RNAO
Registered Nurses' Association of Ontario
L'Association des infirmières et infirmiers autorisés de l'Ontario

QPD QUEEN's PARK DAY

Fiscal capacity: Restoring infrastructure and decent jobs

Ontario is not adequately investing in infrastructure and services. To restore these investments while balancing the provincial budget, RNAO advocates for expanding government revenue through a combination of fairer taxes and other revenue sources. Do you agree with RNAO?

Insufficient revenue means cutting or foregoing services

Taxes and other government revenues pay for the public services required in a civilized and healthy society – including health care, education, social services, environmental protection and public security. They also pay the wages of workers who deliver those services, including nurses and other health professionals.

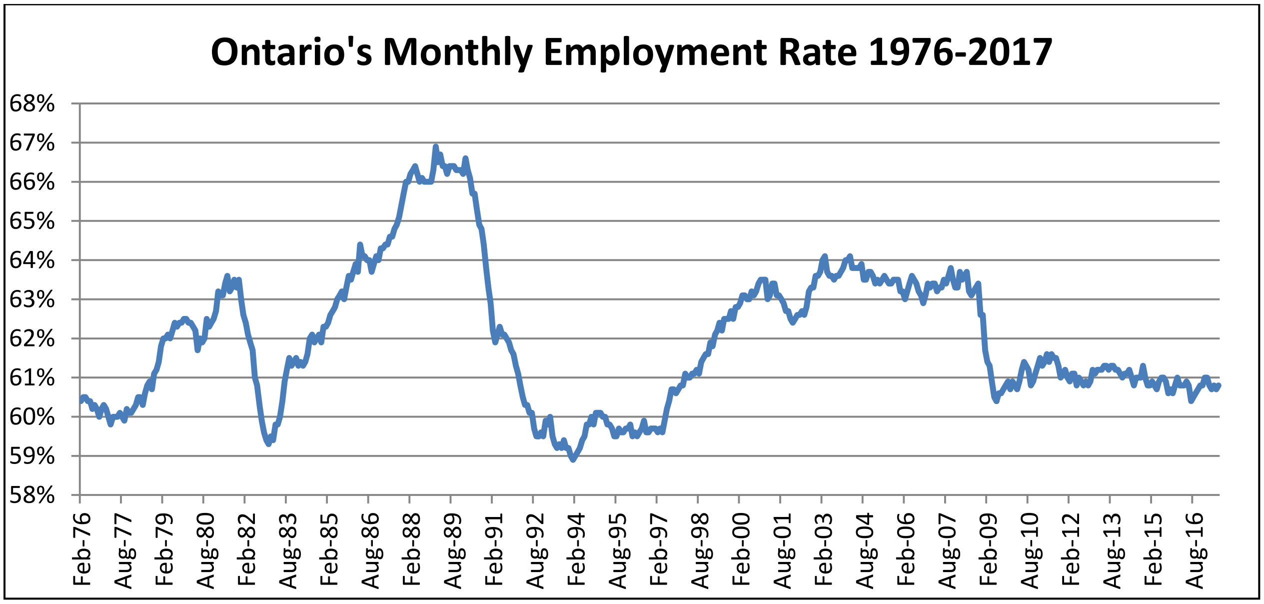
The province has chosen to limit the revenue it receives through taxation. This has resulted in government austerity measures that have reduced critical public services. We must ask: do we really benefit as a society with fewer public services? For example, pharmacare and publicly funded dental care programs would greatly improve access to necessary health services for those with moderate and low incomes. The benefits of these programs for Ontarians would well exceed their costs. However, lack of adequate revenue prevents their implementation.

Ontario's deficit has always been manageable

The focus on deficit reduction hijacks other concerns. Budget deficits are a fact of life and are not a problem at reasonable levels. They rise during recessions and fall during recoveries. For example, Ontario went from a small surplus of 0.1 per cent of GDP in 2007-08 to a deficit of 3.2 per cent in 2009-10, as the province increased expenditures to fight the effects of the global financial crisis. As the economy recovered, the deficit shrank to 0.5 per cent in 2015-16. It is projected to decrease to 0.2 per cent in 2016-17 and disappear entirely in 2017-18.[1]

From 2009-10 to 2015-16, deficit reduction was accomplished through austerity measures: program spending as a share of GDP fell 2.1 per cent, while revenue increased just 0.7 per cent.[2]

There are other economic objectives that must be considered in addition to deficit reduction, such as employment. While Ontario's unemployment rate has come down, its employment rate (the percentage of the population 15 years of age and older who are employed) remains stubbornly low – less than 61 per cent compared to more than 63 per cent between August 2002 and October 2008. There should be capacity for at least two per cent more to join the workforce.[3]



The province would be better served by shifting the focus from keeping taxes low and balancing the budget to restoring infrastructure and decent jobs. Ongoing austerity has resulted in a huge social and physical infrastructure deficit, and has likely delayed economic recovery by restraining consumer spending. A society that invests too little in social, educational and physical infrastructure limits its development prospects. Given that borrowing costs are at historically low levels, there is no compelling reason not to make these necessary investments now.

Tax cuts are not the way to go
Low taxes are rationalized on the grounds that they stimulate the economy. However, any private spending stimulus is more than offset by corresponding government spending cuts, resulting in net job losses. As the Task Force on Competitiveness indicated, substantial federal and Ontario tax cuts were accompanied by falling investment rates per worker.[4] That isn't the kind of "stimulus" package that benefits the province.

Ontario is an outlier compared to other provinces
Although Ontario has a higher per capita GDP than six of the nine other provinces, its per capita program expenditures are the second lowest in Canada, after Quebec. And when one takes into account the availability of resources (GDP), Ontario's austerity measures are more severe than any other province.

Federal cutbacks
Major federal cutbacks have compounded the problem. The federal government has been cutting its revenue since the early 1980s: in 1981-82, the federal revenue share of Canadian GDP was

18.3 per cent. It dropped to 14.1 per cent in 2011-12, and has only recovered to 14.4 per cent as of 2016-17. As a result, federal program spending fell from 18.5 per cent of GDP to 14.4 per cent over the same time period.[5] We encourage the federal government to restore its own fiscal capacity and urge the same for the Ontario government.

Need for new revenue tools

Leaders like Toronto mayor John Tory have come to the conclusion that new provincial revenue sources are urgently needed to at very least meet current commitments.[6] Yet the province has rejected proposals to do so, such as the recommended Toronto road tolls.[7]

There are many revenue options. Green taxes, such as emission taxes or emission charges, have the advantage of discouraging harmful behaviour by making it more expensive. These taxes are more efficient, and could not only generate revenue but also help replace less efficient taxes, such as payroll taxes that discourage employment. On these grounds, the Task Force on Competitiveness has called for the implementation of an Ontario carbon tax.[8] The Ecofiscal Commission has similarly called for carbon pricing, and in June 2015 released its principles for an Ontario cap-and-trade program. That program is the carbon pricing option chosen by the province.[9] Ontario has started holding auctions of greenhouse gas (GHG) allowances, so the program is well under way.[10] [11]

There are a number of sin taxes already on the books, such as gasoline, diesel, wine and beer. As economist Don Drummond outlined in his report to the government, these taxes apply to volumes rather than value. Unless the taxes are continually raised to account for inflation, this is the equivalent of continual cuts in the tax rate. The Drummond Commission recommended the replacement of such taxes with taxes that apply to value, the way a sales tax is a fixed percentage of the sale price.[12]

Fairness and equity

The pollution and sin taxes mentioned above appeal to Canadians' basic sense of fairness and equity. Those who impose costs on society ought to pay for those costs. More generally, Canadians are offended by growing inequality of access to health and growing income inequality. They are also offended by tax avoidance and the failure of some people to pay their fair share of taxes. Government can collect revenue and spend it in ways that help to reduce income inequality and in ways that enhance greater access to health. Programs like pharmacare and universal oral health coverage benefit everyone, but they benefit those living in poverty more, thereby enhancing health equity. The only thing stopping us from pursuing this path is insufficient revenue, but with a renewed determination to address fairness and equity, we can surmount that obstacle.

Ban asset sales
The government must also be wary of the temptation to sell off assets for one-shot revenue gains. At various times, Hydro One, Ontario Power Generation and the Liquor Control Board of Ontario have been mentioned as candidates for privatization.[13] The Premier's Advisory Council on Government Assets recommended selling off 60 per cent of Hydro One,[14] in spite of the report from Ontario's Financial Accountability Office suggesting that the sale would worsen the province's deficit position over the long run.[15] Nevertheless, Ontario did sell an initial 15 per cent of Hydro One shares in the fall of 2015,[16] and a further 15 per cent in April 2016,[17] much to the objection of organizations like RNAO.[18] In May 2017, Ontario reduced its holdings of Hydro One to 49.9 per cent through another sale of shares.[19]

Selling off assets is not a sustainable way of addressing revenue-expenditure imbalances, particularly when that asset is a monopoly that provides a large guaranteed stream of revenue. And it is likely to result in receiving poor value as buyers will have to discount the price to cover uncertainty, risk and transactions costs.

RNAO's FISCAL ASKS

- Ensure the fiscal capacity to deliver all essential health, health care, social and environmental services by building a more progressive tax system. Do not cut taxes
- Increase revenue sources that encourage environmental and societal responsibility. Make polluters pay for the full cost of the pollution they create, and continue implementing a cap-and-trade program for carbon emissions
- Seize this low-interest, low-deficit opportunity to catch up on investments in human, environmental and physical capital
- Update the gasoline tax by making it a tax on value rather than on volume
- Reject sales of publicly owned crown corporations and assets to fund government programs. Halt the further sale of Hydro One shares
- Ensure transparency and accountability in fiscal measures to deliver services people want and deserve, and to ensure that is done in an efficient manner

References:

[1] Royal Bank of Canada. (2017). *Canadian federal and provincial fiscal tables.* Provincial budget balances relative to GDP. Retrieved from http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf.

[2] Royal Bank of Canada. (2017). *Canadian federal and provincial fiscal tables.* Revenues relative to GDP & program expenses relative to GDP. Retrieved from http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf.

[3] Statistics Canada. (2017). *Table 282-0087: Labour force survey estimates (LFS), by sex and age group, seasonally adjusted.* Retrieved from http://www5.statcan.gc.ca/cansim/a26?id=2820087.

[4] Task Force on Competitiveness, Productivity and Economic Progress. (2013). *Course correction: Charting a new road map for Ontario,* p47. Retrieved from http://www.competeprosper.ca/uploads/2013_AR12_Final.pdf.

[5] From 1981-82 to 2015-16, the drop was 3.6 per cent to 3.3 per cent for transfers to other levels of government vs. 10.5 per cent to 6.2 per cent for federal direct spending. Source: Canada Department of Finance. (2016). *Fiscal reference tables September 2016.* Retrieved from http://www.fin.gc.ca/frt-trf/2016/frt-trf-16-eng.asp.

[6] Pagliaro, J. (2016, December 13). Council backs Tory's move to impose road tolls. *Toronto Star.* Retrieved from https://www.thestar.com/news/city_hall/2016/12/13/council-backs-torys-move-to-impose-roll-road-tolls.html.

[7] Paikin, S. (2017, January 27). Wynne rejects Toronto's request for road tolls, and almost everyone comes out ahead. *TVO.* Retrieved from http://tvo.org/blog/current-affairs/wynne-rejects-torontos-request-for-road-tolls-and-almost-everyone-comes-out-ahead.

[8] Task Force on Competitiveness, Productivity and Economic Progress. (2013). *Course correction: Charting a new road map for Ontario,* p50. Retrieved from http://www.competeprosper.ca/uploads/2013_AR12_Final.pdf.

[9] Beugin, D., Cappe, M., Hodgson, G., Lanoie, P. & Ragan, C. (2015). *The way forward for Ontario: Design principles for Ontario's new cap-and-trade system.* Retrieved from http://ecofiscal.ca/wp-content/uploads/2015/06/Ecofiscal-Commission-Report-Brief-The-Way-Forward-for-Ontario-Cap-and-Trade-June-2015.pdf.

[10] Government of Ontario. (2017). *Ontario announces results of first cap and trade program auction.* Retrieved from https://news.ontario.ca/ene/en/2017/04/ontario-announces-results-of-first-cap-and-trade-program-auction.html.

[11] Government of Ontario. (2017). *Summary results report: Ontario cap and trade program auction of greenhouse gas allowances June 2017 Ontario auction #2.* Retrieved from http://files.ontario.ca/summary_results_report_english_2017-06-09.pdf.

[12] Commission on the Reform of Ontario's Public Services. (2012). *Public services for Ontarians: A path to sustainability and excellence,* p426. Retrieved from http://www.fin.gov.on.ca/en/reformcommission/chapters/report.pdf.

[13] Benzie, R. (2014, April 11). TD Bank chief to 'optimize' LCBO, Hydro One and Ontario Power. *Toronto Star*. Retrieved from http://www.thestar.com/news/queenspark/2014/04/11/ontario_ropes_in_td_bank_chief_to_optimize_lcbo_hydro_one_and_ontario_power.html.

[14] Clark, E., Denison, D., Ecker, J., Jacob, E. & Lankin, F. (2015). *Striking the right balance: Improving performance and unlocking value in the electricity sector in Ontario*. Retrieved from https://dr6j45jk9xcmk.cloudfront.net/documents/4428/improving-performance-and-unlocking-value-in-the.pdf.

[15] Critchley, B. (2015, October 29). Hydro One prices IPO at $20.50 a share with proceeds for infrastructure investment, debt repayment. *Financial Post.* Retrieved from http://business.financialpost.com/news/fp-street/hydro-one-prices-ipo-at-20-50-a-share.

[16] Canadian Press. (2015, November 12). Hydro One IPO nets Ontario more than $50-billion. *Globe and Mail.* Retrieved from http://www.theglobeandmail.com/report-on-business/hydro-one-ipo-nets-ontario-more-than-5-billion/article27227164/.

[17] Canadian Press. (2016, April 14). Ontario wraps up secondary offering of Hydro One shares. *Toronto Star*. Retrieved from https://www.thestar.com/business/2016/04/14/ontario-wraps-up-secondary-offering-of-hydro-one-shares.html.

[18] Registered Nurses' Association of Ontario. (2015). *RNAO commends government for commitments to NPs in long-term care, RN prescribing and evidence-based care, and calls for a stop to RN replacement.* Retrieved from http://rnao.ca/news/media-releases/2015/04/23/rnao-commends-government-commitments-nps-long-term-care-rn-prescribin.

[19] Jeffords, S. (2017, May 17). Liberals land $2.8 billion through final batch of Hydro One shares sell-off. *Toronto Sun.* Retrieved from http://www.torontosun.com/2017/05/17/liberals-land-28-billion-through-final-batch-of-hydro-one-shares-sell-off.