



## **The budget's test? What will it do for the future**

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Ontario -- along with virtually the entire world -- is mired in recession as the 2009 provincial budget is about to be delivered. But some economic observers are looking to see how the province will direct spending to both help fight this downturn and build the economy of the future.

Premier Dalton McGuinty told the legislature on Wednesday about his priorities.

"We will find ways to provide better supports to Ontario families," he said. "We're going to take measures at the same time to strengthen the economy because we know that unless we enhance our capacity to do so we are going to place our public services at risk."

McGuinty has already dropped some big budget news, along with some strong hints:

- The combined deficit for the 2008 and 2009 budgets will be \$18 billion, in part to fund infrastructure and help the struggling auto sector
- The province will spend \$27.5 billion of its own money, along with \$5 billion in federal funding, on infrastructure
- He has unveiled his government's green energy plan, which should create 50,000 jobs
- He has mused about harmonizing the eight per cent provincial sales tax with the five per cent GST, possibly the most politically explosive move in the budget

Jim Milway, executive director of the Martin Prosperity Institute at the University of Toronto, really hopes the government does harmonize the tax.

"Every economist who's looked at it walks away saying that Ontario will get more investment, will get better jobs, high-paying jobs if we switch to a (harmonized) GST," he told [ctvtoronto.ca](http://ctvtoronto.ca).

Business groups say the move would save them \$100 million per year in reduced red tape.

During question period at Queen's Park on Wednesday, NDP Leader Andrea Horwath took aim at the effect such a move would have on lower-income families.

"That's eight per cent more to heat their homes, eight per cent more to dress their kids, eight per cent more for a hot dog on the corner," she said. "Why is the premier slapping an eight per cent sales tax on families at a time when they can least afford it?"

Milway said there are ways the government can mitigate the effect, such as introducing a tax credit for low-income Ontarians similar to the one that exists at the federal level.

CTV Toronto reported Wednesday that the McGuinty government will be doing just that.

He also thought the government should look at reducing the overall business tax burden, insisting it would stimulate the economy and result in more government revenues.

### **Future jobs and prosperity**

On the spending side, however, Milway hopes the Liberal government keeps focused on spending to improve future productivity.

In February, the Martin Prosperity Institute released a study of Ontario's economy. Lead authors Richard Florida and Roger Martin suggested the future of "routine-oriented occupations that draw primarily on physical skills or abilities to follow a set formula" is a bleak one.

That type of work can be done much more cheaply in developing countries, they said.

Ontario has lost more than 200,000 manufacturing jobs between 2002 and 2008, with more bleeding so far in 2009. Many of those jobs are high-paying unionized ones in the auto sector.

Florida and Martin argued many of those jobs aren't coming back. Instead, Ontario must focus on the high-value jobs of the future.

To that end, Ontario should continue to invest in post-secondary education and take "baby steps" towards offering high-quality early childhood education, particularly to children from at-risk families, Milway said.

He worried about the looming infrastructure spending boom, saying unless the money goes towards improving economic productivity, it won't really help.

For example, improving border crossings to more efficiently move Ontario-produced goods into the United States is a solid investment.

In 2008, almost 82 per cent of Ontario's exports went to the United States.

"But if we're going to build another hockey arena, build it because we need another hockey arena, not because it will stimulate the economy," he said.

The rule of thumb should be: "A good investment in good times is a good investment in bad times" -- and vice versa, he said.

Jim Stanford, economist for the Canadian Auto Workers union and author of "Economics for Everyone," told [ctvtoronto.ca](http://ctvtoronto.ca) that the Ontario government should focus on bolstering its "tradeable industries" -- those businesses that produce high-value goods, and high-paying jobs, for a global market.

"We've got to grapple with the immediate effects of this recession, but we've also to make sure we get our share of those high-value, export-oriented industries," he said.

Stanford said the government must help protect the auto sector through its rough patch, something largely brought about by a nasty credit crunch that has caused sales to collapse. But it also must look to nurturing the businesses of the future, such as biotechnology.

"I think we've got a lot to learn from the Europeans and Asians on how to build national-champion companies," he said.

Merely taking the approach that 'if you cut taxes, they will come' isn't the way to go, he said.

The province should be using its home market as an incubator to build up clusters of high-value industries that can then take on the world -- an approach that the Martin-Florida study touched on.

Stanford did agree with Milway that the provincial government should treat education as a priority if it wants to build the skills necessary for future economic growth.

### **What Ontario can't do**

There is much the Ontario government can't do. For example:

- it can't solve the global credit crunch
- it can't restore the U.S. economy

- it can't control the value of the Canadian dollar, which soared earlier this decade on the strength of a commodities boom, something that hurt manufacturing in Ontario
- it can't control federal trade policy

Because there are so many factors beyond a provincial government's influence, Milway said those governments must have "a bit of humility" about what they can do in the face of a global recession.

Ontario has taken a beating so far, accounting for more than half of Canada's job losses in recent months despite having only 39 per cent of the nation's population.

McGuinty and his cabinet will have done a good job on Thursday if they manage to ease the pain of today's downturn and position Ontario to develop the industries and skills that will keep this province prosperous, Stanford said.