Ontario Chose Change: Will the Liberals?

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Ontario Alternative Budget 2004

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Since the October 2003 Ontario election Premier Dalton McGuinty has been grappling publicly with some very difficult choices. The Liberal Party built its election campaign around an ambitious promise to make substantial new investments in rebuilding provincial and local public services. It also promised not to run a deficit in any year of its mandate and not to increase taxes beyond modest roll-backs of selected Conservative tax cuts.

It cannot keep all three of those promises.

The Government has already implemented most of its tax cut roll-backs. Yet the additional revenue generated by those roll-backs will be more-than-consumed by the fiscal hole left behind by the Eves Conservatives, leaving no new revenue to fund services renewal.

An analysis of the province's current fiscal situation together with forecasts for economic growth and expenditure growth over the next four years concludes that:

- In order to balance the budget in fiscal year 2004-5, even with full-year revenue from all of its promised tax cut roll-backs, the Government would have to cut at least $2 billion from program spending;
- Using current average projections for economic growth and allowing for the impact of inflation and population growth on spending, the government will be able to implement only about 40% of the public services renewal spending promised in the campaign by 2006-7;
- Even with low-probability higher growth assumptions (1% above the consensus), the Government will be able to implement only about 75% of the changes promised;
- If real economic growth runs as little as 1% per year below the consensus over the next three years, the Government will be hard pressed simply to eliminate the deficit it inherited, leaving nothing for program improvements.

In his December 2003 Fiscal Update, Finance Minister Greg Sorbara declared that Ontario has a structural deficit – a deficit caused by a mismatch between revenues and expenditures that will not go away by itself as the economy recovers. In fact, Ontario faces three structural deficits.

The first deficit is the gap between the level of public investment that is required to maintain and renew public infrastructure and current levels of investment.

The second deficit is the gap between the level of public spending that is required to rebuild key services like health and education to the standards that Ontarians expect and to restore the sense of decency, justice and fairness that Ontarians expect in our policies towards the disadvantaged in our society.

The third deficit is the gap between the revenue raising capacity of the province and the funding required to pay for the current level of public services and provide funding for the improvements Ontarians have demanded.

None of these gaps should be a surprise to anybody. The deterioration in public infrastructure in the past 10-15 years is a well-established fact. Gaps in funding for elementary and secondary education have been verified independently in the Rozanski Report. The Eves and Harris Governments themselves acknowledged the problems in health care funding. The consequences of eight years of skapegoating the poor are evident in growing numbers of food bank users, lengthening waiting lists for social housing and rampant homelessness.

The choice facing the Government is quite stark. It can decide to hold its "no deficit" and "no tax increase" promises as sacrosanct. If it does, the best it will be able to do over its term of office will be to bring the budget back into balance again. It will accomplish little, if any, of its promised program of services renewal – a betrayal of the mood for change that swept them into office. It will be setting the table for their own defeat by the Conservatives and for a re-run of the Harris era in the first decade of the 21st century. In effect, it will end up having served as a kind of political "taxi squad" for Ontario neo-conservatives, cleaning up the dirty work left over from the first wave and preparing for the second.

On the other hand, it can accept the obvious reality that thanks to the ill-conceived and short-sighted tax cuts of the previous government – tax cuts that the Liberals opposed while in opposition – Ontario's fiscal capacity has fallen behind what is needed to meet the public services needs of this province, and do something about it.

Unfortunately for those Ontarians who placed their trust in the Liberals' "Choose Change" slogan, it appears that the Premier's political instincts are to bat clean-up for Mike Harris and Ernie Eves, using the Conservatives' mismanagement as the justification for another round of cuts to Ontario's already-weakened public services.

The political background

As Premier McGuinty repeats at every possible opportunity, the Ontario electorate "chose change" on October 2, 2003 when, by a resounding majority, it threw the Eves Government out of office. The campaign signaled a sea change in Ontario politics.

Rebuilding public services in Ontario took centre stage, after eight years in which issues raised by deteriorating services had little political resonance and in which tax cuts were accepted as the all-purpose solution to every problem. The Liberals rejected further tax cuts, and committed themselves to selected reversals of prior cuts in corporate and personal income taxes as well as tobacco taxes. The centerpiece of the Liberal campaign was a package of public services investments conservatively estimated to add $5.9 billion to annual program and capital spending over a four-year term of office.

Fiscally, the Liberal campaign was a high-wire act. Despite the fact that the assumptions underlying the budget released by the Eves Government in March, 2003 had been discredited as unrealistically optimistic by everyone from the Dominion Bond Rating Service, to the Canadian Centre for Policy Alternatives, to the Fraser Institute – including the Liberal Official Opposition in Ontario – the Liberal's campaign fiscal package was based on the same assumptions.[1]

Despite the lack of credibility of the Eves Government's fiscal numbers on which the Liberal fiscal plan was based, soon-to-be Premier McGuinty cruised through the campaign asserting at every stop that the political triple crown of deficit-free budgeting, no further tax increases and a substantial reinvestment in public services was achievable. He even went so far as to stage a no-deficit no tax increase photo-op with a right wing political fringe group, the Canadian Taxpayers' Federation, whose previous reason for existence had been to provide a cheering section for the tax cut fixations of the Canadian Alliance nationally and the Harris-Eves Conservatives provincially.

Mr. McGuinty waited until the instant it no longer mattered electorally – on election night after the polls had closed – to acknowledge the weakness of Ontario's finances and, by extension, of his own fiscal plan, serving notice that the public services renewal on which his campaign was based would be on hold pending a review of the province's fiscal situation.

In doing so, he launched into a re-run of what has become a four-step standard procedure when governments change in this province.

Step one – shock and dismay – happened on election night, when the Premier-elect for the first time indulged himself in some public hand-wringing about the fiscal situation of the province.

Step two – independent verification of impending fiscal disaster – was kicked off by the appointment of the recently-retired provincial auditor Erik Peters to determine the fiscal facts as of election day.

Step three –maximize the bad news that will be attributed to the previous government and to make comparisons difficult – began with a change in the province's accounting system to integrate the finances of the Ontario Electricity Financial Corporation into the province's accounts. And in the same economic and fiscal update that brought in those changes, the Government highlighted billions more in financial obligations accumulated under the Conservatives that might be brought into the budget in the 2003-4 fiscal year.

Step four – dampen expectations – is well under way, and promises to be a central feature of the Government's message in its pre-budget consultations.

From "five consecutive balanced budgets in a row" to fiscal disaster – how old facts became new realities

In a budget forecast that very few people believed, the Eves Government laid its fiscal foundation for 2003-4 in the infamous Magna budget in March, 2003. The government was able to show a balance in that budget based on the inclusion in revenue of $2 billion in unspecified asset sales, and economic forecasts assembled before the emergence of the SARS crisis.

Even after the impact of SARS had become obvious, the Eves Government continued to assert that it was on track to balance the budget. The 1st quarter of Ontario Finances – released on the eve of the election, in August – made a number of adjustments to revenue and expenditure forecasts, but ended up miraculously with exactly the same forecast deficit as had been set out in the March budget.

Table 1 compares the overall revenue and expenditure figures from the 2003-4 budget with those reported in 1st Quarter Ontario Finances and after the adjustments made by former Provincial Auditor Erik Peters.

In Ontario Finances for the 1st quarter of 2003-4, the Conservative Government ac-

Table 1: 2003-4 Fiscal Forecasts

	March Budget	1q Ontario Finances	Peters
Revenues	71.6	71.4	67.2
less Expenses			
Programs	58.6	58.7	60.5
Capital	3.0	3.0	3.0
Interest on Debt	8.7	8.7	8.7
Total Expense	70.3	70.3	72.2
less Reserve	1.0	0.4	0.0
less Current & Capital Contingencies	1.0	0.4	0.2
Add back net investment in capital assets	0.7	0.7	0.7
Increase in Hydro stranded debt			0.7
SARS expenses not recovered		1.1	0.5
Annual Surplus	(0.0)	(0.0)	(5.6)

counted for SARS costs by allocating reserve funds, and essentially left all other aspects of the budget untouched.

The Peters report reduced forecast revenue substantially, by $4.3 billion, and identified a further $1.3 billion in net new expenditures that had not been accounted for in the 1st quarter data in Ontario Finances.

Peters found substantial problems with the fiscal picture as it had been presented in the budget, in five key areas. First, as a consequence of lower-than-forecast economic growth and inappropriate accounting for Federal health transfers, revenue had been overstated by a total of $1.9 billion. Second, there was no evidence that any assets had been identified as possible candidates for sale to raise approximately $1.8 billion, and that therefore it would not be reasonable to count those sale proceeds in revenue. Third, Peters identified $1.8 billion in a combination of new expenditure that had not been included in the estimates underlying the March budget and budgeted savings that had not been identified. Peters estimated SARS costs, net of Federal support, at $500 million. And finally, Peters found that deteriorating finances at Ontario Power Generation, Hydro One and the Ontario Electricity Financing Corporation resulting from the problems with the nuclear plants at Pickering, the impact of the August blackout and the growing cost of the 4.3 cent per kilowatt-hour residential rate freeze had produced a net negative budget impact of $1.3 billion.

The total shortfall of $7.4 billion was offset by a draw-down of reserves of $1.8 billion for a deficit of $5.6 billion.

Transparency as a political art

The Peters report accomplished a number of critical objectives for the Government. It provided a clear line dividing fiscal events for which the new Government was not responsible from those for which it would have to accept responsibility. By making trenchant observations about the wisdom, or lack thereof, of balanced budget legislation, it provided the foundation for a repeal of the Taxpayer Protection Act – a piece of legislation the Liberals supported in opposition. It opened the door to fine-tuning the retrospective fiscal picture by suggesting that the picture might look even worse if the deficits of hospitals and other public institutions were taken into account.

But most important, the Peters Report made it politically safe for the Liberal Government to have a deficit of $5.6 billion in fiscal year 2003-4 – because on the strength of Peters' conclusions, it could be attributed to the Eves Government.[2]

But Peters' report wasn't the complete answer for the Government. Peters had declined to project his findings into future fiscal years. He had also made it clear that his analysis could not be complete because he had not had available to him either the final 2002-3 Public Accounts or the second quarter update of Ontario Finances. Finally, Peters' report could not account for the estimated additional revenue from tax cut rollbacks introduced by the Government subsequent to the release of his report.

The Government's fall fiscal update – released on December 17, 2003[3], roughly a month later than usual – reflected the Peters report's findings; the estimated revenue for fiscal year 2003-4 from the tax cut roll-backs introduced at the beginning of the new legislative session; and the final settlement of the dispute between the Province and the Federal Government over SARS support. It also included a contingency reserve and some additional fine-tuning of revenue and expenditure estimates beyond those suggested by Peters.

Finally, in an extraordinary move for the middle of a fiscal year, it changed the way the Government accounts are reported. Instead of reporting the net change in provincial finances resulting from the operations of the Ontario Electricity Financial Corporation, as had been the practice previously, it integrated those operations into the provincial budget on a line-by-line basis, changing measures of both revenue and expenditure.

Although the change was cloaked in the rhetoric of transparency of Government finances, its result was to make current numbers no longer comparable with previously reported budget data, and to make it impossible to isolate electricity-related revenues and expenditures from revenues and expenditures related to other provincial government operations.

And when the dust settled, after including new revenue, adjusting previous estimates, building in a contingency reserve and changing the system of accounting for hydro activities, the government came up with exactly the same projected deficit as had been forecast by Erik Peters.

If these changes were not enough, the Government also made it clear that there could be additional changes in revenue and expenditure before the end of the fiscal year, pointing to two areas of potential change in the data. One change would be expected. As estimates of economic growth become more precise, forecasts of revenue will inevitably be adjusted to reflect actual revenue flows and these more precise forecasts. The other area for potential change was unusual. The Government announced that it was considering bringing debts currently being carried by agencies that receive provincial transfer payments, as well as other "off book" liabilities, into the provincial accounts. As examples of the changes it was considering, it listed:

- Hospital accumulated working capital shortfalls, $1.2 billion;
- Unfunded liability of Pension Benefits Guarantee Fund, $500 million;
- Potential write-off of Pickering A nuclear station, $500 million;

- 2002-3 Children's Aid Society deficits, $25 million.

Given that these liabilities were accumulated under the previous government, it would be politically legitimate for the McGuinty Government to attribute them to the Eves Government by bringing them into the budget in the 2003-4 fiscal year.

It would appear from the Government's actions to date, however, that the overriding constraint on the attribution of additional liabilities to the 2003-4 fiscal year will be the need to keep the deficit to the $5.6 billion amount from Peters' analysis.

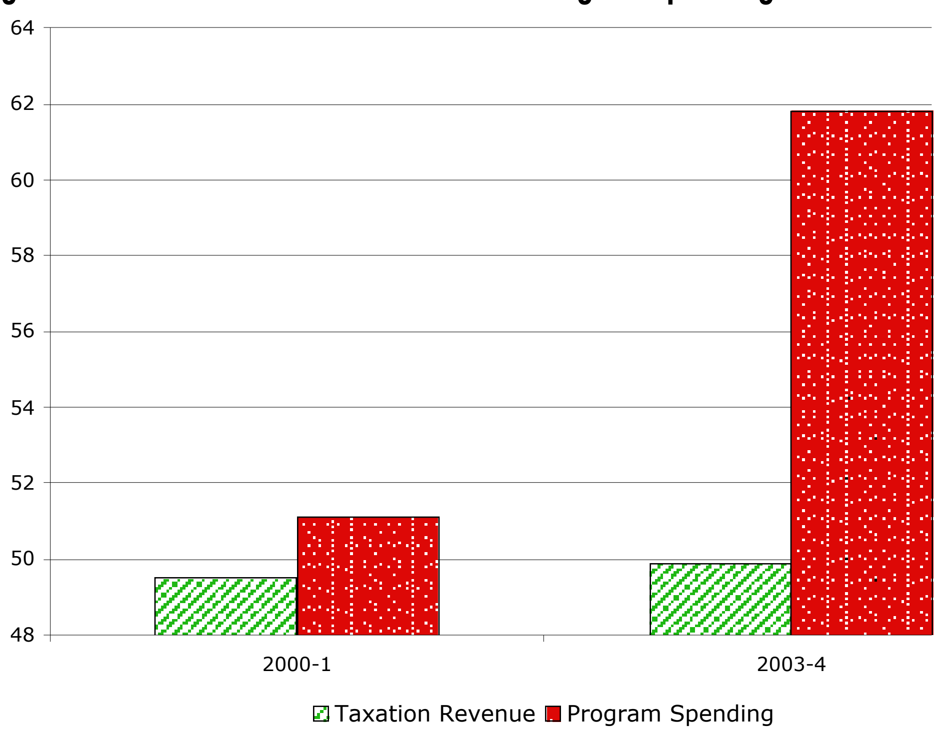
So in the interest, supposedly, of fiscal transparency, we now have a third set of numbers for the current fiscal year; new accounting rules that make it difficult to compare current data with previous figures; and a virtual blank cheque for the Government to make further "adjustments" to the 2003-4 numbers as it decides how much of the hangover from the Eves Government's record it can find political justification for assigning to 2003-4.

Continuing its effort to frame the political debate over Ontario's fiscal situation in the pre-budget period, the financial update contained two key pieces of analysis crafted to support the proposition that the current-year deficit is structural, rather than cyclical.

One looks backwards at taxation revenue and program expenditure in Ontario, highlighting the gap between taxation revenue and program expenditures that emerged during the Conservatives' second term in office, suggesting a fiscal capacity gap at current expenditure levels of $12 billion.

The other presents a four-year forecast based on current private sector forecasts of real and nominal (including inflation) economic growth and interest rates and assuming expenditure growth of 5% per year, and shows a persistent annual deficit of $4.5 billion.

Figure 1: Increase in Taxation Revenue and Program Spending



The fiscal gap

Both the detailed fiscal update and the Minister's statement included Figure 1, comparing program spending and taxation revenue in 2000-1 and 2003-4.

While the data presented in this chart are accurate, as re-stated in the budget, the picture looks somewhat more complex when viewed over the nine fiscal years for which the Harris and Eves Governments were responsible.

Seen over this longer time period, the data illustrate both the services gap and the fiscal capacity gap that emerged over the Conservatives' two terms in office. In the first term, program spending was essentially flat, showing almost no growth over the period 1995-6 to 1998-9. Taxation revenue grew rapidly, despite personal income tax cuts, as the economy recovered from the 1991-1993 recession. In the second term, expenditures grew rapidly, as the Government was forced to address substantial problems in health care and education funding; revenue was essentially flat, as previous tax cuts matured, new corporate tax cuts took effect and economic growth slowed dramatically.

An analysis by the Federal Department of Finance of the impact of tax changes in Ontario in the period since 1996 provides a different perspective on Ontario's fiscal capacity gap.

The annual revenue loss from Ontario's tax cuts reached $11.9 billion in 2002-3 and is forecast to reach $13.3 billion in 2003-4 and $17.5 billion by 2005-6.

The province's expenditure gap shows up clearly when program and capital expenditure are adjusted to reflect either GNP, or inflation and population growth.

Over the period from 1994-5 to 2003-4, program spending has dropped from 15.4% of GDP to 11.8% of GDP.

Figure 2: Taxation revenue and program spending — 1995-6 to 2003-4

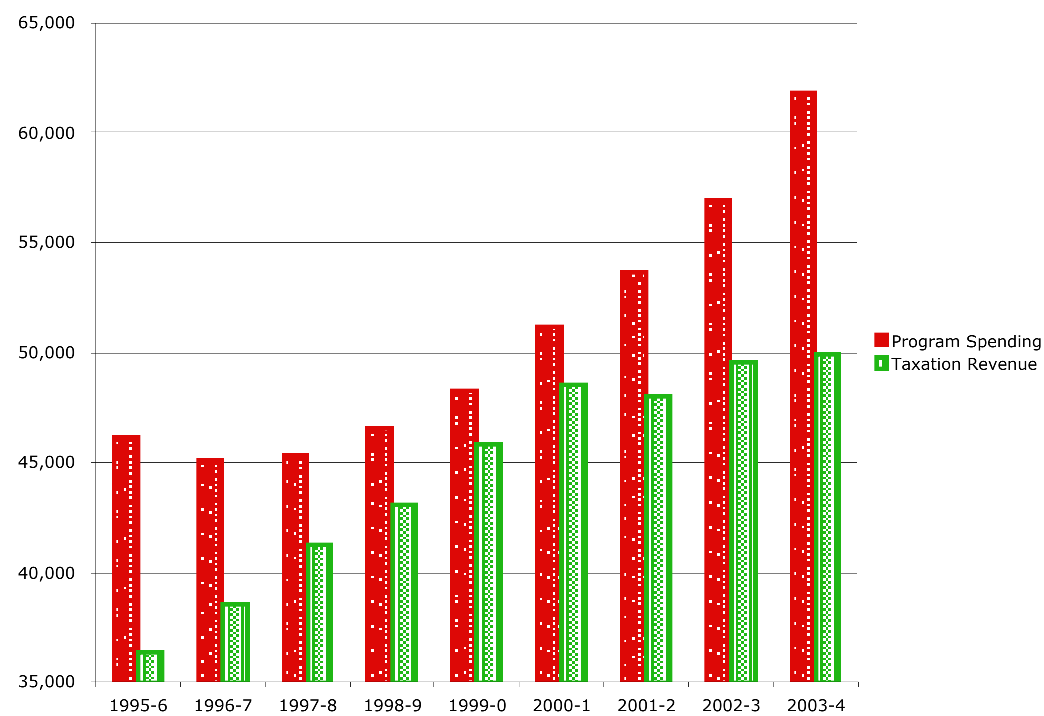
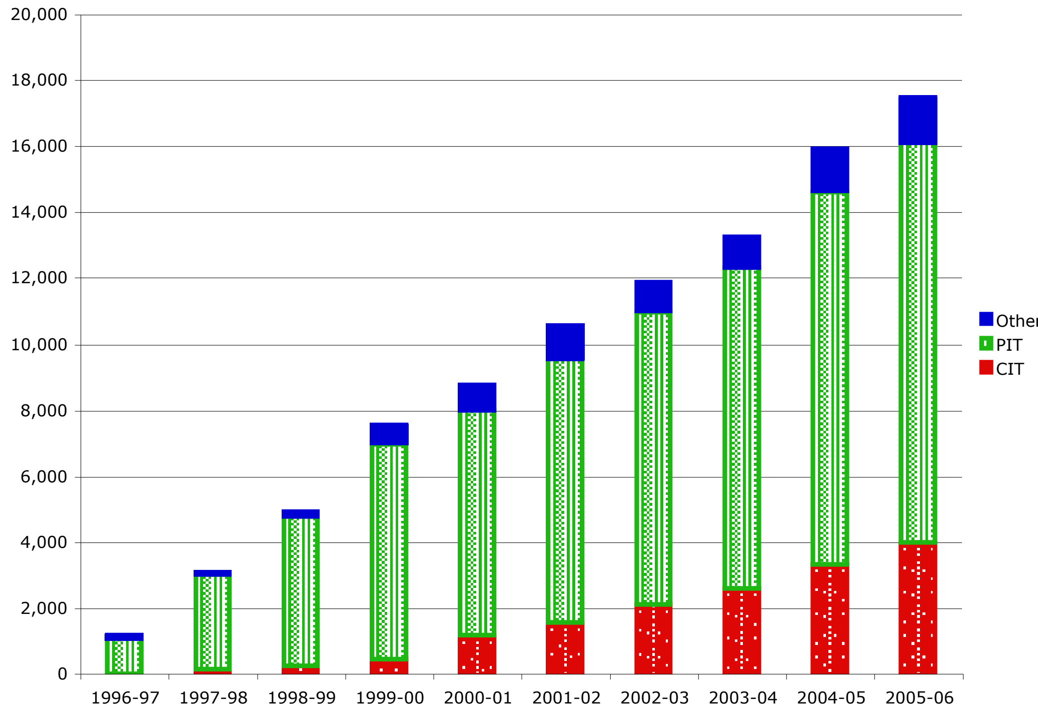


Figure 3: Ontario's Tax Cuts Since 1996



Adjusting 1994-5 program spending to reflect inflation and population growth reveals a program spending gap in real per capita terms of $8.3 billion in 2003-4.

Fiscal forecasts and the Government's election platform

The 2003-4 data in the December 2003 fiscal update are not particularly useful as a base for projections beyond 2003-4. $620 million of total expenditure for 2003-4 represents SARS costs in excess of the compensation provided by the Federal Government. The August power blackout and the 4.3 cent power rate freeze both have a negative impact on Ontario's finances, through their impact on the profits of the public enterprises in the energy sector and on the revenue and expenditure of the Ontario Electricity Finance Corporation which are now incorporated into the provincial budget. The revenue estimates for 2003-4 include a negative one-time-only adjustment in income tax revenue to reflect an overestimate of revenue for the 2002 tax year. And finally, the revenue estimates for 2003-4 include only a partial year of the additional revenue generated from the tax cut roll-backs introduced by the Government in November.

In addition, the assumptions used in the four-year forecast in the fiscal update are not consistent with the structure of the government's election fiscal framework. The election framework distinguished between expenditures required to maintain the real per capita value of base year spending and the $5.9 billion in new program investments in the election fiscal plan. The fiscal update's projections are based on an assumed flat 5% annual growth in expenditures.

Table 2 summarizes the Liberal campaign fiscal framework.

Projected program spending incorporated an assumed annual growth rate in base spending of 2.6% to reflect inflation and population growth plus new investments totaling $5.9 billion annually by the end of the four-year term.[4]

OAB fiscal projections are based on the following assumptions:

- A full year of revenue from the November 2003 tax cut reversals will be available in 2004-5 and subsequent fiscal years;
- The remaining increases in tobacco taxes called for in the Liberal election program will be implemented for the 2005-6 fiscal year;[5]
- SARS expenses in excess of those compensated by the Federal Government will not recur;
- Revenue for 2003-4 will be as projected in the December 2003 Fiscal Review;
- Electricity-related revenues and expenditures will continue to be incorporated into the budget on a line-by-line basis;
- The new pricing structure for electricity will eliminate the net $500 million negative impact of electricity operations on the provincial budget;
- Federal Government transfers for health will follow the schedules for increases established in the September, 2000 and February 2003 federal-provincial agreements; all other Federal transfers will remain constant;
- Base expenditures (before allowing for new investments) will increase on average at the rate of inflation plus the rate of population growth, maintaining real, per capita spending at a constant level.

The base projection reflects the assumptions for economic growth, inflation and interest rates in the Ministry of Finance survey of private sector forecasters, are summarized in Table 3.

Based on these assumptions, Table 4 illustrates the OAB forecasts of revenue and expenditures for the period 2003-4 to 2006-7.

Table 2: Liberal Election Financial Plan

	2003-4	2004-5	2005-6	2006-7
Revenue	71.6	75.4	79.2	83.4
Program	59.4	63.2	67.1	70.1
Net Capital	2.5	2.5	2.5	2.5
Public Debt Interest	8.7	8.7	8.6	8.5
Total Expenditure	70.6	74.4	78.2	81.1
Program growth from previous		3.8	3.9	3.0
-- real per capita maintenance		1.5	1.6	1.7
-- new investments		2.3	2.3	1.3
Reserve	1.0	1.0	1.0	1.0
Annual Surplus	0.0	0.0	0.0	1.3

Table 3: Assumptions

	2003	*2004*	*2005*	*2006*	*2007*
Real GDP	1.7%	3.1%	3.60%	3.3%	3%
Inflation	2.70%	1.5%	1.7%	2.0%	2.0%
Nominal (real + inflation)	4.38%	4.60%	5.30%	5.30%	5.00%
Population	1.00%	1.00%	1.00%	1.00%	1.00%
10-year Government Bonds	4.80%	5.1%	5.60%	5.80%	5.80%

[1] Source: 2003 to 2006, all data except population, 2003 Ontario Economic Outlook and Fiscal Review, p. 6 and p. 9; population, estimate based on current trends; 2007, OAB estimate.

Table 4: Consensus growth

($ billions)	2002-03 Actual	2003-4 Projected	2004-5 Projected	2005-6 Projected	2006-7 Projected
Revenues	68.6	69.5	74.8	79.6	83.4
less Expenses		0.0			
Programs	56.9	61.9	62.8	65.3	67.2
Capital	1.9	2.5	2.5	2.6	2.7
Interest on Debt	9.7	10.0	10.3	10.1	10.0
Total Expense	68.5	74.4	75.7	78.1	79.9
less Reserve	0.0	0.0	1.0	1.0	1.0
less Current & Capital Contingencies		0.7	0.8	0.8	0.8
Adjustment for hydro rates		0.0	0.5	0.5	0.5
Annual Surplus	0.1	(5.6)	(2.2)	0.3	2.2
INCREMENTAL SPENDING			0.0	0.3	2.2
% Accomplished				4%	36%

This projection shows the expected deficit of $5.6 billion for 2003-4 and a further deficit for 2004-5 of $2.0 billion, on the assumption that none of the additional investments proposed in the Liberal platform are made in that year. For new investments to begin next fiscal year, the Government would have to be prepared to run a deficit in excess of $2 billion.

By 2005-6 the budget moves into surplus, generating additional revenue which could potentially be allocated to new investments.

On this scenario, with no tax increases beyond those promised in the Liberal platform and constraining the budget to be balanced in the last fiscal year of the mandate, Ontario's revenue base would support new investments of approximately $2.4 billion – approximately 40% of the incremental spending promised in the election campaign.

In addition to this base projection, the OAB also projected based on "low growth" (1% lower than forecast annual real growth) and "high growth" (1% higher than forecast real growth) scenarios.[6]

In the low-growth scenario, the deficit for 2004-5 is $2.6 billion, continues at $900 million in 2005-6 and is barely eliminated in the 2006-7 fiscal year, when there is a $200 million surplus. In a low-growth environment, the fiscal system is able only to bring the budget into balance over four years, leaving virtually nothing for new program investments.

While a high-growth environment is substantially better, it still does not avert a deficit in 2004-5, nor does it enable the Government to deliver on its $5.9 billion in new investment commitments. The 2004-5 deficit is down to $1.3 billion. Revenue is $2.2 billion higher by the last year of the forecast period, enabling the Government to finance approximately 3/4 of its $5.9 billion program while balancing the budget. However, the new investments are still $1.3 billion short of the original commitment.

Implications for public services

The original Liberal campaign commitment of $5.9 billion in itemized new investments is an extremely conservative estimate of what would be required to rebuild public services in Ontario, for two reasons. First, the costing of the new investments themselves was quite conservative and was criticized during the campaign as understated. Second, the total of $5.9 billion itself falls substantially short of external estimates of the financial implications of public services renewal.

The 2003-4 Ontario Alternative Budget, for example, detailed required new investments amounting to $9.7 billion over a two-year period as a first step towards services renewal.

To put the Liberal campaign program into perspective, based on current projections, it would result in a program spending to GDP ratio in 2006-7 of 13%, essentially the same as the ratio at the beginning of the Harris Government's second term.

The program as proposed by the Liberal Party during the 2003 election campaign was legitimately seen as a dramatic change in direction after eight years of cuts in existing services and neglect of emerging new public services issues. It could by no means be seen as the be-all and end-all in public services renewal. As a result, any significant shortfall from the targets set in the program spells real trouble for public services in the province and, by extension, real trouble for the Government.

Conclusion

It may be bad luck for Premier Dalton McGuinty, Finance Minister Greg Sorbara and the Liberal Government that they have taken power only to face a severe fiscal crisis. But it can hardly be characterized as a surprise.

The cumulative impact of repeated cuts in programs and services, and of neglect of emerging issues has been obvious for many years. Many members of the Liberal caucus, in opposition, played prominent roles in highlighting the impact of those cuts daily, in the Legislature and outside.

The impact of year after year of tax cuts, implemented without regard for their impact on the capacity of the province to fund public services, has been obvious for years. Key members of the Liberal caucus, led by their Finance Critic Gerry Phillips and his regular newsletter Treasury Watch, made valuable contributions to the public debate in focusing public attention on the cost to Ontarians of Conservative tax and fiscal policies.

Now the Government faces a difficult choice. In the short term, balancing the budget this year is absolutely impossible. Erik Peters' review of the province's fiscal situation has legitimized a deficit of $5.6 billion, and there is every indication that the Government will close the books for 2003-4 with a deficit on that order.

To balance the budget next year, without tax increases, would require cuts in program spending of $2 billion, even after electricity pricing reform and the implementation of most of the Government's election campaign tax program.

To put this into perspective, a $2 billion cut would be approximately the same as the cut implemented by the Harris Government in its first budget – hardly the kind of "change" Ontarians "chose" in the 2003 election.[7]

The Government cannot meet its balanced budget commitment by the end of its mandate and fulfill its public services renewal commitments without raising taxes. On current growth projections, the best it could expect to do is about 40% of what it promised.

The Government cannot possibly meet its balanced budget commitment for 2003-4, under any circumstances.

The Government cannot meet its balanced budget commitment for 2004-5 without drastic cuts in spending – cuts that would fly directly in the face of its signature campaign commitments.

Something has to give.

In the next few months, the Government will choose whether to deliver on its signature campaign commitments, or to sacrifice those commitments in order to deliver on an ill-considered pledge to a right wing fringe group – the Canadian Taxpayers Federation – in a campaign photo-op.

It cannot keep its signature campaign commitments for public services renewal without both increasing taxes and running deficits for at least part of its first term in office.

Its decision will likely determine whether the election of 2003 turned the political tide in Ontario, or merely set the table for a return to the shrinking services of the Harris era.

In the lead-up to the pre-budget consultation process, the Government stressed its openness to input from Ontarians about the choices it faces. It now appears that the Government is setting out in a new direction that takes the politics of broken promises to a different level – a new direction that looks like a flat-out repudiation of the core of Dalton McGuinty's election platform.

The Premier appears to have made the judgment that it is more important for him to keep his photo-op promise to the Canadian Taxpayers' Federation than to keep his commitment to Ontarians to renew our public services.

That's fine for the Government's supporters in the Canadian Taxpayers' Federation. But what does it mean for the millions of Ontarians who identified with Dalton McGuinty's message of hope and elected him their leader.

Instead of the Liberal platform, the Government is now offering selected groups of Ontarians the opportunity to discuss how to implement Ernie Eves' platform. And if the process doesn't convince the Government that there's a downside risk to turning its back on the Ontarians who put them into office, that's exactly what is going to happen.

Endnotes

1 Mackenzie, Hugh "Coming home to roost: Ontario pre-'budget' analysis "Ontario Alternative Budget 2003 Technical Paper #3

2 For a detailed summary and analysis of the Peters Report, see Mackenzie, Hugh, Magna Budget aftermath: the Sweet Revenge of Erik Peters, Behind the Numbers, Canadian Centre for Policy Alternatives, vol. 5 no. 1, November 5, 2003.

3 2003 Ontario Economic Outlook and Fiscal Review, Ontario Ministry of Finance, December 2003

4 Source: Ontario Liberal Party, September 2003; note that because of the accounting change, the numbers are no longer directly comparable to current budget numbers.

5 The Fiscal Responsibility Act increased tobacco taxes from $17.20 per carton to $19.70 per carton. The Liberal platform calls for an increase to the Canadian average, currently $27.43 per carton. The forecast assumes the move to the Canadian average will take place in 2005-6.

6 Detailed results are summarized in Appendix I.

7 The $2 billion cut is relative to a spending base of 2003-4 spending, increased by the rate of inflation and the rate of population growth. In 1996-7, the Harris Government cut spending, relative to the same standard, by $2.2 billion.

Appendix I

Table 5: High growth – average growth forecast plus 1%

($ billions)	2002-03 Actual	2003-4 Projected	2004-5 Projected	2005-6 Projected	2006-7 Projected
Revenues	68.6	69.5	75.5	81.0	85.5
less Expenses					
Programs	56.9	61.9	62.8	65.3	67.2
Capital	1.9	2.5	2.5	2.6	2.7
Interest on Debt	9.7	10.0	10.3	10.1	9.9
Total Expense	68.5	74.4	75.7	78.0	79.8
less Reserve	0.0	0.0	1.0	1.0	1.0
less Current & Capital Contingencies		0.7	0.8	0.8	0.8
Adjustment for hydro rates		0.0	0.7	0.7	0.7
Annual Surplus	0.1	(5.6)	(1.5)	1.6	4.4
INCREMENTAL SPENDING			0.0	1.6	4.4
% Accomplished				28%	74%

Table 6: Low growth – average growth forecast minus 1%

($ billions)	2002-03 Actual	2003-4 Projected	2004-5 Projected	2005-6 Projected	2006-7 Projected
Revenues	68.6	69.5	74.2	78.3	81.3
less Expenses					
Programs	56.9	61.9	62.8	65.3	67.2
Capital	1.9	2.5	2.5	2.6	2.7
Interest on Debt	9.7	10.0	10.3	10.2	10.1
Total Expense	68.5	74.4	75.7	78.1	80.0
less Reserve	0.0	0.0	1.0	1.0	1.0
less Current & Capital Contingencies		0.7	0.8	0.8	0.8
Adjustment for hydro rates		0.0	0.5	0.5	0.5
Annual Surplus	0.1	(5.6)	(2.8)	(1.1)	(0.0)
INCREMENTAL SPENDING			0.0	0.0	0.0
% Accomplished					0%

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