The Ontario Alternative Budget 2003

Budget document

Reality cheque:
What Ontario really needs
(and it's not tax cuts!)

Canadian Centre for Policy Alternatives

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Section I: Legacy and renewal

Since his election as Conservative Party leader last year, Premier Ernie Eves has been engaged in a complicated political balancing act. To have any chance of re-election, he had to create distance between his government and the constant flow of bad news about the impact of the policies of the Harris Government. At the same time, his government needed to appeal to a core support that still buys into the idea that tax cuts are the cure for all ills.

This new strategy has not exactly been a roaring success. Issues like Hydro and education funding have forced the government to run hard and change direction often to catch up with an electorate that has become increasingly hostile to Harris-era policies, as the consequences of those policies become more obvious.

On issues like housing and homelessness, water quality and support for cities, limited and largely symbolic policy responses are seen, correctly, as inadequate. As a result, they have had no impact on the public's confidence in the government.

Other issues — child care; post-secondary education — are in the wings, waiting to blow up in the government's face.

In almost every area of public policy, Harris-era chickens are coming home to roost, and the Eves Government looks anything but smooth in its efforts to respond.

Harris-era franchise issues like the welfare wedge are losing their appeal. The Kimberley Rogers inquest in Sudbury exposed the nasty underside of the Government's welfare policies, and its ham-handed and insensitive response did nothing to dispel the impression people have of an arrogant government that just does not care.

Even the core policy of tax cuts seems to be running out of gas. The relationship between taxes and our ability to pay for public services is anything but abstract. The link between the diminished fiscal capacity created by years of tax cuts and the widening and deepening crisis in public services funding couldn't be more obvious.

And the Tory touchstone of good management now has to fight for space with tales of mismanagement and extravagant spending on consultants and advertising.

In key areas, the acknowledged consequences of the Conservative Government's policies make the case for this year's Alternative Budget. In the critical big-ticket areas of public services — health care, education and environmental and civic infrastructure — it is no longer necessary to make the case that massive additional investment is needed. The Romanow Report on health care; the Rozanski Report on elementary and secondary education funding; the Walkerton Inquiry; and national and provincial organizations of municipalities have taken care of that. And it is equally clear that the Government's responses to date leave much of the job undone.

In other areas that have received less public attention, such as social assistance and early childhood programming, the case is there to be made for massive reinvestment in public services.

The task of this year's Alternative Budget is to collect the evidence that makes up the legacy of the Harris-Eves era, point the way for new directions in public services renewal, and demonstrate that, even after eight years of unrelenting emphasis on tax cuts, Ontario can generate the fiscal capacity that renewal requires.

The Conservative legacy

Most, if not all, of the critical issues facing Ontario in 2003 have direct roots in conscious decisions of the Conservative government dating back to their first days in office in the summer of 1995.

The government started out in August 1995 with its campaign "wedge" issue: an attack on the poor. Social assistance rates were cut by 21.6% and frozen; landlord-tenant law was tilted towards landlords; and Ontario's co-operative and non-profit housing program — the only successful affordable housing program in Ontario in the past 30 years — was eliminated.

We see the consequences today. Record participation in food banks. Record numbers of homeless. Unprecedented numbers of homeless families. Stories of desperate poverty repeated over and over again across the province, from the Kimberley Rogers inquest in Sudbury to the streets of all of our major cities.

Not one unit of affordable rental housing has been built in Ontario since the Harris Government was elected. Thousands of poor tenants are evicted every year.

Since social assistance was cut by 21.6% in 1995, there has not been a rate increase while the cost of living has increased by 18.9%.[1] In total, the purchasing power of the poorest families in the province will have been reduced by 34% since the Government was elected in 1995. Or to put it another way, we have reached the point where benefits would have to be increased by 50% from their current levels to get the real value of benefits for poor families back to the level they were at when Mike Harris' government was elected.

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

Walkerton alerted Ontarians to the consequences in dramatic fashion, as a public inquiry placed environmental deregulation and de-funding directly in the chain of events that led to that tragedy.

The government made a frontal assault on the child care system, undermining a service that is both essential for the survival of working families and an important contributor to early childhood learning. Its answer to the cuts was to appoint Margaret McCain and Fraser Mustard to a task force to study early years programming. But when the task force appointed came up with solutions it didn't like, it simply ignored the report.

We see the result today. No coherent policy on children's early years. Huge waiting lists for child care spaces. Provincially mandated cuts to special all-day kindergarten programs in low-income areas of Toronto.

In health care, the government pointed its budget cutting guns at the hospital sector. It appointed a restructuring commission, accepted all of the recommendations for cuts, ignored the recommendations for new investments and shut down the commission when the chair objected. Hospitals were closed across the province and hundreds of millions of dollars in severance payments were made to thousands of laid-off health care workers.

Then when the consequences of the cuts became too visible politically, it reopened beds, and funded new construction of long-term care facilities, diagnostic facilities and hospitals and pumped hundreds of millions of dollars into a campaign to attract nurses back to Ontario to staff the system.

It touted private sector initiatives in health, making a new cancer treatment facility at Sunnybrook Women's College Hospital in Toronto the poster child for its privatized "solution" to Ontario's health facilities shortages. In February, 2003, it quietly shut the facility, returning it to the public sector in the hospital.

It claimed that primary care reform would be the long-term solution for health care in Ontario, and then botched the implementation so badly that, at the current rate of acceptance by doctors, a reform that was to take years will take decades.

After four years of massive cuts, followed by four years of unfocused reinvestment, the health care system is adrift, with no clear direction for reform, and no answer to the shortages that still bedevil the system. The only constant with this government is its faith that an increasing shift of public funds for health care to investor-owned private sector service providers will lead us to a more efficient and cost-effective system, a faith that is not supported by the evidence.

The government went after school boards, claiming to be focusing on wasteful spending. It cut real per student spending by billions, and defended itself against critics by citing statistics that ignored both enrolment growth and cost increases. When the criticism could no longer be dismissed, its own task force chaired by university president Mordechai Rozanski confirmed everything the critics had been saying, finding that billions had been cut from the system, and making recommendations that would require an increase in annual funding of over $3.5 billion over a four-year period.

Even with nearly $600 million in new funding in 2002-3 in response to the Rozanski report, we go into the 2003-4 budget cycle with funding still two billion dollars short of what Rozanski said would be needed to stabilize the system, with even more required to enable education to begin to recover.

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

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

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

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

A deficit in the tens of billions in investment in public infrastructure has emerged. Our sewer and water systems have been found by public inquiry to be substandard. Roads are deteriorating. In the highest profile of Ontario's public-private partnerships, the construction and sale of Highway 407, the people of Ontario were taken to the cleaners, selling an asset for $1.6 billion that is now valued on the books of the company at more than $5 billion.

The government shifted college and university funding from provincial general revenue to tuition and fees. But when rising fees became an issue, it also capped fee increases, forcing the institutions to cut back. As a result, students in Ontario have the worst of both worlds. College and university tuition and fees have soared, putting post-secondary education out of reach for many families, and saddling many of those who experience post-secondary education with crippling levels of debt on graduation. At the same time, conditions on campuses for undergraduate students have been deteriorating, a situation that will be made far worse by the government's failure to respond effectively and appropriately to the influx of additional students into the post-secondary system caused by the elimination of grade 13.

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

All the while, the government used the deficit to justify its actions while it used all of the savings, and more to cut taxes. It claimed that its tax cuts were tailored to provide tax relief to middle-income Ontarians, while the lion's share of the benefits of the personal income tax cuts went to high-income individuals and an increasing share of the tax cut action was directed to profitable corporations.

In short, the Harris-Eves years have left most Ontarians worse off. The Tory tax cuts sounded good, when sold as percentage changes, but delivered most of the benefit to higher-income individuals and corporations. And even the limited tax cut gains received by average Ontario families have been offset by higher user charges for services that used to be free or subsidized, and higher private costs to replace public services that have been outright eliminated.

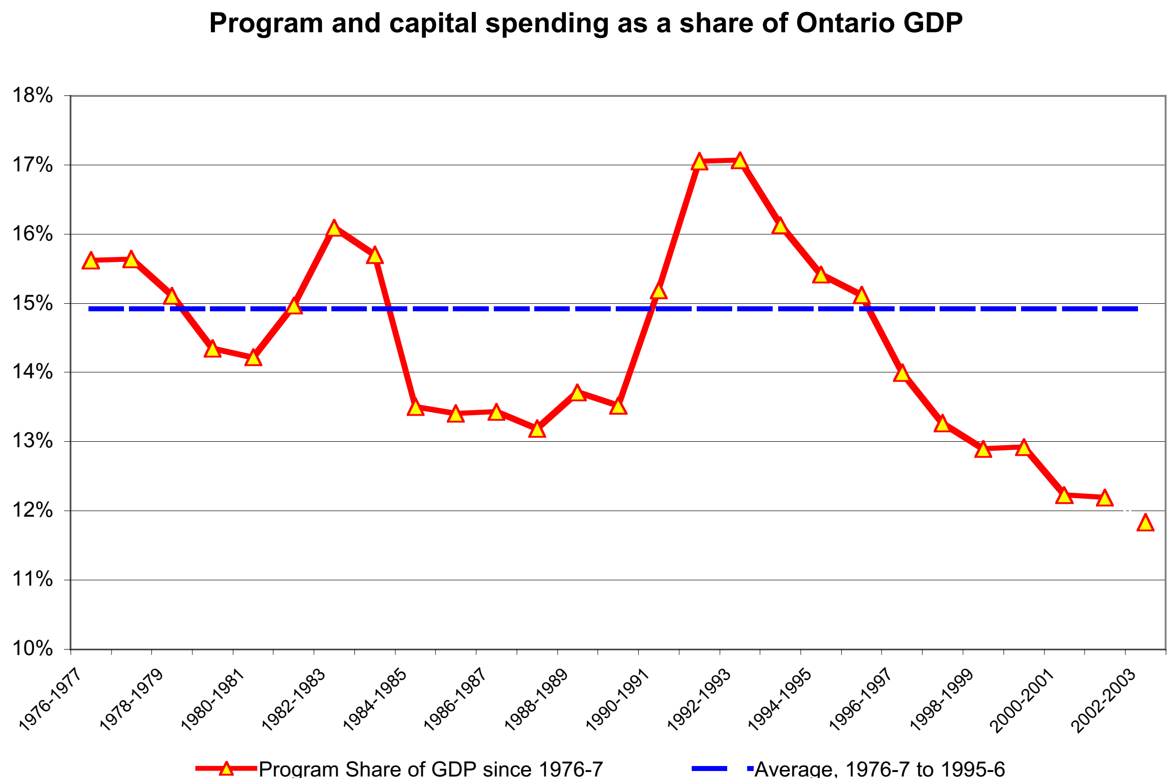
These changes add up to a huge change in the public economy of this province. Chart 1 shows the overall impact of the Conservatives' policies since 1995. Public services spending on programs and capital improvements dropped from 15.1% of GDP in 1995-6 — just above the average for the previous 20 years of 14.9% — to 11.8% for 2002-3. That represents a cut of nearly 20% in the relative size of Ontario's public economy.

Ontario's investment in public services is now far below the Canadian average, measured either in relation to population, or in relation to Gross Provincial Product.

Data compiled by the Canadian Institute for Health Information, on a basis slightly different from that used in the provincial budget, shows total program and capital spending at 13.2% of GDP in 2001-2 compared with an average of 19.25% for the rest of Canada. Ontario's public services spending as a share of GPP is the lowest provincial share in Canada. The next-lowest is Alberta.

Public services spending per capita is also substantially below the Canadian average, $4,956 compared with an average for the rest of Canada of $6,549. Again, Ontario's spend-

Chart 1[2]



ing per capita is the lowest in Canada. The next-lowest is Nova Scotia.

Ontario's weakened revenue base

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

An estimate by the Federal Department of Finance puts the impact of provincially-initiated corporate and personal income tax cuts at $13.3 billion for 2003-4.[3] The Ontario Alternative Budget estimates the impact of all Ontario tax cuts, including corporate property tax cuts and employer health tax cuts, at $14.9 billion.

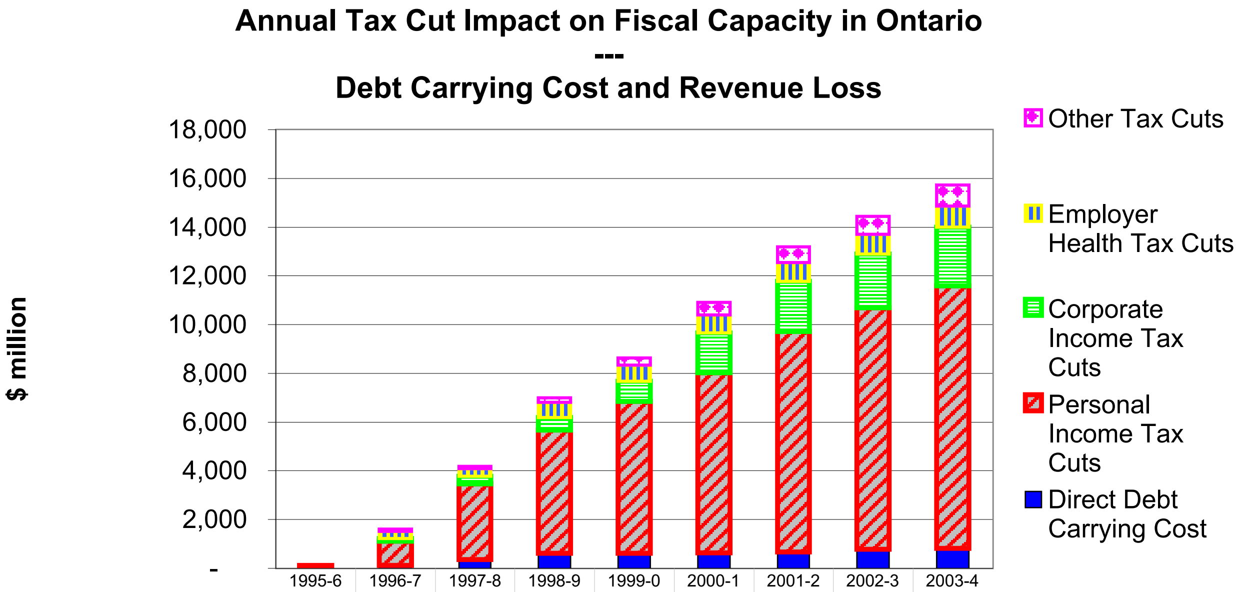
Whichever figure is used, the impact of six years of "Tax Cuts First" policies on Ontario's ability to deliver public services is obvious.

In the absence of this policy of deliberately destroying Ontario's revenue base, we would not be facing a public services crisis in this province. Ontario's revenue base would be $14 billion higher in 2003-4 than is currently forecast. And had the Government not chosen to cut taxes before balancing its budget, debt servicing costs would be lower by $800 million.

Who wins from the personal income tax cuts?

There is no question that the Conservative Government's personal income tax cuts have

Chart 2



	1995-6	1996-7	1997-8	1998-9	1999-0	2000-1	2001-2	2002-3	2003-4
Other Tax Cuts	-	85	98	183	295	520	656	725	854
Employer Health Tax Cuts	-	290	306	613	663	732	768	812	860
Corporate Income Tax Cuts	-	110	327	514	824	1,639	2,059	2,204	2,419
Personal Income Tax Cuts	109	998	3,096	5,059	6,236	7,392	9,050	9,920	10,777
Direct Debt Carrying Cost	-	111	353	608	608	622	659	766	804

had a dramatic impact on revenue from our most progressive revenue source. However, an analysis of the distribution of the benefit of these changes shows that more than 60% percent of the benefit from the Harris Government's tax cuts went to the highest-income 20% of taxpayers in Ontario.[4]

And the tax cuts planned for the future will have an even more extreme bias towards high-income taxpayers. Eliminating Ontario's personal income surtaxes (formerly called the Ontario Fair Share Health Levy) will cost the province an estimated $3 billion, all of which will go to the highest-income 20% of taxpayers. More than 94% of the benefit will go to the 5% of taxpayers with incomes over $100,000 per year.

The Alternative Budget for 2003-4

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

We believe that the situation in key public services in Ontario has become so critical that an immediate and decisive program of reinvestment is required. Thus, this year's Alternative Budget lays out a plan to rebuild and renew public services over a two-year period, with about 2/3 of the net reinvestment taking place in the first year and 1/3 in the second.

It calls for a $14.3 billion investment in public services over two years. Of that amount, $4.6 billion represents what would be required to maintain real per capita public services spending at its 2002-3 level, and $9.7 billion represents net new investment in improving public services.

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

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

Over the next two years, our program generates a cumulative surplus of approximately $1 billion.

Approximately 38% of the $9.7 billion in net new investments and all of the spending required to maintain the real per capita value of current spending will be funded from the impact of economic growth and increased federal transfers on the 2002-3 revenue base.

The remainder — approximately $5.8 billion in 2004-5 dollars — is funded from new and restored taxes.

Although it represents only a fraction of what has been cut from Ontario's fiscal capacity in the past eight years, it is a substantial tax increase. There is no sugar-coating the extent of the problem we face in erasing the public services deficit. Tax rates will have to be increased.

First and foremost, Ontario must get out of the race to the bottom. The corporate tax rates that existed prior to the year 2000 clearly were not an obstacle to this province's economic recovery. Indeed, the data show clearly that exports led, and were largely responsible for, Ontario's growth in the late 1990s.

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

Corporate tax rates will be rolled back to their levels prior to 2000. And Ontario's binge of corporate tax expenditure hand-outs will be reversed, in a review of corporate tax expenditures that will eliminate some and convert others to equivalent, transparent and accountable, grant programs, reducing the cost of these measures by 60%.

In response to the flattening of the tax structure over the past decade, the Alternative Budget proposes to increase the number of tax brackets for those earning above $100,000 per year. This will reinforce our commitment to the ideal of taxation based on ability to pay. The change will parallel the $100,000 plus bracket in the Federal Income Tax and add another new bracket at $150,000.

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

There will be a modest, but important, increase in personal income tax rates (0.25%) for all taxpayers in Ontario. This increase will be transitional, to support Ontario's recovery from the services deficit created by the Harris Government. We would review the tax annually to determine whether it is still needed to maintain an adequate revenue base for public services renewal and maintenance.

The Employer Health Tax will be restructured as a universal, and uniform payroll tax earmarked for the funding of health care, and future rates will be set at a level that will fund 20% of Ontario's health care costs. All of the additional revenue from this change will be directed towards health.

In addition, 100% of the increase in Federal transfer payments for health flowing from the Romanow report will be directed towards health care reform initiatives. We will reverse the Government's use of new Federal health transfers to offset the 2002-3 revenue shortfall caused by its failure to sell Hydro One.

As a result of this move, the books of the province will show a deficit of $443 million in 2002-3 rather than the phony $524 million surplus the Government is currently claiming.

We will restore tobacco taxes to their levels prior to the 1993 cuts.

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

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

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

Section IV presents our 2003-4 to 2004-5 tax program.

Section V concludes with a commentary on the contrasts between the Ontario Alternative Budget for 2003-4 and the pseudo-budget released on March 27, 2003.

Section II: Program spending

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

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

To that end, we propose a realistic and doable program of reinvestment phased in over a two year period. This program represents what we believe is needed to restore the public services foundation in Ontario. We believe that the problems caused by the Harris-Eves debacle are urgent, and must be addressed quickly.

By acting decisively, and by funding increases in spending on a balanced budget basis, we are putting forward a plan that will deal effectively with the crisis, keep the province's finances in order, fund an adequate cushion against contingencies, and provide a basis for tax relief in the future, as Ontario's pre-existing revenue base catches up with program requirements.

Our program would see a reinvestment of $14.3 billion, consisting of $4.6 billion to stabilize the existing level of public services in Ontario and $9.7 billion in new investments to restore and renew public services in the wake of eight years of Conservative cuts and mismanagement.

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

Education

Restoring full funding to elementary and secondary schools

The debate about the adequacy of funding for elementary and secondary education is over. After years of denying that there was a problem at all, claiming that funding had actually increased since it was elected in 1995, the Government was forced in 2002 to appoint an independent task force to review funding adequacy.

The report of the Rozanski Task Force silenced the Government and its apologists. It found that funding benchmarks had fallen far behind changes in costs in the system, and that in key areas — school maintenance, special education and English as a second language funding, the benchmarks had been inadequate to begin with. The Task Force recommended an increase in funding of $2.1 billion[5] — almost exactly the amount critics had been saying had been taken out of the system, on a cost- and enrolment-adjusted basis, since 1995. Equally important, it recommended that, in the future, benchmarks be adjusted annually to reflect cost changes.

The full cost of implementing Rozanski's funding proposals over the four-year phase-in period he recommended has been estimated at $3.5 billion[6] implying funding increases from the current level of $14.8 billion for 2002-03 (after the Government's December first instalment towards implementation of the Rozanski Report) to $16.1 billion for 2003-04, $16.9 billion for 2004-05, and $17.8 billion for 2005-06.

Beyond Rozanski, a comprehensive audit of the Ontario education system by the Ontario Institute for Studies in Education highlighted the pressures on education quality caused by the implementation of the funding formula and stressed the need to keep funding up to date.

"Total levels of provincial funding for schools need to reflect the real current costs being incurred by schools, not 1997 costs." [7]

While we obviously accept Rozanski's verdict and recommendations on the funding of the system, we are concerned that a three-year phase in will only delay renewal of public education that our children deserve.

Rozanski recommended $1.1 billion to update benchmarks to 2002-3 as well as $689 million in new investments, $250 million of which have already been funded, leaving $450 million still to be implemented. In addition, cost adjustments for 2003-4 are estimated to be $436 million, for a total required funding increase of $1.95 billion. Notwithstanding Rozanski's cautious recommendation that remediation of the system be spread over four years, we believe that the remaining Rozanski recommendations should be implemented immediately.

This increased funding would enable the province to make a substantial start on reducing class sizes in the early grades. The research on the benefits of small class sizes in the early grades (kindergarten to grade three) continues to mount. Students in small classes (fewer than 20 students) in the early grades, who then return to regular class sizes (about 25):

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

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

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

We would use any savings from the elimination of grade 13 for further enhancements to elementary and secondary education.

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

What elementary and secondary schools need	
Implement Rozanski recommendations	$1.95 billion plus annual benchmark updates
Class size reduction phase-in	$85 million additional each year for four years, beginning in year two
LESS: savings from eliminating standardized testing program	$50 million annual expenditure

million a year that could be better spent in other parts of the school system.

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

Post-secondary education: Ensuring opportunity for Ontario's students

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

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

Provincial grants to universities for 2002-3 were approximately $543 million below their 1995-96 level, after adjustment for inflation and enrolment growth. Operating grants for colleges have also been severely reduced during this period. We estimate a cost of $45 million to restore grants to their real, per student levels of 1995-6. Deferred maintenance costs of university and college buildings and general infrastructure are conservatively estimated at $1.2 billion, posing a health and safety hazard for students, faculty, staff and the general public. This budget will wipe out half of that deferred maintenance deficit over a two-year period.

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

This means that students are now responsible for funding more than 40% of university operating revenue. To put this into perspective, in its 1992 education policy document, *New Directions II: A Blueprint for Learning in Ontario*, the Conservative Party called for an increase in tuition to 25% of the cost of higher education. In the Conservative Party's 1999 election platform document, also called *Blueprint*, the government credited itself with raising tuition fees "to the reasonable and affordable 35%" of the cost of providing university and college courses. Tuition fees have now even exceeded the Conservative government's target share of education costs.

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

And despite the Government's rhetoric about offsetting tuition increases with increases in student assistance, the data show that, in fact, provincial student assistance in Ontario is in decline.

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

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

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

Enhancing accessibility by introducing upfront, needs-based grants and other student financial assistance reforms will require an investment of an additional $135 million. In addition, in return for the massive amount of additional funding provided for in this budget, colleges and universities will be required to freeze tuition immediately.

In this budget, additional funding will be provided to universities and colleges to permit student fees to be frozen in the first year, and reduced by 10% in the second year.

What post-secondary education needs	
Restore post-secondary funding, accommodate the double-cohort, freeze tuition, improve student aid and provide for catch-up maintenance	$1,848 million
1st year funding	$817 million

The double-cohort

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

This influx of students likely began in 2002-3, when approximately 10,000 more students registered in first year programs than the Ministry had projected.

The Alternative Budget will fund all additions to university enrolment at the full, inflation-adjusted level of $8,100 per Full Time Equivalent student ($6,800 increased by 19% to compensate for inflation since 1995-6). Our funding projections are based on an assumed double-cohort influx of 25,000 students and resulting in new funding for universities of $202 million. Funding for colleges is based on the assumption of an enrolment increase of 10% in 2002-3 and 25% in 2003-4, funded at the inflation-adjusted average per-student grant amount. We estimate that will cost $45 million. If additional enrolment exceeds these estimates, the difference will be funded from reserves.

Substantial new investment is essential to ensuring that Ontario's students have an opportunity for a high quality, affordable and accessible post secondary education. To reverse the damage of the past seven years and to provide for growth in student demand, the Ontario Alternative Budget will invest $1.8 billion in new funding over the next two years over and above the amount needed to maintain the real value of funding.

In post secondary education, as with other areas of social policy, provincial governments confront the reality that essential public programs require the active support of the federal government. As in the case of public health care, the challenges facing post second-

Post-secondary funding needs

		Full amount	*1st year*	*2nd year*
Universities	Double-cohort increase	202	202	-
	Deferred maintenance	450		450
	Inflation adjustment since 1995-6	543	543	-
	Tuition Freeze	60	30	30
	10% tuition cut	200		200
CAATS	Inflation adjustment since 1995-6	115	115	
	Double-cohort increase	45	45	
	Deferred maintenance	150		150
	Tuition Freeze	22	11	11
	10% tuition cut	55		55
Student Grants Program		135		135
		1,977	946	1,031
Of which	Maintain real per capita 2003-4 & 2004-5	129	129	123
Net new		1,848	817	1,031

ary education cannot be solved by the provincial government alone. In the 1960s and 1970s, the last major expansion of higher education, the federal government provided the resources needed to complement the necessary provincial investment. Ontario should negotiate with the Federal Government to ensure that transfer payments under the Canada Health and Social Transfer contain a component dedicated to post secondary education.

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

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

Ontario is facing a severe child care crisis. For Ontario's 2,000,000 children twelve years and younger, there are only 173,130 regulated centre and family-based child care, nursery school, and after-school spaces. This means that the available stock of regulated child care fails to meet the need of more than 90% of children in Ontario. Among the 70% of families where mothers are in the paid labour force, available spaces would only meet the needs of 12% of their children.

Rather than addressing the critical shortage of quality child care services, the provincial government has reduced its investment. Ontario's spending on regulated child care has declined by more than $160 million since 1995 (in constant 2001 dollars). These cuts mean that parents must shoulder an increasing portion of the costs of care. Ontario has the highest monthly fees for full-time, centre based care in Canada. To further compound the financial crisis in the child care sector, municipal downloading in 1997/1998 passed many of the costs of wage grants, resource centres, and special needs programs to overburdened municipalities. In some regions, municipalities have been forced to cut subsidized spaces for low income families.

The Ontario Alternative Budget's proposal

The Ontario Alternative Budget's three year plan proposes the following measures to ensure affordability and expand access to regulated child care:

- fund all existing regulated, non-profit spaces to make it possible to introduce a maximum $5 a day parental contribution;
- add a total of 20,000 new child care spaces by year three;
- provide an additional subsidy envelope to ensure the participation of those families where the $5 contribution remains a barrier to access; and
- fund pay equity measures to contribute to continuing child care quality standards and to ensure the adequate remuneration of early childhood educators.

A quality child care program at $5 a day

Measures are needed to address the current exorbitant child care fees for parents. In Ontario, parents using centre-based child care typically pay annual fees of $10,000 for an infant ($38 per day), $6,600 for a preschooler ($25 per day), and $4,000 for a school-age child ($13 per day for school days, $20 for in-service and summer days). Fees for regulated family child care are only slightly lower.

The Quebec child care plan has captured the public imagination as a bold and visionary initiative. The plan has won widespread support by funding care spaces so that the service is available to all parents for $5 per day. The $5 a day fee target for Ontario is a similarly bold benchmark that reinforces Early Childhood Education as a universal program and takes concrete first steps to put it in place. Our three-year proposal backs the development of universality within the program while ensuring that full time child care fees remain affordable to modest and middle income families.

It costs, on average, $30 a day to run a regulated child care space in Ontario. The Ontario Alternative Budget would fund each non-profit, regulated space at $25 per day. This public investment would make it possible to offer parents regulated child care at a maximum of $5 a day.

The $5 per day parental contribution represents less than 7% of disposable income for the average economic family in the bottom 40% of income earners in Ontario (based on 2000 after-tax income adjusted for family size)[8]. A parental contribution beyond this level begins to be prohibitive for families. Our proposal will introduce an additional subsidy envelope to support the contribution of families with low and modest incomes, as well as families with more than one child in care for whom costs are unaffordable. To begin with, we will provide sufficient funding to fully cover the child care costs of one in four users and will adjust this amount as a more precise picture of the program emerges.

Expanding access to child care

Families who need child care in Ontario currently face a scarcity of spaces and long waiting lists. By year three of our proposal we will have introduced 20,000 new regulated, non-profit spaces that would begin to address the needs of parents throughout the province. To ensure equitable expansion, the distribution of new child care spaces will be proportionate to the population in each age cohort (0-2, 3-5, 6-12).

The experience in Quebec shows us that the introduction of an affordable child care program results in an enormous rise in parental demand for services. Clearly, even after our proposal is implemented Ontario will still fall far short of the demand for child care. It is difficult to estimate the exact number of spaces that will be required. We know that 1.3 million children under twelve years have mothers in the paid labour force. Many who are not in paid labour require child care to support their training and educational efforts. We also know that many are not in the paid labour force for a variety of reasons that include the unavailability of affordable child care.

The need for a more aggressive expansion is great and the main stumbling block has been the lack of political will on the part of both levels of senior government. Expanding Ontario's child care system to the point where it can respond to the needs of all families will require the training of new staff, a new institutional framework, building of new facilities, and garnering of financial support.

Seizing opportunities for action on child care

It has not been for a lack of resources or opportunities that the provincial government has neglected Early Childhood Education and Care in Ontario. The Federal-Provincial Agreement on Early Childhood Development (September 2000) promised action on common priorities for children, including child care. Since 2001, the provincial government continues to deliberately divert early years federal transfers from quality child care programs. Out of a total of more than $266 million in federal funds provided under the Early Childhood Development Initiative over the past two years, Ontario has not invested a single dollar in quality child care.

Families in Ontario desperately need provincial cooperation. The Ontario government must make new provincial dollars available to bolster federal efforts and work constructively towards building a quality child care system that meets the needs of children and families. Over the next three years, the federal Early Childhood Development Agreement will transfer approximately $190 million per year to the province. With matching provincial dollars, the federal early childhood transfer would allow for immediate implementation of phase one of the Alternative Budget's proposal.

In addition, the 2003 federal budget dedicated new dollars to those provinces with an interest of investing in regulated child care. Ontario's share of these funds will be $10 million in the first year and $30 million in the second year. Although the new federal transfer is less than what is needed, reaching federal-provincial agreement on the expansion of regulated child care is a promising step for families and should be a catalyst for action in Ontario.

The Ontario government must make new provincial dollars available to bolster federal efforts and work constructively towards building a quality child care system that meets the needs of children and families. The Ontario Alternative Budget proposes a prudent course for child care that lays a foundation for expansion of an affordable program and continues to allocate resources that will allow it to grow over time. The ultimate goal for a quality Early Childhood Education and Care system is to ensure that all families, regardless of income, job status or geography, have access to seamless, coordinated, and inclusive care services. Such a benchmark will require that quality child care be viewed as a public priority with substantial multi-year federal and provincial investments. These investments coupled with planned systematic reforms and strong partnerships with the education system are essential to meeting the goal of universal access to care.

Moving forward on the early years

The OAB is committed to the stabilization and measured expansion of Ontario's early childhood education and care system. Ontario can no longer afford to neglect the developmental needs of our youngest children and to deny support to parents enrolled in training or in the workforce. Our plan will create a $5/day system of child care and increase the number of licensed spaces by 20,000 over three years. By the end of a three-year phase-in period, this will bring our annual investment in the ECEC program to $1.195 billion.

Of this amount, $800 million will replace the cost of the current exorbitant child care fee system with a $5 a day fee structure. A second amount of $230 million, including capital and operating costs, will result in 20,000 new child care spaces. Nearly half of all of the spaces of Ontario's ECEC system will be further subsidized to accommodate the needs of low and modest income families, as well as those families with more than one child in care.

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

In the context of buttressing a provincial child care system that has been largely neglected over the past eight years, the prudent course is to lay a foundation for expansion and to continue to allocate resources that will allow the system to grow over time. The ultimate goal of a quality ECEC system is to ensure that all families, regardless of income, job status or geography, have access to seamless, co-ordinated, and inclusive care services. Such a benchmark will require that ECEC be viewed as a public priority with concomitant substantial multi-year investments. These investments coupled with planned systematic reforms and strong partnerships with the education system are essential to the ongoing expansion of ECEC and towards the goal of universal access to care.

Promoting social inclusion and fighting poverty

The OAB is committed to promoting social inclusion and fighting poverty through a new model for income security and a system of services and supports to meet the diverse needs of Ontarians and their communities. Tackling deepening and persistent poverty and ensuring the well-being of all Ontarians requires a three-pronged strategy that focuses on the following interrelated factors:

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

Building a system that promotes the inclusion of all Ontarians should be based on the principles of universality, accessibility, comprehensiveness, accountability and democratization, preventive care and quality

Early childhood education and care program ($million)

	3-year total	*Year 1 (2003-4)*	*Year 2 (2004-5)*
Introduce $5 per day child care for current spaces	1,125	375	375
Create 20,000 new spaces	130	43	43
Capital costs for new spaces	100	33	33
Additional subsidy envelope	63	21	21
Pay equity	170	57	57
Total cost	1,588	529	529
Minus current provincial expenditure (pro-rated over 3 years for years 1 and 2)	452	151	151
Total new spending	1,136	378	378

These are annual incremental investments. Total investment for year two is the sum of year one and year two.

public services provided by unionized public sector workers.

A new model for income security

> *"There is no question that this is not enough. The minister doesn't know what she's doing."*
> *—Conservative MPP Cam Jackson attacking then NDP Social Services Minister Marion Boyd for her 1% welfare rate increase of April 1, 1993, the last time welfare benefits were raised in the province of Ontario.*

Two years after uttering these words, Cam Jackson's Conservative party, under the leadership of Mike Harris, slashed welfare rates by 21.6%.

April 1, 2003 is the tenth anniversary of the last time welfare benefits were raised in Ontario.

According to the Ontario Association of Food Banks (OAFB), the impact of the cut was felt immediately: food banks across the province saw an increase of more than 30% in the number of people accessing their services from 1995 to 1996 as "those on welfare are increasingly having a difficult time coping" with meeting basic needs.

Similarly, the cut forced many households into unstable, decrepit homes as rising rents and the elimination of funding for the development of affordable housing have placed safe, secure homes out of welfare recipients' price range. Municipalities across the province have documented the precarious housing situation facing welfare recipients because of inadequate welfare rates and the link between low rates and increasing homelessness.

The Government even acted to reverse additional assistance for poor families with children provided by the Federal Government through the National Child Tax Benefit program. CTB benefits are clawed back from families on Ontario Works (a total claw-back of approximately $184 million in 2001) and "reinvested" in other programs for low income families. At the same time 121,000 children in Ontario require food banks.

According to the National Council of Welfare, the purchasing power of welfare incomes in Ontario peaked in 1992 and has been decreasing ever since; currently, welfare incomes are about what they were in the mid-1980s.

Since 1995 — before the 21.6% cut in rates — the cost of living in Ontario has increased by 18.9%. Current welfare incomes are significantly less than Statistics Canada's Low-Income Cut Off and are well below the Sarlo-Fraser Institute's poverty line, the most conservative poverty line currently calculated in Canada.[9]

For example, annual welfare incomes on average in Ontario for a family with two adults and two children is $14,136 compared with the Fraser Institute's Poverty Line in 2000 of $21, 029 and the Statistics Canada Low-Income-Cut-Off of $34,572 in 2002.

The shelter gap

In Ontario social assistance cheques are comprised of two portions: the basic needs allowance and the shelter allowance. As its name implies, the shelter allowance is intended to cover the cost of shelter accommodations. Recipients receive an amount equal to the actual rent they pay up to a set maximum. The recipient is then responsible for meeting any dollar amount paid in rent beyond that maximum. For most recipients, this entails diverting money from the food budget (basic needs allowance) in order to pay for the cost of rent. For example, a family of three receives a maximum shelter allowance of $554 per month. If that family pays rent of $500 per month, it would receive a shelter allowance equal to its rent ($500). If that family pays a rent of $600 per month, it would receive the full $554 shelter allowance. However, the additional $46 in rent must be met through other income sources.

Ontario has structured its shelter allowance as one flat rate across the province that varies only by family size. As such, the shelter allowance maxima are the same everywhere across the province, despite the vast differences in rent levels. This represents a fundamental flaw in the shelter allowance's design, as the lack of flexibility and sensitivity to local housing conditions ensures the shelter allowance will be perpetually inadequate in large urban centres such as the greater Toronto area (GTA) and Ottawa, while simultaneously tending to be overly generous by comparison in smaller urban and rural centres such as Sarnia or Owen Sound where rents are much lower (although it should be noted that rates are currently inadequate virtually everywhere; only their degree of inadequacy varies).

In the period 1994 to 2002, the shelter gap (the difference between the shelter allowance and the average rent) in the GTA has increased from $77 to $493; in Ottawa from $31 to $376; in London from negative $78 to $151; in the Sault from negative $109 to $58; in Windsor from negative $64 to $215; and in North Bay from negative $104 to $103.

The inadequacy of the shelter allowance is an important contributing factor in both the rise in homelessness and food bank use across Ontario. Indeed, virtually every municipality in Ontario has made the link between the low shelter allowance, homelessness and housing instability.

Basic Needs Allowance: Food or shelter, but not both

The basic needs portion of the welfare cheque is to be used for all non-rent related expenses such as clothing, food, transportation, medicine, children's school supplies, etc. As discussed above, in cities such as Ottawa, Barrie and the GTA, average rents far exceed the shelter allowance, forcing welfare recipients to use significant amounts of the basic needs allowance just to keep a roof over their heads. What is left must be rationed between all other living costs.

But even if the current shelter allowance covered rents, the total amount received for basic needs fails to cover all non-rent living costs. Ontario's Ministry of Health mandates that municipalities across the province calculate the cost of a nutritious food basket that measures the minimum cost of healthy eating in communities around Ontario.

In some cities the basic needs allowance a single welfare recipient, for example, receives does not even cover the monthly cost of nutritious food. A family of four in Ottawa and Thunder Bay has just $2 and $7, respectively, for all other monthly basic needs once the cost of the nutritious food basket is deducted.

The basic needs allowance is both inadequate and arbitrary. While the allowance minimally covers the costs of food for a single person in Windsor, London, North Bay and Toronto, it provides a slightly larger after-food income to a family of four in those cities and a considerably larger after-food income for a household of one adult and one child. The amount of these after-food incomes appears to be random: logic would dictate that the after-food income of a household of four, which is likely to have greater clothing, transportation, medical and other living costs, should be greater than that for a household of two. Instead, a household of four faces a desperate struggle to meet non-food related living expenses.

Ontario's welfare system is broken

A radical overhaul of the current system is needed to ensure that social assistance and income programs meet the diverse needs of low-income households and are part of a broader policy strategy that reduces poverty. A new system must:

- replace the current "quickest route to employment" approach with one that recognizes the diverse needs of people and the variety of circumstances that lead to the need for assistance;
- eliminate the lifetime ban on social assistance benefits;
- remove compulsory work requirements as a condition for receiving assistance;
- contain more flexibility in educational options while on assistance;
- be delivered within a framework that minimizes systemic stigmatization and upholds the dignity of the recipient;
- be built upon the principle that all citizens have a basic right to income support, that assistance be based on need and that social assistance rates reflect the cost of living.

Given the inadequacy of current rates, meeting basic needs is the immediate objective of the OAB.

The basic needs allowance should be returned to its 1995 level to nullify the 21.6% cut in 1995 and further adjusted to reflect inflation since 1995.

Secondly, while we believe the only long-term solution to persistent housing insecurity is a truly affordable housing program geared to low-income Ontarians, we do recognize that immediate basic needs of Ontario Works recipients and children in particular must be met. If Ontario Works recipients are expected to pay market rents for their housing, then they must be provided the tools to afford that housing.

We would eliminate the flat shelter allowance rate currently used in Ontario and replacing it with a rate that is variable by location and is tied to the prevailing average rents in each city. Only by tying the shelter allowance to local rental market conditions can an adequate allowance that accommodates the vast differences in rent levels be provided. This is consistent with recommendations made in both the Golden Report and the Coroner's Inquest into the death of Kimberly Rogers. Further we propose setting the new shelter allowance rate to 85% of the CMHC rent in each city. This proposed increase would more than cover the current rent paid by most families in Ontario, while costing the province $150 million in the first year, increasing to $250 million in the second year, as families take advantage of the higher allowance to move to higher-quality housing.

We recognize that these two measures are moderate first steps and that a radical overhaul of the current welfare system is in order. While the development of programs and strategies constituting this overhaul must begin now, it is recognized that their impact on low-income households will not be felt immediately. As such, we propose the above short-term changes to the existing welfare system through modest rate increases as an immediate means of providing needed relief to the financial pressures that place welfare recipients in housing and food insecurity.

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

- More good jobs. Better wages and better job protection are a good first step in stopping the slide into social assistance and in helping people out of it when they are ready.
- Fair work. People already on social assistance say they don't want 'workfare', they want work. Workfare is an impediment to work. The Ontario Alternative Budget proposes to replace workfare with a *Fair Work Program*. $150 million in existing Employment Support funding will also be reallocated, to ensure people have access to real work with a future.
- Raise the minimum wage. We want to make sure that work is compensated fairly, by increasing Ontario's minimum wage to at least 60% of the average wage in Ontario for hourly-rated workers (currently $8.75 per hour).
- Affordable, high-quality child care. The OAB's early childhood education and care program proposed in this document would expand access and ensure the affordability of child care to support parents in education, training and employment while promoting the full development of young children.
- Housing. Affordable Housing is an absolute necessity. The OAB believes it is an area of utmost priority that has been addressed in this document.
- Raising income levels. A more humane benefit level, including for persons with disabilities, must be established. In addition, the Ontario Alternative Budget Working Group would also end the claw-back of benefits offsetting the National Child Benefit Supplement.
- End discriminatory policies. We would also end punitive measures that stereotype low income people such as the demeaning mandatory drug testing plans for persons in receipt of social assistance. We would also end punitive rules that disallow persons with disabilities from partial participation in the workforce while collecting benefits under the Ontario Disability Support Program (ODSP).

Social assistance reform ($million)

	2003-4	2004-5	TOTAL
Set shelter allowance at 85% of local rent	$150	$100	$250
Re-establish basic allowance at 1994 real dollar value	$464		$464
Maintain real value of basic allowance		$35	$35
End claw-back of National Child Benefit	$184		
Replace workfare with fair work	$250		
TOTAL	$1,048	$135	$1,183

These are annual incremental investments. Total investment for year two is the sum of year one and year two.

Homes for all

About two-thirds of Ontarians have reasonably good housing, including most of those who live in homes that they own. But one-third of the province's residents — including almost all the 1.7 million renter households — are facing a growing affordable housing crisis.

Homelessness, the most visible sign of the affordable housing crisis, continues to grow in most parts of Ontario. One grim indicator: The Toronto Disaster Relief Committee is getting ready to add the 300th name to its list of homeless people who have died in Toronto.

It wasn't supposed to be this way. The Conservative government was elected in June of 1995 on the promise that they would both increase the supply of rental housing and also provide rent subsidies to every tenant household that needed help. Neither happened.

The Conservative government said that it would stop funding new, affordable social housing.

The Conservative government said that it would substantially erode rent controls, repeal the Rental Housing Protection Act (which gave municipalities some modest control over the loss of affordable rental housing) and ease regulations facing builders. The goal was to put more money into the pockets of landlords, in the hope that they would invest part of that money in improving existing rental housing and the rest into construction of new rental units. The government delivered, for housing investors.

But the 20,000 new rental units in Toronto alone that Minister Al Leach confidently predicted would result from his government's plans never happened.

Finally, the Conservative government promised in both the Common Sense Revolution (its election manifesto) and in numerous statements in the Ontario Legislature in the first few months after it was elected that it would immediately implement "a shelter subsidy program for all Ontarians who need help in affording a decent level of shelter".

So what have they accomplished in the past eight years under their radical plan:

- The cancellation of government social housing funding has led to the loss of 82,900 homes (enough housing for 224,000 women, men and children).
- The erosion of rent regulation and other tenant protection laws has led to annual rent increases that have cost tenant households $150 million and more in increased rent each year, but with no noticeable increase in maintenance standards, and only a limited investment in new rental housing.
- The repeal of the Rental Housing Protection Act has led to a growing number of affordable rental units being lost, much more than the few new units that have been created. Far from adding tens of thousands of new private rental units, as promised, Ontario has 45,000 fewer rental units now than it did in 1994 — the year before the Conservatives launched their radical housing plan.

The Ontario Alternative Budget Working Group and the Canadian Centre for Policy Alternatives released a technical report in March 2003 that examines eight years of Conservative housing policy. The report is available on the CCPA Web site at www.policyalternatives.ca. The conclusion:

"Ontario housing policies are de-housing Ontarians."

Instead of slashing government funding and programs, and hoping that the private market will start building homes for people with modest incomes, the Ontario Alternative Budget offers a realistic and affordable housing program based on policies that have proven to be successful here in Ontario, in Quebec and other parts of Canada.

The OAB calls for a substantial public investment in new affordable social housing based on an administratively-efficient and fully-accountable program of capital grants coupled with rent supplements for low and moderate-income households in both existing and newly-built units.

This investment plan, along with a return to effective tenant protection laws (real rent regulation and strong laws to protect existing rental housing from demolition and conversion), would reverse the trend of the past eight years and start to ease the province-wide housing crisis and homelessness disaster.

The Ontario Alternative Budget for 2003 features a housing plan that would generate 15,000 new social housing units annually, plus rent supplements for 40,000 low and moderate-income renter households annually.

The cost of these initiatives:

- $630 million annually for 12,600 new provincially-funded affordable units;
- $72 million annually for 2,400 new units as Ontario's share of the federal-provincial Affordable Housing Program; and
- $196 million annually for 40,000 new rent supplement units.

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

Over five years, this sustained investment will generate 75,000 new affordable rental units and rent supplements for 200,000 low and moderate-income households. It will also go a long way towards alleviating the financial crisis facing Ontario's large urban municipalities.

Affordable housing	
A new Ontario Housing Supply Program @ 12,600 units per year ($300 million in year one, full funding by year two)	$630 million
Ontario's share of Federal-Provincial Affordable Housing Program @ 2,400 units per year (fully funded as of year one)	$72 million
Rent supplements for 40,000 new rent supplement units	$196 million
Province re-assumes responsibility for housing (partially offset by property tax reductions (in year two)	$850 million

Health care

Stop the bleeding: Fixing Ontario's hospital crisis

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

As the OAB demonstrated in its May, 2002 health care paper "*Health Spending in Ontario: Bleeding Our Hospitals*", Ontario hospitals have not benefited from the increases in provincial health spending since 1999.

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

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

- Ontario hospital stays are shorter than the Canadian average i.e., Ontarians are discharged quicker and sicker.
- Ontarians have less nursing care i.e., fewer nurses per capita than nine of ten provinces.
- Ontarians have the second lowest number of acute care beds.
- We have lost 5,672 hospital beds since 1995.
- Our bed availability is in a perpetual state of crisis i.e., above 90% occupancy, vs. a US average of 60%.
- While the Ontario Government has "balanced" its budget, Ontario hospitals will be carrying a total debt load of $2.5 billion in 2002-03. ($991 million operating, $1,483 million capital).
- The operating deficit of $991 million for 2002-03 threatens another 9,500 full time employees and represents a potential catastrophe.

Health care funding must be placed on a solid footing, for a change. Our plan contains two key elements. First, we believe that Ontario must make a commitment to put every penny of new federal money directly into the health care system. Ontario's plan to divert the new Federal money into funding tax cuts is totally unacceptable. Canadians and Ontarians want health care funding to go for health care.

Second, all of the additional revenue generated from our proposal to reform the Employer Health Tax will be allocated to health care. The Employer Health Tax originated as a replacement for health care premiums. We believe that it should continue to be linked to publicly-funded health care costs. As part of our plan for longer-term stability in health care funding, the Ontario Alternative Budget will establish EHT rates so as to cover 20% of public health care costs in Ontario.

Stabilization

As a starting point, the Alternative Budget will provide sufficient funding to maintain the real, per capita value of our current level of spending on health care operations.

That will result in more than $900 million in increased funding in each year.

Health care summary ($ million)

	Total	*1st year*	*2nd year*
Hospital funding stabilization (debt)	$1,000	$500	$500
Long-term and home care reform	$500	$500	
Primary care reform	$300	$300	
Maintain real per capita funding of existing base	$1,880	$930	$960
Total	$3,690	$2,230	$1,460
Less: included in real base maintenance for 2003-4 and 2004-5	$1,880	$930	$960
Net New Investment	$1,800	$1,300	$500

These are annual incremental investments. Total investment for year two is the sum of year one and year two.

Hospitals

The Alternative Budget will fund the elimination of all hospital operating deficits, over a two-year period, at the rate of $500 million per year.

Long-term care

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

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

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

Long-term care reform, including home care, will receive an injection of $500 million in new funds.

Primary care reform

Primary Care Reform will transform Ontario's medicare program. The present doctor-dominated fee-for-service solo-practice medicare would be reoriented to a network of Community Health Centres, open 7 days a week, 24 hours a day. Salary based teams of health care workers, including doctors, nurses, nurse practitioners, therapists and councillors will make the most of all the talents of the health care team. Centres open on a 24/7 basis will cut our dependency on hospital emergency departments.

Significant start-up and transition costs require an investment of $300 million for primary care reform.

Environment

Ontario's environmental deficit

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

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

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

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

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

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

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

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

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

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

Urban sprawl is at the heart of many of the environmental challenges we face. Whether it is on the car-choked freeways of southern Ontario or the short sighted development proposals to pave over much of the Oak Ridges Moraine, the lack of effective land use planning and the Government’s abdication of responsibility is handcuffing our ability to act in our own best interests.

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

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

Ontario needs a public lands policy respectful of: First Nation treaty rights and the constitutional obligation to consult before decisions are taken; the need to manage Crown lands in the public trust; biodiversity protection which assures long-term ecosystem sustainability; and the need for “real” protected areas safe from mining, hunting, and forestry, rather than the Lands for Life set of policies which promote the intensification of forestry and mining on public lands.

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

We should penalize excessive energy use and promote material efficiency in our economy and use incentives to promote effi-

Restoring regulatory capacity	
Rebuilding the Ministry of Environment (fully funded in year one)	$80 million
Rebuilding the Ministry of Natural Resources (funded at $20 million in year one)	$150 million
The Clean Water Fund (funded at $150 million in year one)	$250 million

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

Many of the ideas we can use have already been developed in other jurisdictions around the world. In these days of rising world-wide temperatures and shrinking ice caps, what we need in Ontario is the political will to take on our environmental deficit for the crucial challenge it really is. This budget would be an important first step in the right direction and provide a base for much more innovative and creative solutions for the future.

Restoring basic public services

Worker protection

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

Community development

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

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

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

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

Financial relief for local governments

Even before the Harris Conservatives imposed their download of provincial financial responsibilities onto local governments and cut back on the Provincial Government's own investments in public infrastructure, local governments across Ontario were suffering from an infrastructure funding deficit. This stress has been felt most acutely in large urban areas, but has afflicted every municipality in Ontario, regardless of size.

Many of the investments in the Ontario Alternative Budget will remove substantial burdens from local governments and/or address services shortfalls that would otherwise have to be picked up by local governments. The most direct relief comes from the OAB's proposal to return full responsibility for funding social housing to the provincial government. That will free up approximately $850 million currently being spent by local governments on housing for other purposes.

Our proposals for a clean water fund will add $250 million per year to the pool of funds available to pay for local sewer and water services.

We also propose $225 million a year for community economic development and $300 million a year for transportation and transit.

By 2004-5, these measures alone will be adding at least $1.625 million a year to the funding of local services and infrastructure.

Local government budget pressures will also be eased by our proposed increases in funding for child care and social assistance.

In addition, the OAB will also:

- guarantee a direct flow-through of any new federal funding for local services and infrastructure;
- collect and remit to municipalities a local levy of up to 2 cents per gallon on gasoline and motor vehicle fuel, earmarked for transportation infrastructure and operations; and
- remove the freeze on commercial and industrial property tax rates currently applicable in many older major urban areas, most notably Toronto.[10]

Any further relief in commercial and industrial property taxes considered appropriate by the Provincial Government should be fully funded by the Province.

Table 1: Investing in public services renewal – summary

	2003-4 Detail	***Subtotal***	***2004-5 Detail***	***Subtotal***	***TOTAL***
Health Care					
Hospital Stabilization	500		500		
Home Care Reform	500				
Primary Care Reform	300				
Maintain real per capita value of current base	930	2,230	960	1,460	3,690
Social Assistance					
Set shelter allowance at 85% of local rent	150		100		
Re-establish basic allowance at 1994 real dollar value	464				
Maintain real value of basic allowance			35		
End the National Child Benefit Clawback	184				
Fair Work Program	250	1,048		135	1,183
Housing					
New Ontario Housing Supply Program (12,600 units)	630				
Federal-Provincial Program (2,400 units)	72				
Province re-assume responsibility for housing	425		425		
Rent supplements for new & existing housing (40,000 units)	98	1,225	98	523	1,748
Early years and child care					
The Early Years Program and $5 a day child care	378	378	378	378	756
Education -- Elementary and Secondary					
Remaining Rozanski New Investments	439				
Update benchmarks to 2002-3	1,080				
Phase-in of reduced class sizes in primary grades	0		85		
Adjust funding for cost and enrolment growth	436	1,955	480	565	2,520
Education -- post-secondary					
Universities -- Double-cohort increase	202		-		
Universities -- Deferred maintenance	-		450		
Universities -- Inflation adjustment since 1995-6	543		-		
Universities -- Tuition Freeze	30		30		
Universities -- 10% tuition cut	-		200		
CAATS -- Inflation adjustment since 1995-6 & double-cohort	115		-		
CAATS -- Deferred maintenance	-		150		
CAATS -- Tuition Freeze	11		11		
CAATS -- 10% tuition cut	-		55		
Student Grants Program	-	901	135	1,031	1,932
Environmental Protection					
Restore the capacity of the Ministry of Environment	80				
Restore capacity of Ministry of Natural Resources	20		130		
Clean Water Fund	150	250	100	230	480
Protecting Working People					
Restore Ministry of Labour	25		0		
Wage Protection Fund	10	35	10	10	45
Supporting Communities					
Community Economic Development	100		125		
Transportation and Transit	265		35		
Native Affairs	8	373		160	533
Increases to sustain real per capita programs not otherwise specified	753	753	633	633	1,386
Total program funding increase, 2002-3 $		**9,148**		**5,125**	**14,273**
Of which: funding to offset cost and population increases included above					
Health	*930*		*960*		
Social Assistance	*170*		*206*		
Elementary and Secondary Education	*316*		*367*		
Post-Secondary Education	*129*		*123*		
Real per capita maintenance, other programs	*753*		*633*		
TOTAL cost and population growth offsets		*2,298*		*2,288*	*4,586*
Net new program spending		***6,850***		***2,837***	***9,687***

Section III: Fiscal framework

In the 2003-4 tax year, the budgetary impact of past tax cuts will reach $15.7 billion per year:

- $10.8 billion in personal income tax cuts;
- $2.4 billion in corporate income tax cuts;
- $0.9 billion in Employer Health Tax cuts;
- $0.8 billion in other tax cuts; and
- $0.8 billion in carrying costs for money borrowed to finance tax cut deficits.

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

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

The OAB fiscal framework for 2003-4 sets out the basis for financing public services renewal in Ontario over a two-year term of office beginning in 2003-4.

The framework is based on the following goals and assumptions:

- financing of $9.7 billion in new spending over a 2-year period;
- maintaining the real, per capita value of the spending base as it existed in 2002-3;
- real economic growth for 2003 and 2004 as forecast by the five largest chartered banks in their fall, 2002 forecasts[11] and 3.0% per year thereafter;
- an increase of 0.9% in Ontario's growth rate in 2004 and the first quarter of 2005 as a result of the stimulative effect of the implementation of the Alternative Budget;
- inflation as forecast by the chartered banks for 2003 and 2004, and 2% thereafter; and
- balanced budgets in each year.

Table 2: Economic assumptions[12]

	2002	2003	2004	2005	2006	2007	2008
Inflation	2.2%	2.2%	1.9%	2.0%	2.0%	2.0%	2.0%
Real Growth	3.6%	3.3%	3.5%	3.0%	3.0%	3.0%	3.0%
Interest rate	5.00%	5.25%	5.50%	5.75%	5.75%	5.75%	5.75%

Table 3: Fiscal framework summary (all figures $million)

OAB 2003 Fiscal Framework Summary

	2002-3	2003-4	2004-5	2-yr. total
Program + capital	57,162	66,310	71,491	14,329
Public Debt Interest	8,225	7,794	7,511	(714)
Ontario Hydro	480	480	480	0
Reserve	0	1,000	1,000	1,000
Total Revenue	65,424	76,558	80,572	15,148
Budget Deficit (-) / Surplus (+)	(443)	974	89	1,064

The key economic assumptions, on a calendar year basis, are presented in Table 2.

Although we anticipate that the substantial fiscal stimulus from the implementation of this fiscal framework will result in a measurable increase in Ontario's growth rate, we have not accounted for that growth impact in these projections.

Approximately 60% of the financing for the fiscal program is drawn from revenue growth in excess of inflation and population growth and from a series of tax changes, detailed below.

The framework is summarized in Table 3.

Over the two-year period, the framework provides for a total spending increase of $14.3 billion, $9.7 billion for public services renewal and $4.6 billion to maintain the real per capita value of the 2002-3 services base.

Over the two-year period, the framework generates a surplus of $1 billion, even allowing for a Contingency Reserve of $1 billion in each fiscal year.

Our program calls for a substantial increase in program spending. However, it does not take the share of GDP devoted to public services spending to levels that are beyond our ability to pay. By the end of the phase-in period, program and capital spending will have reached 13.2% of GDP—about the level in the last two years of the first Harris Government and substantially below the 14.9% average that had prevailed in the 20 years before the Conservatives were elected in 1995, under governments of all three major political parties.

Section IV: Financing the fiscal framework

The 2003-4 OAB fiscal plan is supported by increased revenue generated in part from economic growth and in part from changes in the structure of the revenue base.

Revenue growth finances 100% of the cost of maintaining the real, per capita value of the 2002-3 public services base and contributes approximately 40% of the cost of public services renewal. The remainder is financed from a series of tax measures spread over a number of different tax bases — corporate and personal income taxes, tobacco taxes and employer health taxes.

After allowing for inflation and population growth coverage, economic growth generates approximately $9.3 billion as a potential contribution to program expansion and deficit reduction; $5.8 billion is generated from new revenue measures or restored tax cuts.

Revenue package

The OAB revenue package for 2003-4 to 2004-5 is based on the following objectives:

- generate the revenue needed to finance services renewal;
- ensure that all Ontario taxpayers share in the financing of public services renewal through the personal income tax.
- spread tax increases over the two-year period;
- abandon and reverse the Harris Government's race-to-the-bottom in corporate tax rates, restoring rates to their pre-2000 levels;
- establish a structure for the Employer Health Tax that reflects the substantial benefit to ALL Ontario employers from publicly funded health insurance; and
- reaffirm commitment to progressive taxation with new tax brackets applicable to income in excess of $100,000 and income in excess of $150,000.

All Ontarians have paid a price, in reduced or deteriorating public services, to achieve the Ontario Conservatives' single-minded goal of reducing taxes. And we believe that all Ontario taxpayers can and should share, based on their ability to pay, in the additional costs that will be incurred as we rebuild public services.

Much of the additional fiscal capacity we need can be recovered by stabilizing corporate income tax rates that should never have been cut in the first place.

We will introduce fairness into the system for funding health care by ensuring that every employer makes a contribution to the health care system through a flat rate employer health tax. We will also review the EHT rate annually to maintain the EHT contribution to health care costs at approximately 20% of Ontario's budgetary costs.

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

Table 4: Sources of additional revenue

	2003-4
CIT tax expenditures	504
Uniform Health Funding -- Flat Rate EHT No Exemptions	1,068
Tobacco taxation increases	546
0.25% increase in all PIT rates	743
New brackets (+1% @ $100k, +1% @ $150k)	1,285
Repeal private school tax credit	120
TOTAL	5,798

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

In addition, to offset some — but by no means all — of the exceptional tax reductions provided to high-income Ontarians by the Conservative government, we call for marginal tax rate increases of 1% for income in excess $100,000 per year and a further 1% on income in excess of $150,000.

These changes will restore only about 20% of the personal income tax cuts implemented by the Harris and Evens Governments since 1996.

Again, these are modest changes that will secure the tools for economic success for everyone, and for the Province of Ontario as a whole, while distributing the cost equitably.

The revenue package is summarized in Table 4.

Revenue summary

Personal income tax

- A 0.25% increase across-the-board in all Ontario tax rates;
- introduce two new tax brackets on income in excess of $100,000 and on incomes in excess of $150,000.

Corporate income tax rates

- Cancel future corporate tax rate cuts; restore rates to levels existing prior to 2000.

Corporate tax expenditures

- Reduce cost of Harris-Eves era corporate tax expenditures by eliminating some and converting others to direct grants, reducing the total cost of tax expenditures in excess of those provided for in the Federal Corporate Income Tax by 60%.

Employer Health Tax

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

Revenue details

Personal income tax

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

- an across-the-board increase in tax rates of 0.25%;
- a new tax bracket on income over $100,000; and
- a new tax bracket on income over $150,000.

These three measures combined would raise an additional $2 billion, and would take effect in the 2003-4 budget.

Paying for health care: The Employer Health Tax

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

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

The fact that payroll taxes tend to be shifted back onto employees raised further questions about the fairness of the system.

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

Using data from the Ontario Fair Tax Commission Technical Paper on the EHT,[13] we estimate that the Harris Government's EHT exemption reduces EHT revenue by a total of $893 million in 2003-4 compared to what would have been raised on the preCSR graduated scale. More than 54% of the benefit from the Harris exemption went to employers with payrolls in excess of $400,000 a year.

In addition to the problems of fairness and targeting of the EHT exemption, there is a further problem in principle. Public health

Examples of personal income tax impacts

Income level	*Impact of PIT changes*
$30,000	$40 increase
$50,000	$80 increase
$100,000	$500 increase
$185,000	$1,996 increase

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 $1.1 billion. This change would take effect with the 2003-4 budget.

Thereafter, the tax rate would be adjusted and reviewed annually to maintain a 20% ratio between EHT revenues and provincial budgetary expenditures on health care, lagged by one year. The 2003-4 uniform-rate EHT revenue works out to 19.9% of 2002-3 health spending.

Corporate income taxation

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

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

Information tabled as part of the 2003 Federal Budget shows that corporate tax rates in Ontario are already below those in the key competing jurisdictions in the United States.

All corporate tax rates — including the small business rate — will be maintained at their levels prior to January 1, 2000.

In addition, all of the many corporate tax give-aways — corporate tax expenditures — of the Harris-Eves era will be reviewed and either eliminated or converted into equivalent, publicly accountable grant programs, at a cost savings of 60%.

Chart 3: Revenue summary

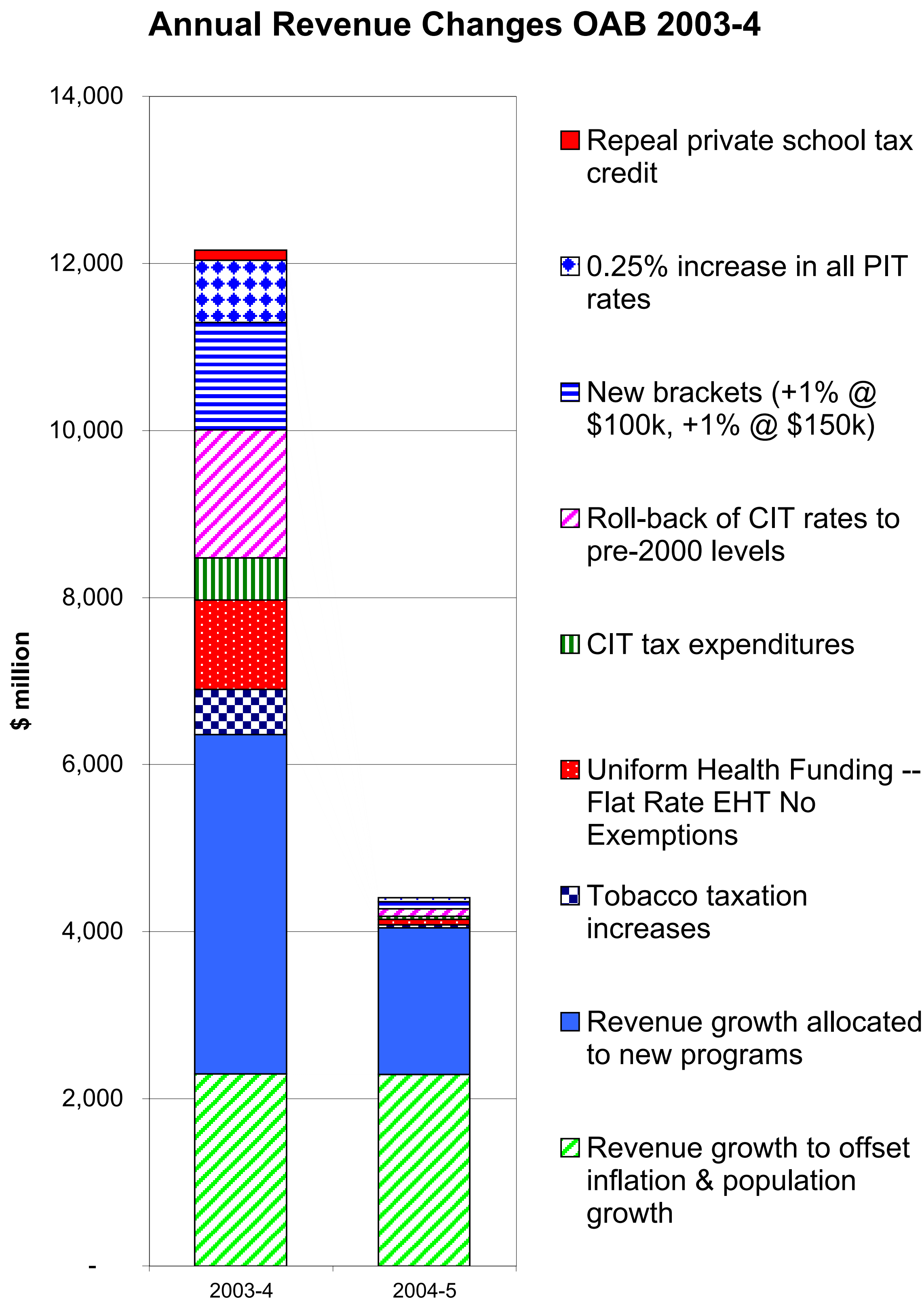
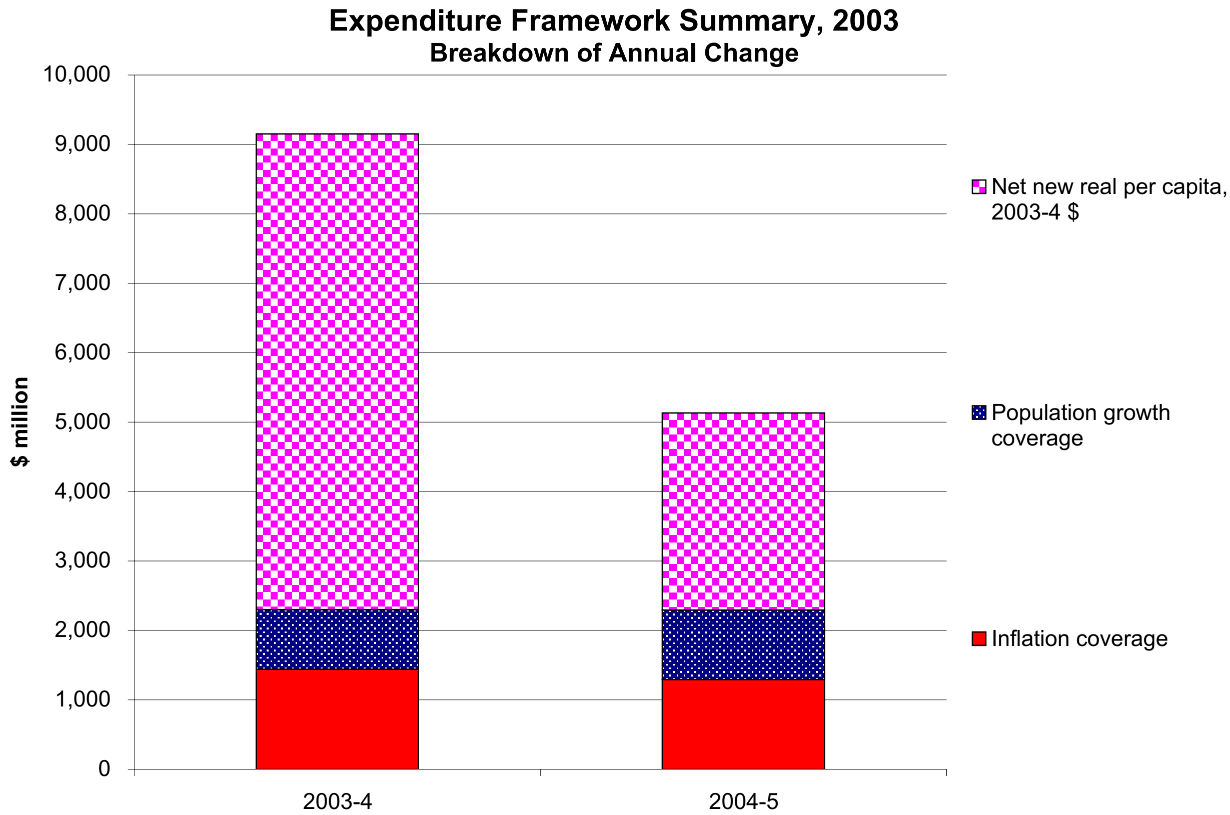


Chart 4: Expdenditure framework summary



Section V: The 2003-4 Provincial Budget

There's only one real message in Ernie Eves' faux budget, released to an intimate group of friends in Brampton on March 27, 2003. These guys only know how to do one thing — cut taxes.

They cut taxes when they're running a deficit. They cut taxes when they're not running a deficit. They cut taxes when the economy is strong. They cut taxes when the economy is weak. And they cut taxes, regardless of the state of the public services that it is their responsibility to deliver.

Demonstrating clearly that there never was a new Ernie Eves, the Government has reverted right back to the form that led the Harris Government to bring critical areas of public services to their knees.

Tax cuts rule

Tax cuts are front-and-centre — cuts with a full-year cost of over $1 billion. But that amount doesn't begin to describe the extent of the commitment to tax cuts in this budget. The tax cut projections don't include the ultimate costs of reductions promised in this budget, but not fully implemented yet.

It doesn't count the corporate income tax cuts that have been put back on line, effective January 1, 2004. That schedule will result in a reduction in corporate tax revenue of $2.6 billion by the time it is fully phased in.

It doesn't count the cost of the continued phase-in of the tax credit for private school tuition, total cost in 2003, $200 million; cost when fully phased-in, $500 million.

And it doesn't count the cost of eliminating Ontario's personal income surtaxes — what used to be called the Fair Share Health Levy. When the surtaxes have been eliminated completely, they will cost Ontario $3.1 billion.

Spending commitments don't stand up to a close look

On the expenditure side, the Government makes a lot of noise about new investments in health care; elementary and secondary education; and colleges and universities.

Announced multi-year funding for hospitals provides increases of $500 million, or 5%, for 2003-4 and $300 million, or 3% for 2004-5. These increases, however, address only inflationary cost increases since 2002-3, and do nothing to address the financial crisis that hospitals are in today — with total operating debts in excess of $1 billion.

What the government didn't say is that it took $967 million of the new Federal money announced in February, 2002 in advance and used it to offset the revenue loss from the fact that they didn't sell Hydro One. The result of all of those publicly funded ads attacking the Federal Government for underfunding health is a contribution of nearly $1 billion to the cover-up of the Eves Government's Hydro One mess.

In post-secondary education, operating grants are projected to increase by $200 million in 2003-4; another $200 million in 2004-5 and $100 million in 2005-6.

This increased funding, however, falls far short of what is needed to enable these institutions to meet the challenges of the double-cohort and avoid further cuts to other programs. Based on current projections for increased enrolment in 2003-4 and beyond, $200 million in additional funding will not even accommodate the increased enrolment, leaving nothing to deal with the impact of increased costs.

In elementary and secondary education, the Government claims to be implementing Rozanski. In fact, it is doing the opposite. The projected funding for school boards over the next three years will deliver roughly 55% of what Rozanski recommended. And by 2005-6, when Rozanski will supposedly have been fully phased-in, the school system will be more than $1.6 billion behind what Rozanski recommended. That compares with the catch-up funding that Rozanski recommended of $1.4 billion (a total of $2.1 billion, $700 million of which was new investments).

Elementary and secondary education funding will be $200 million further behind it was when Rozanski was appointed, using Rozanski's logic and method.

Public services funding crises get nothing

Even more important than what is underfunded in this budget is what is not funded at all.

There is nothing in the budget for child care. The only mention of the early years was a restatement previous program commitments, commitments which have been condemned as both inadequate and ill-conceived.

There is nothing in the budget for housing. Nothing.

There is nothing in the budget for the least fortunate families in Ontario — those on social assistance. The government cut social assistance by 21.6% when it came into power. Since then inflation has reduced the value of those benefits further so that their real value is now 35% below what it was in 1995. With the freeze still in effect, the real value of these benefits will continue to erode.

There is nothing in the budget to address the critical funding needs of Ontario's major urban areas. Cash-starved older urban areas like Toronto, Hamilton, Windsor, Sudbury and Ottawa get nothing. Indeed, the only specific mention of Toronto's financial needs in the budget was funding for a helicopter for the Toronto Police Service.

Tax cuts: Upside down equity at work

Focusing in on tax cuts, on the surface, it looks as if the big ticket item is a property tax grant to seniors equal to the full amount of their education property tax, at a full-year cost of $450 million. While this ought to generate some controversy itself — it is directly related to the value of the property you own and is therefore worth more, the more valuable your property is. And it is clearly tightly targeted to upper-income seniors. It will be partially offset against the property tax credit for seniors in the income tax — a measure that is targeted to low-income seniors.

The property tax relief for seniors also serves a useful purpose as a smokescreen for other, larger and less politically attractive measures.

Corporate tax rate cuts reannounced in this budget will cost Ontario an additional $2.6 billion a year by the time the phase-in period is complete. That cost isn't accounted for in any budget documents.

The elimination of the capital tax on corporations in this budget will eventually cost Ontario $1.1 billion, when the phase-out period is complete. In this year's budget, they show a cost of only $3 million.

The phase-out of the surtaxes on higher-income taxpayers will cost more than $3.1 billion in 2003-4 dollars, 94% of which will go to the 5% of taxpayers who report incomes above $100,000. Only $105 million of that cost is accounted for in budget documents.

The government's renewed commitment to the tax credit for private school education will add a total of $240 million to the cost of the first step of $60 million, for a total cost of $300 million.

In what is otherwise a dismal budget document, however, there is some humour, albeit unconscious.

On page 4 of the budget speech, the Minister of Finance proudly declares that the government has eliminated corporate welfare. But later in the same speech she takes credit for billions of dollars in tax give-aways for corporations and confirming another $3 billion in corporate tax rate cuts and another $1.2 billion in new corporate tax cuts.

It all comes down to priorities

The Government talks proudly about its fifth consecutive balanced budget. But on its own numbers, last year's budget was only balanced by taking $1 billion in Federal health money and using it to shore up a budget pushed into deficit by the failed sale of Hydro One. And this year's budget is only balanced by selling off another $2.2 billion in public assets.

But there's a broader set of questions that need to be asked.

How can a budget be called balanced, when it sets up the elementary and secondary education system to drift further into crisis?

How can a budget be called balanced, when it does absolutely nothing for housing?

How can a budget be called balanced, when it drives Ontario's least advantaged citizens

Changes in the OAB and the Phoney Budget Compared

2003-4 only -- selected items

	OAB	*Eves*	*Difference*
Revenue	11,134	6,175	4,959
Elementary and secondary education	1,955	658	1,297
Post-secondary	901	543	358
Health	2,230	1,707	523
Early years/child care	378	39	339
Social assistance reform	1,048	-	1,048
Housing (new)	800	-	800
Support for local government	790	320	470
Environmental protection	250	16	234

deeper into poverty by refusing to increase social assistance rates that are 35% (in real terms) below where they were in 1994?

How can a budget be called balanced when in the face of an unprecedented financial crisis in our largest urban areas, the only new measure announced is the purchase of a new helicopter for the Toronto police?

How can a budget be called balanced, when it foretells billions of dollars in tax relief for corporations and the highest-income of Ontarians and does nothing at all for the least advantaged of our society? And how can you call a budget balanced that takes money intended for health, and uses it to generate a phony budget surplus?

When Ernie Eves took the budget out of the legislature, he promised us "vox populi". What we clearly got was Magna vox.

Endnotes

1 Statistics Canada, CPI Ontario, 1992=100, June 1995 = 104.5; February 2003 = 123.4

2 Ontario Budgets, various issues, 10-year review

3 Source : Provincial estimates and Finance Canada estimates, unpublished backgrounder to The Fiscal Balance in Canada: The Facts, January 2002, Department of Finance Canada.

4 Ontario Alternative Budget estimates based on Canada Customs and Revenue Agency 2000 personal income tax data.

5 $1.01 billion to update benchmarks to the 2001-2 school year's costs; $70 million to increase non-salary costs from 2001-2 to 2002-3; $689 million for new investments; and $340 million to update salary costs from 2001-2 to 2002-3.

6 Hugh Mackenzie, "Adding Rozanski", Canadian Centre for Policy Alternatives, January, 2003

7 Kenneth Leithwood, Michael Fullan, and Nancy Watson, *The Schools We Need* , Ontario Institute for Studies in Education, January 2003

8 Statistics Canada, *Income in Canada 2000,* Ministry of Industry 2002.

9 Source: Sarlo, Christopher 2001. "Measuring Poverty in Canada," Critical Perspectives Bulletin. The Fraser Institute.

10 The freeze in commercial and industrial tax rates in Toronto, for example, essentially cuts off access for the City to 2/3 of its property tax base for funding increases in costs of local services. A 1% increase costs requires a 3% increase in residential property tax rates.

11

Bank forecasts, spring 2003

	2001	*2002*	*2003*	*2004*	
Real GDP					
BMO	1.0%	3.4%	3.6%	4.1%	
CIBC	1.0%	3.7%	2.7%	3.2%	Mar-03
RBC	1.0%	4.1%	4.1%		
BNS	1.0%	3.6%	2.8%	3.2%	Feb-03
TD	1.2%	3.7%	2.7%	3.4%	Feb-03
AVG	1.0%	3.7%	3.2%	3.5%	
Inflation					
BMO	3.1%	2.0%	1.9%	1.8%	
CIBC	3.1%	2.0%	2.8%	1.9%	Mar-03
RBC	3.1%	2.0%	2.8%		
BNS	3.1%	2.0%	2.8%	2.2%	Feb-03
TD	3.1%	2.0%	2.3%	1.9%	Feb-03
AVG	3.1%	2.00%	2.52%	1.95%	

12 Not including growth impact of OAB of 0.9% in 2004 and the first quarter of 2005.

13 Bev Dahlby, "Payroll taxes," *Business Taxation in Ontario*, Allan Maslove, editor, Ontario Fair Tax Commission, 1993.

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