Building Our Future Together

A submission to the
Standing Committee on Finance and Economic Affairs
regarding the 2014-15 Ontario Budget

Ontario Public Service Employees Union
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Introduction: The Age of Anxiety

Planning for the 2014 Ontario budget is taking place in an uncertain environment. First of all, no one can say whether the process will produce an actual budget; under the current circumstances, the budget process is just as likely to produce an election platform for the governing party as a fiscal plan for the province.

But the uncertainty surrounding the upcoming budget pales in significance when compared to the greater uncertainty Ontarians are experiencing as they go about their daily lives.

According an October 2013 report by the EKOS polling firm, Canadians – and Ontarians – are deeply concerned about the future. In terms of quality of life, 48 per cent of Canadians surveyed told EKOS that they expect the next generation will be worse off, 25 years from now, than people are now. In Ontario, this number was 59 per cent, or more than five times the number (11 per cent) who thought the next generation would be better off. A January 2014 report by the Pollara polling firm indicated that 37 per cent of Ontarians think it is very or somewhat likely that a member of their immediate family will lose his or her job in the next twelve months; this number appears to correspond to the 38.5 per cent who told EKOS that “I feel I have lost all control over my economic future” last fall. Pollara’s research found that 57 per cent of Ontarians believe the economy is in recession (even higher than the 52 per cent found in the EKOS survey), even though real growth in the economy resumed in mid-2009.

Economic concerns are linked to people’s ability to feed and house their families, pay heating and electricity bills, and save for post-secondary education or retirement. It is no surprise that they form a major part of Ontarians’ concerns about the future. But when asked about their deepest concerns, economic issues did not eclipse issues related to politics and public morality. In the EKOS survey, respondents chose “Acute decline of our democratic and public institutions” as their paramount concern for the future, followed by the cost of caring for an aging population, “A severely environmentally degraded future” and “The ethical collapse of society and soaring corruption.” (“A dark/diminished economy for the next generation” ranked fifth.)

The idea that what might be thought of as “process” issues around democracy and ethics could eclipse bread-and-butter economic concerns in the public mind may seem surprising, yet it makes perfect sense: Canadians see the honesty of our politicians and the integrity of our public institutions as fundamentally central to solving our economic (and environmental) problems. Yet to a large degree citizens hold out little hope that politicians will work towards a better future for all, EKOS President Frank Graves believes:

[V]oters seem to think that all choices lead to the same outcome: governments run by parties which place their own interests and the interests of the powerful ahead of those of the public. In fact, if we were to isolate the one factor driving declining trust in government it would be just that: the corrosive belief that the public interest has been subordinated to other interests in modern politics.

Politicians have certainly acquitted themselves poorly of late. In the past year, Ontarians have seen the Senate expense scandal consuming political debate at the federal level, revelations of gross waste of public dollars for political advantage at the provincial level, and exceptional displays of narcissism, mendacity and criminal conduct by prominent municipal politicians. Yet public mistrust of our leaders goes beyond politicians. Increasingly, citizens around the world are seeing the links between political and business leaders. So while the October 2013 EKOS survey found “Economic decline in the United States” as the number one driver of recent economic stagnation in Canada (a reasonable enough
choice), respondents ranked “Corporate greed and corruption,” “Our leaders failing to create a blueprint for success,” and “An excessive share of profits going to the wealthy” close behind.

If polls are to be believed, the majority of citizens simply don’t believe their leaders care about their problems. And they don’t yet know what to do about it.

When weather-related insurance claims in Canada are at record levels\(^4\), Ontarians know that something must be done to protect the economy and save human lives from increasingly frequent flooding, ice storms and heat waves. When they are waiting longer to see a doctor than citizens in other developed democracies, Ontarians know that the public services deficit in this province is reaching unacceptable levels.\(^5\) When more and more jobs offer only part-time, temporary work with poor or non-existent benefits and wage rates that keep even full-time workers locked in poverty, Ontarians know that our economy is not being managed in their interests.

The anxiety Ontarians feel today is the result of not just years, but decades, of political and economic change designed to transfer wealth and power from working people to a small ruling elite.

**How We Got Here: Turning Points**

The period immediately following World War Two was a time of rising prosperity in Ontario. Anchored by a booming auto industry that had produced over 800,000 vehicles for the government-funded war effort,\(^6\) Ontario industry quickly converted to producing consumer goods for a North American population that had “gone without” for much of the 15 years of the Great Depression and the war. The legal foundation for a successful trade union movement was laid out in a landmark arbitration ruling by Supreme Court Justice Ivan Rand in 1946, and rising union density was accompanied by rising wages across the economy. Successive Conservative provincial governments of the postwar era built roads, schools, and hospitals with steady determination and did not hesitate to borrow the money or raise the taxes needed to do so. Explaining the need for a new three per cent retail sales tax – at a time when the province’s corporate income tax rate was 52 per cent and the economy was in recession – Ontario Treasurer James Allan told the legislature in 1961 that

...a further postponement of the imposition of a sales tax could only be realized at the expense of imperiling our financial position and therefore our capacity to assist our municipalities and our ability to promote the orderly extension of services, without which communities cannot grow nor industry expand. Lack of action at this time would only undermine our financial position, jeopardize our credit and slow down the rate of our economic expansion both now and in the future, thus detracting from rather than contributing to high and stable levels of employment and income.

We must face up to realities. The program we have announced is designed to promote expansion and increase employment. If we forego the revenue from our sales tax, we must cut back on our services, our capital works and our assistance to municipalities and school boards. I think you will agree that at this time – when the pace of our economy has slackened – we need courage, vision, enterprise and bold action. The Budget that I am introducing today responds to this need.\(^7\)

A few years after introducing the sales tax, the 1960-61 recession was in the rear view mirror and the same Treasurer could report in 1964 that “Reviewing the economic conditions of the past year is a pleasure.”\(^8\) The Auto Pact, signed in 1965, encouraged economies of scale and guaranteed the Canadian auto industry a proportional share of the North American market. The Auto Pact was emblematic of the
successful “managed trade” approach taken by Canadian governments at the time. Government policy sought “human betterment” and prosperity through active government support of both people and industries:

For our own part, we have continually sought to provide the environment in which growth can flourish. Indeed, we have initiated many far-sighted policies designed to exert a positive influence upon the economy. In the field of social services, we have diligently striven to promote the development of human resources and thereby assist our people and industry in achieving their maximum potential. The creation of new physical assets in the form of universities, schools, hospitals, highways, parks and other public works, and the development and conservation of our natural resources have also been important economic stimulants. In these and other ways, we have contributed in no small measure to our economic progress and rising living standards.³

Managed trade, strong trade unions, and muscular government that was unafraid to invest in the province and its people – and unafraid to pay to do so – laid the foundation for an economy that made Ontario the unchallenged economic leader in confederation. This happy condition would persist until well into the 1980s.

The Canada-U.S. Free Trade Agreement (FTA) which came into force on January 1, 1989 began a restructuring process that has fundamentally changed the economy of the country overall and Ontario in particular. Six years earlier, not-yet-Prime-Minister Brian Mulroney had commented that “All that would happen with free trade would be the boys cranking up their plants throughout the United States in bad times and shutting their entire branch plants in Canada.”⁴ And while Mulroney famously changed his mind about free trade, his prediction came true nonetheless, and many Canadian industries re-located outside the country.⁵

Opponents of the FTA had warned that reducing restrictions on capital flows across the Canada-U.S. border would put downward pressure on Canadian tax rates and reduce the funds available for public services like Medicare. This premonition came true with the election of the Mike Harris government in 1995.

The centerpiece of the Harris program was tax cuts. Harris vowed to cut Personal Income Tax (PIT) rates by 30 per cent⁶, and he did so. In 1999, Harris promised to reduce the PIT by a further 20 per cent, and by the time of the 2000 budget, then Finance Minister Ernie Eves could boast that the government had made 99 tax cuts since being elected, including a reduction in the Employer Health Tax and various targeted tax deductions for business.⁷

Tax cuts, of course, demand cuts to program spending; annual program spending in the Harris-Eves era fell from 17.7 per cent of GDP to 13.6 per cent (equivalent to a $25 billion drop in today’s economy). Hard-hit were public service employees, who saw their numbers reduced by more than 20,000, and social assistance recipients, who saw their incomes reduced by 22 per cent – a number which grew even larger, in real terms, as a result of inflation. It was in the Harris years that homelessness made itself visible on our city streets.

Program spending recovered to some degree with the election in 2003 of Dalton McGuinty and the Ontario Liberal Party, but the current government’s stated goal is to return program spending to 14.5 per cent of GDP by 2017-18.⁸ This is to be accomplished by sustained program cuts. The 2012 Ontario
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budget, the government’s long-term blue-print, called for six years of cuts in real program spending averaging 2.3 per cent per year, or close to 15 per cent, after compounding, over the six-year period.\textsuperscript{15}

What the Wynne government has yet to acknowledge is the deep hole in the budget caused by the tax cuts of the Harris years. While the introduction in 2004 of the Ontario Health Premium is currently recovering some $3 billion a year to public coffers, Liberal cuts to the Capital Tax, Corporate Income Tax rates, and personal income tax rates are costing the government an equal amount. The net result is that, more than 18 years after Mike Harris was first elected, the province has approximately $17 billion a year less to spend (see chart).\textsuperscript{16} \textit{In other words, the provincial budget deficit, most recently estimated at $11.7 billion, would not exist if tax rates had remained at their 1995 levels.}

This is the fiscal context for the 2014-15 budget.
Assessing Our Needs, Proposing Solutions

The budgeting method used by James Allan, Ontario Treasurer from 1958 to 1966, took a markedly different approach from the one employed by Ministers of Finance in recent years. To begin with, Allan’s calculations around his budgets began with an assessment of needs, not costs. Principal needs were those of people, which could be met by public services, or the economy, which could be met by public infrastructure (including the development of human infrastructure through education, health care, and social services). Once needs were established, the Treasurer then looked for financial resources to meet those needs.

In recent years, the province has often seemed to care more for the needs of its corporate executives and its creditors than its citizens. In the 2009 Ontario budget, for example, we saw the announcement of cuts to the corporate income tax rate and the continued phase-out of the Capital Tax, even though both of those measures transferred money directly from people (and the public services they need) to businesses and also increased the provincial deficit. The introduction of the Harmonized Sales Tax (HST) in July 2010 also transferred money from citizens to businesses, yet the income tax cuts designed to offset those extra costs have been paid for out of reductions in public service. Not unlike the Harris-era income tax cuts that went disproportionately to the highest-income earners, the shuffling of dollars to the benefit of well-heeled business interests in the McGuinty era did little to lessen the anxiety many citizens were experiencing. And while the fixation on the provincial deficit is no doubt allowing the province’s creditors to sleep comfortably at night, most citizens may be forgiven if they are more concerned about their own debts, which are now at record levels, or the vital public services they cannot get access to because of relentless budget cuts.

Jobs

The imbalance Ontarians see in the handling of public finances is paralleled by an imbalance in the labour market. Median incomes for working people in Ontario have been stagnant for a generation, with the only change being a decrease in incomes at the lower end of the spectrum accompanied by an increase at the higher end. Households have compensated for this by taking on more debt (as noted above) and working more hours, yet their venture into today’s fragmented workforce often finds them in part-time or temporary work, or low-paid self-employment. In the Greater Toronto and Hamilton Area, “Barely half of those working today are in permanent, full-time positions that provide benefits and a degree of employment security.”

On the wage front, nine per cent of the population is now working for the minimum wage of $10.25 an hour (double the rate of a decade ago), and 28 per cent of the workforce earns $14.25 an hour or less. Meanwhile, at the other end of the spectrum, Canada 100 highest-paid CEOs received average compensation of nearly $8 million each in 2012, a number equal to 171 the average wage of a full-time full-year worker. Income inequality has reached epidemic proportions in Canada – and in Ontario.

There can be little dispute that one of Ontario’s most pressing needs is, thus, more jobs, with better incomes and more stability, for more people.
To understand what needs to be done for Ontario’s economy, we need to look at what is, or isn’t, driving economic growth.

In the first years of this century, from 2000 to 2007, Ontario’s economy was driven by strong household spending, strong government spending, and some business investment. Exports played a major role in keeping Ontarians working, but the money earned through those exports was less than the money needed to pay for imports, so net trade did not add to GDP growth overall.

In the period from 2008 to 2012, household spending fell as people lost jobs and wages to the Great Recession; government spending stayed steady as the Ontario government, like governments around the world, moved to stabilize the economy with stimulus spending in the form of infrastructure investment; business investment was negative; and net trade did not improve.

Looking ahead, Ontarians are now living in a time when government spending is negative and wages for workers in the provincial public sector have been driven below the rate of inflation as a result of the austerity policies the government first announced in 2010 and began to enact with increasing determination with the 2012 budget. Both measures are keeping the economy weak. To repair Ontario’s economy – and provincial finances – after the recession, three main things are needed: first, boosting domestic demand by putting more Ontarians back to work and restoring spending power for working people; second, further boosting demand and meeting people’s needs by increasing government spending on vital public services and infrastructure; and third, improving the trade picture by selling more exports, buying fewer imports, or both.

It is not as if the province is broke. Despite the recession, Ontario’s GDP is higher than it has ever been. More importantly, Ontario’s GDP per capita, which peaked in 2007 before the Great Recession, is now
less than one per cent below that all-time record, and based on ordinary estimates of population and economic growth, will surpass it sometime in the summer of 2014.\textsuperscript{22}

\begin{figure}[h]
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\includegraphics[width=\textwidth]{GDP_per_capita_1981-2013_Q3.png}
\caption{GDP per capita, 1981 - 2013 Q3}
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\textit{In other words, there is more money in this province than ever before.} The problem, however, is that it is more unfairly distributed than ever before. As Statistics Canada pointed out in December 2013, the richest one per cent of Ontarians now collect 12 per cent of the income in this province, a rate second only to Alberta.\textsuperscript{23} Canadian corporations, meanwhile, are hoarding close to $600 billion in cash that they are not investing. The reason for this is simple: their customers are broke – up to their eyeballs in debt. Until we shake loose some of the “dead money” corporations are holding\textsuperscript{24}, consumer spending is likely to remain weak.

Ontario has now reached the point in the Monopoly game where one player (the corporate sector) holds most of the cash while the other players are scraping by, rolling the dice and hoping to survive another turn.

A new game is needed in Ontario, and one way to start it is with tax fairness. Both Prime Minister Stephen Harper and former Ontario Premier Dalton McGuinty tried to stimulate business investment with corporate tax cuts, but that failed: it gave corporations more money but did nothing to make new investment happen. What will cause new investment is increasing aggregate demand via \textit{more spending} in the economy. The simplest thing to do, under the circumstances, is for government to raise money through tax fairness measures and then plow it back into the economy in the form of public services and infrastructure.

Public spending is a key pillar of our economy. It supports the physical and human infrastructure the economy needs, it provides much-needed jobs, and it can sustain the economy when the private sector stalls.
OPSEU supports increased funding for public services and public infrastructure. Specific tax measures to support public spending are discussed below.

But government spending is not the only means to build consumer spending in Ontario.

Low-income workers are notorious for spending all of their income, and spending it where they live. Unlike wealthier individuals, who may take trips abroad, invest in foreign stocks, pay down debt, or simply add to their savings, low-income workers spend all their money on basic necessities. Hence, an increase in the minimum wage to a rate above the poverty line – in the area of $14 an hour – would have the double effect of not only raising living standards for low-income workers, but of increasing aggregate demand as well, thereby creating employment.

OPSEU supports the call for an increase in the legislated minimum wage to $14 an hour.

Consumer spending power also grows when strong unions are able to negotiate fairer wages for the workers they represent. Ontario needs legislation to make union organizing and collective bargaining easier, not harder.

Some critics suggest that labour laws designed to help unionized workers negotiate fair wages for themselves are driving jobs out of Ontario. This is incorrect. When Heinz recently announced the closure of its plant in Leamington, Ontario, at a cost of 740 jobs, it also announced the closure of a plant in Florence, South Carolina, which already had rock-bottom labour costs.25 Kellogg’s recently announced the closure of its cereal plant in London, Ontario but has also locked out its workers in Memphis, Tennessee for refusing to go along with the company’s plan “to replace steady, middle-class, full-time jobs with casual, part-time employees who would make significantly lower wages [$6 less per hour] and substandard benefits.”26

For workers on both sides of the border, the issue is not labour law, but the kind of corporate greed that offers $6.6 million a year for Kellogg’s CEO John Bryant while destroying the middle-class working class.

Manufacturing workers in Canada face another challenge: the consolidation of production south of the border. As noted above, this consolidation was predicted by opponents of the Canada-U.S. Free Trade Agreement in the 1980s. Even so, Canadian manufacturing did recover from the shock of the FTA and the subsequent inclusion of Mexico in a larger North American Free Trade Agreement (NAFTA), and by 2002 manufacturing employment had reached a new peak. The cause had nothing to do with the percentage of unionized workers in manufacturing, which changed only a little during that era, and everything to do with the value of the Canadian dollar. In 2002 the dollar fell below 62 cents U.S. Within five years, though, one Canadian dollar was once again buying one U.S. dollar, and as the dollar rose, manufacturing employment fell.

According to the Organisation for Economic Cooperation and Development, whose members are the top industrialized countries, the actual value of the Canadian dollar should be in the range of 81 cents U.S.27 At this level, the lower price of Canadian manufactured goods and services would allow Canadian exporters to make new inroads into U.S. and other markets, but without driving down workers’ wages (and consumers’ spending power) as some have proposed. (In the current environment, where the Bank of Canada fears deflation more than inflation, prices are unlikely to rise to any significant degree until such time as the economy is working much closer to full capacity.)
Fortunately for Ontarians who care about manufacturing, which is a highly productive sector with significant economic spin-offs, the value of the Canadian dollar may be returning to its “natural” level, quietly aided by the Bank of Canada. The latest rate of 90 cents U.S. is a significant improvement over recent levels. We can expect to see corresponding improvements in Ontario’s net trade picture before long. These can only help the province do a better job of meeting the needs of its citizens.

Basic human necessities for all Ontarians

With respect to Ontario’s needs, those needs are most dire at the bottom of the economy, where those who cannot find work, or sufficient work, subsist alongside those who are unable to work. Those on social assistance live far below any measure of the poverty line. In its 2013 report, the Campaign 2000 anti-child-poverty group reported that:

Policy decisions driven by austerity in the 2012 Ontario budget made survival even more difficult for the over 383,000 children living in poverty with their families. A focus on deficit reduction in Budget 2012 derailed effective anti-poverty measures that reduced the overall child poverty rate in Ontario from 2008-10.... Income inequality has worsened for over a generation, robbing many low-income children and families of the hope and stability known by some members of older generations.... Living in poverty compromises children’s health, educational attainment and overall well-being. It also compromises Ontario’s economic potential, as limited opportunity means the skills and talents of low-income people are under-utilized.  

The indicators of poverty are plain enough to see. One 375,000 Ontarians use a food bank every month; one-third of them are under 18. More than 158,000 households, a record number, are on waiting lists for affordable housing.

The marketplace cannot be relied upon to address the pressing needs of hundreds of thousands of Ontarians in poverty. OPSEU supports all measures to tackle poverty through government intervention in the form of new spending on housing and income supports to ensure that all Ontarians have access to nutritious food, safe and comfortable housing, and the necessities of life.

- First among these is a significant increase in social assistance rates, far above current rates which suggest (for example) that a single adult in Ontario can live for a month on $626. Second among these is an ambitious public housing plan.

“Housing First” is an approach to homelessness developed in the United States and being used now in some Canadian cities. Its central principle is simple and based on need. Housing First gives homeless people an apartment to live in and access to a social worker to help them achieve social and financial stability. Housing First recognizes that homelessness has costs of its own – costs related to emergency room visits, interactions with police, or imprisonment, for example – and that the cheapest (and most humane) way to tackle homelessness is through permanent housing and support. The U.S. state of Utah has seen its homelessness rate fall by 78 per cent and is on track to eliminate homelessness altogether by 2015. This has been accomplished, the state says, at little cost: “Most of the progress Utah has made in ending chronic homelessness has happened with no new money. Instead, we’ve freed up existing resources by creating efficiencies in the system and re-investing in proven approaches.”
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- OPSEU supports major public investment to end homelessness and eliminate waiting lists for affordable housing.

The public services deficit

Public services have an important role to play in reducing inequality, simply because citizens at all income levels receive approximately the same benefit from them. The province’s public services deficit has been growing steadily since the 2008-09 recession.

There are few, if any, public services funded by the province that are not facing intense cost pressures, and an exhaustive summary of how those pressures are affecting services would take many hundreds of pages. Suffice it is to say that 70 per cent of the caregiver jobs in the developmental services sector are part-time, insecure, and often low-paid; that college faculty are deeply concerned about cost-saving measures that are severing the face-to-face contact between teachers and learners; that there are too many vacant positions in the section of the Ministry of the Environment that deals with drinking water safety; that children with behavioural problems and people with disabilities face long waiting lists to get the help and support they need. University tuition fees in Ontario have been the highest in Canada for five years running. A decade after the SARS Commission, which recommended keeping hospital occupancy rates at low enough levels to be able to absorb a sudden influx of patients with infectious diseases, Ontario’s hospitals are running at more than 98 per cent capacity, strongly suggesting that a repeat of the SARS crisis may be in our not-too-distant future.

Across the public sector, OPSEU members and other public employees see growing needs being met with fewer and fewer resources every year.

Under the current circumstances, where austerity rules the day, it hardly makes sense to call for funding increases in one sector that is providing a vitally important service if any and all increases are paid for through cuts in other equally vital areas. Prioritization is important, obviously; but what is really needed for public services in Ontario is more funding.

According to provincial government calculations, Ontario spends less on program spending per capita than any other province in Canada.

While the largest province may enjoy significant economies of scale in the provision of public services compared to Prince Edward Island, it is not clear that such economies exist in relation to provinces with a million or more citizens. Ontario is, quite simply, failing to invest in “human betterment” or public infrastructure at the rate required to build a fair and prosperous province.

How much is the shortfall? It depends. If the comparator is British Columbia, consistently one of the lowest-spending provinces, then for 2013-14 the difference is $416 per person. This means Ontario would have to spend roughly $5.6 billion a year on public programs for our 13.5 million citizens in order to be spending at B.C. per capita levels. Compared to neighbouring Manitoba, however, Ontario will spend $2,429 less per person in the 2013-14 fiscal year. This number, multiplied by Ontario’s population, represents a difference of $32.8 billion.
This bears repeating: If the government of Ontario spent money on programs at the same rate as the government of Manitoba, Ontario would be spending an additional $32.8 billion a year.

The point here is not to hold up Manitoba as a model; that province may or may not be delivering the services Ontarians would want. But it is clear that Canadian provincial governments are able to manage perfectly well with significantly higher spending rates (Manitoba’s debt-to-GDP ratio is 28.1 per cent, 11.2 points below the Ontario ratio and approximately what Ontario’s was before the recession of 2008-09 began.)

- OPSEU calls for an end to the Ontario government’s austerity program and supports an overall expansion of public spending to repair damaged public services, meet Ontario’s most pressing health, educational, social, and environmental needs, and create the new public infrastructure necessary not only to build Ontario’s economy into the future but also to prepare the province for an anticipated increase in extreme weather events in the decades to come.

If Manitoba can sustain a level of spending which in the current Ontario context (although not past ones) appears other-worldly, the question is how? The answer, for forward-thinking Ontario leaders, is simple: by generating extra revenue through its tax system.

Taxation

No Ontario government will ever have the fiscal capacity to address the needs of Ontarians, present and future, without addressing the serious damage done to provincial revenues by the tax cuts since 1995. In the context of the last several years, and the growing inequality that has made many Ontarians poorer and more anxious while undermining their trust in their leaders, elected and non-elected, it should be obvious that the core principle of any tax changes must be fairness.

Fairness does not simply mean that those who can pay more should more. At its root, fairness is about recognizing that no one, no matter how brilliant or wealthy, achieves success except by building on the efforts of those who have come before. Every business enterprise benefits directly from the public sector’s role in the economy, past and present:

- through the physical infrastructure of roads and bridges, water and sewer systems, and electricity grids built up with public dollars that make modern business possible;
- through the human infrastructure of education, health care, and social services that supply and sustain the labour force that is, ultimately, the source of all wealth;
- and through the legal infrastructure of laws, regulations, courts and police that establish property rights, safeguard contracts, settle disputes, and maintain public safety.

This is the rationale for tax fairness, and the options available for creating greater tax fairness are many. Here are just a few things the Minister of Finance could do:

- **Restore corporate tax rates to 2009 levels.** In the 2009 Budget, the Ontario government announced cuts to corporate income tax rates that, by the government’s own estimate, were designed to cost the Treasury over $2.4 billion a year by July 2013 [19]. While the government has postponed further cuts to the corporate tax rate, there is still approximately $1.5 billion a year missing from provincial coffers due to the rate cuts that happened in 2010 and 2011.
• **Introduce a Financial Transactions Tax (FTT).** Much of the “investment” that takes place these days is not investment in the productive economy but speculation. Originally conceived as a way to dampen speculative trading, a “Robin Hood Tax” on trades in stocks, bonds, derivatives, and currency would also raise money for public services. Even a rate as low as 0.1 per cent on trades would raise well over $1 billion a year on the $1.5 trillion in trades made through the Toronto Stock Exchange. And that’s assuming the tax succeeded in dramatically reducing speculative trading.

• **Eliminate the lower tax rates for income earned from stock options.** Only the highest-paid Ontarians receive any of their income in the form of stock options, but those who do pay tax at half the rate most Ontarians pay on income.

• **Institute a wealth tax.** A broad-based tax on all wealth holdings, including financial market assets, could collect significant revenues even if it were set at one per cent of assets over $3 million, as proposed by Neil Brooks. “Such a tax could also have important incentive effects, by increasing the likelihood that wealthy investors will put their money to work in productive activities.”

• **Make the income tax system more progressive.** At most income levels Ontario has the lowest income taxes of any province in Canada. And while the low rate paid by those with low taxable incomes is laudable, the low rate paid by those with high incomes in inexcusable. Ontario’s top provincial income tax rate is lower than that of any other province and kicks in at a higher level than any other province. The top income tax rate kicks in at $150,000 or lower in all provinces except Ontario; in Ontario, high-income earners begin paying the top rate – incredibly – at $514,090.

The objective here is not to list every possible approach to increasing tax revenue. The 2014-15 budget year presents a very real opportunity to improve Ontarians trust in their government by making tax fairness – to pay for quality public services, build infrastructure, and create jobs – a central theme in the weeks and months ahead. There are any number of options available to any government that can match the “courage, vision, enterprise and bold action” displayed by Ontario’s Treasurer five decades ago.

- OPSEU supports budget measures to increase the government’s fiscal capacity through significant tax fairness measures.

**Managing government finances: dealing with the deficit**

Many pundits and politicians – and, most notably, former government adviser Don Drummond – contend that Ontario is facing a structural budget deficit that demands permanent reductions in government program spending. This contention has no basis in fact. At the moment, the Ontario economy continues to function well below its capacity; putting Ontarians back to work will, in itself, eliminate the current budget deficit, and for this reason austerity measures designed to clamp down on public spending should be halted in favour of robust investment in Ontario’s people and its economy. As noted above, there is a public services deficit in this province, and an infrastructure deficit as well. These can only be addressed by paying off the structural deficit in taxation levels caused by tax cuts in the Harris and McGuinty eras.

Restoring tax levels to adequate levels – even if we do not reach the levels of glamorous, high-flying Manitoba – does not, however, obviate the need to be careful stewards of provincial revenues. On this
score, one particular government policy stands out as both wasteful and economically unfair. That policy is the current government’s fascination with privatization.

Proponents of privatization argue that the private sector, driven by competitive pressures, can provide better services at lower cost than public sector employees can. This has certainly not been the experience in Ontario. In terms of value for money, the history of private delivery and financing of public services in Ontario is a long history of failures, a few of which are listed here:

- **Meat Inspection.** In 1997, the Ontario Ministry of Agriculture, Food, and Rural Affairs laid off all but a handful of provincial meat inspectors and created a new model in which roughly 95 per cent of the inspectorate consisted of meat inspectors employed as independent contractors, i.e., they were not provincial employees. After the Aylmer meat scandal of 2003, the Haines Inquiry into meat inspection found that, among other things, inspectors who closed down a slaughterhouse that did not comply with provincial regulations were, in effect, laying themselves off. This evident conflict interest and other issues that posed a threat to public health and safety resulted in the return of meat inspection to the public service in 2004.  

- **Andersen Consulting.** In 1997, the province contracted out a Business Transformation Project in the Ministry of Community and Social Services to make major changes to the social assistance system. The ministry’s contract with Andersen Consulting (later re-named Accenture) caught the attention of the province’s auditor general very early on. In his 1998 report, the auditor noted that the Ministry “had not sufficiently defined or established the project’s scope and desired business results [and] could not demonstrate that it had adequately considered either other contracting arrangements or maximizing the use of its own internal resources for any aspects of this project.” The Ministry “could not provide the basis for its agreement to pay Andersen Consulting a fee of up to $180 million,” the auditor noted, observing that contract between the ministry and the company allowed the company “to charge standard published billing rates for this project, which were, on average, almost six times higher than the rates charged by the Ministry for comparable staff” and that the company was allowed to unilaterally increase those fees “from time to time.” The Ministry did not have receipts for most of the $1.4 million in out-of-pocket expenses the company billed the government for; those charges “averaged approximately $26,000 for each full-time-equivalent position assigned to the project during the first year.” Chastened by the provincial auditor’s report and an investigation by a committee of the legislature, Andersen Consulting was forced to renegotiate its arrangement. But in a special report two years later, the auditor still found that “our concern remains that under the renegotiated agreement Andersen Consulting is still receiving a disproportionate amount of the benefit pool in relation to its work effort.” Indeed, Andersen’s rate for a consultant was still $280 an hour for work that cost the Ministry between $45 and $115 an hour when performed by its own staff. The rollout of the Business Transformation Project was originally planned for completion by June 1999; as of 2000 that date had been changed to January 2002, a full two-and-a-half years behind schedule.

- **Highway 407.** In 1999, the Mike Harris government leased Highway 407 to a consortium led by a Spanish group. The agreement gave the government a flat fee of $3.1 billion. The highway cost an estimated $1.5 billion to build with tax dollars and was expected to be paid for through tolls within 30 years, after which time it would become a free highway. But the lease agreement gave the consortium the profits from the toll highway for 99 years – and the right to raise tolls at will. In 2010, the Canada Pension Plan Investment Board purchased a 10 per cent stake in the 407 for $894 million, suggesting the total value of the highway by then was $8.94 billion in 2010 dollars. The dramatic increase in accrued value is money that went to private investors; it could have gone to the people of Ontario.
• **Walkerton.** The Public Inquiry into the Walkerton water tragedy that killed seven and sickened 2,300 people in May 2000 found a link between the tragedy and the closure of government lab services for municipalities, which resulted in their turning to private labs for water testing. When government labs had done the testing, they reported adverse test results to the Medical Officer of Health and the Ministry of the Environment as a matter of course. The private lab that tested Walkerton’s water did not do this, delaying a boil-water advisory that would have prevented hundreds of illnesses, according to the Inquiry. An economist commissioned by the Inquiry to estimate the financial cost of the disaster put the tangible costs at $64 million and “intangible” costs, such as the loss of human life, at an additional $91 million.

• **Jail Privatization.** In 2001, the Conservative government of the day turned over operation of the maximum-security correctional facility at Penetanguishene to a private operator for five years. An identical facility in Lindsay remained under government control, allowing for a direct comparison between the two operating methods. In 2006, a review by the Ministry of Community Safety found that “in basically every single area, the outcomes were better in the public run facilities,” in the words of the minister responsible. The ministry review found that the provincially-run facility had better security, better health care for inmates, and a reduced rate of re-offending. The private jail had fewer staff and ran fewer programs to help inmates.

• **Teranet.** In 2003, the Ernie Eves government sold its 50 per cent stake in Teranet, the province’s electronic land registry service, for $370 million. This valued Teranet at $740 million, but the profits from Teranet’s operations indicate clearly that this was much too low. In 2003, Teranet’s profits were $118 million on sales of $190 million, giving it a stunning profit margin of 62 per cent. With profits like that – and considerable growth potential – a better estimate of the company’s value would have been closer to $2 billion, not $740 million. The difference was all money lost by the people of Ontario – and gained by the private investor who snapped it up at a fire-sale price.

• **ORNGE.** In 2005, Ontario created Ontario Air Ambulances Services Co., a not-for-profit entity charged with creating an integrated air ambulance system to manage and dispatch air ambulances and the Critical Care Flight Paramedics who staff them. Assets belonging to the Ministry of Health and Long-Term Care were transferred to ORNGE at a nominal cost of $1. The company later rebranded itself as ORNGE (not an acronym) and set out to change the way air ambulance service was provided in Ontario. In late 2011, news reports revealed that ORNGE CEO Chris Mazza was paid $1.4 million a year, more than any other public employee in Ontario. But ORNGE hid Mazza’s salary from public scrutiny by creating a spinoff private company, ORNGE Global. (Salaries paid at private companies are not published under the Public Sector Salary Disclosure Act.) ORNGE Global issued bonds to pay for a dozen new helicopters, paying the interest and principal on the bonds with some of the $150 million in public funding it receives. The Italian company that sold the helicopters then paid ORNGE $6.7 million for “consulting” services. The ORNGE corporate plan called for three per cent of gross profits to go to the not-for-profit ORNGE, with 97 per cent going to ORNGE investors.

• **Gas Plants.** The provincial government’s decision to have the private sector play a major role in the generation of electricity has been an expensive disaster for electricity ratepayers and taxpayers alike. The politically-motivated cancellation of gas-fired generating plants in Oakville and Mississauga cost more than $1 billion. What was less extensively reported was the amount of money that went to private-sector investors in the form of penalties – penalties that would never have been charged if the proposed plants had been financed in a more traditional manner through the publicly-run Ontario Power Generation.

• **Public-Private Partnerships.** The provincial government’s first two attempts at so-called “public-private partnerships (P3s) were costly mistakes. Ontario’s auditor general confirmed that the William Osler Health Centre cost nearly $500 million more with private involvement than it would
have if traditional public procurement methods had been followed. The Royal Ottawa Hospital was originally planned in 2004 as a 284-bed facility at a cost of $95 million. It opened as a 188-bed facility that cost $146 million.\textsuperscript{55} Despite these failures, the current government insists that P3s have a vital role to play in financing important government infrastructure.\textsuperscript{56,57}

Advocates of private involvement in the delivery and financing of public services and public infrastructure overlook the significant cost advantages enjoyed by the public sector when it comes to both cost and quality:

- There is no mark-up on public services. Any company delivering public services expects to make a profit on a par with what it could make elsewhere. In Canada, that usually adds about 12 per cent to the cost of any private sector good or service.
- Because they are large, governments can achieve bigger economies of scale than private companies. This cuts down administrative costs and the cost of many inputs. As an example, with large economies of scale and no profit motive, Canada’s public health care system is just over 10 per cent of the economy. In the United States, with inferior care and less coverage, that number is 16 per cent.\textsuperscript{58}
- Because of its size and stability, government can always access lower interest rates than even the largest corporation when borrowing money for a large-scale project like building a hospital.
- Public employees pay a large part of their income in taxes which go right back into paying for public services at all levels.

\begin{itemize}
  \item OPSEU opposes private financing of public infrastructure projects and opposes increased private for-profit involvement in the delivery of all public services.
\end{itemize}

Even neutral observers have derided the “ideological underpinnings”\textsuperscript{59} of P3s and other privatization initiatives, and there is no doubt that the recent gas-plant fiasco has increased public mistrust not only of the current government but of politicians in general. As a means of saving money and restoring honest public accounting to government dealings, the current government should use the 2014 budget to renounce its infatuation with costly privatization initiatives.

**Conclusion**

As noted in the introduction, Ontarians are anxious about the future and place little trust in politicians, whom they see as allied with well-heeled private interests. Like all budgets, the 2014 budget is an opportunity to correct past missteps and set the province on a positive course. In this, the actions of past governments provide a helpful guide. Will the 2014 budget be one that builds Ontario and restores public faith in the political process? Or will it carry us further down the road of negativity, ultimately delivering us to a place that is poorer, more divided, and less prepared to weather the storms that undoubtedly lie ahead?

The 130,000 hard-working Ontarians that OPSEU proudly represents look forward to learning the answer.
Notes

11. This process continues to this day, as recent announcements of plant closures by Heinz in Leamington and Kellogg’s in London demonstrate.
22. Source: Statistics Canada CANSIM 384-0038 (GDP); CANSIM 51-0001 (Population).
33 With the exception of those at the very bottom of the income spectrum, who receive a larger-than-average share because of direct income transfers. See Mackenzie, Hugh and Richard Shillington (2009). Canada’s Quiet Bargain: The Benefits of Public Spending. Toronto: Canadian Centre for Policy Alternatives, p. 16.
41 Peters, p. 34.
42 Peters, p. 44.
43 Peters, p. 35.
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56 Janson, Rick. “P3s deserve to be an election issue even if nobody wants to talk about it.” OPSEU Diablogue, August 10, 2011. Available online at http://diablogue.org/tag/william-osler-hospital.
59 Canadian Institute for Health Information, Health Care in Canada 2009: A Decade in Review. Ottawa, Canadian Institute for Health Information, 2009, p. 47.