The Ontario Budget and the 2014 election

Ontario Public Service Employees Union
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The political drama at Queen's Park entered a new phase this week with the tabling of the 2014 Budget on Thursday, followed by the news this morning that the Ontario NDP would not support it. NDP leader Andrea Horwath's rejection of the Budget guaranteed a general election. Premier Kathleen Wynne announced today that Election Day will be **June 12**.

The Budget, which now becomes the Liberals' campaign platform, was always designed to win votes. It promised significant spending increases in many areas and introduced a proposal to create an Ontario Retirement Pension Plan (ORPP). The ORPP, if approved by the Legislature, would have increased pension coverage for more than three million Ontarians who do not have workplace pension plans.

The ORPP was not a surprise when it was officially announced. Nor were the other Budget measures; most of the major ones had been leaked to the news media, one at a time, over the past few weeks. What was perhaps surprising was the extent to which the Liberals' spending promises were largely to be paid for through spending cuts in other areas, with new revenue measures playing a relatively small part.

The 2014 Budget predicted very little change in overall spending or revenue compared to last year. Overall spending for 2014-15 was set to increase by $3.4 billion, or 2.7 per cent, while overall revenues were set to increase by $3.4 billion, or 2.8 per cent. The resulting $0.2 billion shortfall, plus a $1 billion contingency fund, was projected to increase the provincial deficit by $1.2 billion, to a total of **$12.5 billion** for 2014-15 (see p. 261 in the Budget).

Once inflation is taken into account, the proposed real change in overall spending and revenue was very small indeed. The Ministry of Finance estimates that inflation will be 1.5 per cent in 2014 and 1.9 per cent in 2015 (207). That put the proposed overall increase in both spending and revenues in real terms (after inflation) at just over 1 per cent. *Overall* spending was barely changed at all. But the budget moved a lot of money around *within* the total.

The Ontario Retirement Pension Plan

The announcement in the Budget of a plan for an Ontario Retirement Pension Plan (ORPP) was much anticipated. Millions of Ontarians have no workplace pension plan, and the Liberal government still hopes that a pension plan that builds on the foundation laid down by the Canada Pension Plan (CPP) will meet the needs of those Ontarians – and be a vote-getter as well.

As described in the Budget, the ORPP would be a mandatory, defined-benefit plan for all employees who do not already have a "comparable" pension plan of their own. At this point, it is unclear what is meant by "comparable." (Is a defined contribution plan considered comparable? If so, many Ontarians will miss out on the superior benefits of a defined-benefit plan.) Nonetheless, the mandatory aspect of the plan would be welcomed. The proposal would require employees and employers to contribute 1.9 per cent of earnings each (3.8 per cent combined). Unlike the CPP, which allows pension contributions on earnings up to only $52,000 a year, the ORPP would allow contributions on income up to $90,000 a year. This would allow many middle-class earners to save much more than they currently can under the CPP. Their retirement incomes would be substantially higher as a result.

Many details of the ORPP are still to be worked out; the Liberals say they intend to work them out through consultations with employers and labour in time for 2017, when employees and employers would be able to begin to make contributions. If the ORPP were to be approved in legislation, as the government hopes to do (some day), the Technical Advisory Group currently providing input and advice to the government on the design of the ORPP would continue its work.

Expenditure changes in the Budget

Infrastructure

The Budget aimed to continue the Liberals' big emphasis on infrastructure spending, which began in earnest in 2009. The Budget put forward a 10-year plan to spend $130 billion, with $12.3 billion to be spent this year. Transit spending of $29 billion over 10 years was the centerpiece of the infrastructure plan, but more roads, hospitals, schools, colleges and the like were budgeted for as well. All of this spending was earmarked to go to private-sector contractors.

Subsidizing business investment

The Budget also proposed a Jobs and Prosperity Fund that would spend $2.5 billion over 10 years, or $250 million a year on average. The goal of this fund would be to help Ontario compete with other jurisdictions by enticing business to invest here:

> …the province must compete globally with other jurisdictions to attract strategic incentives to attract businesses, such as grants, tax breaks, energy subsidies and capital investments. With the new fund, the Province will have the flexibility to offer strategic incentives where necessary to secure key anchor investments in Ontario's interest, help support growth, and create well-paid jobs at home (71).

All of this money was to be funneled to private businesses.

Health care

On the health care front, the government hoped to continue with its 2013 promise to invest more into home care, adding $270 million this year (although this amount was a slower increase than in 2013). Part of this expenditure was aimed at boosting wages for Personal Support Workers. If passed, the budget would have increased their minimum wage to $14 an hour retroactive to April 1, 2014, $15.50 a year later, and $16.50 the year after that 2016 (27).

The government also hoped to invest an additional $65 million in mental health services in 2014-15. The expansion of the Mental Health and Addictions Strategy was intended to promote mental health and well-being, ensure early identification of mental health needs, expand housing and employment supports, and "provide funding based on need and quality" (31). The $65 million was set to grow to $83 million a year by 2016-17.

If passed, the budget would have also funded one cycle of in vitro fertilization per patient per lifetime for "people in this province who want to become parents." The proposed funding increase would have covered an additional 4,000 patients annually (31).

Child care

The Budget proposed spending $269 million more over three years "to support an average $1 per hour wage increase in 2015 and a further average $1 per hour wage increase in 2016 for frontline child care workers" (13).

Poverty reduction

The Budget proposed increasing the Ontario Child Benefit (OCB) maximum payment per child by $100, to $1,310, and then indexing the OCB to inflation so that it would go up automatically each year (114-115). The Budget would also have expanded the Healthy Smiles program to provide free dental services to 70,000 more children in low-income working families (115). Schoolchildren would also see the expansion of the Student Nutrition Program, which would be expanded from the current $20 million a year to $32 million a year by 2016-17 (116).

The Budget proposed spending an additional $42 million a year on a "housing-first approach to homelessness" as part of the Community Homelessness Prevention Initiative (119). The government also planned to put another $80 million a year into affordable housing for each of the next five years (120). A further $10 million a year was to be allocated to a poverty reduction fund to support "local solutions to poverty" (121).

The Budget proposed increasing social assistance rates for people receiving income support through either Ontario Works or the Ontario Disability Support Program by one per cent this year (less than the rate of inflation).

Social services

The Budget responded to the public outcry over underfunding of developmental services by announcing an additional $810 million in funding over the next three years, with $200 million of this allocated to improving compensation for workers in the sector. Specifically, the Budget said that

> "…this investment will support the continued professionalization of the community and developmental services sector and support salaries and wages for front-line workers, including those in lower wages bands. It will support overall transformation of the sector by providing agencies with the flexibility needed to modernize how they offer the right mix of services to vulnerable Ontarians" (127).

The Budget also proposed to spend $5 million a year for children's treatment centres to reduce wait times for core services for children and youth with special needs (127).

First Nations

A new Remote Communities Allowance was proposed to increase incomes for social assistance recipients in remote (northern) communities. The Budget allocated $2 million over two years to help prevent violence against aboriginal women. An Aboriginal Economic Development Fund aimed to spend $25 million over three years to support aboriginal businesses and skills-training programs (129-131).

Paying for the new expenditures

The above summary does not detail every new expenditure proposed in the Budget; there were many others. Most of these proposals are praiseworthy, to varying degrees, in and of themselves: some would build infrastructure; some would provide positive help to those Ontarians struggling at the bottom end of that economy; and some would actually improve a particular public service. But they would all have cost money – just like an unexpected shortfall in transfer payments from the federal government, which will cost Ontario $641 million compared to last year (276), election or no election. All of these changes raise an important question: how would they be paid for?

In the Budget, these changes would have been paid for in three main ways: through **small tax increases**, **big spending cuts**, and significant **asset sales and privatization**.

Tax increases

The major income tax change in the budget was designed to affect only the top two per cent of all income tax filers – those making over $150,000 a year in taxable income. Right now, those making over $150,000 but less than $514,090 pay income tax at a rate of 11.16 per cent. Under the proposal in the Budget, the current top rate of 13.16 per cent, which only applies to those earning more than $514,090 in taxable income, would apply to those making more than $220,000. Those earning more than $150,000 but less than $220,000 would pay 12.16 per cent, an increase of one per cent. This change would raise $635 million in 2014-15 (322).

The budget proposed stopping large corporations from using a small business tax deduction that allows companies to pay a Corporate Income Tax rate of 4.5 per cent on their first $500,000 of business income. This change, which would affect only 1.5 per cent of Ontario companies, would raise $40 million in 2014-15 (324).

A tax increase proposed for aviation fuel would raise $25 million this year (325), and an increase in the Tobacco Tax would raise $140 million (332). Changing Ontario's tax system to parallel the federal tax system in several areas would raise $60 million (335).

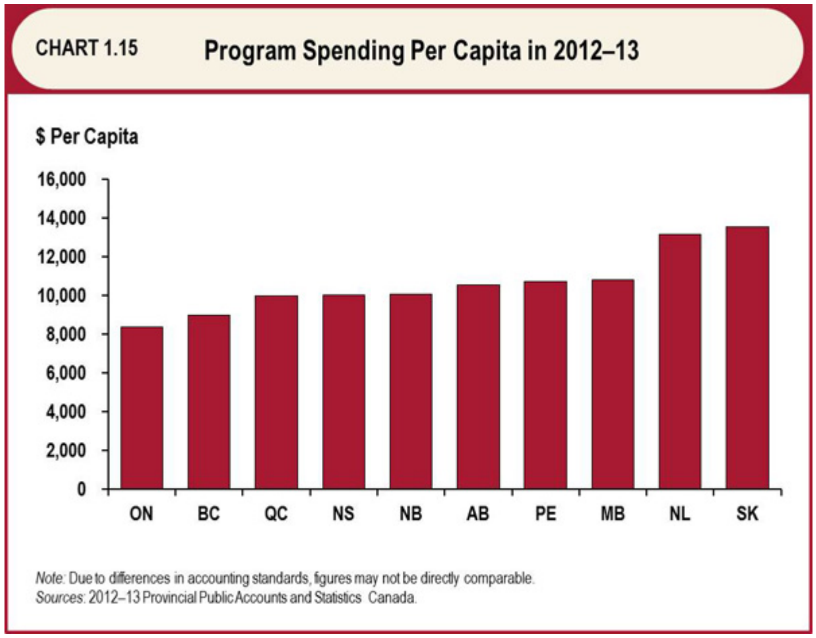
In total, tax changes in the 2014 Budget were intended to increase total revenues for the government by $900 million (337).

Spending cuts

The government brags that Ontario has the lowest program spending per capita of any Canadian province (149) and, not surprisingly, the lowest per capita revenues as well (150). But rather than taking these facts as a sign that Ontario's public sector is grossly underfunded, the Wynne Liberals are determined to maintain Ontario's last-place status. To do this, the Budget proposed an "annual program review savings target" to cut even more. This target was set at $250 million for 2014-15 and $500 million for each of 2015-16 and 2016-17 (151). The Budget reads:

> Finding efficiencies in public services delivery is already underway in many sectors. The government will focus on enhancing these successful models by adopting best practices; driving

> efficiencies; eliminating duplication to reduce costs in the Ontario Public Service (OPS) and broader public sector (BPS): and adopting technology and other tools to improve customer service and accelerate sector transformation that is already showing results (151).



In addition to "Managing Executive Compensation" in ways that are not fully explained and continuing to freeze the salaries of MPPs (152), the Budget took aim at the wage and benefit costs of regular working people in the public sector – including almost every OPSEU member. In addition to increasing costs for retiree benefits for members of public service pension plans (including the OPSEU Pension Trust), the Budget aimed to clamp down on wages and benefits in all sectors:

> With over half of government spending going to salaries and benefits in the OPS and BPS, managing public-sector compensation costs is an important part of the Province's plan to control spending and protect front-line government services. Compensation costs must be addressed within Ontario's existing fiscal framework. All public-sector partners need to continue to work together to control current and future compensation costs…. Any modest wage increases that are negotiated must be absorbed by employers within available funding and within Ontario's existing fiscal plan through efficiency and productivity gains or other tradeoffs so that service levels continue to meet public needs (153).

The most likely translation of this in the real world? All wage gains would be paid for with layoffs – as long as those remaining behind in the workplace could be made to work harder. Otherwise, wages would be "frozen," that is, reduced by the rate of inflation.

The Liberals' relentless focus on cutting wage costs in the public sector might suggest that public sector wages are somehow to blame for the province's financial deficit. This is untrue. Right now, wages for unionized public sector employees in Ontario are lower on average, after inflation, than they were in 1992! As noted above, Ontario's overall program spending per capita is the lowest in the country. And prior to the 2008-09 recession, the provincial budget was balanced for three years in a row. It was the recession, not public sector wages, that caused the deficit. Yet for all its talk of "fairness," the 2014 Ontario budget was blatantly *un*fair in the way it treated public employees.

Public expenditures on public services have faced intense scrutiny in Ontario for many, many years. What is nearly always overlooked, though, is *private sector* spending *paid for by government*. According to the Centre for Spatial Economics, a mainstream economic forecasting firm, fully 38 per cent of government budgets in Ontario were being spent in the private sector in 2010 – a sharp increase from 27 per cent in 1997. What is little understood by the public in this province is that while the publicly-funded public sector is in a grim recession, the publicly-funded private sector is experiencing an economic boom. Lucrative government contracts and ever-expanding opportunities for private profit paid for by public dollars have become the new normal in Ontario.

Asset sales and privatization

With $626 billion in cash, Canada's corporations are hungry for investment opportunities. And no part of the economy offers greater promise of steady profits than public services, set up and paid for with public dollars. That is why, in the last decade, Ontario has become "a global leader in public-private partnerships," the Budget said. "The Province uses Alternative Financing and Procurement (AFP), a made-in-Ontario, public-private partnership model, to consistently deliver valuable public infrastructure on time and on budget" (63).

What the Budget failed to mention is that a project can be "on time and on budget" yet still be *more expensive*. Indeed, the history of private involvement in the public sector in Ontario proves exactly that: when it comes to value for money, no government policy of the last 20 years has had a worse track record than privatization (see www.opseu.org/epicfail for the full story). Yet with this Budget, the Wynne government signaled its commitment to drive ahead with "asset recycling" and move aggressively to "unlock the value of provincial assets" (163) – they even drafted a bank president, Ed Clark, to lead the unlocking. What this means was not clear in the Budget. Most likely it means selling geese that lay golden eggs – or at the very least renting out the revenues they provide in exchange for cash up front.

The trend towards greater private involvement in public services has been around for some time. But it has accelerated since 2012, when the Commission on the Reform of Ontario's Public Services (the Drummond Commission) called on government to get more public services off the books for good. This change in the way public services are provided is of far greater significance to the future of Ontario than individual spending or revenue decisions in a particular budget in a particular year. Private control of government undermines our ability to build our future together as citizens of a province. Ultimately, it undermines democratic control. For the citizens of Ontario, private influence and control over government makes Ontario "theirs," not "ours."

For OPSEU members, the role of the public – and the public sector – in Ontario society promises to be the central issue in the next election. What kind of Ontario do we want to live in? One in which the public interest is devoured by the private interests who already control the province's biggest corporations? Or a fair Ontario built on a foundation of quality public services funded by fair and adequate taxes?

That will be the question on the ballot June 12.

Authorized for distribution by Warren (Smokey) Thomas, President.

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