements) to lure private developers back into rental housing.

The theory is that higher rents, reduced rent regulation and tenant protection, and tax-funded subsidies would encourage private developers to build new rental housing. Previous provincial housing ministers, such as Al Leach, confidently predicted that

the government policies would generate thousands of new private rental units.

But six years after the Harris government was elected, the private sector has still only built about one-third of the number of units that were cancelled by the Tories during their first month in office. Take away the thousands of private sector units that were demolished or converted to condominium or commercial use (thanks to the Harris government’s decision to abolish legal protection for affordable private rental housing), and the net gain slips close to zero.

It’s time for the Ontario government to get back into the housing business, where it belongs.

1. Reverse the housing download

The province dumped the cost of Ontario social housing programs on municipalities in 1998. In the year 2001, Queen’s Park is planning to complete its scheme to transfer the administration of these programs to municipal service managers. But local property taxes cannot, and should not, bear the cost of social housing programs. The Ontario

Housing investment

This year’s Ontario Alternative Budget proposes a comprehensive, four-part provincial housing strategy:

- upload the cost of Ontario social housing programs back to the province, at a cost of \$900 million annually;
- fund the development of 15,000 new and renovated social housing units annually for five years at an annual cost of \$600 million;
- fund 15,000 new rent supplement units annually for five years at a cost of \$75 million in the first years; and
- top-up shelter allowances paid to welfare recipients to 85% of average market rents, at a cost of \$210 million annually.

Alternative Budget will return the cost of these programs to the province.

2. *Build 15,000 units a year*

The OAB plan would create 15,000 community-based co-op and non-profit housing units every year for five years. The target is realistic. About 15,000 new social housing units were being built in Ontario in the early 1990s, before Harris killed provincial programs. The target is also necessary. After six years of government-induced drought, Ontario needs a big program to deal with the huge housing deficit created by the Harris government. A total of 75,000 new and renovated units would be built over five years.

3. *15,000 new rent supplements a year*

The OAB plan would also create 15,000 new rent supplement units annually for five years. Rent supplements are subsidies paid to private or non-profit housing providers for units occupied by low-income households. In exchange for the subsidies, the landlords agree to maintain the units to a proper standard and to charge fair rents.

4. *Top-up the shelter allowance*

Finally, the OAB housing would create a special fund for some of the poorest households in the province – tenants living on social assistance. Welfare households would receive a top-up to bring the shelter allowance portion of their welfare cheque to 85% of the average market rent in Ontario. The annual cost, based on average rents from the year 2000, would be \$210 million.

A province-wide housing crisis demands a province-wide solution. The Ontario Alternative Budget plan provides housing, rental assistance, and income support. It will reverse the growing tide of homelessness and, over time, will ease the province-wide housing crisis.

Education: putting the public back into public education

1. *Ending Chaos in our Schools*

The crisis facing Ontario's public education system continues to escalate. A permanent state of turmoil in our public schools is interrupted only by periodic eruptions of sheer chaos.

The Harris Government's spin-doctors have made a specialty of developing Orwellian phrases to describe their dramatic cuts in public services.

The description of their education finance reforms as "student focused funding" is a leading example.

The Government recently announced what it described as an increase of \$310 million in funding for elementary and secondary education for the school year 2001-2, claiming total spending of \$13.8 billion.

The announcement left people in the education system wondering where the numbers came from. Last year's spending was originally set at \$13.4 billion in March, 2000, and a further \$190 million was announced in the 2000 Budget, for a total of \$13.6 billion for 2000-1. But even ignoring the Government's little problem with arithmetic, the increase doesn't even keep pace

with inflation, much less cover enrolment growth.

Despite widespread evidence that the education system is under extreme financial stress, the government has decided to continue its pattern of reducing funding, year after year, on a real per student basis.

Under the Harris Government's "student focused funding" approach, public spending per student, adjusted for inflation, has been reduced by nearly \$1,200.

According to the Ministry of Education, total spending on education programming and capital by school boards in 1995 was \$13.5 billion. Just to keep pace with inflation and enrolment growth, funding would have had to increase to \$16.2 billion. So the Government's 2001-2 funding level represents a cut of roughly \$2.4 billion.

To maintain school funding on a real, per student basis would require total funding - from Ministry and school boards - of \$16.2 billion. The effective spending cut since 1995, on a real, per student basis amounts to \$2.4 billion.

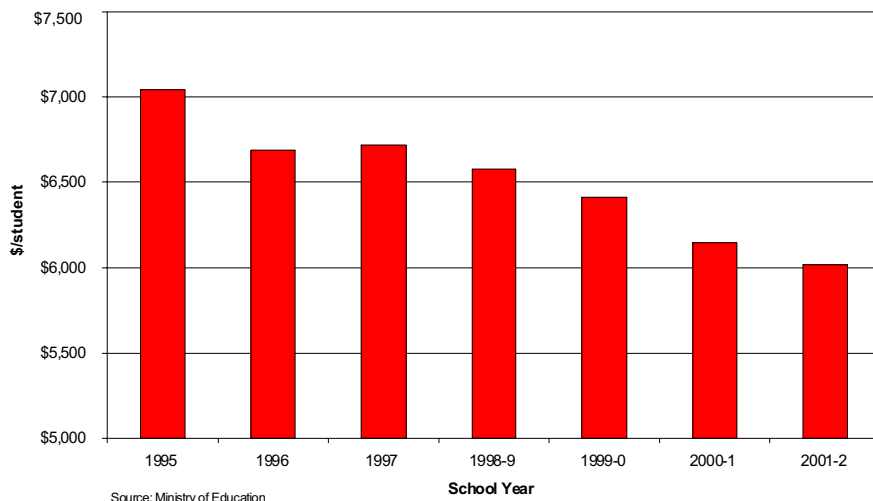
Since 1997, Ontario's elementary and secondary schools have been funded under the new Harris-model education funding formula. Last year the Education Improvement Commission pointed out that the new formula is deficient in the following areas;

- English as a second language
- French as a first language
- Learning opportunities
- First nations students
- Special education
- Pupil accommodation
- The small school factor
- Small boards administration
- Teacher compensation

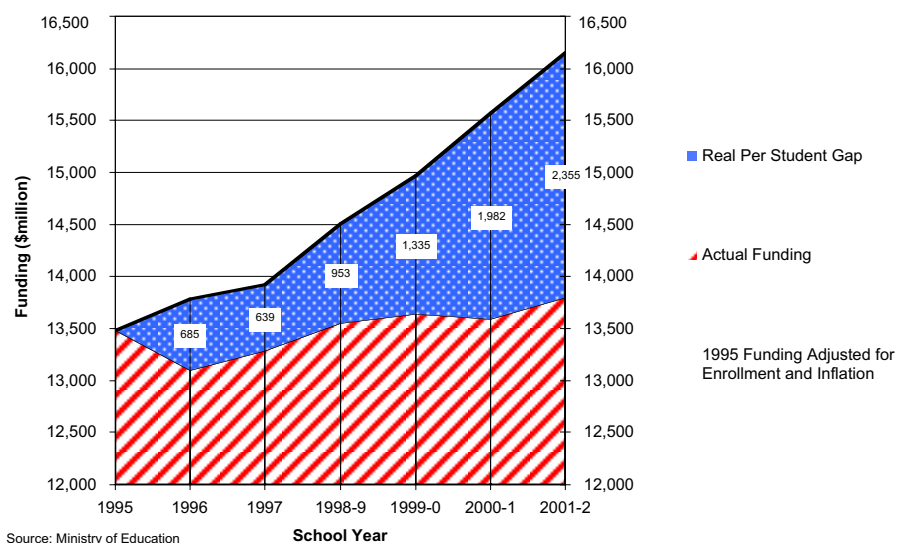
This list of deficiencies in the new funding formula adds up to more than 75% of total education funding.

Reform of the funding formula is an urgent necessity. And it is essential to restore independent fiscal capacity to our democratically elected school boards. We would permit school boards to levy additional

**"Student-Focused Funding" – \$ Per Student Adjusted For Inflation
Total Funding Per Student in \$ 1995, 1995 to 2001-2**



Elementary & Secondary Education Funding 1995 to 2001-2



funds up to 10% of the provincial allocation to meet local needs.

2. Post Secondary Education: Access, Access, Access

Ontario's economic success in the second half of the 20th century was founded upon a quantum leap in access to public post-secondary education.

In the late 1950s, only one child of every hundred who started grade one went on to post-secondary learning. By the 1990s, that number had grown to six out of 10. Sixty percent of Ontario's young people now enter college or university. It remains an imperative in today's knowledge economy to enable the 40% who still do not receive post-secondary education to break through this barrier.

But the Common Sense Revolution not only threatens Ontario's ability to raise the 60% threshold. It threatens to turn back the clock altogether.

The most dramatic barrier to post-secondary access is brand new and results from Harris cutbacks: escalating tuition fees.

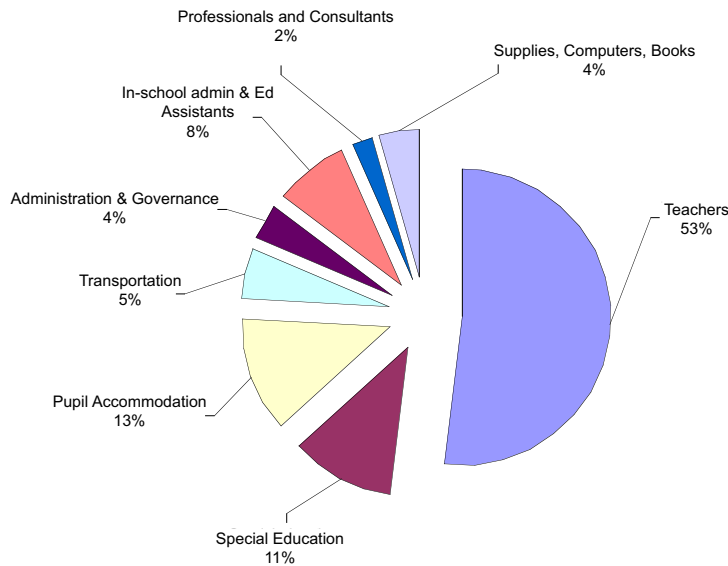
Between 1995 and 2001, the Harris government allowed tuition fees to rise by more than 60%. Student fees now account for more than 35% of university operating costs. And the average student debt load is a crushing \$25,000.

The Harris barriers to access must be replaced with policies that enable each and every able and motivated student to enter college or university. This requires a number of responses.

Education reinvestment #1

To restore the capacity of our schools to provide quality education, we would invest an additional \$2.4 billion in elementary and secondary education. Phased in over two years, this would restore real per student funding to its pre-Harris level.

Formula funding components



- A freeze, then rollback, of tuition fees
- Grants to students in need to help reduce their debt load
- Targeted assistance for students with dependents or special needs
- Expanded work-study opportunities
- Debt reduction aid for borrowers with significant difficulties meeting their debt obligations
- Deferred tax status for interest paid on student loans

Once again we flag the impending arrival of the “double cohort” in 2010, when university enrolment will balloon by an additional 90,000 students - an increase of 40%! The OAB proposes that real per capita spending can and must be restored. But the

double cohort cannot be accommodated without major new support from the Government of Canada.

3. Early years program and child care reform

The Ontario Alternative Budget project believes that Ontario should adopt 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 begin the implementation of an Early Years program for our youngest children.

We would combine this long-promised and long-postponed initiative with a total reform of Ontario’s method of funding child care, replacing the current crippling fees of up to \$1000 a month per child with a flat rate of \$5 per day child care. And we would be-

Education investment #2

Restoring real, per student base funding to Ontario’s universities and putting in place the above Access Program will require an investment of \$1.2 billion in additional base funding.

Restoring the cuts to Ontario’s network of community colleges requires another \$400 million increase in the college base budget.

gin a massive expansion of Ontario's child care capacity.

A major Early Years Program (EYP), together with child care expansion and funding reform, would:

- Recognize the fact that more than 75% of women with children under the age of 12 are in the workforce. They and their families require quality, accessible and affordable childcare as a necessity of family life
- Acknowledge the fact - documented in the Mustard-McCain report - that most learning in humans occurs in the earliest years of life, precisely the area where we invest the least amount. The Early Years Program will end what Dr Mustard refers to as "the real brain drain."
- Accept the reality that accessible, affordable, quality child care is an essential prerequisite for ending child poverty. It enables sole support moms - in addition to other crucial supports- to escape from the poverty trap and move into the world of work.

Our proposal has three components.

i. Affordable \$5 per day child care

This step is to reform the exorbitant fee structure and replace it with an affordable model. The Quebec plan — \$5 a day child care - has captured the public imagination as a bold and visionary experiment that has won widespread support, and it deserves to be adopted.

The present model of welfare subsidies for low-income families and crushing fees

of up to \$1000 a month per child for everyone else is a huge barrier to the creation of a truly accessible and affordable system. We would replace it with a flat rate - no parent will pay more than \$5 a day per child. Forty-five percent of childcare spaces will be available on a further subsidy basis for families with low incomes and/or more than one child in child care.

ii. Guaranteed access

Accessible child care means the current scarcity and rationing and long waiting lists must be replaced by a system that is truly available to all families who want to use it. We have set, as a provisional target, the provision of child care spaces for up to 50% of Ontario's 2 million children under 12 years. Obviously the creation of such a large new and costly social program can only be phased in over a number of years.

Training of new childcare staff, creating a new institutional framework, building new facilities and marshalling the financial support will all take time.

iii. Early years program

The core of the program reform - the Early Years Program - combines full-day kindergarten and child care to provide a publicly-funded early education and care program for 3-, 4-, and 5-year-olds. Parents who voluntarily decide to use the program would choose to send their children for a half, full, or extended day. The statutory school age (6 years) would not change.

The EYP builds upon our one universal early learning program, the kindergarten

classes in our public schools, with an integrated or wrap-around child care component as an essential feature. While the child will experience a seamless day of learning and quality child care, the educational component of EYP will remain free. The \$5 a day fee is intended to cover the wrap-around care - before and after class.

For the first two years, emphasis would be focused on developing the Early Years Program for 3-, 4- and 5-year-olds and getting it off the ground. In the second phase, the reform program would grow to expand care for children under two, as well as a major expansion of before and after school and holiday care for elementary school children.

The \$5 a day child care reform could begin right away.

Additional details, relating to training and quality standards, are set out in our 1997 Alternative Budget Papers, pages 128 to 133.

***A rare consensus –
the early years are the key***

Our EYP and child care reform proposal represents the most significant social program expansion since the introduction of Ontario's community college system in the late 1960s. It is just as important to Ontario's young people as that bold initiative was in its day. And the price-tag, while not insignificant, is also within our reach.

An Early Years Program, combined with \$5 a day funding reform, a major expansion of pre school child care, and child care wrapped around the school day should begin now, this year, today.

The OAB proposes to give the EYP initiative a huge head start with a start-up investment of just over one billion dollars (\$1.076 billion), spread over two fiscal years. Of this amount, \$780 million would cover the cost of doubling the size of the current child care system. A second amount of \$296 million covers the cost of replacing the exorbitant fee system currently in place, which costs up to \$1,000 a month per child, with a \$5 a day fee structure.

Fully 45% of the spaces under the OAB plan would be subsidized, to accommodate low-income families and low-to-moderate-income families with more than one child in care.

This billion-dollar investment would be sufficient to more than double Ontario's current child care capacity within two years. It would also fund the implementation of \$5 a day child care and the "seamless day" model of child care. At the end of phase I, Ontario would be spending a total of \$1.820 billion on the EYP program. An additional \$450 million would be generated by fees.

Table 1 illustrates the possibilities.

It is extremely difficult to estimate the final cost of a universally accessible EYP program, for the simple reason that it is entirely uncertain what the final take-up or use of the program would be. An EYP with the capacity to serve half of Ontario's 2 million children under 12 would cost between \$4 and \$5 billion a year. But it is completely unknown whether the system would be used by that many families.

The prudent course is to establish the program and grow its capacity over time, as

Education investment #3

The OAB proposes the phase-in of an Ontario Early Years Program, combining \$5 a day child care funding reform, guaranteed access through a major expansion of the system, and a seamless day approach which integrates child care and kindergarten. The first phase would require new funding of \$1.076 billion over the next two fiscal years.

resources permit over the next five to ten years.

To conclude with two quotes from the landmark Early Childhood Study by Dr. Fraser Mustard and the Honourable Margaret McCain—

- “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.”
- “Ensuring that all our future citizens are able to develop their full potential has to be a high priority for everyone. It is crucial if we are to reverse “the real brain drain”.

Health care: still on the critical list

Starting in 1995, the Harris revolution targeted the Medicare budget as the most promising source of cash to pay for the tax cut promise.

Recall that \$800 million was ripped out of the hospital budgets in 1995, and that the Hospital Restructuring Commission ordered the shutdown of 35 hospitals.

Seven years later, the system is still in turmoil.

The Harris government claims that it has fully restored health care funding, and then some.

But the OAB’s most recent technical paper (Selling Ontario’s Health Care: the Real Story On Government Spending and Public Relations) has put the lie to that assertion.

- Taking into account inflation, population growth, and an aging population, Ontario is not only not spending more on health care: it is not keeping up. The cumulative health deficit since 1995 adds up to \$4.1 billion today.
- Looking into the future, the Harris commitment to “raise” health spending to \$22.7 billion by 2004 actually represents a real cut of \$212 dollars per person compared to 1995. Population growth, infla-

Table 1

Age cohort	Cost/space	Current spaces	New spaces from EYP phase I	Total spaces after 2 years
0 to 2	\$9400	20,300	21,600	41,900
3 to 5	\$7700	106,000	79,050	185,050
6 to 12	\$4300	40,600	94,400	135,000

tion, and an aging population continue to eat away the value of Ontario's health dollar.

- The real bottom line number is this: Ontario has 25,000 fewer health care workers today than it had in 1995! Despite the fact that our population has grown by 750,000 people, Ontario has shed one health care worker in 12 under Mike Harris.
- In 1995, Ontario had 26 health care workers for every 1000 people. Today, after seven years of Harris cuts, we have 22 health staff per thousand people.
- If stable staffing ratios had been maintained since 1995, Ontario would have *added* 45,000 more hospital and long-term care staff than we have today.
- Out-of-pocket spending by Ontarians on private health care has increased by \$209 per person, to a new total of \$1,012 for every man, woman and child. This represents \$2.4 billion a year spent outside

the Medicare system on privatized health services.

At a time when the Harris government is reaffirming its commitment to give away another \$5 billion worth of tax cuts, the OAB repeats the urgent call for targeted reinvestment in three key areas of health care as first steps, in what will be a long process of fixing what Harris has broken.

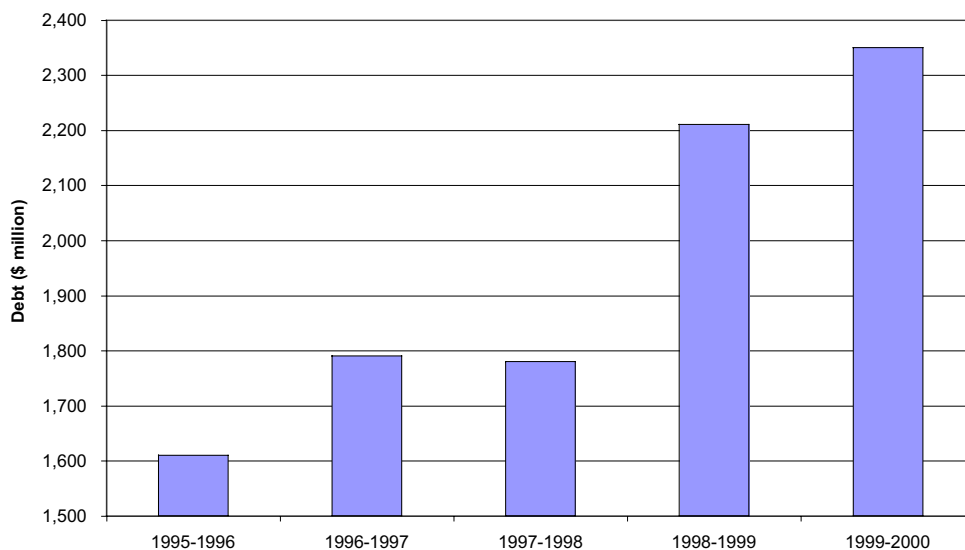
1. Hospital Stabilization

Since 1995, the accumulated debt of Ontario's public hospitals has increased by three-quarters of a billion dollars. The Harris government has balanced its budgets and paid for its tax cuts on the backs of our hospitals, which are required to respond to all the needs of their patients.

2. Long-Term Care

Since 1995, Ontario has adopted the American model of privatized, low-wage delivery of long-term care services to meet

Hospital Debt in Ontario, 1995 to 2000



Source: Ontario Hospital Association Pre-Budget Submission to the Standing Committee on Finance and Economic Affairs, February 2001

the needs of Ontario's aging and special needs population, both in terms of home support programs and residential care.

Creating an unstable, insecure, and basically exploitative low-wage job ghetto in this sector of the health care system is a recipe for disaster for seniors and the disabled. Long-term care programs must be seen as a core Medicare service, governed by the five Medicare principles, and offering stable, career-based employment.

3. Primary Care Reform

The completion of Canada's medicare project will not occur until the fee-for-service model which supports solo practice medicine is replaced by a network of community health centres, open 24 hours a day, seven days a week. Primary care reform will replace the fee-for-service single doctor office with salary-based teams of doctors, nurses, nurse practitioners, therapists, and

other members of the health care team. It will provide care on a 24/7 basis, and end once and for all the near total dependence of Ontario families on hospital emergency departments for after-hours care.

While primary care reform will reduce costs in the long run by ending the fee-based incentive for revolving door medicine, there will be significant start-up costs.

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 dismantling the entire environmental protection regime in this province. Its four-part strategy - dismantle environmental laws, weaken the role of gov-

Health investment #1

The OAB proposes a \$600 million hospital stabilization fund to bring stability and certainty to hospital funding and begin the long process of repair. First steps must include rehiring nurses and other health care workers on a permanent, full-time basis.

Health investment #2

The OAB proposes a major investment of \$900 million on the base of Ontario's Long-Term Care budget, to establish LTC programs as a core Medicare service, delivered under public administration, available when and where needed, with secure, stable, permanent employment opportunities for health care providers.

Health Investment #3.

The OAB would establish a Primary Care Reform Capital Fund to support the costs of construction for the new physical infrastructure required - new clinics and equipment - to be funded at the level of \$250 million per year.

ernment, shut out the public, and sell off our natural heritage - has essentially crippled this 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 five 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 \$155 million to develop the tools and policies needed to manage our province's resources well.

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 Harris 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 \$330 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.

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 shortsighted development proposals to pave over much of the Oak Ridges moraine, the lack of effective land use planning and this Government's abdication of responsibility is handcuffing our ability to act in our own best interests.

One of the first acts of the Harris 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-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 reorient the Ontario tax system.

We should penalize excessive energy use and material throughput 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 worldwide 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

Environmental Investment

The OAB would restore the capacity of the Ministry of Natural Resources, with an investment of \$155 million, and restore the capacity of the Ministry of the Environment with an additional \$80 million.

The OAB would budget an additional \$330 million to support environmentally friendly public transportation and transit services.

The OAB would establish a \$300 million per year clean water fund to assist municipalities to upgrade their sewage and water treatment plants.

much more innovative and creative solutions for the future.

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 \$300 million per year in new funding to sewage and water treatment capital projects.

Ending the war against the poor

Social assistance was slashed by 21.6% within two months of the 1995 election. Since Mike Harris's Tories were elected, families on social assistance that haven't been completely cut off have lost more than 30% of their purchasing power.

A 30% reduction in living standard in five years would be devastating for a middle-income family. For the most vulnerable in our society, coping with the loss of rent control and a critical shortage of affordable housing, the impact is catastrophic. The year 2000 was supposed to have been the year Canada eliminated child poverty. In Ontario, child poverty is higher than it has ever been.

The present system of income support in Ontario benefits few people, neither those

who receive welfare nor most working people. It is harder for people who need support to get it, so they turn to already stretched family and friends or end up on the streets. If they get support, it is so meagre and complex that they use their energy to manage their benefits rather than stabilizing their lives or figuring out sustainable ways of leaving social assistance. Many are pressed to leave so quickly that they do so without any secure grip on the future: this increases the likelihood they will return to welfare.

Unfortunately, many people have swallowed the stereotypes and scapegoating they hear and have concluded from one or two anecdotes that most welfare recipients are defrauding the system, so they applaud punitively low benefits and a phoney workfare system. Others know from personal experience how dreadful social assistance is, so they support a system they were led to believe would get people back on their feet as quickly as possible.

People on welfare are squeezed off benefits or don't qualify in the first place. One-third fewer people are eligible for social assistance now than five years ago, but the Government's claim that most people have

left welfare for jobs has not been substantiated. And Ontario's workfare program, which forces people to work for their welfare cheque, not for a pay cheque, and denies them the benefit of worker protection laws and forbids the right to a union, is a farcical fraud.

Few land on their feet when they leave the welfare system. And the rest of the workforce finds that their job security and wages decrease when bad bosses have a ready pool of workers with no alternatives. The beneficiaries are those employers who already exploit their employees, and the few people who get huge tax cuts. The losers? Everyone else.

Social assistance must be reformed.

We want to make it hard for people to slip into welfare in the first place, because they find available to them so many real and supportive alternatives.

For those for whom the alternatives don't work right now, we want to make it easy for them to get the support they need. Children, for instance, make up about half of the beneficiaries of social assistance. Every single one of these children is living in abject poverty because of the welfare cuts of 1995. If parents are unable to work, why should the children suffer?

We want to make it simple for those receiving support to move out, off and up, when they are ready to do so in a productive and sustainable way.

We want to make it comfortable for those whose situations will not change, at least for awhile - such as those who have disabilities

- to continue receiving support. Forty-three percent of the social assistance caseload consists of persons with disabilities and their dependents.

And for those who are doing everything they can to avoid slipping into welfare, we want to provide more security.

This, rather than trickle-down beggary-neighbour policies, is the way to grow an economy that will benefit everyone.

1. 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.
2. 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.
3. Child care. High quality, affordable child care is essential for people, and especially sole-support moms, to get and keep jobs. A recent report by KPMG indicated a need for well over \$100 million to meet the child care needs of welfare recipients. Our Early Years Reform proposal will address this need.
4. Housing. Affordable housing is an absolute necessity. The Ontario Alternative Budget Working Group believes it is a

priority, and we have addressed this urgent need again in this budget.

5. Raise the rates. 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 Working Group 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 \$140 million would be allocated.

Making work pay

We all hear that unemployment is down, and we have even heard the news that full-time jobs are up. Yet several recent reports describe how poverty is increasing and average incomes are dropping. This is the result of an increase in unstable jobs: contract, temporary, self-employment and part-time jobs are more and more the norm. We know that those jobs pay less and are less reliable as a source of income. Good jobs are giving way to bad jobs.

It is hard for people to find high-quality training, which will prepare them for better jobs. Ontario government spending on training is down by 70% since 1995. Adult education in the public school system has been virtually eliminated.

Unemployment insurance is harder to get and pays less. By the late 1990s, only 30% of Ontario's unemployed were eligible for benefits, compared with 60% 10 years earlier.

Job protections have been eroded by legislative changes and through the elimination of government staff who deal with law-breaking employers.

The end result? More bad jobs.

There are several solutions. With Ontario's GDP up by 31% since 1995 and corporate profits up by 63%, there is room for strong action to improve the conditions of existing jobs and to create good new ones.

- Publicly-funded services should be delivered by people who receive decent wages. Mending/reforming our health care and education systems will help with the creation of thousands of good, career-based jobs.
- People with bad jobs or without jobs need access to good jobs and job training, and communities need funding to hire people to retrofit or build new buildings as well as to meet other community needs: a good job creation program will help. In 2001-2, the Ontario Alternative Budget proposes spending \$200 million for a Fair Work program, which will help create meaningful jobs for 60,000 people.
- To help people keep jobs, the Ontario Early Years Program will be an important step in providing affordable child care for the children of working people in Ontario (see the Early Years section for more details).
- Job protections must be enhanced, minimum standards raised, more people hired to monitor workplaces and enforce employment laws, and community-based legal and related services provided

to employed and unemployed people experiencing workplace legal problems.

- It is time for the minimum wage to be increased: it has been frozen at \$6.85 per hour for five years.
- The Ontario Alternative Budget will also improve the Ministry of Labour's ability to enforce employment laws by increasing its budget by \$30 million a year. We propose an annual employment inspection blitz (like Toronto's recent public health restaurant blitz) to shift the onus of compliance back to employers. A sum of \$25 million will go towards the Wage Protection Fund, for people who don't get paid when their employer closes down. Another \$5 million will be spent to provide community legal services to help workers secure their rights.
- Finally, Ontario must pressure the federal government to change UI eligibility criteria so people who have paid to insure against being unemployed receive that insurance. At the same time, social assistance needs to be reformed so that people are no longer forced off welfare

before they are ready, thus ratcheting down everyone's wages and job security.

Restoring basic public services

Worker protection

Huge cuts to the Ministry of Labour have eliminated the Ministry's capacity to protect working people from exploitation and unfair treatment by bad bosses. The cuts have destroyed the capacity of the Ministry to enforce such vitally important worker protection laws as the Employment Standards Act and the Occupational Health and Safety Act.

Community Development

In its zeal to transfer billions of dollars in tax cuts to Ontario's upper middle class, the Conservative Government has withdrawn hundreds of millions of support funds from essential social and economic infrastructure. Thousands of cultural, social, recreational and community action organizations across the province have been "defunded."

Measures in this year's OAB to help the poor

- \$200 million Fair Work Program
- \$25 million Wage Protection Fund
- \$30 million restoration of funding for the Ministry of Labour
- \$5 million for Workers' Rights Legal Services
- A \$1.00 an hour increase in the minimum wage
- An affordable housing program – again

Income support

- \$850 million increase in Social Assistance Benefits
- \$140 million to end the National Child Benefit Claw-back

These groups organize and generate the voluntary community-based activity which forms an essential part of Ontario's social fabric. They are also an important source of potential job growth, providing important human and community services, which would otherwise be neglected.

Program expenditure summary

The Table 2 summarizes our program expenditure plan. In each case, the expenditures reported are increases relative to final expenditure levels for fiscal year 2000-1. Additional program and capital expenditures over base expenditures will be spread out over a two-year period, with approximately \$7.6 billion in 2001-2 and approximately \$3.3 billion in 2002-3.

Rebuilding Ontario's Fiscal Capacity

Personal Income Tax

Leaving the basic rate and surtax rate structure in place, Ontario's personal income tax system could raise substantial additional revenue by adding new tax rate brackets for very high-income individuals.

In the current system, the top marginal tax rate is 11.16%, beginning at an income of approximately \$62,000. A package of changes that would see a new tax rate of 12% on income above \$75,000; 13% on income above \$125,000, and 14% on income above \$250,000 would generate approximately \$1.2 billion in additional revenue.

A taxpayer with a taxable income of \$100,000 would pay an additional \$210 in tax.

A taxpayer with a taxable income of \$200,000 would pay an additional \$1,800.

There would be no personal income tax increase for any taxpayer with an income below \$75,000. In addition, all taxpayers will benefit from the continuation of indexing of tax brackets and amounts.

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% for employers with total payrolls of less than \$200,000, increasing on a graduated scale to 1.95% on payrolls exceeding \$400,000.

Worker protection investment

We would re-establish a \$25 million wage protection fund to make sure that workers are paid the wages they are owed. The OAB would invest \$30 million to rebuild the capacity of the Ministry of Labour to enforce Ontario's worker protection laws.

Community Development Investment

The OAB would restore \$200 million in funding support for community-based social, cultural and economic development.

Table 2

Program Summary	\$ million
Rebuilding Social Programs	
Health Care	
Hospital Stabilization	600
Home Care Reform	600
Primary Care Reform	500
Social Assistance	
Increase social assistance rates	850
End the National Child Benefit Clawback	140
Fair Work Program	200
Housing	
New housing supply (15,000 units)	600
Province re-assume responsibility for housing -partially offset by property tax reduction	900
Rental supplement for the new housing supply program	75
Increase shelter allowance to 85% market rent	210
Education	
The Early Years Program and \$5 a day child care	1,076
Restore real per student funding - elementary and secondary	2,400
Restore post-secondary funding	1,600
Restoring Regulatory Capacity	
Environmental Protection	
Restore the capacity of the Ministry of Environment	80
Restore capacity of Ministry of Natural Resources	155
Clean Water Fund	300
Protecting Working People	
Restore Ministry of Labour	30
Wage Protection Fund	25
Supporting Communities	
Community Economic Development	200
Transportation and Transit	330
Native Affairs	8
TOTAL	10,879

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.

In its first budget, the Harris Government compounded the unfairness. It replaced the graduated structure with a blan-

ket exemption for the first \$400,000 of annual payroll.

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, 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 \$950 million.

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. Evidence is mounting that 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.

In April 2001, acting in concert with the Federal Government, Ontario increased its tobacco taxes by \$2.00 per carton of cigarettes.

We estimate that change will increase revenue to this province by approximately \$200 million.

Full restoration of tobacco taxation to its pre-cut level would raise a further \$760 million.

Corporate income taxation

In each budget, the Harris Government has created new opportunities for tax avoidance by corporations. It has also reduced tax rates for both small and large businesses, at substantial cost to this province's revenue base.

The key changes are summarized in Appendix A.

Some of these changes are attached to activities that have a positive impact on the economy and, in some cases, on the community at large. The issue is not "is research and development a good thing?" Rather, the issue is whether the tax system should be used in this way to promote these activities. On that question, the evidence is clear. The major impact of targeted tax concessions provided by sub-national governments is to reduce government revenue overall. They do not have a significant impact on real economic activity.

We believe that Ontario's corporate income tax system should be harmonized with the federal corporate income tax.

This would involve the elimination of all tax-delivered concessions introduced by the Harris Government and rolling back other concessions that were already in the system when the government was elected.

Not all of this tax-delivered assistance would be completely eliminated. Certain measures aimed at promoting the development of Ontario-based cultural industries would be continued as grant programs.

These changes would raise an additional \$910 million in 2001-2.

In the 1998-9, 1999-2000, and 2000-1 budgets, the Harris Government began its shift from personal income tax reductions to corporate tax rate cuts.

We believe that these changes moved in exactly the wrong direction. In the recovery from recession in Ontario and in Canada, corporate income has fared much better than the incomes of average families. Corporate profits have soared to record heights, while real median family incomes are stuck at their late 1980s 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.

Rolling back rate cuts would generate an additional \$1 billion.

We will, of course, implement none of the Harris budget's new tax cuts.

Retail sales tax

In the 2000-1 budget, the Government announced the elimination of the Retail Sales Tax on vehicle insurance premiums and warranty repairs. These changes will cost On-

tario over \$400 million in lost revenue, per year.

The revenue potential from these changes is summarized in the following chart.

The fiscal plan

Our fiscal plan covers a two-year period to the end of fiscal year 2002-3. It is summarized in the table below.

Our plan calls for a massive re-investment in public services – an increase of \$10.9 billion in program and capital spending over the two-year planning horizon.

The spending program is spread over two fiscal years, with the funding for low-income families and individuals, homelessness, education and environmental quality fully allocated in the first year.

Even with this increase, however, program and capital spending will reach only 13.38% of Gross Domestic Product – substantially less than the long-run trend.

The plan is financed in part through a program of targeted tax increases, detailed above, and in part through economic growth. Approximately 60% of the required revenue growth comes from tax increases; 40% from economic growth.

The critical variable in our plan is the forecast for real economic growth.

In formulating our plan, we have used forecasts for growth which are substantially more conservative than those used by the Government in the official budget presented on May 9, 2001. Whereas the Government is assuming a rate of growth for 2001 of 2.2%

and for 2002 of 3.1%, our plan is based on an assumed rate of growth of 1.6% in 2001 and 2.5% in 2002.

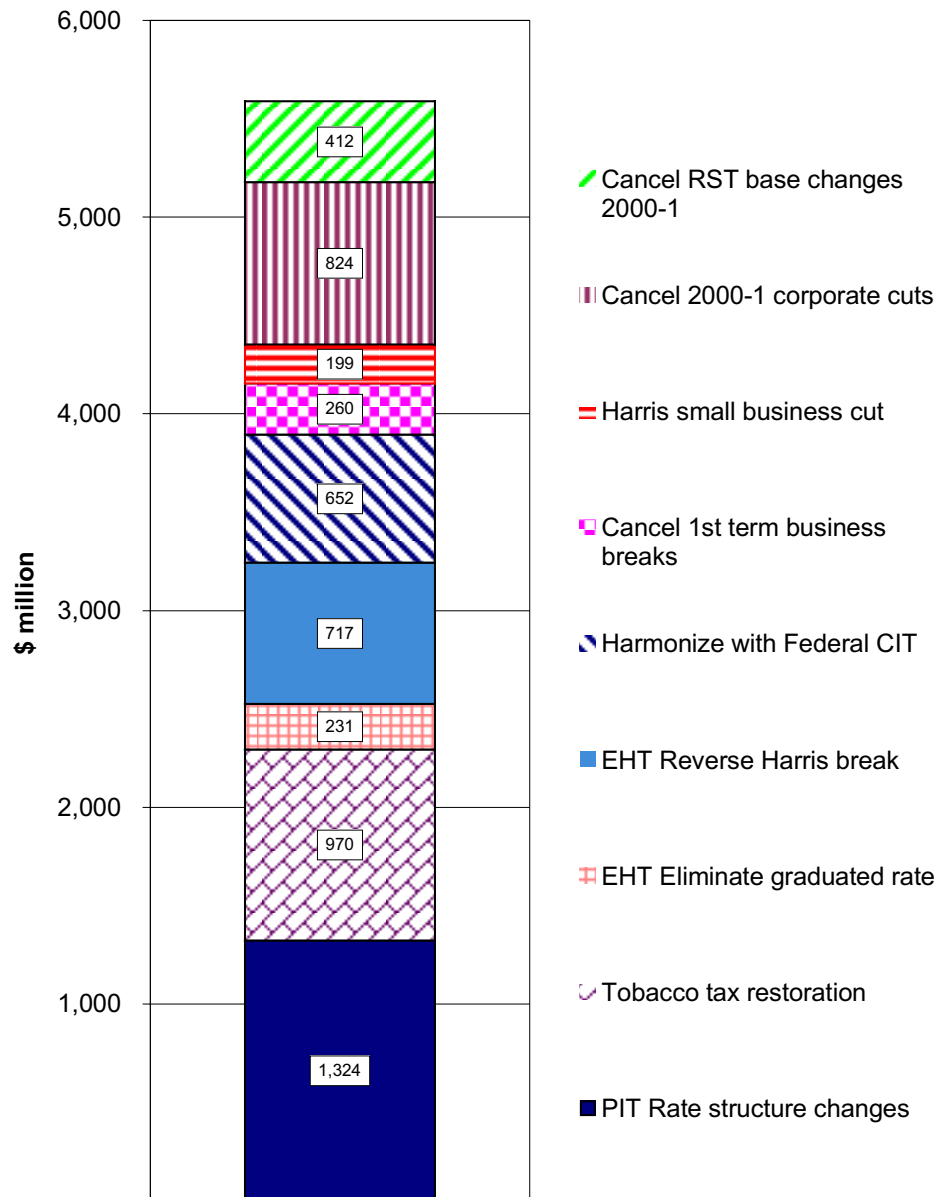
Based on these forecasts, we project that our plan will result in surpluses in both 2001-2 and 2002-3, even after allocating reserves of \$1 billion in each year.

The plan is resilient to down-side forecast errors. If economic growth is at the low

end of private sector forecasts, the allocated reserves are sufficient to avoid a deficit. If the Government's forecasts are correct, and the economy does not fall into recession in 2001, the plan will generate a larger surplus.

Because our plan is based on more conservative economic assumptions, our plan is more likely to meet its targets than the Government's.

Summary of Revenue Options for OAB 2001-2



OAB Fiscal Plan Summary, 2001-2 and 2002-3

	Harris 2000- 1	OAB 2001-2	OAB 2002-3	2-year change
<i>Revenue</i>	64,927	70,849	74,377	9,450
<i>Expense</i>				
Program + capital	52,534	60,215	63,474	
Public Debt Interest	8,883	8,955	8,758	
Ontario Hydro	318	380	380	
Total Expense	61,735	69,550	72,612	
Reserve	-	1,000	1,000	
<i>Surplus / (deficit)</i>	3,192	299	766	
New Spending		7,681	3,259	10,940
Revenue from new taxes				5,589
Revenue from growth				3,861

Underlying economic assumptions

	2000	2001	2002	2003
<i>Real Growth</i>	5.10%	1.60%	2.50%	3.00%
<i>Inflation</i>	2.90%	2.00%	2.00%	2.00%

Based on average of current private sector forecasts

Appendix A – Ontario Budget 2001-2 Commentary

The wrong priorities at the wrong time

The tax cut fixation continues – at great cost to Ontarians

- Tax cuts are yet again the priority for the Government in 2001-2.
- By far the largest budget change item is \$4.23 billion for tax cuts to be phased in over the next three years. More than half of the new tax cuts go for Corporate Income Tax and Capital Tax cuts
- By the time the cuts in this budget are phased in, the revenue loss, in 2001 dollars, will be nearly \$16 billion annually.
- The Personal Income Tax cuts are trivial. As a result of the changes announced in this budget, most taxpayers will realize savings of less than the \$200 they got in Ernie Eves' Budget 2000 one-time tax give-away

A risky fiscal plan

- The Government's fiscal plan is razor thin. It projects a \$100 million surplus – essentially zero. Although it has reduced its forecast for growth for 2001 from 2.8% to 2.2%, it is forecasting a major rebound for 2002 to 3.5%. The forecasts used by the Government continue to be relatively optimistic. If there were a great deal of flexibility in this budget, that would be less of a concern. But there is very little flexibility.
- A further indication of the Government's budget high-wire act is that on a cash

basis, the government ran a deficit of \$4.6 billion in 2000-1 and will run a further deficit of \$2.3 billion in 2001-2.

Ignoring the real issues

- The real story of this budget is the Government's absolute failure to address any of the pressing issues facing this province.

Public infrastructure continues to deteriorate

- With Ontario's physical infrastructure deteriorating rapidly, the Government is allocating less than \$2 billion for capital spending in this budget. That's 0.4% of Ontario's GDP. Compare that with the 1.4% of GDP level at the beginning of the 1990s. This is the lowest capital budget in the last 15 years.

The attack on the poor continues

- The poorest citizens of this province have already had a cut in their purchasing power of more than 30% since Mike Harris was elected. Yet again, social assistance rates are unchanged in this budget.

Education system chaos will deepen

- The chaos in the school system will continue. The \$13.85 billion in elementary and secondary education funding announced over the past few weeks represents a cut, in real per student terms, of \$325 million this school year, compared with last year. In total, since Mike Harris was elected, total education funding has dropped by \$2.4 billion on a real per stu-

dent basis. That's a cut of more than \$1,000 per student in "student focused funding".

- In the only real surprise in the Budget, the Government introduced the first phase of an all-out attack on public education with a tax credit for private school tuition. This voucher system by stealth will be phased in over a five-year period, and will reach 50% of tuition (a maximum credit of \$3,500). The estimated budgetary cost is \$300 million. By comparison, total funding for elementary and secondary education increased in 2001-2 from \$13.59 billion to \$13.85 billion – a \$260 million increase. Even the \$300 million is likely an underestimate, because the program is completely open-ended.
- The increase in funding for colleges and universities for 2001-2 is only \$130 million, projected to grow to \$293 million in 2003-4. This is less than half the \$600 million that the university sector alone set out as a minimal requirement to deal with enrolment growth.

The needs of cities are ignored

- With homelessness at unacceptably high levels and growing, and with affordable housing on the decline, there isn't once cent for housing in this budget. In fact, the budget for the Ministry of Municipal Affairs and Housing will be cut by more than \$600 million.
- Ontario's major urban areas get the back of the Government's hand. The total amount in this year's budget for public

transit is \$30 million. Housing is being ignored. Further cuts in capital funding mean that local infrastructure will continue to crumble.

In the Government's own priority areas – less than meets the eye.

- In health, the \$1.2 billion by which the Government claims to be increasing health spending is almost entirely due to \$1.05 billion in increased Federal Government funding. The Government's only response to Ontario's hospital funding crisis is to make deficits illegal, thereby guaranteeing service cuts.
- Its increase in funding for the environment is a drop in the bucket compared with what is needed to restore safety and credibility to our sewage and water treatment systems. Funding increased by only \$22 million. Capital spending actually went down by \$3 million.

From voodoo economics to doofus economics

- The continuing sway of tax cut religion over the Ontario Government is the underlying story of this budget.
- Ontario is heading towards corporate tax rates at half the rates in neighbouring states and top personal tax rates lower than comparable rates, despite the lack of any evidence that these cuts have any effect other than to reduce our ability to pay for public services.
- The Government continues to claim, against the plain economic facts, that Ontario's economic performance is driven by Ontario's tax cuts, and not by the per-

formance of the US economy. So strong is the religion that the Minister does not even try to explain the current economic downturn.

- In sticking to its line on tax cuts, the Government is holding to a view of how Ontario's economy develops that is shared by no-one else.

Even on its own terms, the policy makes no sense. By starving public services like education, health and public infrastructure into a crumbling chaos, the Government is undermining Ontario's key competitive assets in the new knowledge-based economy.

Appendix B – Summary of Harris Business Tax Cuts Since 1995		
Year and item	Description of cut	2001-2 cost
1996		
EHT exemptions	General	349
	Small business	40
Race Tracks Tax		93
Corporate Tax	Film incentive	7
	Co-op education tax credit	16
	Misc reductions	7
1997		
RST	R & D equipment for manufacturers	6
Land Transfer Tax	Non-resident rate	3
Corporate Tax	Ontario Business Research Institute Tax Credit	38
	Eliminate 5% tax on technology transfers	38
	Ontario New Technology Tax Incentive	13
	Ontario Computer Animation and Special Effects Tax Credit	13
	Film incentive enrichment	9
	Co-op education tax credit improvements	13
	Ontario Graduate Transitions Tax Credit	51
	Ontario Book Publishing Tax Credit	4
	Capital Tax Deduction for R & D Expenditures	1
	Improvements to Small Business Investment Tax Credit	76
1998		
Corporate Tax	Income Tax Cut for Small Business	337
	Workplace Child Care Tax Incentive	12
	Workplace Accessibility Tax Incentive	8
	Interactive Digital Media Credit	12
	Computer Animation and Special Effects Tax Credit	1
	Sound Recording Tax Credit	6
	Film Production Tax Incentives	6
	Film and Television Tax Credit Enhancement	8
	Community Small Business Investment Fund	6
	Commercial & Industrial Education Property Tax Cut	601
1999		
Corporate Tax	Capital Tax Exemption for Small Business	39
	Credit Union Capital Tax Exemption	4
	Ontario Film and Television Tax Credit Enhancement	11
	Ontario Interactive Digital Media Tax Credit Enhancement	1
	Computer Animation and Special Effects Tax Credit Enhancement	1
	Technology Transfer Enhancement	23
	Innovation Tax Credit Enhancement	19
	Coop tax credit enhancement	11
	Ontario School Bus Safety Incentive	4
	M & P Tax Credit for Energy Generation	9
	Y2K Small Business Incentive	12
Gross Receipts Tax	Reduction	45
2000		
Corporate Tax	Capital Gains Cut to 62%	402
	Small business rate extension	20
	Educational Technology Tax Incentive	6
	Enhanced Film Tax Incentives	7
	Expanded Sound Recording Tax Credit	3
	Enhanced Book Publishing Tax Credit	2
	Expanded Interactive Digital Media Tax Credit	1
	R & D Super Allowance	4
Mining Tax	Reduction	21
Gross Receipts Tax	Phase Out	166
TOTAL HARRIS CORPORATE AND BUSINESS TAX CUTS		2,588