
Behind the illusion of stable public spending -- shrinking public services in Ontario

Ontario Alternative Budget Working Group
Technical Paper #4
June, 1998

Hugh Mackenzie
Research Director
United Steelworkers of America
and
Co-Chair
Ontario Alternative Budget Working Group

Phone 416-544-5970; FAX 416-482-5548; email hmackenzie@uswa.ca

As the Harris Government prepares itself for an election, its spin doctors are working overtime attempting to get the message out that there is a new compassionate Mike Harris in the Premier's office. Now, every misstep (the Dionnes) is retraced (the Dionnes again); for every gaffe (pregnant welfare mothers drinking beer) there's a counterpoint (Ontario's conversion on the road to Hepatitis C compensation).

Millions of dollars of public money are being spent to tell us what a good idea it is for public control of education to be shifted from our local school boards to Queen's Park; to let us know how much we really did save from the Harris income tax cut; and to remind us that the government really is "on the right track".

The 1998-9 Ontario Budget did its level best to support the new line. It laid out a very impressive-sounding list of expenditure proposals. The intended message was clear -- Mike Harris hasn't really been all that bad when it comes to spending on public services.

The overall budget numbers for program and capital spending contribute further to this message by presenting a spending picture for 1998-9 that looks very much like the picture for 1995-6. The impression that the numbers create -- intended or not -- is that there hasn't actually been much cut from public spending in Ontario, and that the critics are complaining about nothing.

The analysis that follows focuses on the contents of the budget for 1998-9. As far as promises of new spending are concerned, the analysis finds that there is a lot less in the budget than meets the eye. It also finds that the aggregate spending numbers mask a dramatic decline in public services spending.

The 1998-9 Budget

The 1998-9 Ontario Budget features paragraph after paragraph of announcements of spending initiatives. On its own terms, it looks like an impressive list. Contrasted against the first two Harris budgets, it suggests a dramatic change in direction in budget policy.

The most impressive of these initiatives were in post-secondary education and training. The budget announced \$9 billion for "millennium scholarships" and \$9.5 billion for training.

It turns out, however, that in both cases, the announcements gave new names to money that was already in the system, combined Federal and Provincial funding, and added the total up over a ten-year period. The Government's \$9 billion and \$9.5 billion actually add up to a big zero.

Education is one of the budget's priorities. It announces \$1.2 billion for a Class Size Protection Fund; \$1 billion for special education; \$130 million for Internet networking; \$100 million for textbooks; \$12 million for equipment upgrading; and \$69 million for funding model implementation. What it does not say is that the \$1.2 billion for class sizes and the \$1 billion for special education are included in a funding formula announced last March that actually reduced overall education spending. It also does not say that the \$1 billion for special education is less than what was spent in 1997, according to the most conservative estimate by the Government's Expert Panel on Special Education.

The Government's spending on education (elementary, secondary and post-secondary combined) looks as if it is up substantially between 1997-8 and 1998-9, from \$7.8 billion to \$10.2 billion. But that includes an additional \$2.5 billion of school board expenditures taken over by the Province in Local Services Restructuring. Actual spending on education has not changed, only which level of government is spending it. When you take into account a \$910 million reduction in provincial contributions to teacher pensions which was not reinvested in the education system, the Government's total education commitment for 1998-9 is roughly a billion dollars below the commitment for 1997-8.

Every other spending initiative in the budget evaporates in similar fashion. For example, even in such political staple goods like highway construction, tourism promotion and youth summer jobs, the reality is quite different from the rhetoric. The \$280 million reinvestment in highways trumpeted in the budget actually results in a total that is \$301 million lower than last year's investment. The \$120 million going into tourism promotion over four years — \$30 million a year — is dwarfed by the \$67 million cut in the tourism budget taking effect this year. This year's announced \$51 million for youth summer jobs is actually \$5 million LESS than was allocated two years ago.

Even in health care, supposedly the Government's over-riding priority, the announced increases don't stand up to close scrutiny. The \$1.2 billion for long-term care beds announced by Mike Harris in April was announced again. That funding is spread out over an eight-year period. And it is not clear if it is new money, or money taken from elsewhere in the system. Meanwhile, \$800 million has already been removed from the permanent base of the budget for hospitals.

The Government claims it will be spending \$300 million more on health in 1998-9 than it did in 1997-8. In its own background documents, however, the Government acknowledges that the actual increase is \$200 million. Even this figure is inflated by temporary expenditures related to the implementation of the Who Does What? exercise and health care restructuring.

The aggregate numbers

The figures for program spending in 1998-9 presented in the Budget suggest a pattern over time that is dramatically at variance with everything that the Government has said about its fiscal strategy since it was elected in 1995. As presented in the budget, estimated program operating spending is only marginally lower (\$90 million) than it was in 1995-6, and more than \$700 million higher than it was in 1994-5, the last full year in office of the previous government.

If accurate, the picture presented by these data reinforces the spin currently being applied to every government announcement – that spending cuts haven't been all that bad, and that the Tories' slash and burn image is the result of their inability to get their message across to the public through the media.

Alas, the picture is not at all accurate, for a number of reasons.

- a. There have been substantial cuts in capital as well as operating spending.

When capital spending is taken into account, it turns out that total spending is actually \$1.4 billion less in 1998-9 than it was in 1995-6, and \$800 million less than it was in 1994-5.

- b. The spending figure for 1998-9 is artificially inflated by nearly \$2.3 billion because services that have been transferred to municipalities still show up on the province's books.

Most of the Who Does What changes took effect at the beginning of 1998. The provincial government assumed responsibility for \$2.5 billion in annual education spending from school boards and transferred provincial responsibilities to municipal governments as an offset. However, in most cases, the actual transfer of responsibilities to municipal governments has been delayed until municipal restructuring has been completed.

In the interim, the province is continuing to deliver these about-to-be-transferred services and billing municipal governments for the delivery cost.

This inflates both the revenue side and the expenditure side of the provincial budget, by \$540 million in 1997-8 and \$2,261 in 1998-9.

When this temporary jump in provincial spending in 1997-8 and 1998-9 is accounted

for, the figures show a drop in spending from \$48.9 billion in 1995-6 to \$45.3 billion in 1998-9, or \$3.6 billion.

- c. The 1998-9 budget contains two contingency amounts: \$600 million presented in the overall spending summary (and not included in the data discussed here); and an unexplained \$830 million contingency buried in the Management Board line in the ministry-by-ministry spending forecasts.

The elimination of this unexplained contingency further reduces the spending estimate for 1998-9 to \$44.5 billion.

- d. The 1998-9 Budget continues to allocate money to “funds” for restructuring and other purposes and contains significant one-time-only expenditures.

These “fund” contributions are not part of on-going program activity. They were announced as transitional payments to enable municipalities, school boards and hospitals to adjust to permanent funding cutbacks. Going into 1998-9, a total of \$6.4 billion had been allocated to these “funds”. Of that amount, according to data released to the Legislature’s Public Accounts Committee, \$5.3 billion had not been spent. Allocations to special funds began at a low of \$400 million in 1995-6, reached \$2.2 billion in 1996-7, \$3.4 billion in 1997-8 and stand at \$871 million in the 1998-9 budget.

One-time-only expenditures include funding for pay equity and hepatitis C compensation in 1997-8 and \$370 million for hospital capital funding in 1998-9.

Factoring these temporary and one-time-only allocations out of the budget provides an estimate for the long-term spending base of the Government of \$48.5 billion in 1995-6, declining to \$43.6 billion. This would suggest spending cuts totalling \$4.9 billion.

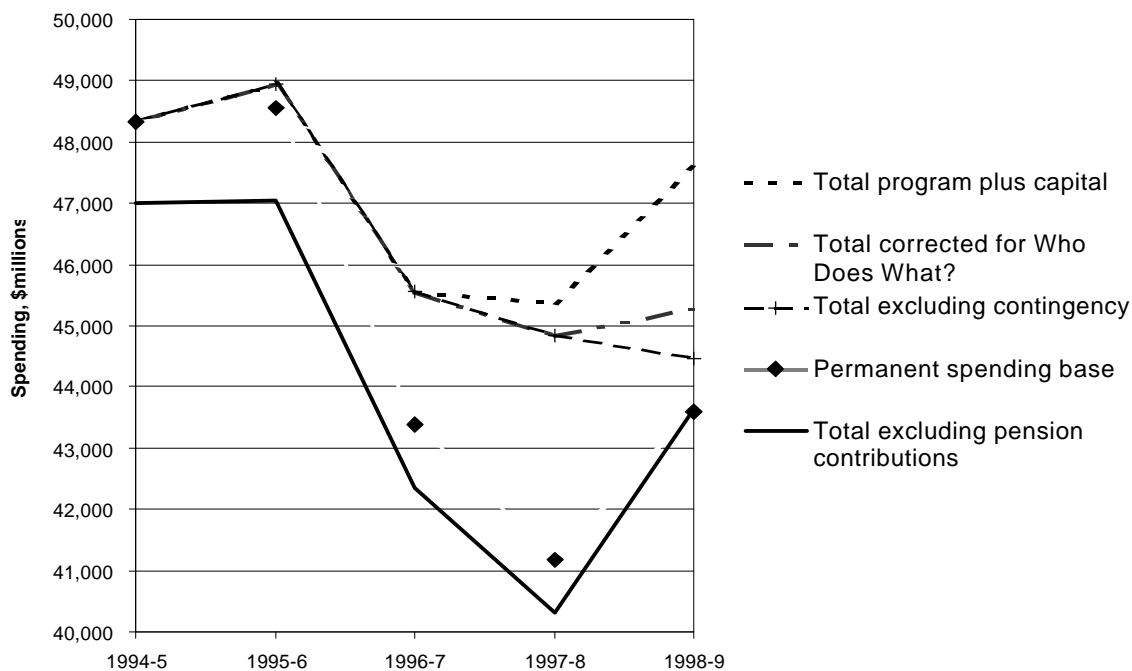
- e. However, some of the apparent reduction in spending is invisible, in program terms, because it results from agreements with public sector unions to reduce provincial contributions to pension plans.

Approximately \$1.5 billion of the \$48.5 billion permanent spending base in 1995-6 consisted of provincial government contributions to the pension plans of Ontario teachers and provincial public employees. Agreements with representatives of public employees participating in these plans has enabled the provincial government to turn this \$1,497 million expenditure in 1995-6 into a \$39 million refund in 1998-9.

Excluding these payments from the permanent provincial spending base, the data show a cut of approximately \$3.4 billion from 1995-6 to 1998-9.

	1994-5	1995-6	1996-7	1997-8	1998-9
Program (reported)	\$ 44,505	\$ 45,309	\$ 42,831	\$ 42,963	\$ 45,219
Capital (reported)	3,831	3,635	2,737	2,411	2,337
Total program plus capital	48,336	48,944	45,568	45,374	47,556
Less: Municipal spending under Who Does What included in provincial totals	-	-	-	540	2,261
Total corrected for Who Does What?	48,336	48,944	45,568	44,834	45,295
Less: unexplained contingency, 1998-9					830
Total excluding contingency	48,336	48,944	45,568	44,834	44,465
Restructuring and other funds	-	400	2,180	3,380	871
One-time only expenditures				284	350
Permanent spending base	48,336	48,544	43,388	41,170	43,594
Public Service Pensions	1,325	1,497	1,027	863	(39)
Total excluding pension contributions	47,011	47,047	42,361	40,307	43,633

Estimates of provincial spending compared



The data are presented in summary form in Table 1 and Figure 1 below.
Figure 1.

The \$3.4 billion estimate of total spending cuts compares reasonably with the figure of \$3.5 billion that is used by the Government internally to describe the scope of its expenditure reduction program. A \$2 billion second round of cuts was announced in 1996 but was suspended when the economic numbers began to improve late in the year.

The adjusted data show a \$3.4 billion reduction in spending since 1995-6. They also show a dramatic increase in spending since last year. Between 1997-8 and 1998-9, net spending increased from \$40.3 billion to \$43.6 billion. This apparent increase is illusory, reflecting differences in timing among the various pieces of the Who Does What? exercise, particularly in elementary and secondary education. The bulk of the increase in spending in 1998-9 arises from the \$2.5 billion increase in provincial funding for education as part of what the Government now calls Local Services Restructuring.

Summary

The above analysis demonstrates that, contrary to the impression created by the aggregate spending numbers set out in the 1998-9 provincial budget, approximately \$3.5 billion has been cut from the permanent provincial spending base.

The net program spending base (operating and capital) as measured in this analysis has declined from 15% of GDP in 1994-5 and 1995-6 to 12% in 1998-9. This means that, relative to the size of the economy, public services in Ontario have declined by 20% since 1995-6.

The Government's PR machine can spin away to Mike Harris' heart's content. But the spin doctors can't have it both ways. They can't talk proudly about having reduced the role of government in Ontario – true – and then back away from the consequences of that reduction when it is exposed in spending on specific programs.