

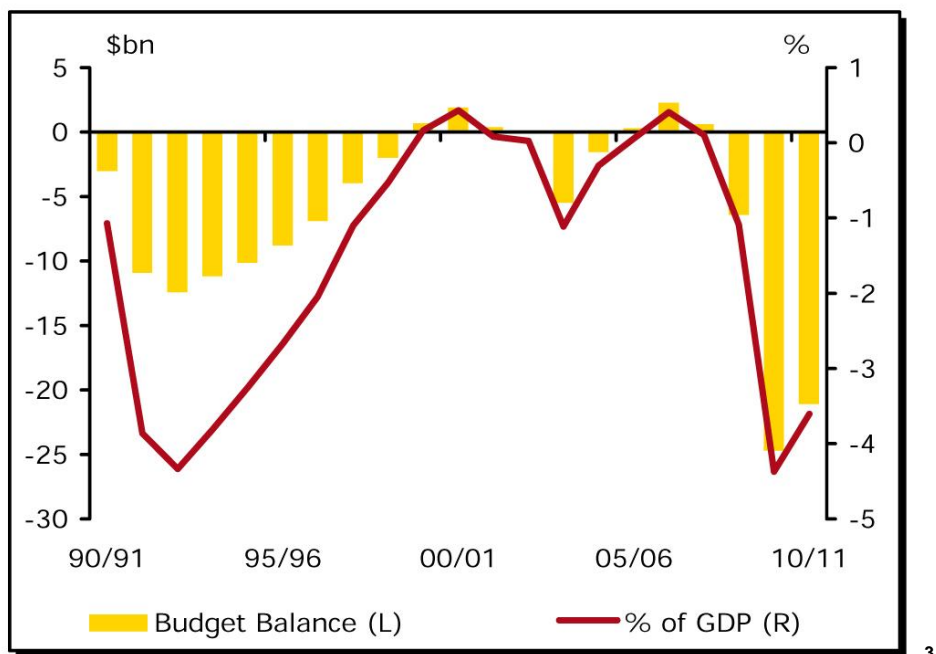
The Canadian economy fared better than most during the recent recession. However, within our borders, Ontario continues to lag far behind other provinces, solidifying its position as a have-not province and confirming the McGuinty Government's place as "Canada's Worst Government".¹ Worse still, economists across the country predict that Ontario will continue to trail the nation in economic recovery.²

"For Ontario, 2009 was a year to forget."
 ~ CIBC World Markets Inc., *Economic Insights*, January 28, 2010

On October 22, 2009, the McGuinty Government announced its record-shattering \$24.7-billion deficit, larger than the deficits of every other provincial and territorial government combined. Every hour, twenty-four hours a day, the McGuinty Government spends \$2.8 million more than it receives in revenue. At this current rate of spending, Dalton McGuinty is on course to double Ontario's debt by 2012-13.

Since Dalton McGuinty came to office, Ontario's debt has grown by \$65 billion or 45%, with government spending up 65%. Meanwhile, over the same period, Ontario's economy has only grown by a mere 5.7%. As a result, on a per household basis, Dalton McGuinty has increased Ontario's debt by \$13,500 for every family in Ontario.

The McGuinty Government's astonishing \$24.7-billion deficit is a record by any measure



When it comes to private-sector jobs, under Dalton McGuinty Ontario has the second worst private-sector job creation record in Canada. Despite spending more than \$32 billion on stimulus and promising to create more than 1 million new jobs, the McGuinty Government in reality presided over a net loss of 141,600 net jobs in 2009, and Ontario's unemployment rate remains stuck above the national average.

¹ Terence Corcoran, "Canada's Worst Government," *Financial Post* (October 17, 2009)
² Warren Jestin, Scotiabank, expert testimony, 2010 Pre-budget consultations (February 1, 2010)
³ CIBC Economics, "Provincial Budget Briefs" (October 22, 2009)

While Dalton McGuinty has presided over a staggering expansion of the public sector, expanding eight times as fast as private-sector jobs, Ontario's manufacturing job losses topped the nation, lopping more than 1.5% off total employment.⁴ 279,000 net manufacturing jobs have been lost under McGuinty's watch – more than one out of every four manufacturing workers left unemployed.

“Our members remain concerned about the regulatory burden that exists in Ontario. In fact, more than half believe their burden remains the same as it was four years ago and the other half believe it's worse. So it's either worse or it hasn't improved.”

~ Merv Hillier, President and CEO, Certified Management Accountants of Ontario, February 3, 2010

Private-sector growth has lagged, in large part, due to Dalton McGuinty's excessive red tape and regulatory burden. Red tape costs money and kills jobs. The Canadian Federation of Independent Businesses' "Regulatory Accountability Progress Report" gives 3 thumbs down for Ontario for no publicly reported measure for red tape, no current measurement of red tape, and no permanent (legislated) commitment to report on red tape. The CFIB estimates that the red-tape burden in Ontario is costing businesses \$11 billion per year, the most of any province in Canada.

For Ontario to resume its place as the economic engine of Confederation, the Progressive Conservative Caucus presents the following recommendations focused on three priority areas: deficit and debt reduction, tax relief targeted at job creation, and an aggressive red-tape reduction strategy.

Deficit and Debt Reduction

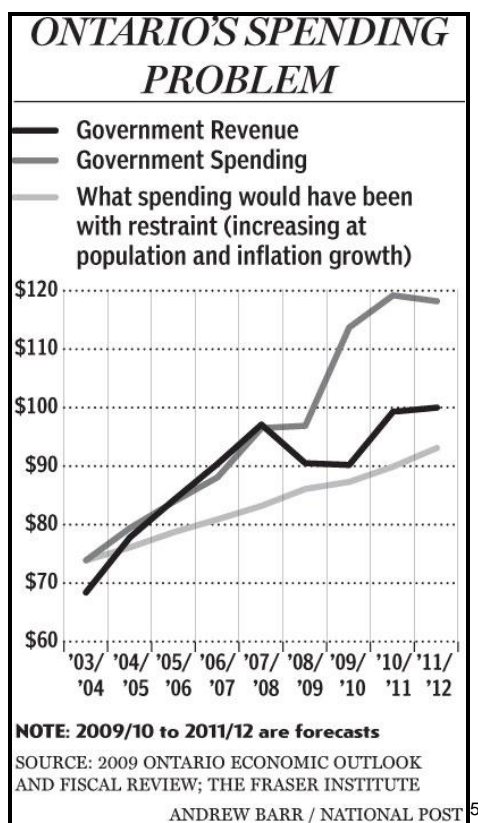
“Our members were chiefly concerned about the size of the debt, the size of the deficit, and the lack of an articulated plan to eliminate that deficit.”

~ Gerry Macartney, CEO, London Chamber of Commerce, Pre-Budget Consultation, January 26, 2010

The issue of deficit and debt reduction was a common theme among presenters at the pre-budget consultations this year. These groups included the Certified Management Accountants of Ontario, Ontario Chamber of Commerce, Warren Jestin of Scotiabank, Canadian Independent Federation of Business, National Citizens Coalition, and London Chamber of Commerce, among others.

Ontario is facing an enormous structural deficit. By 2011-12, the Ministry of Finance projects that the province will be raising \$100 billion in revenue, topping the previous record set in 2007-08 of \$97 billion, but the McGuinty Government still expects to post a \$19.4-billion deficit. In other words, revenue will have increased 46% since the year Dalton McGuinty took office -- with the Ministry of Finance expecting rebounded economic growth – and yet expenses will still exceed revenue by nearly \$20 billion, indicating that the McGuinty 2011-12 deficit is not caused by a revenue problem.

⁴ CIBC Economic Insights, January 28, 2010



Deputants before the committee clearly and repeatedly articulated the need for prioritizing provincial spending. A strategic approach to spending that focuses on clear priorities is essential if the Liberal government is to achieve program spending restraint.⁶

Increasingly Dalton McGuinty has abandoned his responsibility to Ontarians to ensure that taxpayers' dollars are used prudently. Local Health Integration Networks are perhaps the most glaring example of McGuinty's attempt to deflect responsibility for health-care decision making.

Health care comprises 42% of the Ontario government's total program spending and is projected to rise to 50% with Ontario's aging population. Despite the addition of a massive new health tax that has raised \$15 billion in revenue to date, Ontario hospitals still report huge deficits and additional stranded debt, and access to health care has failed to improve for patients. As a result, the administration of health care funding must be subject to an actuarial analysis, as suggested by the Ontario Chamber of Commerce, to provide transparency and accountability and ensure prudent long-term planning.

Other suggestions from stakeholders include a competitive bidding process for government services that would permit bids from both the public and private sector, and working with private and public sectors to develop a longer-term growth plan that will ensure Ontario's future success. In order to ensure that public funds reach their intended purpose, the Progressive Conservative Caucus also recommends a halt on new program spending until a review of all programs has been undertaken to address efficiencies and

⁵ Niels Veldhuis, "Dalton McSpenny," *Financial Times* (October 26, 2009)

⁶ Merv Hiller, President & CEO, Certified Management Accounts of Ontario, Pre-Budget Consultations (February 3, 2010)

accountability. Stakeholders and families are looking for value-for-money in government programs, a reduction in discretionary spending, and an overall audit of efficiency.⁷

The Ontario PC Caucus has also called for Dalton McGuinty to restore some sanity to government spending by capping program spending at the 2010-11 estimate provided in the 2009 budget. For example, the \$5 billion dollars in one-time spending on auto bailouts and H1N1 in this year's budget should not be rolled into baseline spending for future budgets.

Targeted Tax Relief

“On the short term side, our members believe there’s a need to have a continued focus by the government on tax competitiveness...”
~ Merv Hiller, President and CEO, Certified Management Accounts of Ontario, February 3, 2010

Since 2003, a host of new taxes, fees, permits, and licenses have been introduced under Dalton McGuinty, raising the cost of living and making the province uncompetitive with comparable jurisdictions. The health tax, corporate income taxes, small business taxes, driver's license renewal fees, taxes on beer, wine and spirits, new land transfer taxes and vehicle registration fees in Toronto, OHIP de-listings like chiropractic services, eye exams, physiotherapy services, electronics taxes, tire taxes, and commercial vehicle operators registration license fees are but a few of these. The implementation of the \$3 billion HST tax grab amounts to the largest single tax increase in the history of Ontario.

Despite Dalton McGuinty's claim that harmonized sales tax will be a wash for middle class families, his government's own estimates reveal that Ontario families and seniors will pay approximately \$100 more for electricity and \$125 for natural gas each year. These figures will be much higher for rural and northern consumers, where usage and distribution costs are higher. Moreover, according to figures in Budget 2009, the HST will raise the McGuinty Government \$2.6 billion in the first year of implementation alone, growing to \$9.6 billion in 2012. TD Economics predicts the HST will lead to inflation and “\$2.5-3 billion in additional costs that households will be paying.”⁸

In an effort to stimulate the economy and create jobs, targeted tax relief is essential.

Deputants to the Standing Committee on Finance and Economic Affairs suggested measures that include:

- Raising the Employer Health Tax threshold to \$1 Million
- Delaying the increase in the minimum wage
- Freezing WSIB premiums
- A home renovation tax credit
- Abandoning the harmonized sales tax
- Eliminating the Corporate Minimum Tax
- A refundable employer training tax credit to encourage investment in skills development and training
- A refundable tax credit for new investments in manufacturing and processing equipment

⁷ Ibid.

⁸ TD Economics, “The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation,” *Special Report* (September 18, 2009)

Recognizing that the only sector that realized growth during the recession was small- and medium-sized enterprises, the Progressive Conservative Caucus appreciates the importance of the tax relief measures listed above.

In addition we propose both a one-year tax holiday for all payroll taxes that will make it more affordable for small businesses to hire new staff and a one-year suspension of the land-transfer tax that will make home ownership more affordable for young families – and help create new construction jobs.

“I think it’s also critical that we don’t try and pick winners and losers on a specific basis. We’ve got to establish a globally competitive tax environment, and the winners will rise to that particular reality.”

~ Warren Jestin, Chief Economist, Scotiabank, February 1, 2010

The McGuinty Government must also put an end to its practice of picking winners and losers in the private-sector economy. In the last year alone, Dalton McGuinty has proposed or handed out more than \$8.5 billion in corporate subsidies and welfare. Most recently, the sole-sourced McGuinty-Samsung deal granted the international industrial giant preferential treatment within Ontario's energy sector. The Association of Power Producers of Ontario, Canadian Wind Energy Association, and Canadian Solar Industries Association all condemned this blatant preferential treatment given to a multinational corporation with little experience in renewable energy generation and development in Ontario.

“Venture-capital-backed companies are high value-added to our economy as they are export- and R&D-intensive and, most importantly, they are fast growers. A venture-backed company grows five times faster than the economy as a whole, and that has a significant impact on job creation. Throughout Ontario, however, we are in crisis. Investment in these industries is down dramatically over the last several years.”

~ Mark McQueen, President and CEO of Wellington Financial, Canada's Venture Capital and Private Equity Association, February 1, 2010

Complementing targeted tax relief is improved access to venture capital. Venture-capital-backed companies in Canada represent close to 150,000 jobs or 1.3% of all private sector employees. In 2007, Canadian venture-capital-backed companies injected \$14.5 billion into the Canadian economy.

Unfortunately, venture capital financing in Ontario has plunged from \$1.5 billion in 2000 to \$236 million in 2007. In 2008, it was down to \$88 Million. As of the 3rd quarter of 2009, only \$24 million was invested in Ontario venture-capital-backed companies – a multi-decade low for the province.

The McGuinty government's Ontario Venture Capital Fund has proven an utter failure, with only 3 committed projects for 2009 and none of the monies deployed. The only conclusion to draw is that the fund guidelines should be revisited and completely overhauled to ensure greater job creation.

“Businesses across Ontario continue to cite regulatory costs as their greatest impediment, and a dollar spent managing red tape is a dollar less for investment or hiring new people.”

~ Stuart Johnson, VP, Policy and Government Relations, Ontario Chambers of Commerce, February 2, 2010

Budget 2008 made modernizing regulation a priority, with a goal to eliminate regulations for every new piece of red tape enacted. Failing to deliver on this commitment, the McGuinty Government reiterated its desire to tackle the provincial regulatory and red-tape burden in Budget 2009, with a commitment “to expand Open For Business, [the government’s] plan to make government faster and friendlier...”⁹ Dalton McGuinty promised to reduce red tape and regulation by 25% in two years, an ambitious target the McGuinty Government has not even approached accomplishing.

According to the Canadian Federation of Independent Business, red tape and regulation in Ontario present a cost to business totalling \$10.8 Billion,¹⁰ and virtually every sector that presented to the Standing Committee on Finance and Economic Affairs spoke to the challenges created by red tape, regulation, and well-intended but poorly implemented legislation.

For example, municipalities in the Niagara region are effectively shut down as a result of the unintended consequences of the greenbelt initiative where growth is forced to develop away from existing infrastructure and from where the market wants to live. Additionally, these municipalities explained that the province’s new Places to Grow policy dictates densities that may be unachievable.

The Chemistry Industry Association of Canada explained that the overall policy environment for manufacturing isn’t friendly and investor perception has soured.

The Ontario Forest Industries Association pointed out that under Ontario’s Endangered Species Act, wood turtle habitat regulation, will threaten up to 40% of the total available fibre in some forest management units.

Long term care homes highlighted the additional direct and indirect costs of draft regulations under the new Long-Term Care Homes Act which are expected to be about \$34 million, which could have the effect of reducing care and services elsewhere in homes.

This is to say nothing of the consequences of regulations under health and safety legislation, WSIB, environment, and accessibility that were repeatedly addressed during these hearings.

The Ontario Chamber of Commerce made these recommendations on smarter regulation and red tape to the committee:

- Expedite the streamlining of regulatory reform by substantially reducing ‘red tape’ and committing to clear, meaningful annual benchmarks
- Create a smarter regulatory regime through a mandatory five-year review of all regulations
- Impose a statutory requirement for broad based consultations of at least 60 days with businesses/stakeholders likely to be affected by a regulation, prior to its adoption
- Conduct a cost/benefit analysis on all new regulations which identifies and publicly discloses the actual cost of implementing, enforcing and maintaining the regulation and then ensures those costs do not outweigh any benefits garnered from the regulation

⁹ Ontario Ministry of Finance, “Budget 2009” (March 2009)

¹⁰ CFIB, “Prosperity Restricted by Red Tape,” 2nd Edition (November 2009)

Challenges to business from a red tape and regulatory perspective are near epidemic and no doubt a significant contributor to abysmal corporate tax revenues posted in 2009, which the McGuinty Government predicted at \$12.3 billion and in reality came in at \$6.7 Billion.

Only an aggressive approach to controlling unnecessary regulation and red tape will improve Ontario's economic environment and create a business friendly climate. This culture change must emanate from in the Premier's Office and flow through Cabinet and the civil service to truly be effective. Specifically, the culture of government must change so that its role is to assist the private sector in finding cost effective ways to comply with government legislation, as opposed to doling out punishments for lack of compliance.

The Progressive Conservative Caucus proposes that the McGuinty government undertake the following:

- A member of the Executive Council should be made specifically accountable for the reduction of red tape across government
- Re-instate the Red Tape Commission, which would have the responsibility to:
 - Help to inform business of regulation and assist in achieving compliance
 - Consider principles and outcomes-based approaches before proceeding to impose prescriptive rules-based regulation
 - Undertake an assessment of any proposed legislation or regulation and determine its economic and administrative impact. The assessment should include a review of the additional burden on business as well as the cost on government to implement said legislation
 - Review all existing legislation, regulations, and forms and undertake to remove those which are outdated and streamline others wherever possible
 - Establish hard targets for each Ministry with reporting to Cabinet at regular intervals
- A moratorium on new regulations should be in place until the commission is in place

Conclusions

In November 2009, the Auditor General of Ontario reported his findings on the McGuinty Government. Fiscal mismanagement, questionable contracting practices, and wasteful spending were found to be rampant throughout the Liberal Government. All the while, the economy turned, the private sector shed tens of thousands of jobs, and Ontario tumbled into have-not status for the first time in its history.

Government spending under Dalton McGuinty has reached epic proportions and is projected to be \$119.2 billion in 2010-11, a year the McGuinty Government expects to post a \$21.1 billion deficit. During his expert testimony at the 2010 pre-budget consultations, Warren Jestin, Chief Economist for Scotiabank, remarked that as the economy recovers, Ontario will need to rely much more on the private sector. He added that government deficits have gone up to levels that are going to be very difficult to turn around because of the cumulative impact on the debt. Ontario must cut down the growth in spending and ensure sustainable revenue generation. Similarly, an Ontario Fiscal Update report by TD Economics calculates that "total program spending growth in Ontario" must be reduced to 1% per year in order to balance the provincial budget by 2016-17.¹¹

For 7 days, nearly 140 groups made presentations to the Standing Committee on Finance and Economic Affairs, dozens more made written submissions. Deputants made over 1,000 recommendations to the McGuinty Government.

¹¹ TD Economics, "Ontario Fiscal Update" (October 22, 2009)

Of these, a significant number commented on the broad themes of deficit and debt reduction through strategic spending, job creation and economic growth via sound tax policies, and thwarting excessive red tape and regulation.

The time has come for Dalton McGuinty to heed this advice and take action to implement meaningful policy changes that will propel Ontario from worst to first.

The Ontario PC Small Business Jobs Plan will get government out of the way of job creators and help re-start the economic engine of Ontario. This plan includes:

- Repealing the McGuinty Government's job-killing Bill 119, which forces independent operators and sole proprietors into the WSIB system and requires WSIB coverage for office and secretarial staff who will never set foot on a construction site
- Ensuring permanent small business representation on the WSIB
- Calling for a one year payroll tax holiday that will make it more affordable for small businesses to hire new staff; and a one year suspension of the land-transfer tax that will make home ownership more affordable for young families – and help create new construction jobs
- Re-instating a Red Tape Commission that will eliminate the many unnecessary regulations that punish small businesses
- Implementing a moratorium on new regulations that will impact small business jobs until the Red Tape Commission is in place to reduce the overall regulatory burden
- Turning Ontario's 3:1 journeyman-to-apprentice ratio into a 1:1 ratio. This will help more young tradespeople into the market, and make it more affordable for small businesses to hire new workers
- Suspending the McGuinty Government's decision to place 100% of the cost burden for the blue box program on small businesses and maintain the existing 50-50 split
- Continuing to use every tool available to stop Dalton McGuinty's plan to merge the GST and PST into a super 'Dalton's Sales Tax' that will take \$3 billion out of the pockets of consumers and kill jobs

In December 2009, Tim Hudak and the PC Caucus called for immediate and urgent action to provide a new direction for the Northern Ontario Economy. These ideas include:

- Opposing the McGuinty Government's Bill 191 which bars development in half the territory north of the 51st parallel. This restrictive legislation seeks to appease Southern Ontario special interest groups at the cost of denying Northern residents of one of their last remaining sources of economic leverage – their land
- Making significant investments in Northern infrastructure to facilitate business growth through ensuring accessible and reliable transportation channels to move goods to and from market
- Investing in high-speed broadband so small businesses can prosper and take full advantage of a global marketplace
- Reducing and eliminating unnecessary legal and regulatory hurdles to resource development and reinvest revenues from developments in Northern projects that support economic growth

- Empowering Northern municipalities and First Nations by providing local leaders with a real say on where revenues from resource developments should be directed
- Strengthening and building new partnerships between Northern businesses and post-secondary institutions. NORCAT is a strong example of how businesses and educators can work together to fuel innovation and strengthen the skills base of local workers