

SECTION F NEED FOR A STRONG FEDERAL PARTNER TO SUPPORT ONTARIO WORKERS AND INDUSTRIES

Overview

The Ontario Government has been working with the federal government to help Ontario workers and industries take advantage of economic opportunities while meeting the challenges of the global marketplace.

Ontario has made significant progress with the federal government in concluding a tax collection agreement to provide the business community with the benefits of a single corporate tax administration. Under the single tax administration, the Canada Revenue Agency will collect and administer Ontario corporate taxes. Federal administration will save Ontario businesses up to \$100 million each year in compliance costs and an additional \$90 million a year in Ontario Corporate Income Tax.

In its 2007 budget, the federal government committed \$500 million annually from 2008–09 to 2013–14 for Labour Market Agreements (LMAs) to be signed with provinces and territories. Ontario has recently signed an LMA with the federal government that will provide the Province with \$195 million per year. Funding from this agreement will contribute to new and enhanced programs under the Skills to Jobs Action Plan announced in this Budget, as well as Employment Ontario.

In its 2008 budget, the federal government provided additional funding to Ontario to support provincial priorities, including the Community Development Trust to support communities in transition and the Public Transit Capital Trust to invest in public transit projects.

Ontario and the federal government should continue building on this progress and commit to addressing current and future economic challenges facing the Province.

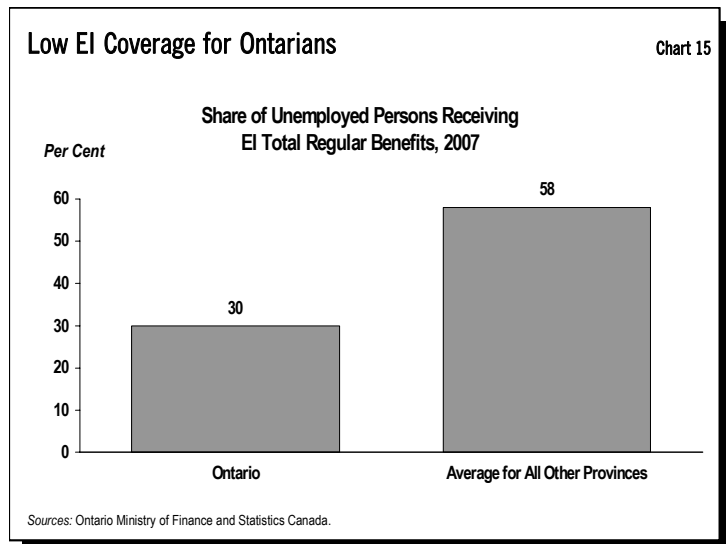
Ontario will continue pressing the federal government to:

- help Ontario workers, who are disadvantaged by the current design of the Employment Insurance (EI) program
- help Ontario manufacturers facing the multiple challenges of a slowing U.S. economy, high oil prices, a strong Canadian dollar and rising competition from rapidly emerging economies
- help Ontario municipalities by providing more long-term sustainable funding and providing additional financial support for critical investments in infrastructure and public transit
- provide a fair share of federal funding to support the delivery of quality public services important to Ontarians.

Employment Insurance Unfair to Ontarians

Ontario's unemployed workers continue to be disadvantaged by the design of the EI program. The program is especially ineffective in meeting the earnings-replacement needs of laid-off workers in manufacturing and other sectors that are currently undergoing transition.

Employment Insurance total regular benefits¹ per unemployed person in Ontario are the lowest of any province. Only 30 per cent of unemployed persons in the province received EI total regular benefits in 2007, compared with an average of 58 per cent in other provinces. Average total regular benefits per unemployed person in 2007 were about \$5,120 in Ontario and \$9,750 in other provinces — a difference of approximately \$2.1 billion in total.



Ontario's workers and employers contributed nearly 40 per cent of EI premiums, but received only 27 per cent of total regular benefits in 2007. Ineffective management of the EI Account has led to a cumulative EI surplus of \$54 billion in 2006–07, which is largely due to the excess contributions of Ontarians.

In its 2008 budget, the federal government announced that it will create a new, independent Crown corporation to manage the EI Account. The EI Account will be funded with a reserve of \$2 billion, which is insignificant in comparison to the \$54 billion accumulated surplus that previously accrued to the federal government.

¹ Employment Insurance total regular benefits include regular, training, job creation and self-employment assistance benefits provided under the EI income benefit program (EI Part I). EI regular benefits provide temporary earnings replacement to individuals who lose their jobs through no fault of their own (e.g., due to shortage of work, or seasonal or mass layoffs) and who are available for and able to work, but cannot find employment.

Employment Insurance Part II, the training and labour-market supports component of the EI program, also fails to meet the needs of unemployed workers in Ontario. Ontarians account for 42 per cent of Canada's unemployed population, but receive only 27 per cent of the national funding allocation for EI Part II. In 2007–08, the federal allocation for training through the EI program was only \$1,177 per unemployed person in Ontario, compared with \$2,241 per unemployed person in the rest of Canada. If the federal government had made available \$2,241 of training support per unemployed person in Ontario, then unemployed Ontarians would have received \$478 million more in training and labour-market supports.

These shortcomings of EI Parts I and II present significant obstacles to attaining the Province's goals of increased economic growth, competitiveness and prosperity. The design of the EI program is also inconsistent with the principles of the federal government's long-term economic plan to improve prosperity in Canada.

Additional Supports Needed for Ontario Workers

The federal government should also provide targeted resources for training and other employment supports that supplement the EI program.

The federal government is to provide Ontario with \$119 million annually for each of three years through the Community Development Trust. Ontario will use these funds for programs to support improved productivity and competitiveness, technology development, and training in agriculture, forestry and manufacturing (including the auto-parts sector). Initiatives will include new skills training centres to provide up-to-date training for Ontario's unemployed workers who require skills upgrading. However, the federal contribution to these initiatives should be increased and extended beyond three years.

While federal funding under the LMA addresses in part Ontario's long-standing concerns about inequitable treatment, it does not eliminate the historic underfunding of labour-market training in Ontario through EI Part II and the related Labour Market Development Agreement (LMDA).

The federal government should also significantly enhance the Working Income Tax Benefit (WITB) by increasing the amount and income threshold and reducing the phase-out rate to provide more assistance to working individuals and families.

Supporting Ontario Manufacturers

The manufacturing sector is important to Ontario's — and indeed North America's — economy. However, employment in the sector is falling across the continent.

For its part, the Ontario Government is taking significant and immediate steps within its means to support manufacturers (see Chapter III: *Tax Support for Families and Business* for more information). The federal government's efforts to date — reducing Corporate Income Tax rates, extending an accelerated capital cost allowance for manufacturing and processing (M&P) machinery and equipment investments made before 2012, and establishing the Community Development Trust — will help. However, the federal government must work in partnership. Both Ontario's general corporate tax rate of 14 per cent and the 12 per cent rate for manufacturers are lower today than the 15 per cent corporate tax rate that the federal government will achieve once its recently announced Corporate Income Tax reductions are fully implemented in 2012. Furthermore, the five-year, \$250 million Automotive Innovation Fund announced in the 2008 federal budget does not recognize the magnitude of Ontario's automotive sector, which contributed \$24.4 billion in gross domestic product (GDP) in 2006.

Ontario is looking to Ottawa to match the strategic investments the Province is making and to undertake tax measures to support business investment:

- Extending the 50 per cent straight-line capital cost allowance for M&P machinery and equipment investments made before 2014. A 2004 federal Department of Finance study concluded that increasing capital cost allowances ranks ahead of reducing sales tax on capital goods and is many times more effective than Corporate Income Tax rate cuts in supporting business investment. The Province is calling on the federal government to extend this more valuable writeoff to 2014.
- Extending the federal 10 per cent Atlantic Investment Tax Credit to all manufacturing activity across Canada to encourage new investment and to help level the playing field for businesses operating in Canada.
- Matching Ontario's proposed 10-year corporate income tax exemption for the commercialization of intellectual property developed by Canadian universities, colleges or research institutes. This would support research and innovation.

As stated earlier, Ontario is working with the federal government to conclude a corporate tax collection agreement. However, in discussions to finalize the Agreement, the federal government has proposed a schedule for federal payments to Ontario that would cost the Province \$80 million a year on average in higher debt interest charges. A fair payment schedule for Ontario would also apply to the other provinces that participate in a corporate tax collection agreement with the federal government and would provide these provinces with a fiscal benefit totalling about \$20 million a year.

Supporting Ontario's Infrastructure

The federal government must partner with Ontario to invest in infrastructure projects that support economic growth in its communities, such as MoveOntario2020, the Windsor border, the Ontario–Quebec Continental Gateway and Trade Corridor, and infrastructure in rural and northern Ontario.

Ontario is addressing the Province's infrastructure needs and is committed to a long-term infrastructure plan (see Section A: *A Stronger Ontario: Building Skills and Creating Jobs* and Section B: *Stronger Communities: Investing in Municipal Infrastructure and Communities*). The proposed Investing in Ontario Act would ensure that surplus funds would be used to help municipalities address their infrastructure priorities and reduce Provincial debt, rather than directing better-than-expected surpluses to debt repayment alone.

Unfortunately, there has been a shortfall in federal funding for Ontario's physical infrastructure needs. Ontario's \$3.1 billion share over seven years of the federal Building Canada Fund for infrastructure, announced in the 2007 federal budget, is not enough to meet its current infrastructure needs. The federal government's allocation of the Building Canada Plan among the provinces shortchanges Ontario by \$970 million.

The Province will work with the federal government towards positive fiscal arrangements to help address Ontario's infrastructure deficit. As a starting point, the government will seek a fair share of all federal funding programs. The government will also seek an understanding with the federal government on the necessity of a high level of flexibility in future federal cost-share arrangements to accommodate fiscal pressures faced by the Province and some Ontario municipalities.

Ontario is also concerned about delays in federal contributions to infrastructure projects. One example is the delay in federal funding of the Toronto–York subway extension. Despite the federal commitment of \$697 million in March 2007, no federal funds have flowed to the project. The federal government has also been slow to commit to the MoveOntario 2020 initiative. The federal government has been asked to participate by paying at least 35 per cent of construction costs over the life of the project, for a total of \$6 billion. Ontario has already committed \$11.5 billion.

The 2008 federal budget announced a Public Transit Capital Trust, which will provide Ontario with \$97 million each year for two years. This trust will be used in part to invest in the MoveOntario 2020 initiative to enhance GO train service east of Oshawa.

The Province continues to call on the federal government to do its part for Ontario's municipalities by providing them with \$1.9 billion in additional annual funding for infrastructure and public transit.

A Fair Share of Federal Funding

No provincial government can support a properly funded health system alone. The federal government plays a crucial role in funding health care costs.

The 2007 federal budget confirmed that the Canada Health Transfer (CHT) will not be placed on an equal per-capita cash basis until 2014. This delay in implementation will cost Ontarians \$773 million in 2008–09 alone.

Accordingly, Ontario calls on the federal government to put the CHT on an equal per-capita basis immediately.

With the financial support of the federal government, Ontario has committed to reducing wait times for access to health care for key services. In September 2004, the federal government established the Wait Times Reduction Fund to help provinces and territories in their diverse strategies to reduce wait times. This federal funding, however, will fall dramatically over the next few years, while the Provincial commitment to this initiative will continue. In 2007–08, Ontario received \$468 million in federal funding through the Wait Times Reduction Fund, but will receive less than \$235 million in 2008–09 and less than \$98 million in 2009–10.

Like the Wait Times Reduction Fund, the federal government committed time-limited funding to several other Provincial priorities, including postsecondary education infrastructure, affordable housing and the environment. The Province's ongoing commitments in these areas will not end when the federal transfers do.

Accordingly, for these projects to achieve long-term success, the federal government must maintain current funding levels and extend funding to meet Ontario's ongoing requirements. Ontario is confident that the federal government will maintain its commitments in these areas and will extend existing programs or replace them with new ones that provide ongoing funding.

Similarly, while the federal government has allocated \$31 million for each of five years for Ontario through the Police Officers Recruitment Fund, this funding is time limited and enough to pay only a fraction of the cost of Ontario's fair share of the 2,500 officers committed nationally. Since 2003, the Ontario Government has hired or financially supported the hiring of more than 1,200 police officers.

