



## **HOW DO WE PAY FOR THIS?**

### **RNAO's Policy Platform Backgrounder** **January 2013**

Ontario is dealing with a significant but not unmanageable deficit and debt. It's important to understand how and why we got into this situation, and why more austerity is not the solution to our economic and social challenges.

During the mid-1990s and early 2000s, the government of Ontario cut revenues and expenditures severely. Government revenues as a share of Gross Domestic Product (GDP) fell from 17.7 per cent in 1996 to 15.5 per cent in 2003. Over the same period, program expenditures were cut from 16.9 per cent to 14.2 per cent of GDP.<sup>1</sup> This created a severe social deficit and limited the ability to deal with it due to lower tax rates. Subsequently, the government restored much of the program spending and brought in more revenue with the introduction of a health tax. With economic recovery, rising revenues pushed the government into a modest surplus. However, the brutal 2008 recession called for major spending to help head off economic collapse. Spending jumped from 17.7 per cent of GDP in 2008-09 to 19.9 per cent in 2009-10.<sup>2</sup> The deficit spending strategy in Ontario and across the country did succeed in averting a much worse economic decline. A negative side effect was very large deficits at a time when the economy remains fragile.

Ontario must resist the temptation to punish the economy further with untimely spending cuts. Ill-advised austerity policies in Europe are plunging country after country into severe recession and social strife. That doesn't need to happen in Ontario, nor in Canada. The deficit in Ontario is significant but manageable. Thanks to low interest rates, now is a good time to invest in rebuilding the economy. In spite of the growing debt, interest charges on the debt have remained at a fairly flat 1.5 to 1.6 per cent of GDP.<sup>3</sup> Enhanced revenue measures, such as reducing tax avoidance, more green taxes, prices on carbon and surcharges on those better able to pay, will help to reduce the deficit and restore Ontario's fiscal capacity.

#### **Recommendations:**

- 1. Make sure people pay their fair share of taxes. Tax cuts for wealthy people and cutting spending for social programs hurt our economy.**
- 2. Impose green taxes to help pay for the damage polluters cause.**

#### **Questions for candidates:**

- 1. Do you commit to protect social spending and public services despite our fiscal challenges?**
- 2. Are you willing to make sure people, in particular those in upper income levels, pay their fair share of taxes?**



### 3. Do you support green taxes and prices on carbon in order to make polluters pay for the damage they cause?

#### References

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<sup>1</sup> Statistics Canada. (2009). *Table 385-0002 Federal, provincial and territorial general government revenue and expenditures, for fiscal year ending March 31, annual*. Retrieved January 18, 2013 at <http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=3850002&paSer=&pattern=&stByVal=1&p1=1&p2=37&tabMode=dataTable&csid=>

<sup>2</sup> Duncan, D. (2012). *2012 Ontario Budget*. Table 2.31, p. 198-199. Retrieved January 18, 2013 at [http://www.fin.gov.on.ca/en/budget/ontariobudgets/2012/papers\\_all.pdf](http://www.fin.gov.on.ca/en/budget/ontariobudgets/2012/papers_all.pdf)

<sup>3</sup> Ibid. Table 2.31, p. 198-199.