The “Shock Doctrine” Comes to Ontario

Overview of the 2012-13 provincial Budget

Ontario Public Service Employees Union
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Budget 2012: The "Shock Doctrine" Comes to Ontario

Overview of the 2012-13 Provincial Budget

"The bad bank debt that triggered the crisis in 2008 never went away – it was simply shifted on to governments. Private debt became public debt."

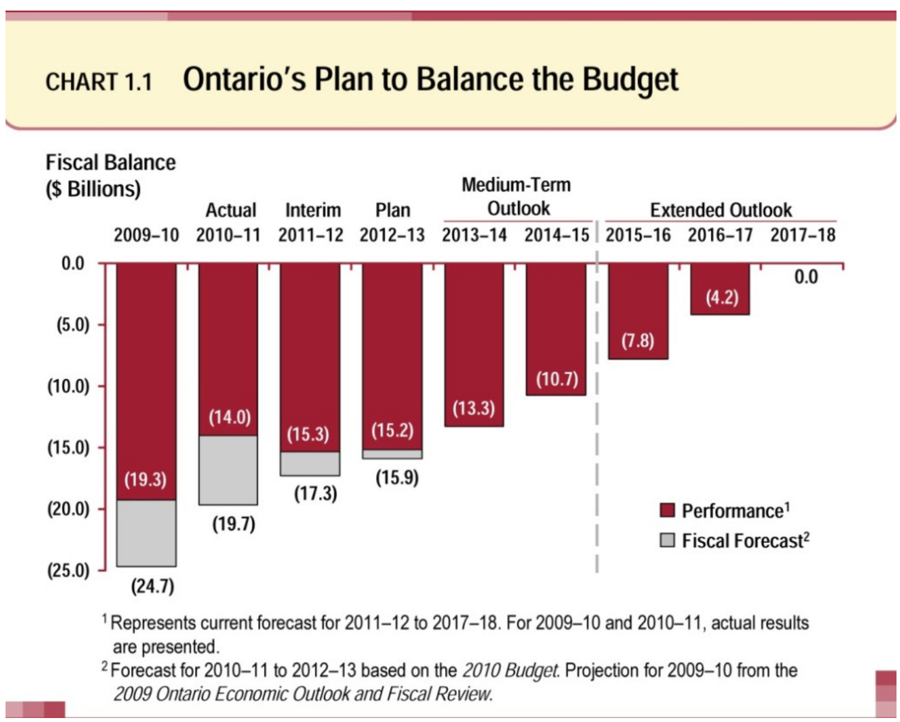
David McNally, Global Slump

Naomi Klein's 2007 best-selling book *The Shock Doctrine* describes how big business and governments around the world have learned to take advantage of crises to create new investment opportunities and boost corporate profits. Any kind of crisis will do – an earthquake, or a war, or a recession – and it doesn't matter who is to blame. Because when the crisis hits, the "solution" put forward is always the same: *money moves upward* from people who can't afford to lose it to people who already have a lot. Usually, the people who are hit hardest are too disoriented and intimidated by the crisis to fight back.

The global recession of 2008-09 did not start in the public sector, and it did not start in Ontario. It started on Wall Street and in other financial capitals, where a small number of bankers and hedge fund managers took insane risks that sank the global economy. Now, regular people in countries around the world are being told to pay up for the colossal mistakes of the richest people on the planet.

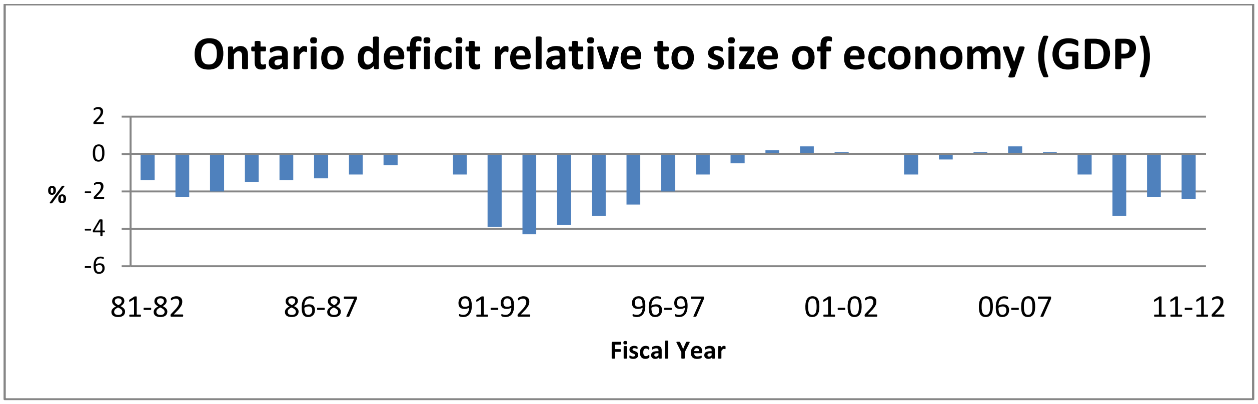
In the 2009 and 2010 budgets, the Ontario government responded to the Great Recession by spending money. This "stimulus spending" was the right approach to take, and governments around the world took the same path. Government spending created jobs, and it saved jobs. It did not prevent the recession, but it did lessen its impact on people.

The recession has left governments everywhere with Budget deficits, and Ontario is no exception. Finance Minister Dwight Duncan has estimated the deficit for 2011-12 (the year just ending) at $15.3 billion. For the year ahead (2012-13), Duncan says the deficit will be $15.2 billion. The Budget introduced on March 27, 2012 says the deficit will be reduced to zero by 2017-18 (see chart at right, from p. 6 of the Budget).



How Big is the Deficit?

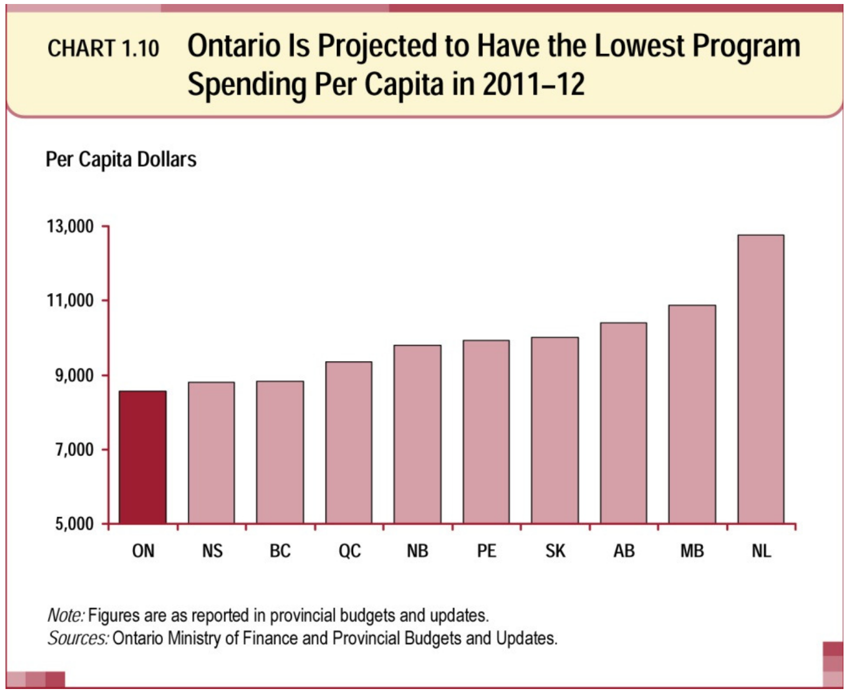
The deficit is the difference between how much money the government is taking in compared to how much it is spending. Fifteen billion dollars sounds big, but compared to what? Any government's ability to pay depends on the size of its economy. Viewed in that way, $15.3 billion is about 2.4 per cent of the province's economy. To put that in context, Ontario's deficit was worse than that *for five years in a row* from 1991-92 to 1995-96, as the chart below shows.[1]



If the government's goal is simply to balance the Budget, it seems obvious that this can be done without the severe cuts that happened in the mid-1990s. But Don Drummond, the bank vice-president who advised the government on how to balance the Budget, has recommended spending cuts that are *deeper* and *longer lasting* than those of the 1990s. In his Feb. 15, 2012 report, Drummond called for cuts in real per capita spending[2] of 2.5 per cent per year for six years.[3] This means a real cut, after compounding, of *more than 16.2 per cent.*

In the 2012-13 Budget, Finance Minister Dwight Duncan has more or less accepted Drummond's target, choosing to spend a mere 0.2 per cent more than Drummond recommended. For the next three years, the Budget will increase spending by 1.0 per cent in dollar terms. But after inflation and population growth are taken into account, what sounds like an *increase* is actually a *cut*. Overall, the Budget plans for a *real* spending cut of about 2.3 per cent per year.[4]

	Spending growth in 2012-13 Budget, in dollar terms, next three years	**REAL change in spending per capita per year (after inflation)**
Total Government	1.0%	-2.3%
Health	2.1%	-1.2%
Education (Schools)	1.7%	-1.6%
Education (Post-Secondary)	1.9%	-1.4%
Social Services	2.7%	-0.6
Justice	0.4%	-2.9%
Social Services	0.5%	-2.8%
All Other Programs	-4.3%	-7.6%



It is important to emphasize that the current Ontario deficit was *in no way* caused by government spending. Prior to the recession, Ontario's Budget was in balance for 2005-06, 2006-07, and 2007-08. Furthermore, *Ontario spending per person is the lowest of any province in Canada*. "This is the backdrop to Ontario's efforts to bring down its deficit," says Matthew Mendelsohn, director of a University of Toronto think tank. "It already runs the least expensive, most efficient programs in the country."[5] In fact, for the year just ended, Ontario's program spending per capita is *11 per cent lower* than the average of the other nine provinces.[6]

The idea that Ontario's public services need to be slashed to pay off the deficit does not stand up to scrutiny. There must be another explanation.

Exaggerating the Deficit

In the 2009 Budget, the McGuinty government decided to speed up major investments in infrastructure to save jobs and create jobs in the construction industry, with the goal of injecting stimulus into the whole economy. At the same time, the government made two major moves that transferred money from people and public services to Ontario's corporations. The first was to introduce the Harmonized Sales Tax (HST), which caused Ontario consumers to pay consumption taxes that had previously been paid by businesses. The second was to announce a cut in the Corporate Income Tax rate from 14 to 10 per cent of taxable profits. The government said this move alone would cost provincial coffers $2.4 billion a year when fully phased in. (As of July 1, 2011, the rate had reached 11.5 per cent and was costing $1.5 billion a year.) It was obvious in 2009 that the money lost could only be recuperated by a) raising taxes; or b) cutting public spending. It was also obvious that the McGuinty government had made a decision to transfer money from regular Ontarians to business – including some of the richest corporations in the country.

The 2012-13 Budget is another step on the journey the government began in 2009.

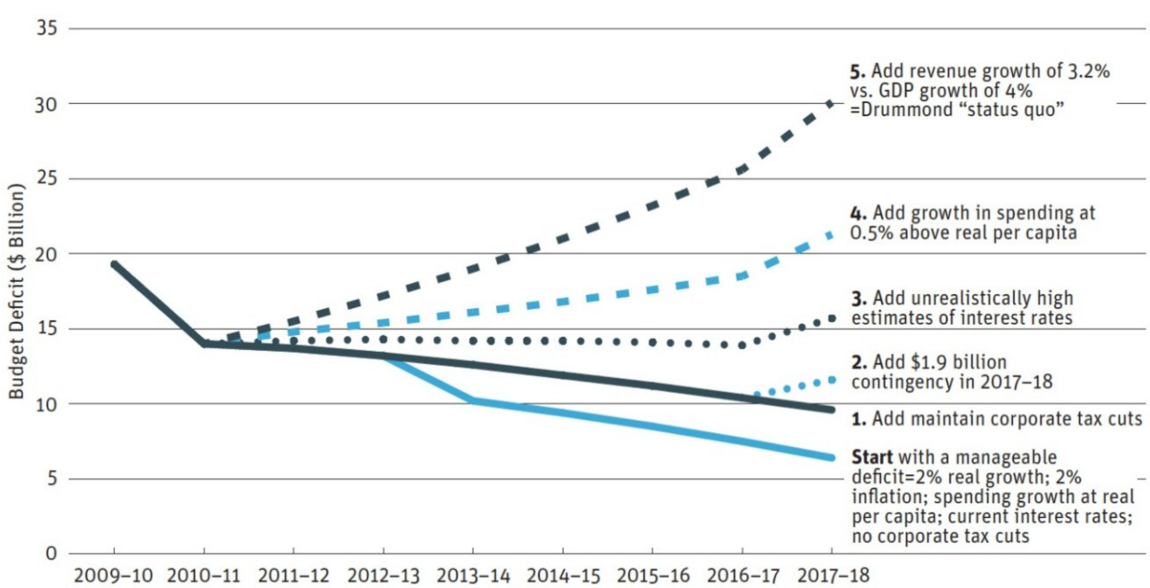
Cuts to public services like health, education, transportation, environmental protection and so on are seldom popular. That is why scaring Ontarians has been an important part of the government's deficit strategy. By claiming that the deficit will grow rapidly unless drastic measures are taken, the Liberals hope to make Ontarians accept severe cuts that they would never accept in normal times.

In his report, Don Drummond claimed that Ontario's deficit would reach more than $30 billion in six years if the province did not change its ways. Hugh Mackenzie, a researcher with the Canadian Centre for Policy Alternatives, has documented the assumptions Drummond makes in order to get the number that high:

1. Drummond assumes that government revenue will grow more slowly than the economy. It won't. Revenue growth normally outstrips growth in the economy.
2. Drummond assumes the average interest rate Ontario pays on its debt will go up. It won't. Right now, all Ontario debt that comes due is being refinanced at a *lower* interest rate. The average interest rate on our debt right now is 4.3 per cent, but we are refinancing new debt at 3.5 per cent. With a struggling economy, the U.S. has vowed to keep interest rates low. Interest rates aren't going up any time soon.
3. Drummond assumes real per capita spending (after inflation is taken into account) will go up by 0.5 per cent a year. It won't. It could be maintained at the current level.
4. Drummond's assumptions include a contingency fund that will add $1.9 billion to the deficit in six years.[7]

If we reject these incorrect assumptions, the Ontario deficit is actually on track to go down to $9.6 billion in six years just by keeping per capita spending at current levels. And $9.6 billion is **NOT** $30 billion. The chart below, from Mackenzie's report, tells the story:

FIGURE 3 From Manageable Deficit to Fiscal Crisis in Five Easy Steps



Summary of sources/assumptions *Drummond Status Quo:* Real growth: 2%; CPI inflation: 2%; GDP inflation: 1.9%; Spending growth: 3.5%; Interest rate on new borrowing/refinancing (implicit): 5.3%. *Manageable Alternative:* CPI inflation: 2%; GDP inflation: 2%; Spending growth: 3%; Maintain real per capita public services spending; Restore general corporate tax rate to 14% effective 2012–13; Interest rate on new borrowing/refinancing: 3.5%.

It is worth noting that Finance Minister Dwight Duncan has overestimated the provincial deficit every year since the recession began. In 2009, Duncan said the deficit would be $24.7 billion; by the end of the year it was $19.3 billion. In 2010, he said the deficit would be $19.7 billion; the final figure was $14 billion. Clearly, the Minister has worked hard to keep deficit estimates frightening so that the final real result is cheerful.[8] What this means, in simple terms, is that the Minister's numbers can't be trusted.

Ignoring Revenue Options

Perhaps the biggest assumption the Drummond Commission made was that the government has few options when it comes to raising revenues. This is not true. The government recognized this in the 2012-13 Budget when it postponed the cuts to the Corporate Income Tax rate, leaving it at 11.5 per cent, and also postponed cuts to the Business Education Tax rate. Together, these changes will save the government $1.1 billion a year (by 2014-15) that would otherwise have been lost.

The only other revenue measures contained in the budget involve either a) increased user fees, specifically for services provided by the Ministry of Transportation or the Ministry of Environment[9]; and b) plans to make more money from drinking and gambling by "optimizing" the Liquor Control Board of Ontario and "modernizing" the Ontario Lottery and Gaming Corporation.[10]

Taken together, these measures add up to $4.4 billion over three years, or just over 1 per cent of total revenues. Other than these few changes, however, the government has not looked seriously at the revenues that could be raised by making the tax system fairer. "The plan rejects tax increases," the Budget intones[11]. "In total, we have reduced taxes for Ontario businesses by over $8 billion a year," the Minister boasted in the Budget speech.[12] At one point, the Budget notes that:

> Ontario tax revenue has been falling as a share of the economy. Tax revenues are 11.6 per cent of gross domestic product (GDP), almost 15 per cent lower today than the ratio in 1994. While some may argue for tax increases, the McGuinty government will not take that path to balance the budget.[13]

What the Budget doesn't say, but should, is if we had the same tax rates today that we had in 1994, Ontario's current Budget *deficit* would be a Budget *surplus!*

With 600,000 unemployed Ontarians, 400,000 children growing up in poverty, and long waiting lists for housing and long-term care, it is clear that Ontario has urgent problems that need to be addressed. Ontarians, including those who think of themselves as middle class, are working longer hours at stagnant wages and going deeper into debt in a bid to maintain a decent standard of living. But while the majority struggles, high-income earners and corporations are living in a different world.

High income earners can disguise much of their income as "capital gains" and pay a much lower rate of tax than those who cannot make use of such loopholes. In 2010, the average income of Canada's Top 100 CEOs was 189 times that of the average full-time worker.[14]

The result of tax changes that benefit the well-to-do is greater income inequality. This inequality cannot be ignored as simply another issue to be dealt with – or not – at some distant time after the deficit is eliminated. Dealing with the deficit must be done in a way that reduces income inequality and strengthens the economy at the same time.

With Canada's corporations sitting on $512 billion in cash and the top one per cent of Canadians earning 13 per cent of income in the country, it's time for a discussion about tax fairness. Here are just a few options that would reduce inequality and help fund the public services people need:

- **Eliminate the lower tax rates for income earned from stock options.** Only the highest-paid Ontarians receive any of their income in the form of stock options, but those who do pay tax at half the rate most Ontarians pay on income. A buck is a buck, but so-called "employee security options" cost the Ontario treasury $180 million in 2010-11[15] and are expected to cost much more in 2012-13.
- **Make income tax rates more progressive.** The Conservative government of Mike Harris reduced the tax rate on high-income earners from almost 17 per cent to 11.16 per cent. Even raising the rate on high income earners by two points to 13.16 per cent would have a significant impact on provincial revenues. That's because the top one per cent of Canadian taxpayers earn more than 13 per cent of the income in the country.[16]
- **Introduce a Financial Transactions Tax (FTT).** Much of the "investment" that takes place these days is not investment in the productive economy but speculation. Originally conceived as a way to dampen speculative trading, a "Robin Hood Tax" on trades in stocks, bonds, derivatives, and currency would also raise money for public services. Even a rate as low as 0.1 per cent on trades would raise well over $1 billion a year on the $1.5 trillion in trades made through the Toronto Stock Exchange. And that's assuming the tax succeeded in dramatically reducing speculative trading.
- **Tackle the problem of offshore tax havens.** Canadian companies are now "investing" $160 billion a year in countries viewed as "tax havens": Barbados Cayman Islands, Ireland, Bahamas, and Bermuda. The main "service" these and other countries offer to foreign corporations is, to be blunt, legalized tax evasion.[17] One academic study estimated that Canadian banks avoided $2.4 billion in taxes in 2007 alone through the use of tax havens.[18] The Ontario government should be working with the federal government and Canadian businesses with overseas holdings to insist that money earned in Canada be taxed in Canada.
- **Restore corporate tax rates to 2009 levels.** In the 2009 Budget, the Ontario government announced cuts to corporate income tax rates that, by the government's own estimate, were designed to cost the Treasury over $2.4 billion a year by July 2013.[19] While the government has postponed further cuts to the corporate tax rate, there is still approximately $1.5 billion a year missing from provincial coffers due to the rate cuts that happened in 2010 and 2011.

If corporate income tax cuts were going to create jobs, they would have done so by now. We have seen corporate income tax rates fall for the last 10 years, but the rate of investment has actually gone *down*.[20] The federal government says that every dollar a government spends on corporate tax cuts creates just 30 cents worth of economic growth. But we get $1.70 in economic growth when we support unemployed and low-income people, and $1.40 when we invest in public services.[21]

The government's decision to postpone further cuts to the Corporate Income Tax rate is good as far as it goes, but it does not represent a sacrifice on the part of Ontario's corporations. Those corporations' profits come from centuries of hard labour by working people in Ontario. In the end, it is working people, and those who are unable to work, who are called on to make the sacrifices in the 2012-13 Budget.

A Catalogue of Cuts

While the government plans to raise $4.4 billion in new revenues over the next three years, it plans to cut four times that amount, or $17.7 billion, over the same period. The cuts to public spending and public services in the Budget are so numerous that the government has published them in their own book, available online at http://www.fin.gov.on.ca/en/budget/ontariobudgets/2012/addendum.html .

Prior to the Budget, the government had already announced the closure of the Bluewater Youth Centre (Goderich) and the downsizing of the Cecil Facer Youth Centre (Sudbury) and the Brookside Youth Centre (Cobourg). But the Budget goes farther, saying it will "rationalize excess capacity in the youth justice system, in part, by reducing the number of transfer payment agencies contracted to provide open custody services."[22] On the adult side, the government had already announced the closure of the Owen Sound, Walkerton, and Sarnia jails; now it is also closing the Brantford and Chatham jails and fully closing the Toronto West Detention Centre.[23] These three closures will affect close to 500 active OPSEU members.

While no ministry of the Ontario government avoids the axe entirely in the 2012 Budget, some areas are notable for the severity of their punishment. The Ministry of the Environment is to be cut, in dollar terms, by over nine per cent, which makes for real cut of more than 12 per cent after inflation and Ontario's population growth are taken into account. *This is happening even though the Environmental Commissioner of Ontario noted recently that the MoE's budget was 45 per cent less today, in real terms, than it was in 1992*.[24]

In social services, the government has frozen social assistance rates, which will very soon be only half of what they were, in real terms, in 1995. The Budget bluntly says that recent growth in social assistance spending is "not sustainable." The government is awaiting the report of the Commission for the Review of Social Assistance in Ontario, expected late this year, but it is clear that whatever that Commission's recommendations, they will only be considered in the context of cost-cutting.[25]

At the same time, the government is slowing down its plans to increase the Ontario Child Benefit, currently at $1,100 per child per year.[26] In developmental services, the language is coded, but it is clear that the government plans to move quickly to an individualized funding model that can only undermine existing developmental service agencies: "The government… is examining the best way to give individuals and families more choice and encourage greater opportunities for individuals with developmental disabilities to participate fully in their communities while encouraging greater efficiencies in the sector."[27]

It is true that in the Budget there are some areas that may see modest spending increases. But with overall spending declining, any gains, no matter how small, are paid for by cuts in another area.

The health care sector is a perfect example.

Back in February, many health officials said that Don Drummond's recommendation to restrain health care funding to increases of 2.5 per cent per year (a cut of about 0.8 per cent a year, after inflation and population growth are accounted for) were simply not workable. But the new Budget limits spending to an average 2.1 per cent (-1.2) over the next three years.

Hospitals will be the hardest hit – their core budgets set at zero. The government has set aside 2 per cent in envelope funding for specific hospital programs, such as wait times initiatives.

Home care and community care will get the biggest increase at 4 per cent (+0.7) per year, bringing funding to $526 million more annually by 2014-15. Already stretched thin, home care will face a greater transfer of hospital patients under the government's present scenario.

Long term care will receive a 2.8 per cent increase (-0.5), although only 1 per cent will be dedicated to front line care to residents. Surprisingly, after complaints about nursing homes siphoning off care money to their accommodations budget (where they are allowed to take profit), the province says that it will provide operators with "greater flexibility to pay for services from their current funding structure."[28]

There is no mention at all of mental health services in the budget. Once considered to be a major priority for government, it appears to be content to play out its modest plan of addressing child and youth mental health for at least the next two years.

Much of the Budget has been lifted straight out of the Drummond report, including more flexibility (read: power) for the Local Health Integration Networks to allocate resources. They also like the idea of shifting more "routine" procedures from hospitals to not-for-profit clinics.

The other surprise is the extension of the so-called HBAM (Health-Based Allocation Model) funding to Community Care Access Centres and Long Term Care homes. Originally it had only been discussed in the context of hospitals. The budget states that these health providers "will be funded based on the types and volume of services and treatments they deliver, at a price that reflects the best practice and complexity of patients and procedures."[29] While best practices are usually discussed in clinical terms, it is interesting that the government inserted "price" into the equation.

The government also adopted Drummond's recommendation to make wealthier seniors pay for more of their drugs. Instead of simply taxing the rich, the government prefers a complex process of assessing senior's income and adjusting deductibility on the Ontario Drug Benefit plan. The net result is that about five per cent of seniors will be paying more. Seniors with incomes in excess of $100,000, or couples in excess of $160,000, will pay an average of $665 more per year on the cost of their prescription drugs. It is interesting to note that they say these income thresholds will not be adjusted for inflation, meaning more seniors will be eventually required to pay a greater share of their drugs costs over time. The government did not adopt Drummond's plan to use the savings from doing this to increase access to drugs for working age low-income Ontarians.

While Don Drummond found a zeal for public health, it was not reflected in the budget. There is no plan to upload that remaining 25 per cent share of public health costs from the municipalities. Not surprisingly, neither does the McGuinty government plan to increase public health funding to BC levels, which are about three times the per capita investment of Ontario.

Don Drummond's recommendation to widen coverage of Medicare in Ontario was likely intended to blunt criticism from progressive quarters. Needless to say, it didn't make the Budget. In fact, there is a suggestion that there could be reduced coverage for certain kinds of testing.

Restructuring Public Services

It is not possible here to fully catalogue every cut to a public service proposed in the 2012 Budget. Part of the reason for that is that many of the cuts are hidden in various moves to "transform" the way public services are delivered. The Budget proposes to:

- Amalgamate some school boards;[30]
- Integrate employment and training services;[31]
- Move to industry self-regulation in more areas;[32]
- "Modernize" court services;[33]
- Merge the Ministry of Economic Development and Trade with the Ministry of Research and Innovation;[34]
- "Rationalize" some functions of the Ministry of Municipal Affairs and Housing;[35]
- Bring in a new funding model for Children's Aid in a hazy cloud of talk about "restructuring."[36]

Many more examples of fundamental changes to public services are included in both the Budget and the Addendum to the Budget.

One particularly large project appears to involve changes to the Ministry of Natural Resources. Note the buzzwords in the Budget as the government proposes to:

- *transform* the stewardship and conservation of Ontario's natural resources;
- *transform* key parts of its legislation, regulations, policies and guidelines with a view to *streamlining* and *automating* permitting processes and requirements;
- conduct resource management with a stronger regional focus and fewer field offices; and
- *redesign* its science and delivery activities to shift away from a species-by-species approach to a risk-based ecosystem/regional approach.

The government is also proposing to amend the *Public Lands Act* to make it possible for the Minister of Natural Resources to delegate selected functions to persons outside government. This might involve, for example, allowing municipalities to manage Crown land within municipal boundaries.[37]

Privatization: Promoting a Failed Idea

The privatization of Ontario's air ambulance service, now called Ornge, is a tale of scams and rip-offs, its only purpose being to pad the pockets of high-flying executives. With this colossal failure on the front pages every day, it is hard to believe that the McGuinty Liberals would pick now as the time to promote more privatization of public services. Yet that is exactly what they are doing.

The Budget contains several mentions of the great things that are possible through "Alternative Financing and Procurement,"[38] also known as giving corporations a way to make money from public services. The Budget talks of "expanding the role of the private sector in the operations of Ontario Lottery and Gaming, thereby "creating greater efficiencies."[39] A simpler way to put this might be to say that private operators were getting a piece of the action. Why? Because they want it.

Nowhere is the government's bias against the public sector more obvious than with respect to ServiceOntario. In the Budget, the government begins by singing the praises of ServiceOntario:

> ServiceOntario provides Ontarians with fast, easy access to government information and services, including registrations, certifications, and licensing. This innovative government organization already has an exceptional track record – customer satisfaction increased from 75 per cent in 2008 to 93 per cent in 2011. Birth and marriage certificates are delivered on time in 99.8 per cent of cases, and money-back guarantees are offered when they are not. [40]

Sounds good, right? Well, these days it's not enough to be "innovative" and "exceptional." A good service must also be *profitable* for *private investors*. The government says it has already "uncovered significant opportunities to employ private capital and expertise to reduce costs and improve operations." [41] ServiceOntario already brings in $10 to the people of Ontario for every $1 it costs to run. Reducing costs will only happen if privatized workers can be forced to transfer part of their wages to corporate profits. The government's plans to run ServiceOntario as a "public-private partnership" (P3) will rip off workers and the citizens of Ontario at the same time.

Privatization has a lousy track record in Ontario.

The Budget's call for more "alternative service delivery" forgets the Andersen Consulting fiasco of a few years back, in which private consultants were getting paid six times the rate of in-house IT professionals. It ignores a recent Ontario study that showed it cost $22 to do the average lab test at public hospitals but $33 at a private lab. It overlooks the fact that Ontario sold Teranet, its electronic land registry service, to a private investor for barely one-third of its real value. In short, it ignores the facts.[42]

From meat inspection to super-jails to over-budget "P3" hospitals, the history of privatization in Ontario is a long list of gaffes. Ontarians paid a lot to correct some of those mistakes. Some of them are still with us – as any driver on Highway 407 will tell you.

What drives privatization is not a desire to save public dollars, but pressure from business to create investment opportunities. If you've ever wondered why anyone would pay $1,500 a plate to go to a Dalton McGuinty fundraising dinner, look no further.

Cutting Wages: What the Budget's All About

For all its talk of "modernizing" public services and finding "efficiencies," the Budget is about one thing more than any other. It's about driving down wages.

Forget the fact that Ontario already has the leanest, most efficient public sector in Canada. Forget the fact that (for example), the Ontario Public Service has 14 per cent fewer employees than it had in 1995.[43] Forget the fact that public employees are hard-working, taxpaying, voting citizens of this province whose contribution should be recognized.

Forget all that. Because Dalton McGuinty says you need to take a pay cut.

In 2010, the Budget bill included legislation to freeze the pay of all non-unionized provincial employees for two years. In bargaining with unionized workers, the government took a hard line, forcing many, although not all, to accept a wage freeze (which is really an annual pay cut equal to the rate of inflation). Now, in 2012, the government is threatening to pass legislation if workers won't accept similar cuts at the bargaining table.

Of the $17.7 billion the government wants to save over the next three years, a full $6 billion of it is to come from "compensation restraint for school boards, payments to physicians and public servants"[44]. A further $6.8 billion is to come from cost-cutting across the broader public sector – costs that are certainly attached to wages and jobs.

The government is not clear as to whether it expects all workers to accept a two-year wage freeze, or whether it is demanding more. One line from the Budget is ominous: "While the length of individual collective agreements may vary, restraining public-sector compensation costs for the full five years of the plan is critical to balancing the budget."[45]

In his Budget speech on March 27, Dwight Duncan started out sounding diplomatic and ended up sounding dictatorial:

> The McGuinty government respects the collective bargaining process and we will work through it. Bargaining in good faith is not only the right choice to make … The Supreme Court of Canada requires it … Just as all Ontarians require that we stay on track to balance Ontario's budget. Where agreements cannot be reached that are consistent with the government's plan to balance the budget… And if no agreement can be struck to protect Ontario's progress in education and health care… We are prepared to propose necessary administrative and legislative measures to protect the public from service disruptions.[46]

In bargaining units that do not have the right to strike under the law, the government is interested in "greater transparency and accountability." It is also interested in changes to the province's arbitration system – again, with a view to keeping a lid on costs:

> The government will consider proposals that respect the collective bargaining process and will hear submissions from employers, bargaining agents and other stakeholders on additional tools necessary to live within their funding allocations. In particular, the government is interested in submissions based on practices in other Canadian provinces.[47]

Until such consultations take place, of course, it is impossible to know exactly what the government has in mind.

One thing we know for sure: the government is solidly in favour of "pay freeze for executives"! According to the Budget, the pay of executives at hospitals, colleges, universities, school boards and agencies has already been frozen for two years. Two years from now, the Budget says, "their pay will have been frozen for four years…."[48]

OPSEU members who have watched as executives with their pay "frozen" raked in fat bonuses over the last two years should have a good chuckle at this one. It's the only thing that's funny about the government's approach to wages.

The Attack on Pensions

Pensions are a form of wages, so given the Budget's attack on wages it is not at all surprising that the Budget also includes attacks on the pensions of OPSEU members and hundreds of thousands of other public employees in Ontario.

Simply put, the employer doesn't want to pay.

On the heels of the 2008-09 recession, public pension plans around the world are in deficit. This is not unheard of following a recession. Normally, a shortfall in a pension plan is made up either by a) increasing contributions to the plan; or b) reducing future benefits. The government wants to ensure that option b) is the only option available. If this happens, government won't have to pay more, and plan members will receive less when they retire.

The government also wants to move to a system where all public pension plans are paid for by employers and employees on a 50-50 split. (While some pension plans are already like this, in others the employer pays a larger share than employees do.)

In the case of both changes, the employer wants to enshrine them in law. While the government proposes "consultations" to discuss pension plan changes, it is clear from the Budget that it already has its own ideas about what these changes should be. The government says that "current retirees would not be affected" by any changes. Another idea is that "where plan sponsors cannot agree on benefit reductions through negotiation, a new third-party dispute resolution process would be invoked."[49] This would be a major change to the historical relationship between the parties in jointly-sponsored pension plans.

In a similar vein, the Budget also proposes changes to smaller single-employer pension plans, referring specifically to the 25 pension plans at Ontario's 20 publicly-funded universities as an example. Given the better performance, the government intends to introduce legislation in the fall that would "pool investment management functions" of smaller pension plans in Ontario.[50]

All of the pension proposals in the 2012 Budget could have significant impacts on OPSEU members who are pension plan members. The changes proposed could affect how much it costs you to retire, when you can retire, and what your retirement income will be. OPSEU will be fully engaged in any and all pension discussions, and will work to mobilize members to ensure that their interests are safeguarded as we continue to work for retirement security for all working people.

The Impact of the Budget on Jobs

When it comes to jobs, the lessons of the last four years are pretty straightforward: When the economy is weak, an increase in government spending makes it stronger and saves jobs. On the other hand, a reduction in government spending makes the economy even weaker and eliminates jobs.

A weaker economy undermines government efforts to deal with deficits, on the cost side and the revenue side. Lost jobs mean more workers applying for Employment Insurance or social assistance, which adds to government costs. Lost jobs means more workers who are not paying taxes to pay for public services – or pay down the deficit.

OPSEU will be releasing a comprehensive report on the job losses due to the 2012-13 Budget in April 2012.

In December, the Angus Reid polling company asked 2,000 Ontarians how they would like to see the government deal with the deficit. A whopping 87 per cent chose "job creation" as their preferred deficit-cutting method.[51] It is clear to most people that building a strong economy where people are working at good jobs is the surest way to address budget shortfalls.

The government says the province's unemployment rate will fall to 6.7 per cent in 2015.[52] Maybe it will. But if it does, it won't be because this Budget helped. The 2012-13 Budget walks away from its responsibilities when it comes to job creation.

Aside from the 20,000 jobs the government says have been created because of its Green Energy and Green Economy Act[53], it is hard to pinpoint what the government's job creation plan is. On the one hand, the government says it will "continue to invest in core economic infrastructure such as highways, transit and postsecondary education,"[54] but on the other hand the Budget plans to scale back its infrastructure spending.[55] The government's new "Jobs and Prosperity Fund" will roll business support programs into a single $2-billion-a-year entity, but again, its main goal appears to be to reduce spending by $250 million.[56]

Naïvely, the government believes that the Harper government's plan to sign a Comprehensive Economic and Trade Agreement (CETA) with the European Union will help Ontario,[57] but acknowledges that the entire Euro-Zone economy is in decline.[58]

There are two things to say about this: First, CETA won't help the Ontario economy. It will increase our dependence on resource extraction and cost us manufacturing jobs.[59] It will expose our public services to intense privatization pressures as corporations gain new rights to prey on provincial and municipal public services and overrule the economic development plans of elected governments.[60]

Second, even the government's banker-advisor, Don Drummond, warned the government about the dangers of CETA because of what it could do to prescription drug costs:

> Negotiations for a comprehensive free trade agreement with the European Union (EU) are underway and the outcome of these negotiations could have significant impact on the cost of prescription drugs in Ontario. The potential harmonization of patent rules with the EU could cost Ontario dearly since generic drugs would be kept off the market for a longer time. If all three of the EU pharmaceutical intellectual property proposals are adopted, estimates suggest it could cost

Ontarians up to $1.2 billion annually ($551 more for the Ontario government, and $672 million for the private sector), which would more than wipe out the savings achieved through the government's recent drug reforms.[61]

The McGuinty Liberals are not the first government in history to put their faith in free trade as a cure-all for an ailing economy. In the end, this strategy is no strategy at all: it is merely the surrender of decision-making power to corporate CEOs whose only loyalties are to shareholders, not citizens. Putting your faith in corporate CEOs is an abdication of responsibility. What this province needs is an industrial strategy that will restore our economy, support our public services, and put the province on a firm financial footing.

When Dwight Duncan says that "the most important thing the Ontario government can do to strengthen the economy is to balance the budget,"[62] he has it backwards. In reality, the most important thing the Ontario government can do to balance the budget is to strengthen the economy.

Conclusion: A Budget That Fails Ontario

The 2012 Ontario Budget is one small part of a larger campaign to make working people – including a lot of OPSEU members – pay for the 2008-09 recession. First the government borrowed money to absorb the shock of the recession; then it blamed the resulting deficit on over-spending; then it exaggerated the depth of the deficit; then it refused to consider tax fairness to raise revenues from profitable corporations and high-income individuals; then it tabled the Budget.

The 2012 Budget has failed Ontario on several counts. If this Budget passes, it will hurt people, slow our economy, and sharply increase income inequality in this province.

In the weeks ahead, the Ontario Legislature will be debating this Budget. But the real debate is not about the contents of a 300-page paperback. It's about what kind of province we want to live in.

OPSEU members work every day to make Ontario a better place to live. Saying NO to this Budget, and the damage it will do to Ontario, is a continuation of that work.

Authorized for Distribution by Warren (Smokey) Thomas,
President, Ontario Public Service Employees Union.

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Notes

[1] RBC Economics. "Provincial Fiscal Tables." Royal Bank of Canada, March 22, 2012. Available at http://www.rbc.com/economics/market/pdf/prov_fiscal.pdf.
[2] "Real" means after inflation (which Drummond estimated at 2.2 per cent per year). "Per capita" means per person. Since Ontario's population is growing at 1.1 per cent a year, any spending growth that is less than 3.3 per cent is actually a real cut in spending per person.
[3] Commission on the Reform of Ontario's Public Services. *Public Services for Ontarians: a Path to Sustainability and Excellence* (Toronto: Queen's Printer for Ontario, 2012), p. 10.
[4] Dwight Duncan, *2012 Ontario Budget* (Toronto: Queen's Printer for Ontario, 2012), pp. 174-177.
[5] Matthew Mendelsohn, "Ontario staggers under burden of fiscal federalism." *Toronto Star*, March 6, 2012.
[6] *Budget*, p.8.
[7] Hugh Mackenzie, *Ontario's Fiscal Reality: Cup Half Empty or Half Full?* Toronto: Canadian Centre for Policy Alternatives, March 2012.
[8] In this regard, it makes sense that the government hired Don Drummond for advice. As the man in charge of federal budgets for many years in the 1990s, Drummond may hold the record for missing a budget balance. In 1997-98, federal Finance Minister Paul Martin estimated the country would have a $17 billion deficit. By the end of the year, the government had a surplus of $3.8 billion. *The government had underestimated the budget balance by nearly $21 billion*. See Jim Stanford, "Paul Martin, the Deficit, and Debt: Taking Another Look," in *Hell and High Water: An Assessment of Paul Martin's Record and Implications for the Future* (Todd Scarth, ed.) (Ottawa: Canadian Centre for Policy Alternatives, 2004), p. 48.
[9] *Budget*, pp. 103-106.
[10] *Budget*, p. 66. It is interesting to note that the plan to "optimize" the LCBO completely ignores the more than $16 million a year the government could bring in by returning large-volume "agency stores" to direct operation by the LCBO.
[11] *Budget*, p. xxiii.
[12] Dwight Duncan, *2012 Ontario Budget Speech* (Toronto: Queen's Printer for Ontario, 2012), p. 9.
[13] *Budget*, p.8.
[14] Hugh Mackenzie. *Canada's CEO Elite 100: The 0.01%*. Ottawa: Canadian Centre for Policy Alternatives, 2012. Available at http://www.policyalternatives.ca.
[15] Ontario Ministry of Finance. "Transparency in Taxation, 2010," *2010 Ontario Economic and Fiscal Review*. Available at http://www.fin.gov.on.ca/en/budget/fallstatement/2010/transparency.html .
[16] Armine Yalnizyan, *The Rise of Canada's Richest 1%* (Ottawa: Canadian Centre for Policy Alternatives, 2010), p. 4.
[17] See Toby Sanger, "Canada's Caribbean Bank Tax Holiday." *Progressive Economics Forum*, April 15, 2011. Available at http://www.progressive-economics.ca/2011/04/15/canadas-caribbean-bank-tax-holiday .
[18] See Léo-Paul Lauzon and Marc Hasbani, "Les banques canadiennes et l'évasion fiscale dans les paradis fiscaux: 16 milliards de dollars d'impôts éludés: Pour la période de quinze ans allant de 1993 à 2007." Chaire d'études socio-économique de l'Université du Québec à Montréal, mai 2008. Available at http://www.cese.uqam.ca/pdf/rec_08_evasion_fiscale.pdf.
[19] Dwight Duncan. *Ontario's Tax Plan for Jobs and Growth* (Toronto: Queen's Printer for Ontario, 2009), p. 15.
[20] Calculated from Ontario Ministry of Finance, *Ontario Economic Accounts* (July 2010), "Historical Tables."
[21] James M. Flaherty, *Budget 2010: Leading the Way on Jobs and Growth* (Ottawa: Her Majesty the Queen in Right of Canada, 2010), p. 281.
[22] Dwight Duncan, *Addendum to the 2012 Ontario Budget* (Toronto: Queen's Printer for Ontario, 2012), p. 4
[23] *Addendum*, p. 12.
[24] Environmental Commissioner of Ontario. "MoE and MNR Can't Handle Core Responsibilities." News release, Nov. 29, 2011. Available at http://www.eco.on.ca/index.php/en_US/pubs/annual-reports-and-supplements/2010-11-annual-report---engaging-solutions/moe-and-mnr-can-t-handle-core-responsibilities .
[25] *Budget*, p. 43.
[26] *Budget*, pp. 44-45.
[27] *Budget*, p. 45.
[28] *Budget*, p. 28

[29] *Budget, p. 29*
[30] *Budget*, p. 13.
[31] *Budget*, p. 13.
[32] *Budget*, p. 91.
[33] *Budget*, p. 94.
[34] *Addendum*, p. 5.
[35] *Addendum*, p. 7.
[36] *Budget*, p. 94.
[37] *Budget*, p. 92.
[38] *Budget*, p. 40.
[39] *Budget*, p. 82.
[40] *Budget*, p. 87.
[41] *Budget*, p. 87.
[42] Eric Reguly. "Reclusive investor gets last laugh as Queen's Park bungles Teranet." *The Globe and Mail*, April 28, 2005. Available online at http://www.globeadvisor.com/servlet/ArticleNews/story/gam/20050428/RREGULY28 .
[43] *Budget*, p. 83.
[44] *Budget*, p. 65.
[45] *Budget*, p. 69.
[46] *Speech*, pp. 14-15.
[47] *Budget*, pp. 75.
[48] *Budget,* p. 4
[49] *Budget*, p. 77.
[50] *Budget*, p. 79.
[51] Angus Reid Public Opinion. *CUPE – Saving the Economy Poll.* December 13, 2011. Available at http://www.cupe.on.ca/a4212/Media%20kit%20-%20Saving%20the%20Economy%20Poll.pdf .
[52] *Budget*, p. 109.
[53] *Budget*, p. 47.
[54] *Budget*, p. 33.
[55] *Budget*, p. 39.
[56] *Budget*, p. 35.
[57] *Budget*, p. 36.
[58] *Budget*, p. 131.
[59] See Jim Stanford, *Out of Equilibrium: The Impact of EU-Canada Free Trade on the Real Economy*. Ottawa: Canadian Centre for Policy Alternatives, 2010. Available at http://www.policyalternatives.ca/publications/reports/out-equilibrium .
[60] See Larry Brown, "Fast Facts: What is a CETA, and why should we be worried about it?" Winnipeg: Canadian Centre for Policy Alternatives, June 24, 2011. Available at http://www.policyalternatives.ca/publications/commentary/what-ceta-and-why-should-we-be-worried-about-it .
[61] Commission on the Reform of Ontario's Public Services. *Public Services for Ontarians: A Path to Sustainability and Excellence* (Toronto: Queen's Printer for Ontario, 2012), p. 441.
[62] *Budget*, p. 69.

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