

**Budget 2004:
What the Liberals Actually Chose**
A Summary and Commentary on the 2004 Ontario Budget

Ontario Alternative Budget 2004 Technical Paper #4

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A summary and commentary on the 2004 Ontario budget

In the introduction to his budget, Ontario Finance Minister Greg Sorbara decried the state of the public services that his government inherited.

“the problems we inherited are well known.

A large fiscal deficit. Deterioration of our core public services.

Overcrowded classrooms and crumbling schools, a shortage of doctors and nurses, cities and towns struggling to deliver basic community services, and a steady decline in Ontario’s physical infrastructure.”

A well-stated – albeit partial – litany of the problems in Ontario’s public services.

Unfortunately for the state of Ontario’s public economy, the budget that followed that statement failed to address the problems it identified.

Rather than rebuild Ontario’s revenue system to support real public services renewal, the Liberals chose to impose a surtax on middle-income earners, in the form of an “OHIP premium”.

The government chose not to touch the \$10.6 billion in personal income tax cuts delivered by the Harris and Eves governments.

The government chose not to touch \$3 billion in corporate tax cuts delivered in the Conservatives’ second term in office.

The government chose not to touch loopholes in the Employer Health Tax that cost Ontario’s treasury \$1.1 billion a year.

On the spending side, the government chose to ignore the recommendations of the Rozanski Task Force to renew the elementary and secondary education funding formula – delivering \$1.5 billion less than Rozanski recommended, and \$2.2 billion less than would be needed to rebuild the funding formula.

It delivered a fraction of the additional staffing required for the health care system – 1,400 additional nurses, for example, instead of the acknowledged need for 8,000.

In the face of a recognized crisis in affordable housing, it delivered a grand total of \$17 million in new provincial funding for housing.

Shamefully, it responded to social assistance rates 35% below their real level in 1993 for general assistance and 20% below for disability assistance with a 3% increase.

It responded to Ontario’s infrastructure funding crisis with a commitment to capital spending that is \$75 million below the average in the nine budgets for which the Conservatives were responsible.

The most telling comment from the Minister was his proud declaration that the government’s fiscal plan will see program and capital spending by the end of the government’s planning horizon lower at a share of GDP than it is today.



Ontario Alternative Budget 2004

The government's response to Ontario's public services crisis is to REDUCE the relative size of the public economy in this province.

On the revised accounting basis begun by the Liberals in the fall of 2003, program and capital spending in 2003-4 comes to 13.1% of GDP. By the end of 2007-8 at the end of the government's planning horizon, program and capital spending will be down to 12.2% of GDP – compared with the 1975-6 to 1995-6 average of 14.9%.

The numbers speak volumes. The government is responding to Mike Harris' and Ernie

Eves' shrinking of public services in Ontario by shrinking them still further.

The best one can say about the budget is that it could have been worse. The government did choose to raise additional revenue – albeit unfairly. And it did decide not to balance the budget at the expense of public programs.

But for a government elected to repair the damage created by the Conservatives eight years of destruction in office, it falls far short of what is needed.



What's in the budget?

Revenue

OHIP Premiums – an income surtax targeted at low-and-moderate income individuals

The new OHIP premium will be collected through the income tax system, and will be linked to income. It will be levied according to the following schedule:

OHIP	Threshold	Rate	Total
1st level	20,000	6%	300
2nd level	36,000	25%	450
3rd level	48,000	25%	600
4th level	72,000	25%	750
5th level	200,000	25%	900

The increases take place in steps. Below \$20,000 income, the surtax will be zero. At \$20,000, there will be a surtax of 6% on income above \$20,000 to a maximum of \$300, at an income of \$25,000. At \$36,000, the surtax will be \$300 plus 6% of income above \$36,000, to a maximum surtax of \$450, reached at an income of \$36,600. And so on.

At \$25,000 the surtax is 1.2% of income.

At \$35,000 the surtax amounts to 0.86% of income.

At \$45,000 the surtax amounts to 1.25% of income.

At \$48,000 the surtax amounts to 1.25% of income.

At \$70,000 the surtax amounts to 0.86% of income.

At \$72,000 the surtax amounts to 1.04% of income.

At \$100,000 the surtax amounts to 0.75% of income.

At \$200,000 the surtax amounts to 0.45% of income.

At \$500,000 the surtax amounts to 0.18% of income.

In his statement introducing the budget, the Minister said he had a choice – to increase income taxes or reintroduce OHIP premiums. In fact, he was choosing a change in the personal income tax system – and he chose the most regressive single change in the personal income tax system he could have made.

By way of comparison, the 2004 Ontario Alternative Budget proposed personal income tax changes that would have raised the same amount of money as Sorbara's OHIP income surtax – a 5% increase in all tax rates; and a new tax bracket of 2% at \$100,000, to parallel the Federal tax structure. A comparison of the two approaches speaks volumes about the Government's choices; about the Government's priorities:

Income Tax Alternatives Compared

Income	Increase		(loss)/gain
	OAB	Budget	
35000	80	300	-220
50000	148	600	-452
75000	426	750	-324
100000	643	750	-107
185000	4,035	750	3,285
275000	7,626	900	6,726



Other tax changes

The OHIP income surtax is the biggest revenue item. Everything else is just fiddling. They are eliminating some small corporate tax loopholes. They are increasing tobacco taxes by \$2.50 a carton – leaving Ontario still substantially below the Canadian average. They have endorsed the Eves Government's elimination of the corporate capital tax – the major beneficiaries of which are the major banks.

To put the revenue package into perspective, the Harris and Eves Governments cut corporate taxes by \$3 billion. This budget does not touch those changes. The Harris and Eves Governments cut personal income taxes by \$10.6 billion – cuts heavily weighted towards high-income earners. This budget increases personal income taxes by \$2.4 billion – increases targeted to low-and-moderate income taxpayers.

After \$16 billion in tax cuts, the best this government could do was to raise a fraction of the additional revenue we need from those who can afford it the least.

Instead, they left most of those cuts in place. They left in place a huge loophole in the Employer Health Tax – the \$1.1 billion exemption for the first \$400,000 in payroll.

And the increases they have implemented fall far short of what is needed to deliver on the public services investments the Liberals promised in the election.

Spending

The government claims that it is focusing on health and education as priorities. Everything else is to be “flat-lined”.

Health care gets a substantial increase in funding, but still falls far short of what is

needed. For example, the plan calls for the hiring of 1,400 nurses, when the accepted measure of the need is 8,000.

And against that change, more services have been made ineligible for OHIP coverage. That will “save” the health budget \$155 million; and cost Ontarians \$155 million in additional personal health care costs.

The budget shows an increase in total funding of almost \$800 million for 2004-05. About \$250 million is earmarked for reducing class size in the primary grades, a move that many, including the OAB, have advocated. \$133 million of this increase is outside of the funding formula to be directed towards the Liberals' literacy and numeracy strategy. The amount set aside for “stabilizing” the education sector, \$400 million, will not enable the system to keep pace with cost increases.

The current funding approach provides boards with \$600 million less than they need to pay their teachers. The budget does nothing whatsoever about this problem. The current funding approach provides boards with \$240 million less for school operations than the actual cost of maintaining the schools. The budget does nothing about this problem.

In the Ontario Alternative Budget, we estimated a need for \$2.5 billion in additional investments to repair the funding formula and reduce class sizes – in addition to the annual adjustments required to cover cost increases. This budget delivers less than \$300 million towards those costs.

In post-secondary education, because tuition has been frozen for two years, the provincial contribution to colleges and universities has to cover cost increases on the entire university funding base, not just the provin-



cial government's share. College and university operating grants are increasing by \$140 million. That looks like an increase of 4.9%. But for post-secondary education institutions, that works out to an increase of about 2.5% — barely enough to keep things where they are.

There's another \$120 million for student support and apprenticeship programs and other programs.

Non-priority items for the government

That's what the government did with its priorities. The rest of the budget fares much worse.

Social assistance rates — down 35% since 1993 after inflation has been taken into account — are increased by 3%. Disability benefits, frozen since 1993, are increased by 3%.

Social services agencies — devastated by eight years of Conservative cuts — get an increase of 3%.

The current claw-back of the child tax benefit remains in place. Future increases will not be clawed back. As a result of this change, for

a family with two children, \$89 will not be clawed back in 2004. In comparison, the total current clawback of \$2,806 will remain in place.

In child care, the government's only commitment is to fulfill its commitments under the Federal-Provincial Framework on Early Learning and Child Care. There is nothing in the budget beyond that amount. So much for the importance of the early years in the government's education strategy.

The government claims that infrastructure funding is an overriding priority of the government. But the government's capital funding program has increased by only \$400 million — to a total of \$2.575 billion. This is \$75 million less than the average capital investment between 1995-6 and 2003-4 of \$2.650 billion. So much for capital spending as a priority.

In housing, the government claims it is increasing funding by a pathetically inadequate \$85 million. In fact, though, \$67 million of that money comes from the Federal Government. Only \$17 million actually comes from Ontario.



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