Notes for an address by Walter Robinson, Federal Director, Canadian Taxpayers Federation before the Ontario Government

(Check Against Delivery)

Standing Committee on Finance and Economic Affairs

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Rideau Room, Sheraton Hotel,
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▪ News Release

▪ Pre-Budget Submission

Thank you, Mr. Chairman. My name is Walter Robinson and I appear before you today in my capacity as Federal Director for the Canadian Taxpayers Federation (CTF). Seated beside me is Bruce Winchester, our Director of Research.

(In French): My presentation this morning will be in English but I am willing to respond to any questions you may have in the official language of your choice.

(In English): By way of background, the Canadian Taxpayers Federation was founded in 1990 and has grown in eleven short years to become Canada's largest and most effective taxpayer advocacy organization. We are non-partisan and not-for-profit.

We do not receive any federal or provincial political contributions, nor do we receive financial assistance from any level of government. During employment with the CTF, all directors and staff are forbidden to hold memberships in any political party.

Our mandate is three-fold:

- To act as a watchdog on government spending;
- To encourage our supporters to exercise their own democratic rights and responsibilities thereby taking ownership of public policy; and
- To advocate fiscal and democratic reforms through presentations to legislative committees such as yours this morning.

The focus of our pre-budget submission - copies of which are in front of you - is to drive home the message that an unwavering fiscal focus can and will ensure a formative future for Ontario.

Just over a year ago, I appeared before you in Toronto. And we wish to congratulate the government for acting on two of our recommendations from last year: eliminating provincial bracket creep and moving to a tax-on-income system. To be fair, we also acknowledge the small steps that the government has taken with respect to reducing our provincial debt.

While last year's fiscal indicators, as outlined on page five of our submission, signal robust economic performance, extreme caution and prudence must underlie the articulation of Ontario's fiscal plan in Budget 2001. Or in simpler terms, that was then and this is now.

Today the clouds of economic uncertainty cast a long shadow over our country and our province. The U.S. Federal Reserve Board has dropped its trend-setting rate by 100 basis points in four weeks. In addition, Board chairman Alan Greenspan has signaled that further interest rate cuts may be necessary to mitigate against, what he calls, "downside risk."

Major multinationals such as Whirlpool Corporation and auto-giant Daimler Chrysler have announced significant workforce reductions in the last month. And just last week, Canadian-based optical networking behemoth, Nortel, signaled its intention to up its global layoff tally from 6,000 to 10,000 workers.

To complicate matters, unlike Ottawa, the Ontario government does not have the option of specific monetary policy changes to mitigate against recessionary pressures, as monetary policy is the most effective tool in a recessionary environment.

Inflationary pressures are also present. Ontario's inflation rate as measured by the Consumer Price Index (CPI) was 2.9 per cent for the year 2000 and recent surges in the prices of gasoline and other utility prices point to this trend of higher price pressures continuing for most of 2001.

Talk about bad news for a Monday morning.

Economists are split as to their interpretation of the gravity of all these signals. Some fear a deep and prolonged - at least nine months if not a year or more - U.S. led global recession. Others are more upbeat choosing instead to label the present economic environment as nothing more than a surplus inventories six-month correction cycle.

One thing is for sure: such uncertainty necessitates fiscal prudence. Unfortunately, the government of Ontario has not exhibited this prudence. Indeed, since 1995 the Harris government has steadily abandoned many of its fiscal principles that were first articulated in the Common Sense Revolution. From privatization to expenditure control to redefining the role of government, the party of the revolution has become the party of the institution.

Let me be very clear in this. At mid-term through its second mandate, we believe the PC government is bereft of fiscal vision. However, implementation of our recommendations would provide a foundation for the government to once again articulate a compelling and sustainable fiscal vision.

To start, the government must get serious about reducing Ontario's $112 billion debt. We can cut tomorrow's taxes by reducing debt today. Indeed, the provincial debt - which all parties, the Liberals, the NDP and the PCs had a hand in creating - represents a burden of intergenerational tax evasion that we should not and cannot pass on to successive generations of taxpayers.

Broken down, each taxpayer in Ontario is responsible for over $21,000 of debt. Worse still, debt interest costs alone are $1 billion higher today than when the current government assumed office back in 1995.

At $9.4 billion a year, debt interest payments chew up 14.7 cents of each tax dollar sent to Queen's Park. That's over $25 million a day, over $1 million per hour, almost $18,000 per minute and a staggering $299.02 each and every second.

For Budget 2001, we recommend a legislated schedule of annual debt reduction payments of 4% of gross provincial revenues. If revenue growth were to continue at 3% per annum, applying 4% of revenues would result in Ontario becoming debt free by 2028. This analysis is found on page ten of our submission.

Ontario is competing for jobs and investment with the great lake states and provinces such as Alberta. When it comes to debt reduction, our American friends are projected to be debt free between 2012 and 2015, depending on the magnitude of the tax cut that President Bush can actually get through Congress. Meanwhile, Alberta is projected to be debt free next year or by 2003 at the latest. Reducing debt is not only the right thing to do for future generations; there is also a more pressing and immediate competitive and political dynamic that makes this priority number one for this year's budget.

Hot on the heels of debt reduction, spending controls rank a close second in terms of priority for inclusion in the budget this May. Nowhere is this more evident than in the unsustainable trend of Ontario's skyrocketing health care expenditures. To be fair, we acknowledge the tremendous pressures that federal CHST cuts have exacerbated and mammoth public expectations that are political facts of life when it comes to health care funding.

In fact, 62% of all new spending or spending increases in Canada's 10 provinces over the past three years have gone to health care. But simply throwing more money at the problem is not the answer. In this respect, Ontario's PCs are no different the federal Liberals or the BC NDP in their irresponsible and reckless ramp-up spending approach to health care.

Ontario's health care budget has increased at an average rate of 5.92% over the past three years. If this trend continues and we use the same revenue growth rate as we did earlier for debt reduction, the by the year 2038 Ontario will only require two provincial ministries: Finance to collect the money and Health to spend it. This is illustrated on page 12 of our submission.

This bears repeating. Health care is poised to consume the entire provincial budget by the year 2038. By 2015 alone, health related spending will consume 50% of the provincial budget. Provincial politicians will be forced to make either-or choices. They - or should I say you - will be forced to choose between health care and

education, between hospital beds or textbooks. Politicians will then long for the good old days of the late 1990s and early 21st century with its simple trade-off debate between tax cuts and spending.
While healthcare is the most troubling example, the message is relevant for all provincial portfolios and in this regard, the government is to be chastised for misleading Ontarians in successive budget documents.

For example, on page 47 of Budget 2000, the government maintains that, and I quote, its "commitment to controlling spending is demonstrated by significant reductions in program spending as a per cent of Ontario's Gross Domestic Product, (GDP)."

This is utter and absolute nonsense. If the provincial GDP grows by 10% this year and program spending climbs a whopping 9%, spending when measured as a percentage of GDP year over year will still decrease. But no sane individual would claim that a 9% spending increase in a low-inflation environment was the mark of a fiscally prudent government. This measure also negates the amount of revenues that the government will or will not collect.

On the health care front, Ontario need's a plan, any sort of plan … and quickly. Demographic shifts, technology and pharmaceutical costs, and patient utilization pressures will further exacerbate demands for continuing increases to the health budget envelope.

Outcomes analysis, restructuring health care governance, primary care reform and other initiatives are necessary and long overdue. Ontario should also push for modernization of the Canada Health Act to include the principles of Choice, Sustainability, Quality and Accountability.

As for overall spending, we recommend that the Ontario government seek first, to meet the needs for increased priority program expenditures through re-allocation within existing budget envelopes or through privatization proceeds such as capital divestiture and/or alternate service delivery. Further to this principle, total annual program expenditure growth should not exceed the upper limit benchmark percentage of annual inflation plus population growth.

Turning to tax reform, allow me to reiterate the CTF's support for Ontario's move to a tax on income system. However, this move has been somewhat confusing for Ontario taxpayers wishing to keep track of the government's tax cut promises - especially the pledge to reduce income taxes by another 20% on top of the 30% cut during the PC government's first mandate. In light of recent substantive federal tax cuts, taxpayers can be forgiven for wondering if they be better off under the old provincial tax payable on federal tax payable system. And our summary calculations - found on page 14 of our submission, indicate that this is indeed the case for the 2000 taxation year, and most definitely, will be the case for the 2001 taxation year unless new and lower rates are announced.

Along with lowering the 2001 rates to the appropriate levels, the government should indicate through various income-earner profile examples that Ontarians are "equal to" or "better off" in the made-for-Ontario tax on income system as opposed to the old tax on tax payable system.

The CTF pre-budget submission once again calls for the appointment of a Minister of Privatization with cross-departmental responsibility to take a look at how you can continually evolve and devolve government services.

However, since this is unlikely, we also recommend that an all-party legislative committee be established once during each legislative session to review all relevant government operations and highlight candidates - including departments, agencies, boards, commissions, and/or program areas - for divestiture and/or alternate service delivery.

Finally, we again recommend that the Ontario government cut provincial gas taxes to a level commensurate with roadway and public transportation spending which has reached a 50 year low, even when SuperBuild initiatives are included.

In conclusion, it is axiomatic to state that governments at all levels and of all ideological persuasions must consistently strive to ensure that the tax dollars they raise - mostly through compulsion - are allocated to program and service areas that provide the greatest public good.

In this sense, governments do not have revenue problems, governments have expenditure problems.

Budget 2001 poses significant challenges for fiscal management in Ontario. Minister Flaherty must temper public expectations for devotion of anticipated surpluses of over-taxation into areas of program spending with a more long-term view to tackling the systemic problems of an intolerable provincial debt burden and runaway program expenditures.

Whether it is raising a child, building a business or managing one's portfolio, in all these endeavours of life, taking a long-term view is without question always the wisest and most successful strategy. It should be no different for the government of Ontario and its choices for this year's budget.

Adoption of the CTF's recommendations for Fiscal Focus can and will ensure a Formative Future for all Ontarians.

(In French): Thank you for your attention and I look forward to your questions and discussion.