

ANNEX III

Role for the Federal Government

All Canadians deserve to be treated fairly. Ontarians, however, are not being treated like Canadians living in other provinces. Unemployed Ontario workers deserve the same support that unemployed workers in other provinces receive. Ontarians ought to have the same level of per-person health care funding now provided to Canadians elsewhere in the country. And Ontario should receive its fair share of federal investment in Canada’s infrastructure.

Ontario has the wealth it needs, but needs to keep more of its own money during challenging economic times.

CANADA’S SYSTEM OF TRANSFERS IS OUTDATED

Ontario’s Fiscal Gap

Each year, under the current federal system of programs and transfers, the federal government collects more than \$20 billion from Ontario taxpayers to deliver programs and services elsewhere in Canada. These funds — \$1,815 per Ontarian — are redistributed from Ontario taxpayers to other regions of the country, despite the fact that some of these regions are as prosperous as Ontario, if not more so.

In September of this year, the TD Bank Financial Group released a report that estimated the portion of Ontario’s fiscal gap for 2005 that resulted from discriminatory federal programs to be \$11.8 billion. The report noted that the total fiscal gap amounts to four per cent of Ontario’s gross domestic product (GDP).

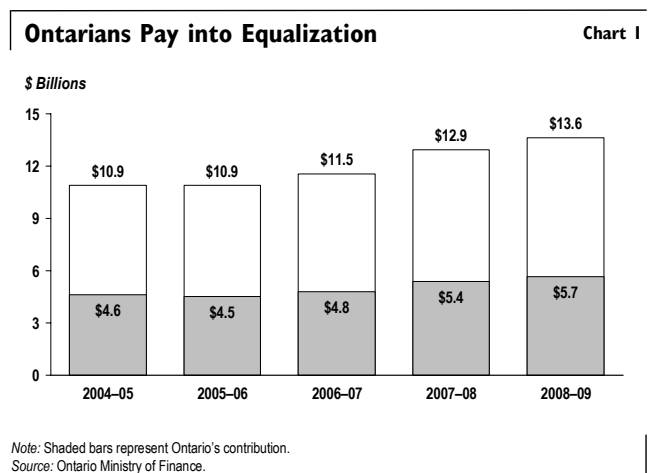
If Ontario was able to keep more of its own money, it could further strengthen the economy and enhance programs and services for its citizens.

The financial burden that Ontario carries within Canada must be reduced. In recent years, under two different prime ministers, Ontario has made some progress. The Canada Social Transfer is now provided on an equal per-capita basis. And in 2005, Ontario negotiated a Canada–Ontario Immigration Agreement (COIA) for \$920 million in new investments for settlement and language training services over five years.

Ontario welcomes these changes but, overall, Ontarians continue to be treated unfairly.

Equalization

Over the last 50 years, Ontarians have contributed over \$100 billion in equalization payments to other Canadian provinces — almost half of all funds contributed to the program in that time.



In 2008–09 alone, Ontario taxpayers will contribute \$5.7 billion to the equalization program. Unlike the other nine provinces, Ontario has always been a contributor to the equalization program, but never a recipient.

Ontarians contributed to equalization because it was the fair and right thing to do. But when Ontario was eligible to receive equalization in the late 1970s, the federal government changed the rules of the program to exclude it.

Now, some economists believe that under the new federal formula, Ontario may once again soon qualify to receive equalization funds. A key factor contributing to this development is the hardship that the North American manufacturing sector is enduring. In contrast, the economies of Canada’s oil-producing provinces are growing faster than Ontario’s.

If the Ontario Government received equalization, more of the tax dollars that the federal government extracts from Ontarians would support investments and public services needed in their own province. If Ontario does qualify, it expects to receive its share of equalization from the federal government.

Employment Insurance

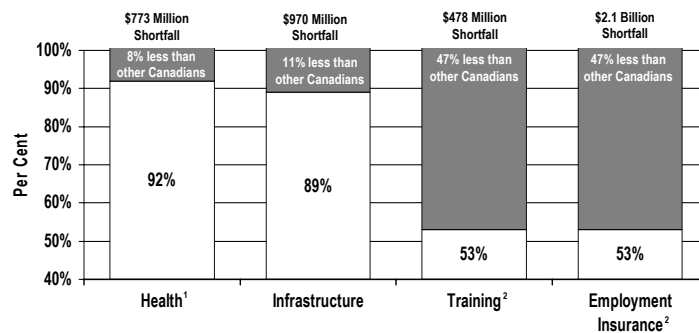
In difficult times, it is especially important to have a strong system of support for laid-off workers. Canada’s Employment Insurance (EI) system does not meet the needs of Ontario’s workers. Unemployed persons in Ontario, compared with those in other provinces, are far less likely to be eligible for EI regular benefits. As a result, average EI regular benefits in 2007 per unemployed person were about \$5,120 in Ontario and \$9,750 in other provinces — a difference of over \$4,600 per unemployed person, or \$2.1 billion in total.

The labour market support and training components of EI also fail to meet Ontarians’ needs. Although Ontario had 42 per cent of Canada’s unemployed population in 2007, Ontarians received only 27 per cent of EI funding for labour market support and training in 2007–08.

Health Care

Through the Canada Health Transfer (CHT), Ontario receives \$773 million less than its fair share, compared to other provinces, in per-person cash funding for its health care system. Although the federal government recognized this

Ontarians Do Not Receive Fair Treatment Chart 2
Ontario's Per-Capita Funding Compared to the Rest of Canada



Notes: 1. Rest of Canada excludes Ontario and Alberta.
 2. Rest of Canada includes all provinces outside Ontario. EI shortfall compares average total regular benefits per unemployed person.
 Sources: Ontario Ministry of Finance and Statistics Canada.

unfairness in its 2007 budget, Ottawa does not intend to fix the CHT until 2014. Ontario believes it should be fixed immediately.

Regional Economic Development

The federal government provides regional economic development support to Atlantic Canada, Quebec, the West and Northern Ontario. In 2008–09, the federal government will spend \$934 million on regional development in Canada, of which only \$41 million — or four per cent — is provided to northern and rural Ontario through FedNor.

Despite Ontario’s importance as the heart of Canada’s manufacturing sector, no economic development program exists for southern Ontario. If Ontario received its fair share of federal regional development funding, Ontarians would benefit from an additional \$534 million in 2008–09.

Infrastructure

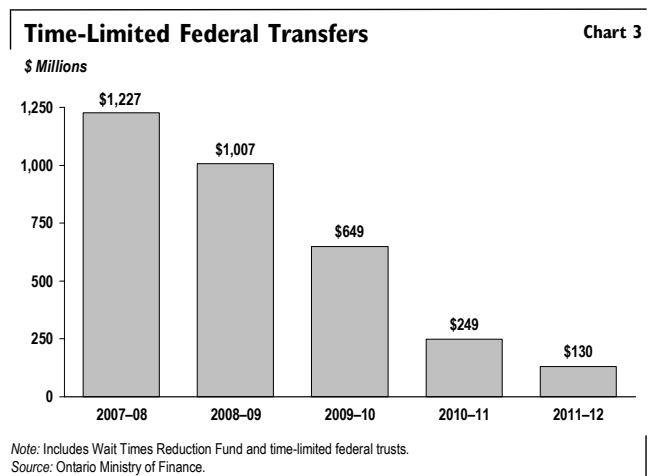
Building infrastructure is crucial to Ontario’s future: it creates jobs in the short term and builds a stronger economy in the long term.

The Ontario Government has made significant investments in the province’s infrastructure, but the Province is not receiving its fair share of federal support in this area. Ontario is still awaiting a \$6 billion federal contribution to Metrolinx’s regional transportation plan for the Greater Toronto Area and Hamilton to complement the Province’s \$11.5 billion commitment. If Ontario were to receive its fair share of the federal government’s seven-year Building Canada infrastructure plan on a per-capita basis, it would receive an additional \$970 million.

Time-Limited Transfers

The federal government has committed time-limited funding to support a variety of provincial services, including wait times reduction for health care, postsecondary education, transit and the environment. Federal support from these time-limited transfers will decrease from 2008–09 levels by over \$350 million in 2009–10 and by over \$750 million in 2010–11.

Ontario’s ongoing commitments in these areas will not stop when the federal transfers end.



NEED FOR A FEDERAL PARTNER

The Province is doing what it must to strengthen Ontario's economy and create new jobs. But it could do much more, much faster, if it could keep more of Ontarians' money in the province — and if it had a true partner in the federal government.

Ontario therefore calls on the federal government to:

- recommit to a principled allocation formula for all federal transfers to reduce the drain on Ontario
- provide Ontario with its fair share of federal funding, including:
 - its full share of funding payable under the equalization program, should Ontario qualify
 - equal per-capita health care funding immediately through the Canada Health Transfer
 - a fair share of federal infrastructure funding
 - the continuation of time-limited federal funding
- modernize the EI program to better meet the needs of Ontario workers by providing the same support and job training that workers receive in other regions of Canada
- invest in Ontario's economic development, as it does everywhere else in the country.

Ontario needs a true partner in the federal government that will work with it to make the province stronger than ever. Building a stronger Ontario means a stronger Canada.

Ontario invites the federal government to engage in a substantive discussion of these fairness issues, with the mutual goals of strengthening the Ontario economy and building a more prosperous Canada.