



TACKLING THE DEFICIT AND FOSTERING ECONOMIC GROWTH: SHORT-AND-LONG-TERM ACTIONS FOR FISCAL BALANCE AND ECONOMIC RENEWAL

Ontario Chamber of Commerce 2012 Pre-Budget Submission

January 31, 2012

To: The Honourable Dwight Duncan
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

cc: Mr. Yasir Naqvi, MPP, Parliamentary Assistant to the Minister of Finance
Mr. Tim Hudak, MPP, Leader of the Progressive Conservative Party of Ontario
Mr. Peter Shurman, MPP, Finance Critic, Progressive Conservative Party of Ontario
Ms. Andrea Horwath, MPP, Leader of the New Democratic Party of Ontario
Mr. Michael Prue, MPP, Finance Critic, New Democratic Party of Ontario
OCC membership

Ontario Chamber of Commerce
180 Dundas Street West, Suite 505
Toronto, Ontario M5G 1Z8
Tel: (416) 482-5222
Email: info@occ.on.ca
Web: www.occ.on.ca

Dear Minister Duncan:

The Ontario Chamber of Commerce (OCC) is a federation of 160 local chambers of commerce and boards of trade in the Province of Ontario, representing 60,000 businesses of all sizes, in all economic sectors and from every area of the province. The OCC's mandate is to advocate strong and effective policies on issues affecting its membership throughout Ontario's business community.

Ontario's economy performed relatively well in 2011, and while this year's job numbers are encouraging, looming economic storm clouds in the United States and Europe threaten our economic recovery.

Equally threatening to Ontario's recovery is the province's \$16 billion deficit and its mounting debt, which now totals \$252 billion. Ontario's growing debt and deficit have prompted a prominent international credit rating agency to warn the province that its credit rating will be downgraded should it fail to get its fiscal house in order.

As an organization with extensive interest in economic and business development, we urge the government to concentrate its efforts on returning to fiscal balance. The government's plan should be a measured one that is both fiscally responsible and does not hinder economic growth.

As such we are urging the province to embark on a process of short-term actions and long term planning designed to restore Ontario's place as Canada's economic engine.

As the voice of Ontario's businesses, our comments reflect our members' interest in provincial issues and we are pleased to have this opportunity to present our recommendations to you as part of the Ontario government's 2012 pre-budget consultations.

Sincerely,



Len Crispino
President & CEO

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SUMMARY OF RECOMMENDATIONS

Short-term recommendations to achieve fiscal balance and improve business competitiveness

- Fully implement Ontario's comprehensive tax package as announced in the 2009 Budget
- Implement a long-term public sector compensation restraint strategy that includes salaries, benefits and pensions, and extends to municipalities and the broader public sector
- Reform Ontario's labour arbitration system to take into account municipalities' ability to pay
- Promote value for money in municipal transfers by legislating Auditors General for municipalities with a population of over 100,000 and freezing transfers to municipalities that do not undertake comprehensive, meaningful actions to reduce or limit spending, obtain efficiencies or act on recommendations by an Auditor General
- Shift service delivery to non-government actors when it is effective and efficient to do so
- Continue to improve Ontario's regulatory regime by harmonizing federal and provincial regulations and by adopting co-regulation and self-regulation models

Long-term recommendations to sustain fiscal balance and promote economic growth

- Reform Ontario's health care system by allowing more privately run clinics to operate in Ontario, adjusting compensation models for nurses and others, and recovering the productivity gains brought about by technological advances
- Approve legislation that prescribes the reduction of WSIB benefits and employer premiums to ensure the future sustainability of the system
- Promote an export culture in Ontario by encouraging trade with emerging markets, ensuring that Ontario and Canada's export strategies are aligned and doing their part to ensure that the Detroit River International Crossing is completed
- Spur innovation and productivity by streamlining innovation supports and bridging the commercialization gap
- Promote top growth sectors by maximizing resource development and making strategic investments in infrastructure
- Enact regulations that ease the short-term shortfalls of defined-benefit pensions and continue to work with all stakeholders to ensure that Ontario's pension system remains viable

MEMBERS' OUTLOOK: A MIXED VIEW OF A FRAGILE RECOVERY

Ontario's economy rebounded modestly in 2011. The province created 121,000 net new jobs, bringing the unemployment rate down to 7.7 percent. Ontario's GDP meanwhile is expected to have grown by a very modest 1.8 percent in 2011, and is projected to grow by a further 1.8 percent this year. Both public and private GDP growth projections for Ontario point to continued slow economic growth for the next three years.

The sustained economic downturn in the United States continues to contribute to Ontario's sluggish recovery. The United States is Ontario's biggest trading partner and a significant market for Ontario manufacturers, and as such our economy's fortunes are largely tied to those of our neighbours to the south.

Ontario's business performance in 2011 mirrored that of the economy as a whole. According to the **OCC's Business Climate Survey**, Ontario's businesses generally performed similarly in 2011 and in 2010. See **Chart 1**.

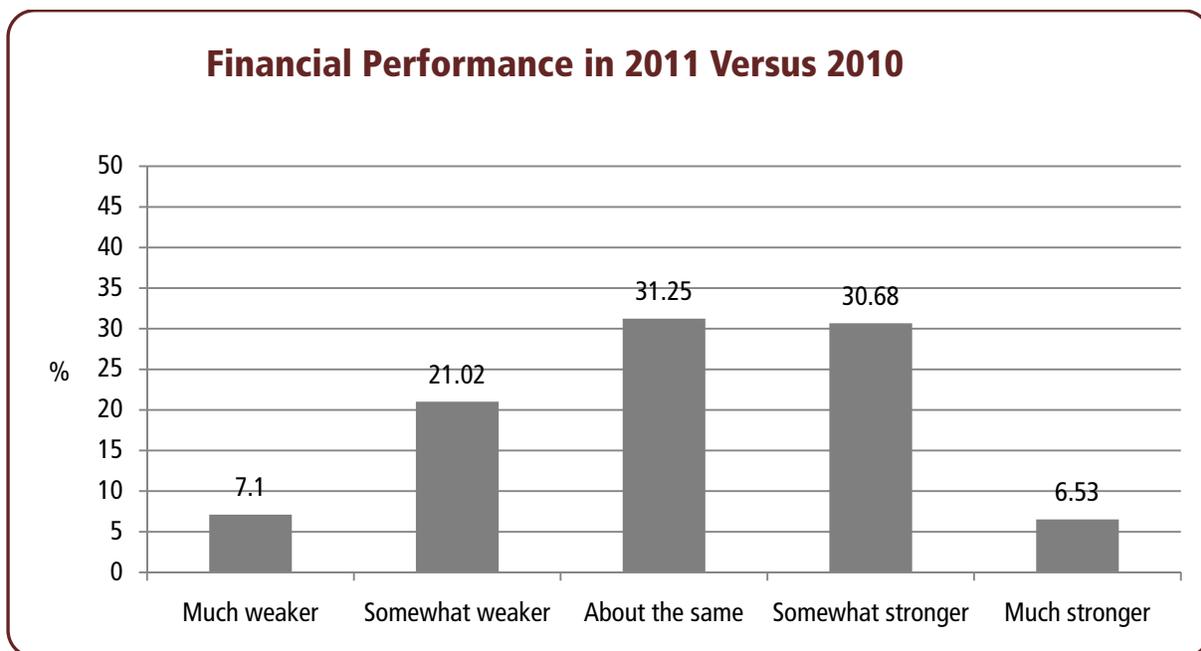


Chart 1: How would you assess the financial performance of your company throughout 2011 as compared to 2010?

Despite mixed financial performances in 2011, Ontario's businesses are generally optimistic about their company's performance in 2012. Half of survey respondents expect their companies to perform stronger or much stronger in 2012. See **Chart 2**.

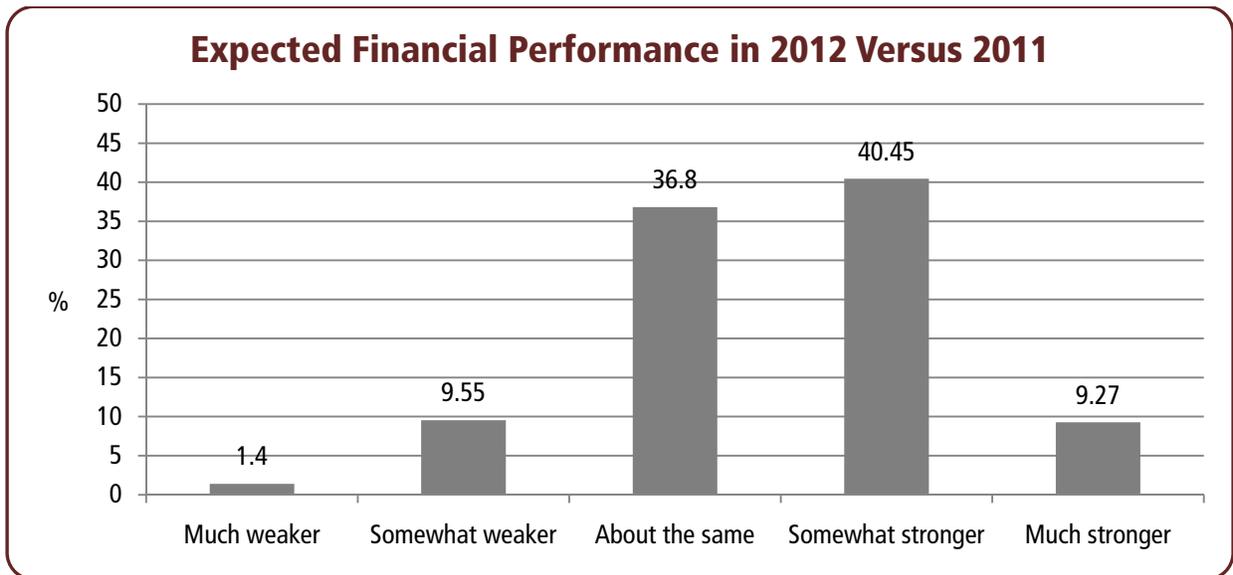


Chart 2: How do you expect your company to perform in 2012 relative to 2011?

While Ontario’s businesses feel good about the outlook for their companies, they are less certain about the Ontario economy’s overall outlook. Nearly a third of survey respondents expect the economy to weaken in 2012, while nearly half expect it to perform similarly to 2011. See **Chart 3**.

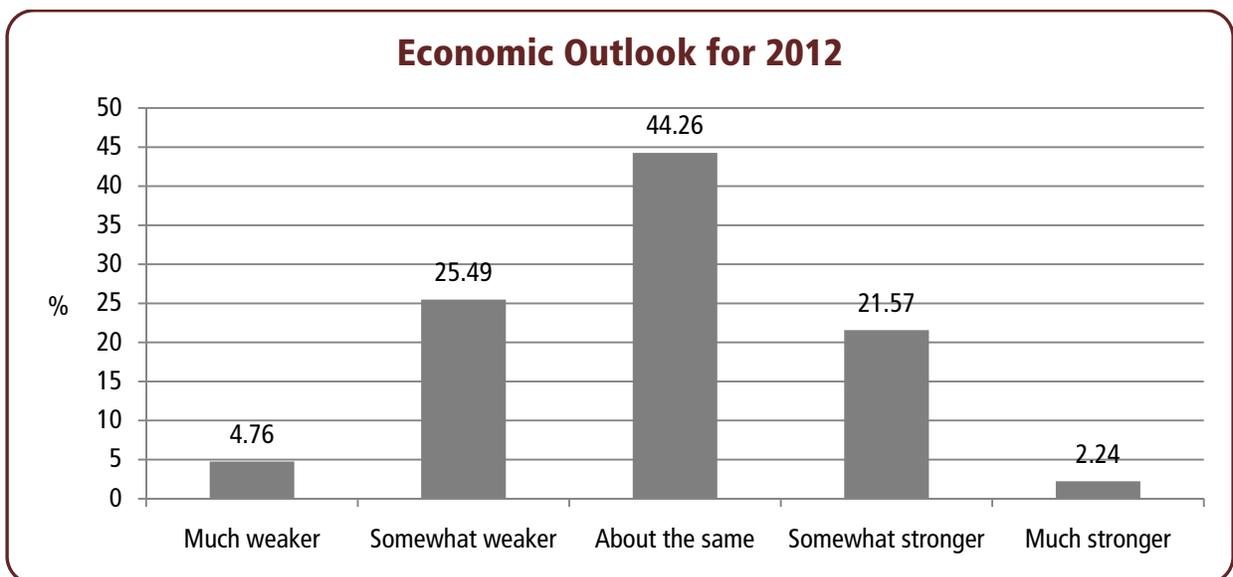


Chart 3: Based on your observations, and in a global context, how do you expect the Ontario economy to perform in 2012 relative to 2011?

Despite the relatively poor overall economic outlook, Ontario businesses plan to invest in their companies this year. Nearly half of survey respondents expect their companies to invest in professional development, while over a third expect their companies to invest in computers or telecommunications. Only 13 percent of companies have no investment plans for 2012. See **Chart 4**.

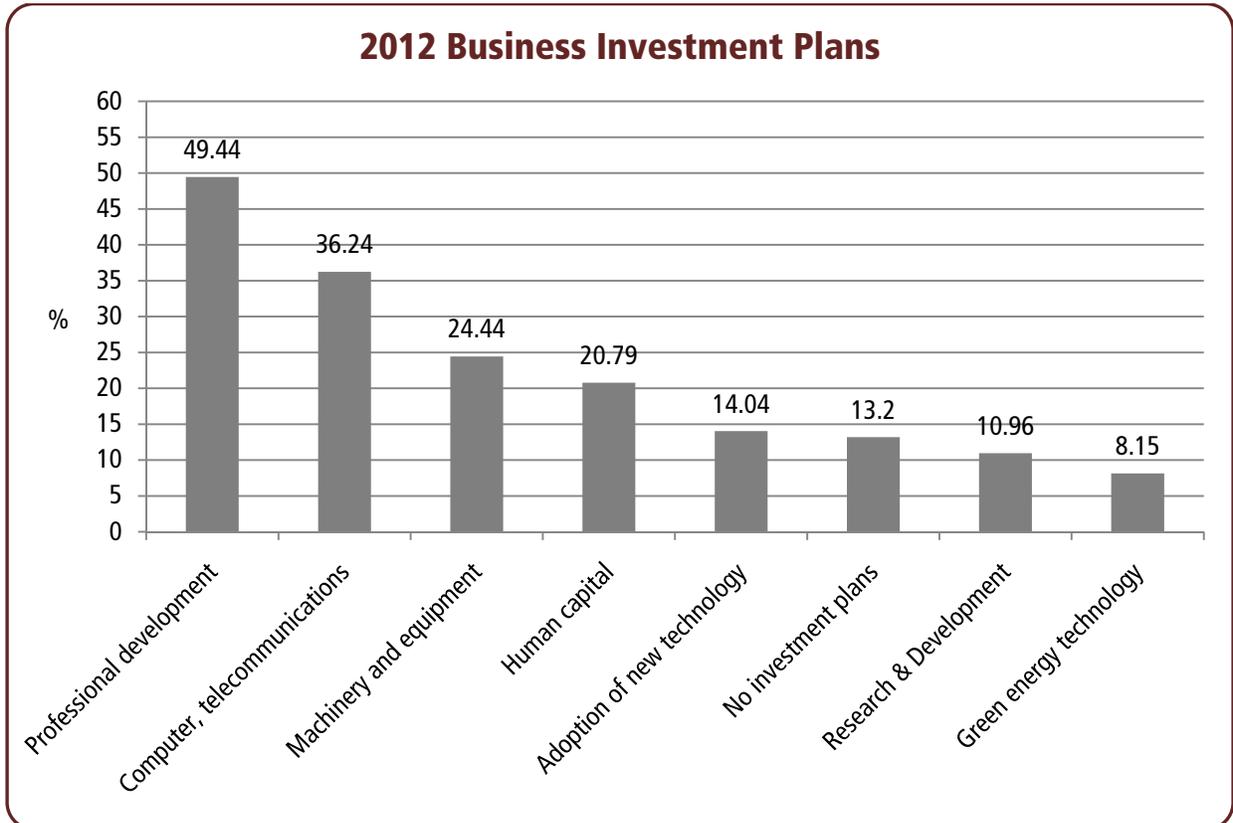


Chart 4: In which area or areas do you expect your company to invest during 2012? Please choose up to three (3) areas.

Ontario's businesses have outlined their top priorities for the 2012 budget. They include reducing the deficit, cutting red tape, and redirecting spending to priority areas like education and infrastructure. See **Chart 5**.

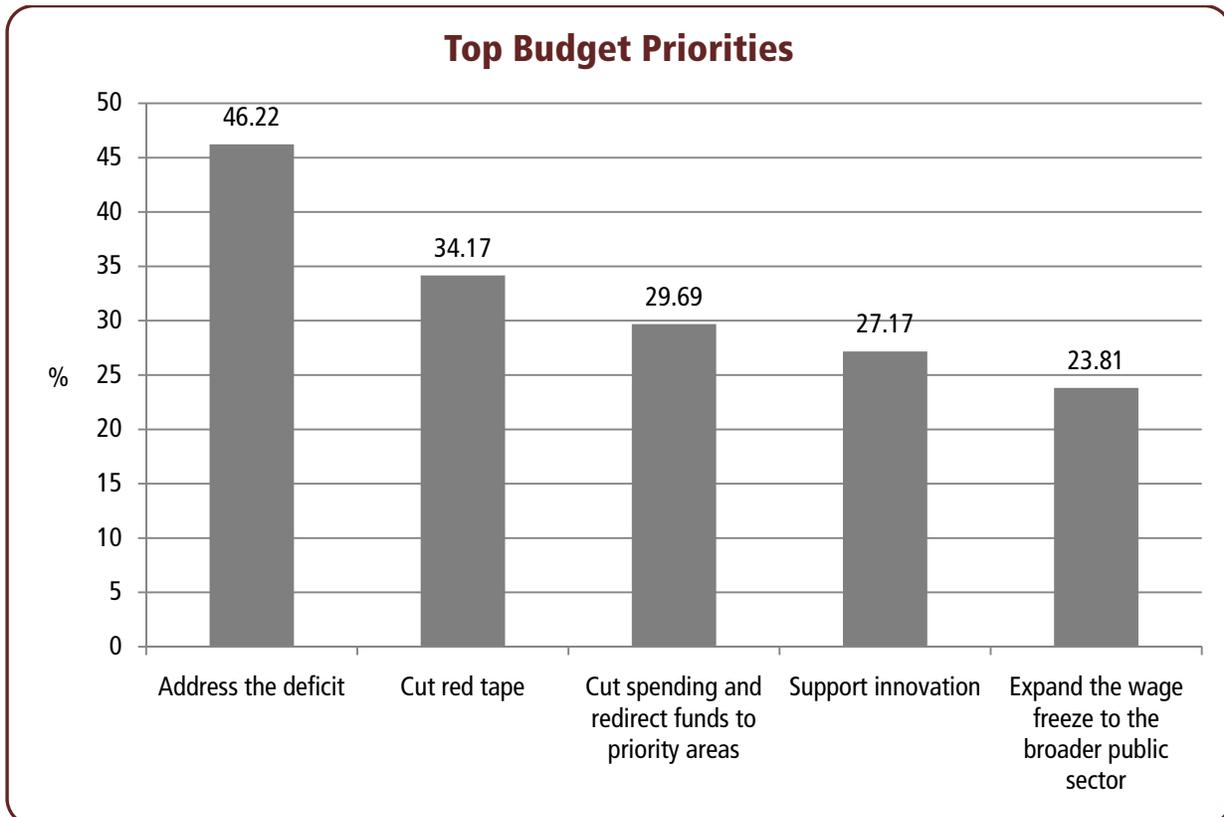


Chart 5: The Ontario government is projecting a \$16 billion deficit in 2011-2012 and is not predicting a balanced budget until 2017-2018. What should the government's top budgetary priorities be in 2012? Please choose up to three (3) areas.

2012 BUDGET RECOMMENDATIONS

Short-Term Recommendations to Achieve Fiscal Balance and Improve Business Competitiveness

Regaining fiscal flexibility in the coming years is important to ensuring Ontario's ability to stimulate job growth and weather future downturns in the global economy. As such, the OCC is increasingly concerned about Ontario's rising debt and deficit levels, and the impact on Ontario's businesses and taxpayers. The following section outlines short term actions that Ontario should pursue in order to eliminate the deficit and strengthen business competitiveness.

Move Ahead with Scheduled Tax Reforms

The scheduled CIT rate reduction is a fundamental part of Ontario's comprehensive tax reform package. That tax reform package has strengthened Ontario's competitiveness and is projected to create 591,000 jobs once fully implemented.

The planned reduction of the CIT rate is important to securing much needed Foreign Direct Investment (FDI) into Ontario. According to a joint study by Harvard University and the World Bank, on average, a tax rate decrease of one percentage point results in a 3.3 percent increase in FDI inflows.

Over the last number of years, the Ontario government, in consultation with Ontario's business community, has made tremendous strides in making Ontario a better place to invest by removing the burden on businesses through reforms to Ontario's tax system. We urge the provincial government to continue working together with business to create jobs in Ontario.

By adhering to its comprehensive tax reform package, the government sends a clear message of stability to Ontario's business community, who are looking to the provincial government for a stable policy regime and responsible fiscal and economic stewardship.

- **Recommendation: Fully implement Ontario's comprehensive tax reform package as announced in the 2009 Budget**

Tackle the Deficit

As it stands, the Ontario government spends roughly 50 cents of every taxpayer dollar on salaries and benefits for workers in the broader public sector. That represents roughly \$55 billion annually. Any serious plan to return to fiscal balance in the medium-term must address Ontario's labour costs.

Ontario's public sector wages have risen at a disproportionately higher rate than those in the private sector. And while the gap between public and private sector wage increases has narrowed recently, from 2007-2009, public sector wage increases outpaced those in the private sector by an average of

0.6 percent a year. The private sector has had to carefully manage its labour costs and is looking to the public sector to do the same.

The Ontario government's 2010 *Public Sector Compensation Restraint to Protect Public Services Act* outlined a two year wage freeze on non-unionized workers and a cap on compensation for unionized workers. While a good first step, the Act was narrow in its scope, as it failed to address municipal labour costs and salaries in the broader public sector, and left benefits and pensions untouched. Further, the Act expires in 2012, leaving Ontario without a long-term public sector compensation restraint strategy.

- **Recommendation: Implement a long-term public sector compensation restraint strategy that includes salaries, benefits and pensions, and extends to municipalities and the broader public sector**

The 2010 *Public Sector Compensation Restraint to Protect Public Services Act* also neglects to take on Ontario's broken labour arbitration system. Our current labour arbitration system fails to take into account employers' capacity to accommodate higher wages, something that places significant financial pressure on labour-cost laden public sector budgets.

In some Ontario municipalities, labour costs now consume more than 50 percent of operating budgets. The emergency services component of municipal labour costs is a key driver of this cost increase.

The dramatic rise in emergency service wages has been a result of successive collective bargaining agreements that have ratcheted up wages and benefits across the province.

As it stands, Ontario's labour arbitration process does not take into account the economic climate or municipalities' ability to pay. Ontario's labour arbitration system needs to change in order to take into consideration the unsustainable manner in which wages have skyrocketed over the past several years.

- **Recommendation: Reform Ontario's labour arbitration system to take into account municipalities' ability to pay**

In light of increasing municipal costs, the province has increased ongoing annual support to municipalities by 270 percent since 2003.

Despite the increase in municipal transfers, the Ontario government continues to receive additional funding requests from some local governments. Some of these demands have been prompted by municipalities that have avoided making the much needed but difficult decision to reduce spending and seek greater efficiencies within their budgets.

The OCC understands that Ontario municipalities are under increasing pressure to deliver added value for stretched taxpayer dollars. As such, municipalities should make the worthwhile investment in an Auditor General.

- **Recommendation: Promote value for money in municipal transfers by legislating Auditors General for municipalities with a population of over 100,000 and freezing transfers to municipalities that do not undertake comprehensive, meaningful actions to reduce or limit spending, obtain efficiencies or act on recommendations by an Auditor General**

Utilize Alternative Service Delivery

The private sector has successfully demonstrated that in some areas of service delivery, it can exceed standards set by government.

Ontario has already developed some beneficial partnerships for program delivery with not-for-profits. The OCC, for example, operates two provincially funded programs (the Export Market Access program and the Ontario Exporters Fund) designed to help small and medium sized enterprises access foreign markets.

More opportunities exist for private delivery of government programs, in the interests of both effective and efficient service provision.

For example, the Government of Ontario, through the Ministry of Economic Development and Innovation, currently provides business advisory services through twelve offices in Southern Ontario. The Government of Ontario could follow the lead of some European countries, and divest itself of responsibility for these types of business services and allow other entities, who possess the necessary expertise, to take responsibility for their delivery.

Opportunities for a transition to private service delivery also exist in the areas of skills training, regulation and health care.

The government should also consider selling off public assets to the private sector, but only in those instances where there is evidence that services could be delivered more effectively and efficiently.

- **Recommendation: Shift service delivery to non-government actors when it is effective and efficient to do so**

Modernize Ontario's Regulatory Framework

Ontario has made progress on transforming its regulatory regime into one that is more responsive to both public and business needs. The government has eliminated thousands of needless regulations over the last eight years thanks in part to the adoption of the HST and the introduction of the government's *Open for Business* initiative. We welcome the progress that has been made, however, there is much more work to be done on this front: businesses continue to identify the elimination of red tape as a top priority.

The government should immediately seek to harmonize legislation and regulation between provinces and the federal government to avoid duplication and overlap.

The government should also capitalize on private and third sector expertise by delegating responsibility for developing and implementing business regulations to grassroots networks of businesses and NGOs.

Finally, the government should allow companies that meet general performance criteria to monitor their own regulation/compliance without the burden of employing an external reporting mechanism.

- **Recommendation: Continue to improve Ontario's regulatory regime by harmonizing federal and provincial regulations and by adopting co-regulation and self-regulation models**

Longer-Term Recommendations to Sustain Fiscal Balance and Promote Economic Growth

Ontario's future prosperity will rely on its ability to seek out and capitalize on new areas of growth. The following section outlines longer-term actions that Ontario should pursue in order to maintain its competitive advantage over international competitors and foster sustained economic growth.

Create a Sustainable Health Care System in Ontario

Health care costs make up 46 percent of Ontario government spending and that percentage will increase to 80 percent by 2030 if current growth rates continue. Health spending is increasingly crowding out areas of spending that yield economic returns like education and infrastructure.

The government has committed to holding health spending to 3 percent a year; an ambitious target, and one that will require significant reforms to the health care system in order to be attained.

There are a variety of ways that the government can control rising health costs within a publically-funded, universally accessible health care system:

- Medical procedures should be performed on the basis of quality and efficiency. For example, CT scans and MRI services could be delivered within specialized, privately-run clinics. Allowing for specialization within the health care system increases productivity and efficiency and delivers cost-savings to government.
- Ontario's current compensation model for primary care provides physicians, who are paid on a fee-for-service basis, with financial incentives for performing a comprehensive array of medical activities. The government should develop a similar compensation model for nurses and other primary care providers that will put their skills to the best possible use. This type of compensation model encourages greater productivity and fosters innovation.
- Technological costs in the healthcare sector tend to decline over time. Whether in diagnostic imaging, orthopaedics or cataract surgery, per unit costs for procedures are declining rapidly. The government should recover the productivity gains that are emerging from technological advances in the health care sector.
- **Recommendation: Reform Ontario's health care system by allowing more privately run clinics to operate in Ontario, adjusting compensation models for nurses and others, and recovering the productivity gains brought about by technological advances**

Reform the Workplace Safety and Insurance Board (WSIB)

The Workplace Safety and Insurance Board (WSIB) has fallen out of touch with its mandate, industry best practices and principles of good governance. It has become a vast bureaucracy that no longer serves the best interests of the government, taxpayers, businesses and injured workers.

The WSIB has an unfunded liability of \$12.2 billion and is having significant challenges fulfilling its obligations to injured workers. Compounding the problem are the rising costs associated with an increase in drug prescriptions for pain relief.

Meanwhile, business premiums have risen, leaving employers hurting. Over two thirds of our members report that rising WSIB premiums negatively affect their company's competitiveness.

In order to live up to its mandate and foster a workplace insurance system that is fair to both employees and employers, the WSIB must refocus its mandate and address the growing problem of its unfunded liability.

- **Recommendation: Approve legislation that prescribes the reduction of WSIB benefits and employer premiums to ensure the future sustainability of the system**

Diversify Trade and Promote an Export Culture

Cross-border trade with the United States is, and will always be, important for Ontario. Benefits from this relationship need to be maximized. But Ontario must also ensure that it is prepared to take advantage of diverse opportunities across the globe, now more than ever given the economic uncertainty in the United States and Europe.

The government should do more to expose Ontario businesses to emerging markets. In that vein, the OCC applauds the government's intention to double the number of Ontario trade missions abroad. The provincial government should go a step further and work with the federal government to facilitate the creation and expansion of trade partnerships to capture new markets for Ontario's evolving product mix.

The government should also streamline supports for trade to encourage export growth. As such, key federal and provincial export facilitating organizations must be aligned to a clearly-articulated provincial export strategy.

Finally, the government should continue working to ensure that the Detroit River International Crossing (DRIC) is approved and built in order to accommodate the expected doubling of cross-border trade flows over the next 30 years.

- **Recommendation: Promote an export culture in Ontario by encouraging trade with emerging markets, ensuring that Ontario and Canada's export strategies are aligned and doing their part to ensure that the Detroit River International Crossing is completed**

Increase Productivity & Spur Innovation

Ontario's innovation and productivity performance are stagnant. This is perilous, given that Ontario's economic growth increasingly relies on our ability to be innovative and productive.

Businesses recognize that they must do their part to close the productivity gap. But they also require strategic government supports to aid in that pursuit.

Simplifying the innovation policy landscape is one way the government can help. The current innovation policy landscape is cluttered with overlapping programs, confusing eligibility requirements, and time consuming administrative hurdles. The provincial and federal governments should streamline their support programs.

Businesses also need help turning their research into marketable products. Although Ontario's universities are producing world leading research, the province's businesses are struggling to capitalize on this research. The commercialization gap needs filling with government supports that link business to academia.

- **Recommendation: Spur innovation and productivity by streamlining innovation supports and bridging the commercialization gap**

Transform Ontario's Economy into a 21st Century Powerhouse

As Ontario's economy transitions into the 21st century, new growth sectors are replacing areas of traditional economic strength. The provincial government needs to support this transition through effective policy.

The Ring of Fire is Ontario's most promising mining prospect in a century. An economic opportunity of this size requires a concerted and collaborative effort from the most senior levels of government ministries. In this way, Ontario can ensure that it maximizes the economic benefits of the Ring of Fire.

The government should also ensure its policies and public investment promote promising sectors where Ontario could have a competitive advantage (e.g. water and environmental technology, energy technology, healthcare and health service exports, information and communications, financial services, and biotechnology).

Finally, the government must continue to invest in transportation and transit infrastructure. While the price of these investments is high, the government should use alternative financing methods (such as private consortia and bond issues) to mitigate costs. Unconventional sources of funds must be pursued in order to complete large scale infrastructure projects like Metrolinx's *Big Move* plan, which provide Ontario with a strong transportation network that enhances our global competitiveness.

- **Recommendation: Promote top growth sectors by maximizing resource development and making strategic investments in infrastructure**

Reform Ontario's Pension System

Ontario's retirement income system is coming under increasing pressure as the population ages and more and more workers retire. Compounding the problem are rock bottom interest rates (which significantly increase the present value of liabilities) and the poor performance of financial markets.

Under these economic conditions, pension plans, particularly those of the defined-benefit variety, are facing substantial increases in required funding. This has forced businesses to divert cash away from much needed operational and capital investments and is hurting their ability to compete in the global market place.

The government should move as quickly as possible to enact measures that will temporarily ease the short-term pension funding pressure that is hurting Ontario's employers and employees. This can be achieved by enabling immediate letter of credit financing for some portion of a solvency deficit, and by permitting a deferral of up to one year of the start of new solvency special payment amortization schedules. The government has already announced its intention to implement both of these measures, but has yet to enact corresponding regulations.

Further, in their evaluation of pension liabilities, the government should allow for the averaging of interest rates over a longer period and allow plan sponsors more time to fully pay for any deficiencies. Allowing plan sponsors to consolidate previous payment schedules and re-spread them over 10 years should also be considered.

- **Recommendation: Enact regulations that ease the short-term shortfalls of defined-benefit pensions and continue to work with all stakeholders to ensure that Ontario's pension system remains viable**

CONCLUSION

While the government cannot control the global forces that impact the province, it does, in collaboration with business, labour, academia, the not-for-profit sector, and the Aboriginal community, have a responsibility to identify challenges, make adjustments and lay the groundwork for future prosperity.

Ontario's principal challenge is clear: it must get a handle on the mounting public debt and deficit that weaken the province's fiscal flexibility and threaten to shake investors' confidence.

Ontario needs to reorient itself onto a path of fiscal sustainability, and can do so by bringing public salaries in line with those in the private sector, reforming Ontario's health care system and fostering a welcoming business climate in the province in order to encourage investment and create jobs.

At the same time, the global economic downturn has accelerated Ontario's need to identify a new economic path for the 21st century. As we enter an era of sustained, sluggish growth, we will increasingly come to rely on exports and productivity gains to spur economic growth. Ontario must ensure that it has the regulatory structure in place that facilitates our transition into a productive and highly diversified global exporter.

An extraordinary economic future is available to Ontario if we address our challenges head on and take corrective actions now. More than ever, Ontarians must work together so that we can ensure future prosperity for generations to come.