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Destination Unknown

The McGuinty Government Into the Home Stretch

By Hugh Mackenzie

When the Ontario Liberals were running for office in 2003, it was a challenge to figure out where a McGuinty government would be heading after it took office. The campaign was about rebuilding public services fundamentally weakened by nearly a decade under Conservative premiers Mike Harris and Ernie Eves and about restoring a sense of decency in public policy in the province. But the campaign also featured supposedly iron-clad promises to balance the budget without any tax increases in every year of the new government's mandate.

Because it was so obvious that these two sets of promises were incompatible, the campaign gave little indication of where the new government would actually be heading once it took office.

The first, most obvious and most celebrated casualties were the iron-clad commitments on taxes and the deficit. The promise to balance the budget in every year was replaced by a

commitment to balance it by the last year of the government's mandate. And the commitment to avoid tax increases was replaced by a health "premium" that amounted to the most regressive change in Ontario's personal income tax since Mike Harris's decision to reduce taxes on capital gains.

Since very few observers had expected the government to be able to deliver on these commitments, beyond the predictable expressions of political outrage, no-one was particularly surprised.

The government's record on the public services front is more of a mixed bag.

In the wake of the Rozanski report on funding for elementary and secondary education, the Eves government had already begun to renew funding for school boards. And while the McGuinty government has notably not addressed the basic structural and policy problems with the funding

formula for education, the government has allocated additional funding each year to support its own priorities.

Thus, although the government has provided increased funding to reduce class sizes, the funding formula still does not provide boards with enough money to pay the teachers they are legally required to employ. Similarly, the government has put up billions in new funding to address the deteriorating physical infrastructure of the school system, but has not addressed the under-funding of school operations that created the problem in the first place.

In postsecondary education, it has followed the recommendations of the Rae task force and set out a schedule for increased funding for colleges and universities over the next few years. But it has developed a bad case of amnesia when it comes to student tuition, ignoring the fact that tuition more than doubled during the years that Harris and Eves were in power and accepting current levels as a floor for future increases, beginning in the 2006–7 academic year. And with its announced 4.5% tuition increase for September 2006 — after two years of the freeze — it has effectively confirmed that it was just kidding when it froze tuition in 2004. The first year of the new high-tuition policy more than wipes out students' gains over the Harris/Eves policy of indexing tuition to inflation.

In health, the government's twin commitments to put all of the proceeds of the health premium and all increases in federal funding for health into the health care system has resulted in substantial increases in overall funding for the system. However, the government has done little to change the system itself. The home care system is still fragmented, still privatized, still a shambles.

The government has backed away from the conflict with major entrenched interests in the system — physicians, hospitals and private long-term care facility operators — that would be inevitable if real reform were attempted. It is one

of the last jurisdictions in Canada to move to a regional model for health services delivery, but has done so in a way that actually reduces system accountability. After attacking the public-private partnership (P3) model for capital financing, it has adopted an approach that is indistinguishable from that of Harris and Eves — one that will drive health care capital costs through the roof.

Funding has increased substantially. But we are missing an opportunity to use that increased funding to make the system work better for people.

If one looks only at these specific high-profile areas of public policy, it would appear that the government is making good on its promise to rebuild Ontario's public economy in the wake of the Harris and Eves governments.

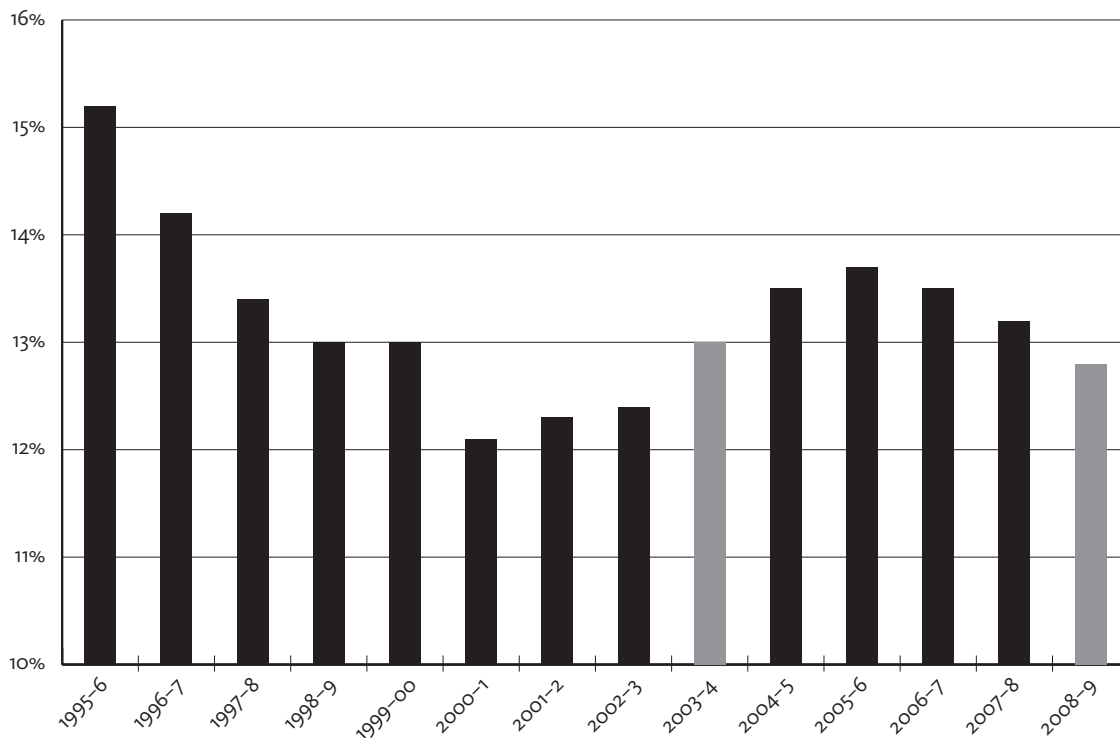
Look at the aggregate numbers, however, and the picture that emerges is totally different. One of the hallmarks of the Harris and Eves governments was an overriding goal of reducing the size of government.

Chart 1 shows provincial program spending as a share of GDP in Ontario from 1995–6 to 2005–6, with projections to the end of the McGuinty government's planning horizon.

The government's current fiscal plan would result in program spending dropping to 12.8% of GDP by the end of its planning period in 2008–9 — lower than it was in the last budget year of the Eves Conservative government.

If the Harris and Eves governments were about reducing the size of government, the record to date indicates that the McGuinty government is about consolidating the cuts to government services imposed under the Harris/Eves regime.

How is that possible, given the evident increases in funding in key areas? While the government has moved forward on some of the priorities it identified in the election campaign, it has done little or nothing to address public services gaps in other areas.

CHART 1 Program and capital spending as share of GDP, Ontario, 1995–6 to 2008–9

For all of its talk about fiscal imbalance, the government has done nothing to address the problems created for local governments by the downloading of provincial services to the local tax base. It has done nothing to support public transit beyond allowing federal funding to flow through to local governments. It is set to announce funding for a new subway in Toronto, but the TTC continues to depend more on fare revenue than any other major urban transit system in the world.

The government has talked a great deal about meeting the needs of infrastructure renewal, but in concrete budgetary terms, it has done nothing beyond making itself into an even bigger booster of commercialization through P3s than its predecessor. And beyond a couple of high-profile moves like the creation of the green belt around Toronto, there has been no progress on environmental issues whatsoever.

The most telling gap between rhetoric and reality, however, is in the government's policies to deal with poverty and homelessness. When it was in opposition, the Liberals were quick to attack the Harris and Eves governments for their decisions to cancel Ontario's affordable housing programs and to download responsibility for an ageing public housing portfolio onto local governments without adequate compensation, and for those governments' savage treatment of people forced to rely on social assistance. Yet, now that they are in power, the Liberals have done nothing in housing beyond finally allowing federal housing dollars to be spent in this province.

The social assistance situation is even worse. The first major policy announcement of the Harris government — made fewer than six weeks after it took office — was to slash social assistance benefits by 21.6% and to freeze benefits for

recipients of disability benefits. The initial cut, and the freeze that followed it, came to symbolize the attitude of the Harris Conservatives towards the less fortunate in this province.

Those reduced benefits remained frozen for the entire period of Conservative government.

Shockingly, however, social assistance rates are lower today — in real terms — than they were when the McGuinty government took office.

Charts 2, 3 and 4 illustrate this.

Chart 2 shows Ontario Works and Ontario Disability Support Plan (ODSP) rates since 1993, compared with the Consumer Price Index for Ontario.

Chart 3 shows Ontario Works and ODSP rates since 1993, adjusted for inflation.

Charts 4 and 5 present the same information in a form that highlights the abject failure of the McGuinty government to address the financial crisis visited on Ontario's most vulnerable families and individuals in the Harris/Eves era.

Chart 4 shows the percentage increase in Ontario Works benefits that would have been required to restore those benefits to their 1993 real value, in each year since 1993. It shows clearly that Ontario Works benefits are further behind inflation now than they were at the time of the election in September 2003.

Chart 5 shows the percentage increase in ODSP rates that would have been required to restore their 1993 real value, for each year since 1993. Again, the data show clearly that Ontarians dependent on ODSP benefits are worse off today than they were when the McGuinty government took office.

That bears repeating. Families and individuals who depend on benefits from Ontario Works and the Ontario Disability Support Plan are worse off today than they were when the Conservatives were defeated.

What should Ontario's budget priorities be?

The number one priority for the 2007 Ontario Budget must be income security renewal, broadly defined:

- social assistance reform;
- affordable housing and reduced homelessness;
- high-quality, affordable child care;
- additional funding for hard-to-serve students in elementary and secondary schools;
- action on the download of social services onto local governments;
- making postsecondary education more affordable for low- and middle-income students.

The fact that the government has failed to deliver on its promise to end the claw-back of the National Child Benefit Supplement from Ontario's families with children is a significant failure. And the fact that Ontario's most disadvantaged citizens are worse off now than they were when the McGuinty government was elected is a disgrace.

We need a real and credible commitment to infrastructure renewal.

The government's "don't confuse me with facts" approach to infrastructure funding is not producing the renewed infrastructure we need. Its forecast capital expenditure is lower now than it was in its first four-year budget plan. When the government department set up to tackle the infrastructure funding problem raised doubts about the costs of the Liberals' plan to commercialize public facilities, they fired the department and created an unaccountable arms-length agency to carry on with its original plan.

We need to address the issue of funding for local governments. When federal Liberal Finance Minister Paul Martin slashed transfer payments to provincial governments in 1995, the Harris Conservatives simply passed the cuts

CHART 2 Ontario Works Rates, ODSP Rates and the Ontario CPI (1993=100)

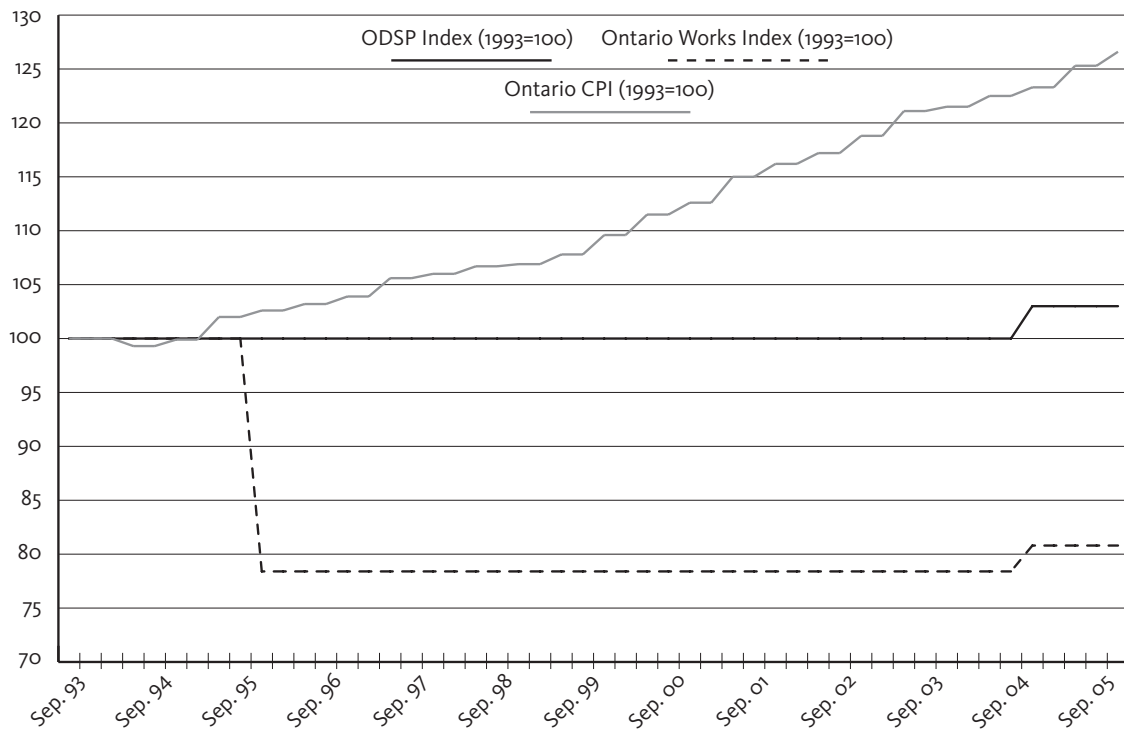


CHART 3 Ontario Works and ODSP Rates, Adjusted for Inflation (1993=100)

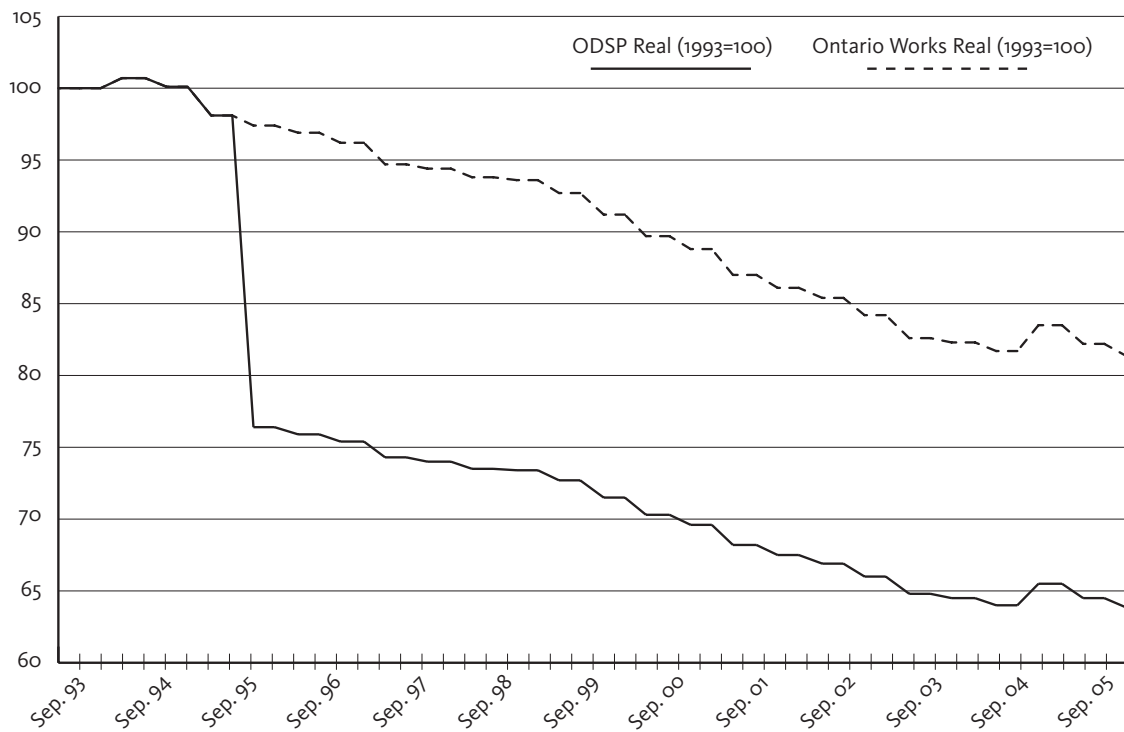


CHART 4 Ontario Works Cuts and Inflation
Percent Increase Required to Restore Real Value to 1993 Level

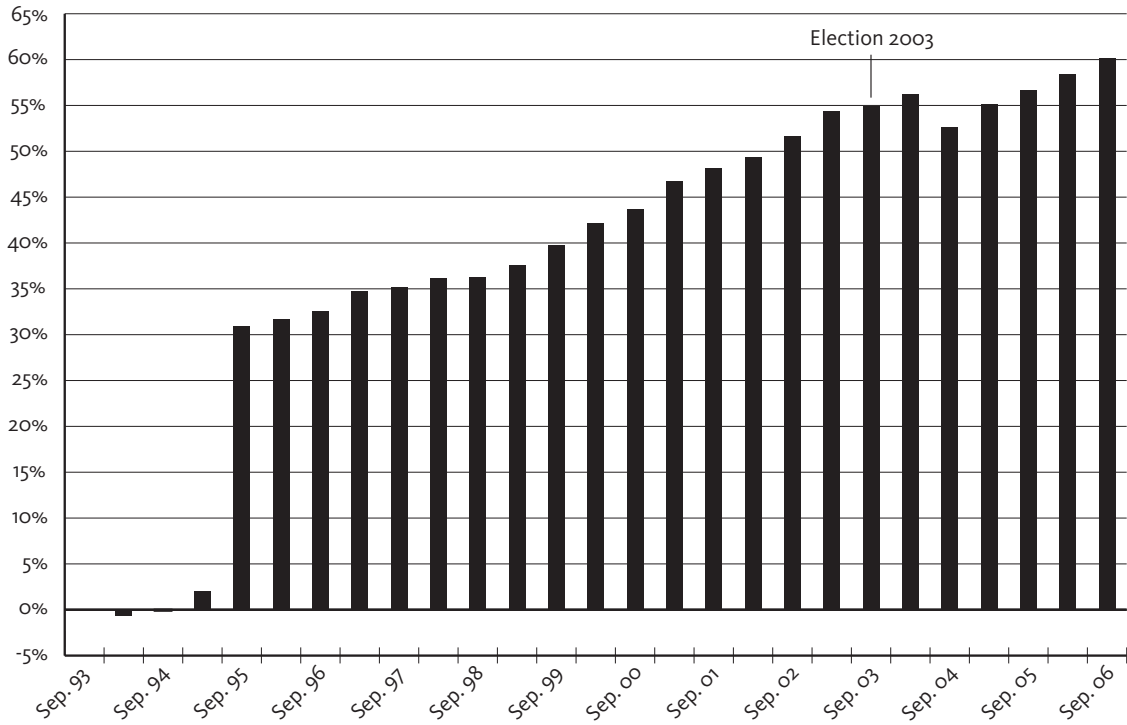
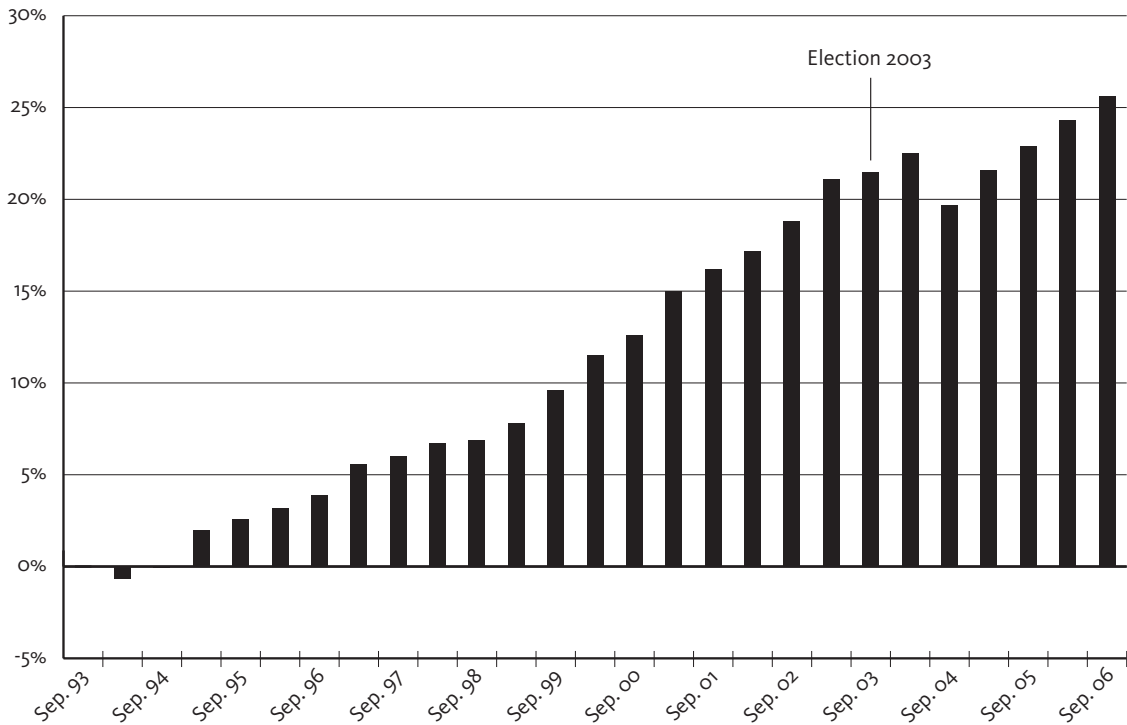


CHART 5 Ontario Disability Support Program and Inflation
Percent Increase Required to Restore Real Value to 1993 Level



on to local governments by cutting provincial transfer payments and downloading service responsibilities. Federal transfer payments started increasing again after 2000, but transfers from the province to local governments have remained the same. Local governments still pay for social housing. They still pay for ambulance services. They still pay for social assistance. And they are still in financial trouble.

And what about the money?

As the government scrambles to hide the budgetary gains it made in 2005–6, it can no longer credibly claim that it cannot afford to make a start on the changes Ontario needs.

The government's claim that the Harper government's plan to cancel federal child care

funding means that Ontario cannot proceed with reform is pathetic.

And in the bigger picture, the government's \$23 billion gap diversion has run out of gas. The McGuinty Liberals have to come to terms with reality: the real gap is between the services that Ontario needs and what the government is planning to provide, and that gap is a made-in-Ontario gap, caused by the reckless tax cuts of the Harris/Eves era. Tax cuts that are currently costing Ontario more than \$15 billion a year in lost revenue. Tax cuts that Ontario couldn't afford then, and cannot afford now.



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