The ONTARIO ALTERNATIVE BUDGET 1999

ONTARIO
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ACKNOWLEDGEMENTS

The Ontario Alternative Budget Working Group is a coalition of labour, social action, community and church groups which have come together to develop alternatives to the Common Sense Revolution of the Harris Government. The participants in this year's budget project are listed below. Special thanks to Jill Michalko, of the Ontario Federation of Labour, for administrative support and production of the document.

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INTRODUCTION AND SUMMARY

With the term of office of the Harris Conservatives coming to an end, Ontarians are in a position to assess its impact, and to consider the alternatives.

The 1999-2000 Ontario Alternative Budget documents the impact on Ontarians of the full sweep of Harris Government policies. It provides the first estimate of the impact of the personal income tax cut on Ontario families, as well as updated data on its impact on individual taxpayers.

The 1999-2000 OAB challenges head on the claim by the Harris Government that its tax and fiscal policies have produced substantial savings for middle-income earners. Using publicly available data sources, the OAB compares the offsetting increases in other taxes, fees and other costs forced by Harris Government policies with estimates of income tax savings for Ontario Families.

Our budget reviews in depth the impact of the Harris Government's policies on health, the poverty gap and homelessness, community services, education, environmental quality and local government and details the additional funding measures needed to put Ontario public services back on track.

It sets out a target of restoring public services to their real, per capita 1995-6 level and sets out a fair tax package that will fund those services, and balance the provincial budget in the year 2000-1.

Highlights include:

TAX CUTS AND USER FEES

- The average family in Ontario will save $738 as a result of the Harris income tax cut in 1999, but that saving will be more than offset by at least $766 in increased user fees, property taxes and other costs. The average family actually loses, on the bottom line, from the Harris regime.

- Only when you move into the top 25% of family incomes does the tax cut outweigh the offsetting cost increases. But even for families with incomes higher than 80% of Ontario families, the net benefit – on the bottom line – from Harris' policies is only $1.00 a day.

- Tuition fee increases have been so big that an average family with only one child going to university has already more than lost a lifetime of Harris tax cut benefits from tuition fee increases alone.

PUBLIC SERVICES

- Contrary to government claims, when inflation and population growth are taken into account, nearly $2 billion has been cut from the health budget since Harris was elected. The OAB restores the money cut from the health budget, reinvests in long-term care and guarantees that every cent of additional federal funding for health will go towards improving Ontario's public health care system.

- The Harris government set the stage for today's housing crisis and homelessness disaster at its very first Cabinet meeting in 1995, when it announced plans to kill more than 17,000 units of co-op and non-profit housing that were under development. Those units, in almost 400 affordable housing projects in every part of Ontario, would have provided a home to more than 45,000 women, children and men. More than 35,000 person-years of employment would have been generated in construction and other industries. Cuts to existing social housing providers, cuts to tenant protection laws and cuts to the shelter component of welfare cheques have all made the housing crisis worse.

- After creating the housing disaster, the Harris government announced in 1997 that it was planning to abandon the social housing field entirely. On January 1, 1998, it downloaded the cost of social housing to cash-strapped municipalities. The Harris government is pushing ahead with its plan to download administration of social housing programs to 47 new municipal bureaucracies (called "consolidated municipal service managers"). No one supports the downloading. Not co-op or non-profit housing providers. Not the Association of Municipalities of Ontario (AMO). Even Premier Harris has admitted in a speech to AMO that housing doesn't belong on municipal tax bills, but that hasn't stopped him from moving ahead.

- Contrary to the Government's claim, Harris government policies have held back job growth in Ontario and contributed to growing inequality. Ontario's job performance is entirely attributable to the lower value of the Canadian dollar and growth in the US. The OAB's program of public services renewal will create 75,000 jobs in Ontario and another 50,000 in other parts of Canada. Most of those jobs will be in the private sector.

- When the government's ill-advised funding formula for elementary and secondary education is fully implemented, $1.2 billion will have been taken out of the system, on a comparable real per capita basis – $570 for every child in the school system. The OAB for 1999-2000 stops future cuts, cancels future cuts, reinvests to improve equity in the system and restores the right of school boards to raise revenue to meet local needs.

- The Government abandoned its responsibility and forced property taxes up when it downloaded housing onto municipalities in the "Who Does What?" exercise. The OAB will inject new energy into housing development and take more than $800 million off the property tax by reversing that download.

- Simply by restoring the tax cut for the highest-income 20% of taxpayers, returning tobacco tax levels to pre-1994 levels and eliminating pointless and expensive tax breaks for business introduced by the Harris government, the OAB generates enough additional revenue, along with the revenue increase from economic growth, to restore public services and balance the provincial budget in fiscal year 2000-1.

- If there had never been a Harris Government – if nothing had been cut from public spending and there had been no tax cuts – the provincial budget would have been balanced this year, in 1998-9. Instead of trying to cope with diminished public services and debating how to eliminate the last of the provincial deficit, we would instead be debating how to spend a fiscal dividend for 1999-2000.

The 1999-2000 Ontario Alternative Budget demonstrates that Ontario's fiscal and public services crisis are not inevitable; they are the result of political choices made by a government that wouldn't recognize the public interest if it fell over it in the dark. The OAB also demonstrates that within a responsible tax and fiscal framework, it is possible to reverse the damage caused by Harris and his cronies and put public services in Ontario back on track.

Section II presents our analysis of the impact of the Harris tax cut and offsetting tax and fee increases on Ontario families.

Section III sets out in detail an analysis of the negative impact of Harris Government policies on health, homelessness, poverty, education, environment and local government, together with specific program proposals to address that impact.

Section IV summarizes the OAB spending program.

Section V presents the details of the OAB revenue plan.

Section VI lays out the OAB fiscal plan and compares it with a forecast of what is likely to be claimed by the Harris Government, and a "what if there had never been a Harris Government" scenario.

SECTION I

THE INCREDIBLE VANISHING MIDDLE CLASS TAX CUT

Mike Harris' promised 30% cut in provincial income taxes was the centrepiece of his election campaign in 1995. The rhetoric associated with it was pitched directly at middle-income Ontarians. It was one of the keys to his election victory. And when his campaign proved successful, it was destined to be the hallmark of his government.

Since the election, the tax cut has dominated the government's agenda. Every major expenditure cutting exercise has been driven by the need to show progress towards balancing the budget while implementing a tax cut that will wipe out over $6 billion in revenue when it is fully implemented in 1999.

The greatest strength of the income tax cut promise – the fact that it dealt with the most visible of the taxes that people pay – has also proved to be its greatest weakness.

The income tax is the most progressive tax in Ontario's tax system. When the income tax is cut, a disproportionate share of the benefit flows to people at the top of the income scale. Even a very substantial income tax cut will deliver only modest benefits to middle-income taxpayers.

The government knew, when it introduced the cut, that it had to appear to be doing something to offset this regressive impact. The Fair Share Health Levy was touted by the government as ensuring that high-income taxpayers did not benefit disproportionately from the income tax cut.

The Health Levy, however, recovers only a small portion of the benefit from the tax cut. And for some high-income taxpayers, the elimination of the employer health tax on income from self-employment and partnership income actually saves more than the cost of the Health Levy. The result is that more than half of the benefit from the tax cut, offset by the Health Levy, goes to the top 20% of taxpayers.

Using data provided by the Government itself, the 1998 Ontario Alternative Budget demonstrated in detail the regressive impact of the policy.

Partly because the benefit for middle-income taxpayers was, in fact, relatively small, and partly because the tax cut was phased in gradually over a 3-year period, the government found, before the 1998-9 budget, that the benefits from the tax cut were almost invisible to taxpayers.

Amazingly enough, a 30% cut in income tax was threatening to become a political liability. The cuts the government had to make to pay for the cut were very visible. But the benefits were not.

The government responded with a public relations blitz. In the third budget after the introduction of the income tax cut, dozens of pages of budget papers were devoted to the government's attempt to demonstrate the benefits of the tax cut on Ontario taxpayers. Millions were spent on special mailings and an advertising campaign touting the benefits of the tax cut to Ontarians.

HOUSEHOLD IMPACT OF THE TAX CUT

Just how misleading the government's claims have been becomes much clearer when the tax cut, Fair Share Health Levy and Employer Health Tax exemption are looked at from the perspective of households rather than individuals.

Using Statistics Canada's Social Policy Simulation Database and Model, the Ontario Alternative Budget Working Group has, for the first time, estimated the distribution of the impact of these policies among households, based on household.

For the median household in Ontario, the total annual benefit from the tax cut, fully implemented, is $738 . Fifty-seven percent of the benefit goes to the highest-income 20% of households; only 1% of the benefit goes to the lowest-income 20% of households. The middle 50% of households, ranked by income, receive only 35% of the gain from the tax cut.

For that middle-income group, the gain varies from $142 a year at the bottom to $1,570 a year at the top.

OFFSETTING INCREASES IN TAXES, FEES AND OTHER CHARGES

That's not the end of the story, however. To pay for the tax cut, the Harris Government has imposed user fees. It has cut public services, forcing people to buy privately, services that used to be available publicly. It has cut transfer payments to municipalities, universities and colleges, school boards and hospitals, which have, in turn, increased property taxes and other user fees and cut services. And because the tax cut was implemented at a time when the provincial budget was in deficit, every cent of the tax cut so far has been paid for with borrowed money – borrowed money on which Ontarians collectively have to pay interest.

Until now, it has been possible to quantify only a few of these offsetting costs to Ontario households of the dark side of the Common Sense Revolution. Because we are now well into the fourth year of the Harris Government's reign, however, more and more of these costs are becoming visible, and some are starting to emerge in publicly available sources of data.

To quantify some of these impacts, the Ontario Alternative Budget Working Group looked to data reported by the government itself, by Statistics Canada and by independent economic analysts.

Drug plan user fees

According to the Government's own data, the drug plan user fee introduced by the Harris Government generates a total of $179 million a year. Averaged over all households in Ontario, that comes to $35.68 per household.

Property taxes

According to the Fraser Institute, average property taxes per household increased by 16% between 1995 and 1998.[1] With total residential property taxes in Ontario in 1995 an estimated $8.7 billion, that translates to an increase in property taxes in total of $1.4 billion or $288 for the statistically average 2.33 person household.

Non-tax revenues in the Municipal, University and College, School Board and Hospital Sectors (MUSH Sector)

An analysis of data collected by Statistics Canada[2], non-tax revenues in these sectors increased by $838 million between 1994 and 1997. That works out to an average of $171 per household. It measures revenue from sources that institutions in this sector can turn to when transfer payments are reduced and/or property tax increases cannot be considered. The most easily identified of these charges are university and college tuition fees, which amount to $33.96 per household.

The details are presented In Figure 1.

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1 **Provincial Economic Freedom Canada , 1981-1998**, Arman, Samida & Walker, The Fraser Institute web page.

2 Statistics Canada, CanSim series, matrix 007099, 008546, 006363, 007086.

FIGURE 1

	Amount, 000
University & College	
Tuition	166,196
Other fees	74,043
Other own source	96,099
Health & Social Services	
Goods & services	176,854
Other own source	7,253
School Boards	
Rentals	6,820
Local Government	
Licences & permits	22,289
Rentals	39,753
Other goods & services	246,125
Miscellaneous	3,100
TOTAL	838,532

In some cases, the linkages are absolutely direct. University tuition increases, for example, have moved in step with provincial funding reductions. In other cases, non-tax revenues have increased as one of a number of responses by transfer payment agencies to provincial funding cuts.

Sewer and water charges

According to Statistics Canada's Consumer Price Index, the municipal sewer and water charges increased by 6% between June, 1995 and September, 1998 or a total of just over $90 million for residential water ratepayers for the province. For the statistically average 2.3 person household in the province, this translates to an increase of $19 per year.

Interest costs

By the end of fiscal year 1999-2000, the Harris Government will have borrowed a total of $24 billion to offset the revenue loss from the tax cut as it has been phased in, and to pay the interest on the money borrowed. That increased debt is directly attributable to the Harris tax cut; Ontarians will be paying interest on that additional debt indefinitely – until the entire debt is retired.

By the end of fiscal year 1999-2000, those interest costs will amount to $1.2 billion a year – $245 for every household in Ontario.

Estimating the net impact of the tax cut – data limitations

In all cases, however, the data cited will tend to understate the total impact for 1999. Statistics Canada's data on the MUSH sector are only available up to 1997. In school boards and municipalities, however, the real impact of the cuts has only been felt in 1998 and 1999. Better data on the municipal sector will be available only when the municipal statistics prepared by the provincial government are available for 1998 and 1999. Tuition fees are still increasing, as the impact of provincial cuts and fee deregulation work their way through the college and university systems. The Fraser Institute's data on property tax changes only run to 1998.

In addition, this is only a partial list of impacts. We have limited our analysis to taxes and payments to governments and public institutions which we can measure using publicly available data. We have included no provincial user charges, other than the drug plan user charge. The constantly changing provincial budgetary framework makes consistent measurement of provincial user charges impossible.

The analysis also does not take into account the direct and indirect costs of service cuts to Ontario households. Indirect measures suggest that these costs are substantial. In our Technical Paper #6, we estimate that health spending cuts have amounted to $93.00 per capita since 1995 and that private spending on health services has increased by $36.00 per capita, even after allowing for inflation on 1995's level of private spending.[3] Technical Paper #5 puts elementary and secondary education cuts at $570 for every child in the school system.[4]

Other such costs are even more difficult to measure. There is no way to measure the amount of additional household expenditure forced by cuts in services – other than health – that used to be provided publicly. There is no way to measure the cost to Ontario families of services that are no longer provided, or where quality has deteriorated. We are also unable to measure, in the aggregate, the impact of "voluntary" charges by schools to pay for items like books and field trips that used to be part of the public service.

There is no way to measure the value of the additional voluntary activity and the additional charitable giving that thousands of Ontarians have felt forced to offer to offset the policies of a vicious government.

But even recognizing that our data are limited, and measure only part of the cost of the dark side of the Harris tax cut, the bottom line is stunning.

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[3] Ontario Alternative Budget Working Group Technical Paper #6, "Promises made … promises broken", February, 1999.

[4] Ontario Alternative Budget Working Group Technical Paper #5, "Education Funding in Ontario", October, 1998.

SECTION II

THE BOTTOM LINE – ADDING IT ALL UP

The median household in Ontario (3 people in the household, with the median income level) receives a benefit of $738 from the tax cut.

Offset against that are the following:

➜ $47 per household for drug plan user fees;

➜ $315 per household for increased property taxes;

➜ $181 per household for increased non-tax payments to municipalities, universities and colleges, school boards and hospitals;

➜ $24 per household for sewer and water charges; and

➜ $198 per household in interest charges on the debt incurred to pay for the tax cut.

The total of cost increases offsetting the tax cut is $766 . The bottom line for the average household in the province? A net increase in costs of $28 a year. That's right, using publicly available data, we can already conclude that the average household in Ontario actually loses as a result of the tax cut.

This analysis gives us a picture of the net impact of the Harris Government's policies for the median household – the household in Ontario whose income places it exactly in the middle, when households are ranked from lowest-income to highest income.

This analysis can be extended to other household types, and to other income ranges. Taking into account the fact that the impact of the offsetting charges on households will vary depending on household income and the number of individuals in the household, the impact of these offsets was estimated for different types of households with different amounts of household income.

For the middle 50% of households – the group normally thought of as the middle class, households at the top of the range are estimated to gain $620 a year. Households at the bottom of the range are estimated to lose $(483) a year.[5]

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[5] The average household is assumed to bear the average additional burden associated with these non-tax charges and interest costs. Above and below the average, the cost is distributed differently, depending on the tax or charge. A more detailed description of the method appears in Appendix A.

Figure 2 shows how the tax cut, and the offsetting additional costs, are distributed, among households. Each income decile represents 10% of all households in the province. The deciles are ranked from the lowest-income 10% of households (1st decile) to the highest-income 10% of households (10th decile).

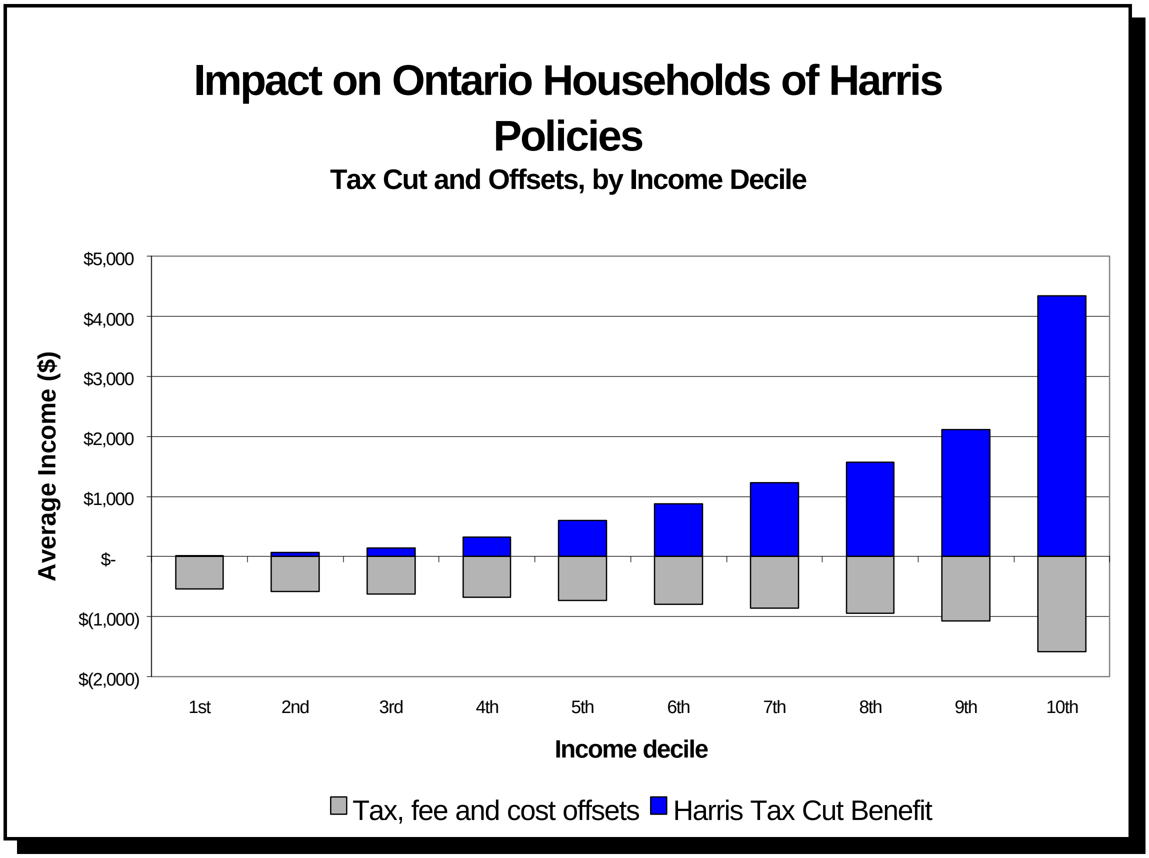

FIGURE 2

ANOTHER LOOK AT ONTARIO BUDGET 1998-1999

The impact of these offsetting cost increases imposed by the Harris Government can be highlighted using taxpayer examples presented by the Minister of Finance in the 1998-9 Budget Papers. Reflecting its concern that it was not getting the political benefit from the tax cut that it thought it should, the Budget presented 16 examples of Ontario households together with estimates of the benefit each received from the tax cut.

Figure 3 summarizes the examples presented by the Government to illustrate the benefits from the tax cut, the fully-phased-in benefit from the tax cut and the estimated offsetting costs itemized above.

FIGURE 3

Examples used in the 1998-9 Ontario Budget

Family Type	# in hhold	Net Income	Taxable Income	Earners	Children	Tax savings	Offset	Net benefit
single senior	1	$ 14,940	14,940	1	0	80	346	(266)
single, no children	1	16,500	16,500	1	0	175	358	(183)
couple, seniors	2	29,000	29,000	2	0	325	564	(239)
couple, children	3	29,000	29,000	1	1	450	679	(229)
single parent, children	3	46,000	32,500	1	2	845	802	43
couple, children	4	37,000	34,500	1	2	720	852	(132)
couple, children	4	39,000	37,000	2	2	705	866	(161)
single, no children	1	28,500	28,000	1	0	595	445	150
couple, children	5	71,000	44,335	2	3	1,010	1,214	(204)
couple, no children	2	44,000	44,000	2	0	850	672	178
couple, seniors	2	47,700	47,700	2	0	950	699	250
couple, children	4	60,000	60,000	2	2	1,385	1,019	366
couple, no children	2	133,000	123,450	2	0	4,065	1,318	2,747
couple, children	4	209,000	181,500	2	2	6,835	2,100	4,735
single, no children	1	140,000	126,500	1	0	5,125	1,254	3,871
couple, children	5	175,000	186,500	2	3	4,020	1,969	2,051

Of the 16 examples cited by the Government, seven actually lose amounts ranging from $132 to $266 per year; another three have gains of less than $200. One household nets a gain of $1.00 a day. Only the households presented by the government with earnings in excess of $120,000 recorded gains of over $500.

GETTING BEHIND THE AVERAGES – WHAT ONTARIO FAMILIES FACE IN THE HARRIS TAX CUT WORLD

The analysis above shows that, for the average household in the province, the Harris tax cut vanishes when offset against even a partial list of the increased user charges and other fees arising from tax cut motivated transfer payment reductions. It also shows that, for the 50% of households in the middle of the income distribution, the combined impact of the tax cut and user fees and other charges ranges from negative to only slightly positive.

While this result can be demonstrated, on average, for Ontario households, there is a problem with the analysis. There is no household that pays exactly the average amount of drug plan user charges, and exactly the average amount of municipal user charges, and exactly the average amount of transit fare increases and exactly the average amount of university and college tuition fees and other charges.

There are some costs of the Common Sense Revolution in which everyone shares. Every household pays increased property taxes, either directly or though rent. Every household pays increased water charges. Every household pays a share of the increased interest costs attributable to tax cut borrowing.

But other increased costs depend on whether or not the household actually uses the service.

Increases in college and university tuition and other fees, for example, are only an issue for households with children. Only those who actually use the Ontario Drug Plan are affected by the drug user charge imposed by the Harris Government. Similarly, if you use public transit, you will be affected by increases in transit fares. If you don't, you will not.

Tuition Fees

For a family with young children who are likely to attend college or university, the Harris tax break is long gone for all but the highest-income families.

Let's look at a family with two young children, aged 8 and 12. The average income for two-person families with children is approximately $72,500 (the median income for this family type is approximately $60,000). The tax cut benefit for this family works out to $1,755 per year.

For this family, the estimated cost of the increase in municipal taxes and water rates since Mike Harris was elected plus the family's share of the cost of carrying the tax cut debt is $822. The net value of the tax cut is $933. The value today of a lifetime of this family's Harris tax cut is $9,800.[6]

Average university tuition for undergraduate arts and sciences will have increased by $1,687 between 1994-5 and 1999-2000. For a family with two children, one aged 10 and one aged 13, the total cost today of increased tuition for a four year program for both children, beginning at age 18, is $12,980.

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[6] We assume that both parents are 45 years of age and retire at age 60. Other assumptions and details of method are set out in Appendix A.

The average family with two children aged 8 and 12 has already lost far more in increased tuition than it will gain, net, from the tax cut. The combined effect of property tax increases, the cost of carrying the tax cut debt and the Harris tuition increases turns the lifetime value of this family's tax cut into a loss, in today's dollars, of more than $3,100.

In fact, the family in this example would have to have an income in the top 20% of family incomes to derive any benefit at all from the tax cut.

And that is not even taking into account increases in other university fees, public transportation fares, other municipal user charges, elementary and secondary education charges, or the value of the family's share of the health care service reductions imposed by the Mike Harris government.

Let's look at a couple, both of whom are over the age of 65 and are participants in the seniors drug plan.

Our analysis shows that the average family of this type would have an income of just over $44,000 and a tax cut of approximately $630.

From that amount, we deduct $493 for property tax, water charges and the couple's share of the cost of carrying the tax cut debt.

According to government documents, the drug user fee brings in a total of $179 million a year. There are 2.4 million users of the drug plan. The average drug user fee is $75 per user.

After paying their average $150 in drug user charges, the average couple of this type has used up all their tax cut, and is $13 in the red.

And again, we've looked at only one of the many user fee increases imposed directly or indirectly by the Harris Government. We have also not considered the cost to this couple resulting from health care and other service cuts. Because the elderly are much heavier users of the health care system than average, they will also bear a disproportionate share of the burden of health care service cuts.

Transit fares

Finally, let's look at a single adult with no children living in the Toronto area. She works and uses public transit every day to get to and from work.

The average single adult has an income of approximately $33,000 a year and would have received a tax cut of $732 a year. Property taxes, water charges and tax cut debt interest eat up $346 of that, leaving a net before looking at other fees of $386.

Transit fares are expected to increase at least 10% to compensate for the loss of financial support from the provincial government in the "Who Does What?" exercise. At two trips a day, this individual spends over $1,000 a year on public transit. A 10% fare increase consumes $100 of the tax cut, leaving a net of $286.

And again, that's not even counting the myriad user charges for municipal and provincial services, the increased private cost resulting from service cuts, or the burden of health care service cuts.

SECTION III

ONTARIO PUBLIC SERVICES UNDER STRESS

Ontario's public services are under extreme stress. Changes in our population and our economy have increased the need for public services, and increased the costs of service delivery. Even without the Harris Government's four-year program of funding cutbacks, the agencies that deliver public services in this province would be struggling to adapt.

The Harris Government's program has tipped the balance against public services, to the point now where the deterioration in both quality and quantity is clearly visible. This reality stands in sharp contrast to the rosy picture painted by the Conservative Party's self-congratulatory, taxpayer-funded advertising campaign.

People in Ontario who use and depend on public services know the truth. As slick as the advertising may be, it cannot convince people to ignore their own day-to-day experience.

But the corrosive effect of the Harris Government on public services in Ontario isn't felt just by those who use public services. You don't have to have been in an ambulance that was turned away from an overcrowded emergency room to be concerned about the state of health care in Ontario. You don't have to have a child in school to be worried about the deterioration of the quality of elementary and secondary education in Ontario. Affordable housing is important to community in Ontario – concern about homelessness isn't limited to the homeless.

For most people in Ontario, the most important thing about public services is the confidence that the services will be there when they need them.

Mike Harris' Government is shaking that confidence.

Billions of dollars in public funding have been withdrawn from programs. Rather than meeting the changing needs of the citizens of Ontario, the agencies that deliver public services have become preoccupied with soul-destroying debates over what critical services to cut; what needs to ignore; what activities to try to salvage by begging for contributions from the private sector.

But that is not the end of the attack. Mindless tinkering and "restructuring", driven by the Government's demand for change for the sake of change, has disrupted public services delivery from one end of the province to the other. The situation in many areas is nothing short of chaotic. Hospitals close, leaving the remaining administrators and staff struggling to meet impossible demands. Alternatives to hospital care have become a mantra for the Government, but there are no alternatives, because there is no funding for them.

An entire infrastructure built over the post-war period to deal with housing issues has been decimated, to the extent that Ontario is increasingly hard-pressed in 1999 to respond effectively to the crisis of homelessness in our major cities. Co-op and non-profit housing developers who honed their skills in Ontario have been sent to South Africa and Lithuania, to name just two places, to build new housing there because there has literally been no work in Ontario. All this at a time when the need for new affordable housing has grown to desperate proportions in our province.

The role of local government in education has been decimated. School boards have become nothing more than conduits for the policy and administrative pronouncements of the education bureaucracy at Queen's Park. Parents, teachers, students and communities have been shut out of the process.

The downloading of various responsibilities and costs onto local governments was supposed to improve efficiency, simplify the provincial-municipal relationship and improve accountability. What it has done instead is drive up property taxes, replace a complex system of financial relationships with an even more complex system, and cut off the access of local communities to the decisions that affect their daily lives.

For example, in downloading social housing programs, the Harris government plans to create 47 brand-new bureaucracies to replace one set of programs at the Ministry of Municipal Affairs and Housing. Each of these bureaucracies, called "consolidated municipal service managers" (CMSMs), will require their own set of staff, computers, buildings, operating systems and standards. And local taxpayers will have to pick up the bill.

There is massive confusion as CMSMs try to figure out how to take on this new, unwanted role. Most municipal governments have never had much involvement in social housing. The Regional Municipality of Sudbury has never run a local housing program, but it will be forced to take on administration of all social housing in its area.

CMSMs straddle existing municipal boundaries. Barrie is in the middle of Simcoe County, but the two are separate political jurisdictions. Simcoe County is the CMSM and will manage social housing, but the social housing units are in Barrie. Social housing residents vote for municipal representatives in Barrie, but the residents have no vote for the Simcoe County Council.

There are other areas where CMSMs are creating political turmoil. In southwestern Ontario, the City of Windsor and Essex County have still not worked out a political accountability mechanism. In northwestern Ontario, the City of Thunder Bay is refusing to participate in the CMSM. As well, there are split jurisdictions in the Cornwall, North Bay and Parry Sound.

The fractured administration will not only be costly for local taxpayers, but it creates grave concerns for social housing providers.

Downloading of social housing is not "revenue-neutral", as the Harris government claimed. In addition to an immediate bill for $807 million, municipalities will be expected to pay $25 million or more each year in administrative costs for social housing. The cost of long-term repairs is also a serious liability for municipalities. Over time, subsidy costs could change dramatically due to economic factors beyond the control of municipalities (such as interest rates).

As cash-strapped municipalities look for costs to cut, the subsidies paid to the lowest-income households are most at risk. The most vulnerable residents could face economic evictions as local politicians try to balance budgets.

Municipal restructuring has introduced its own brand of chaos. The most visible impacts have been in Toronto, where the savings promised from amalgamation have vanished. True, there has been no tax increase – thanks only to a loan from the provincial government to avoid embarrassing the Government's friend Mel Lastman. But service delivery is a shambles, as the chaotic and inconsistent response to January's record snowfall demonstrates. And while Toronto's story is the most visible, similar stories on a smaller scale are being repeated across the province.

Finally, Harris' claim that he would make government more accountable has been revealed as hollow rhetoric at best and as Orwellian doublespeak at worst. Public institutions have become less accountable to their communities as they have been starved of resources, and subjected to ever tighter control from the provincial government. Populist rhetoric aside, the Harris Government power has shifted power away from communities and centralized it at Queen's Park. Local governments have been weakened. Even voluntary activity, so prominent in the government's reform lexicon, has been damaged by cuts. The tens of thousands of voluntary organizations have lost much of the funding they need to lever voluntary effort.

HEALTH CUTS: A DOUBLE BLOW

The incompatible promises to cut Ontario's personal income tax rate by 30% and "not touch a penny of Medicare spending" have turned out to be as patently impossible as they were improbable. With a full year cost of $6 billion in revenue foregone, the tax cut has forced the Harris Government to amputate whole sections of Ontario's medical care system, including the shutdown of 35 of Ontario's public hospitals by the Health Services Restructuring Commission (HSRC).

It is important to recall that the actions of the HSRC were part of a one-two punch.

The first blow was announced in November 1995; a $1.3 billion reduction in annual hospital budgets, to be phased in $365 million the first year (1995-96), $435 million the second year and $507 million the third. After two years of cuts, totalling $800 million, the results were so horrific that the third year reduction of $507 million was postponed. *It has not been cancelled.*

As a stand alone measure the hospital budget cuts, which hit every hospital in the Province, would have been devastating enough. Thousands of acute care beds were closed, ten thousand nurses and thousands more health workers lost their jobs and every single aspect of the health system was damaged.

But the hospital budget cuts were combined with a Province wide restructuring exercise under the virtual dictatorship of the HSRC. The Commission was empowered with the force of law to impose its planning decisions on all parts of the health system, with one exception. It has no power to require the Government to pay the cost of its multi-billion dollar "reform" program.

Massive restructuring costs, to pay for notice and severance for thousands of laid off health workers, for rebuilding of facilities and for re-engineering whole hospitals, have been dumped onto the backs of a hospital system reeling under the blow of the hospital budget cuts. In November 1998, a study by the Change Foundation and the Canadian Imperial Bank of Commerce estimated the 5 year hospital restructuring cost – in both operating and capital – at $2.7 billion. To date, to our knowledge the total amount actually paid by the Government towards this astronomical cost is a one-time cash outlay of $154 million in January 1998.

HOSPITALS ORDERED CLOSED BY THE HEALTH SERVICES RESTRUCTURING COMMISSION

- Brockville Psychiatric Hospital
- Windsor: Hotel Dieu-Grace Site
- Kingston: Hotel Dieu Hospital
- Kingston: Providence Continuing Care Centre, St. Vincent de Paul site
- Hamilton Psychiatric Hospital
- Hamilton: St. Peter's Hospital
- Chatham: St. Joseph's Hospital
- Port Hope: Northumberland HealthCare Corp., Port Hope site
- Peterborough: St. Joseph's Health Centre
- Brantford: St. Joseph's Hospital
- London: St. Joseph's Health Centre
- London Heath Sciences Centre, South St. site
- London Psychiatric Hospital
- St. Thomas Psychiatric Hospital
- St. Bernard's Hospital
- Toronto: Wellesley-Central Hospital
- Toronto: Queen Elizabeth Hospital, Hillcrest site
- Toronto: Doctors Hospital
- Toronto: Humber River Regional Hospital, Northwestern site
- Toronto: Orthopedic & Arthritic Hospital
- Toronto: Riverdale Hospital
- Toronto: Runnymeade Chronic Care Hospital
- Toronto: Salvation Army Grace Hospital
- Whitby General Hospital
- Ottawa: Salvation Army Grace Hospital
- Pembroke Civic Hospital
- Sudbury Memorial Hospital
- Sudbury General Hospital
- Thunder Bay: Thunder Bay Regional Hospital, McKellar site
- Thunder Bay: Hogarth-Westmount Hospital
- Lakefield Hospital (private)
- Sidbrook Hospital (private)
- Grace Villa (private)
- Dewson Hospital (private)

By the fall of 1997 it was crystal clear that the combined effects of the Harris health "reforms" had put patients' lives at risk.

What follows is a collage of incidents gleaned from press reports over the past 18 months. It represents a tiny fraction of the harmful impacts inflicted on Ontario families by the Common Sense Revolution and it shows what Ontarians can look forward to if they are so unlucky as to get sick in Mike Harris' Ontario.

HEALTH CUT IMPACTS . . . . LIVES ARE AT RISK

➜ In September 1997, at 7:10 p.m., a 35 year old Toronto woman, pregnant, was admitted to Scarborough Grace Hospital in a state of collapse. A CAT scan showed she had suffered a brain haemorrhage. Not a single neurosurgical care unit could be found in the entire Greater Toronto Area! She was rushed to Hamilton by land ambulance (no air ambulance was available).

  After a delay of over four hours, she was finally admitted for treatment at Hamilton General Hospital. Her baby was saved, but the mother died the next day. The chief of medical staff at Grace Hospital stated, **?**There is no question the delay was the result of government cutbacks".

➜ In February 1998, Kyle Martin age five, was rushed to Emergency at the Credit Valley Hospital. It was his family's tragedy to arrive at a hospital made so dysfunctional by the Harris cutbacks that intake and first level triage in the Emergency room was staffed that night by a community volunteer. In conditions of near chaos, with every hospital bed full and 181 patients seeking treatment that day in Emergency, Kyle Martin was assessed by an untrained volunteer. He was not even seen by a nurse for over an hour. He was not seen by a doctor until three hours had passed, by which time he had passed into a virtual coma before his distraught parents eyes. Fifteen hours later he died from the effects of Group A streptococcal infection.

  In its written verdict, the Coroner's Jury stated, **?** The public expects a certain level of care, and the Provincial Government must ensure it is not compromised through under funding."

  In 25 recommendations focussed on restoring adequate funds to the Credit Valley Hospital and other area hospitals, the jury demanded that the circumstances preceding Kyle Martins' death "will never happen again." Among their recommendations: professional assessment of patients within 15 minutes at Emergency Departments, no volunteers on triage, no more acute care bed closings, and a revised hospital funding formula based on real need.

➜ In August 1998, a 76 year old woman, a stroke victim, was left to languish on a stretcher at Humber Memorial hospital for over 24 hours. After two and a half days of this, she was finally sent to a ward. The level of care and the absence of treatment was so unacceptable to her family that they removed her from the hospital and flew her to her native Colombia. In Colombia, she was admitted at once to hospital and the essential surgery was immediately performed.

➜ In February 1999, a Hamilton man dying of cystic fibrosis lost the chance for a life-saving lung transplant because intensive care units across the GTA were so jammed the operation could not be done.

➜ In December 1998, a woman pregnant with triplets was rushed in a three hour ambulance ride to Kingston to deliver her babies in the "closest available" neonatal unit; in Kingston.

The Minister of Health protested that this would "never happen again." It then came to light that three mothers, from Guelph, Hamilton and Oakville, had recently been airlifted to Windsor for neonatal care because of the total absence of available neonatal facilities in their own community or anywhere close to home.

In January 1999, a Port Perry woman began to experience difficulty with her pregnancy and had to be shipped 400 kilometres to Sudbury, the closest available neonatal care. Her comment: "It's rather ridiculous".

Then on February 10, 1999 hospital spokespersons announced that the shortage of neonatal beds throughout Ontario was so acute that pregnant women would have to be sent to the USA for neonatal intensive care.

➜ Ontario's emergency departments appear to be on the verge of collapse. There is no mystery why. It's not just the closure of beds and hospitals and the chaos of restructuring. The new practice of virtually instant discharge following surgery and childbirth has put new meaning in the phrase revolving door medicine. Patients are discharged "quicker and sicker" out the front door of the hospital, only to be rushed back in days later through the Emergency doors.

On boxing day in Toronto, 1998, all 20 Emergency Departments were closed to all but the most critical cases. Four were totally closed. It was a condition of sheer chaos, with ambulances rushing patients from one closed ER to another. This followed two major shutdowns in October 1998, both during the very same week. On October 13, 1998 and again on October 16, seventeen Emergency Departments were accepting either no patients or only critical cases.

Toronto is not alone; between January and August 1998, Hamilton's Emergency Departments were on "critical care by-pass" status a total of 1,023 times! On

February 9, 1999 all three of London's hospitals had totally closed all emergency service in the city.

In April 1998 a beleaguered Government announced a $228 million reinvestment for "hospital relief ". The money has not been delivered.

➜ In January 1999, an 82 year old man was found by his daughter dead on a stretcher at the Peterborough Civic Hospital a day after he had been admitted. The harried hospital staff hadn't noticed.

➜ In the field of cancer care, hospitals in both Toronto and Hamilton have put in place a protocol to send patients needing radiation to the United States. Waiting in Ontario has become too dangerous to tolerate. Cancer Care Ontario announced in February that treatment in the United States would start in March .

The Hamilton Regional Cancer Centre has fewer radiation machines in 1998 than it had when it opened in 1992!

The new Princess Margaret Cancer Centre cannot run its machines to full capacity for lack of staff. It has 500 patients on the list for radiation therapy in the USA.

Fully 70% of Ontario cancer patients do not get radiation treatment within the prescribed 4 weeks.

And not even children with cancer are spared. In London, children's cancer care specialists carry triple the recommended caseload. In Toronto, at the Hospital for Sick Children, the allowable caseload has been doubled.

➜ The importance of magnetic resonance imaging (MRI) machines as an aid to the early diagnosis and treatment of cancer is widely recognized... except by the Harris government. Waiting times for MRI treatment is 6 to 12 months. In November 1998, Hamilton was awarded two new MRI machines by the Ministry of Health, without either the capital funds to buy them or the operating budgets to run them. Toronto was given 4 MRI machines on the same generous basis.

The new funding formula for MRIs actually cuts $4.5 million in extra-hours funding out of the funding package for MRIs. Meanwhile, at St Joseph's hospital in London, the MRI machines are being used to treat dogs, on a fee for service basis of course, to try to raise enough money so they can be used on human beings.

- ➜ Under the Harris health reforms, Ontario has lost 10,000 nurses, about 10% of the former total, and thousands more health care workers. Ontario now has the lowest ratio of nurses per population in all of Canada.

- ➜ As a result of the combination of staff shortages, overcrowding in hospitals and a more seriously ill patient population, Ontario hospitals are reported to face a growing epidemic of antibiotic resistant staphylococcus aureus, called MRSC. This deadly drug-resistant infection has increased 2000% since 1995, according to studies by Dr John Only, epidemiologist at the Toronto Hospital. He stated; "It has occurred in the time since 1995 which is when we entered the period of intense restructuring in (health) institutions in Ontario."

- ➜ Ambulance Service has also been affected. Ottawa -Carleton ambulance service lags behind the industry standard by almost 5 minutes. In Canada's capitol, ambulance dispatch time violates the standard set out in the Ambulance Act. Mercifully no one has died yet in Toronto as a result of this new form of Russian roulette, but ambulance paramedics have stated it is a matter a time: the odds are too high.

WHATEVER HAPPENED TO LONG-TERM CARE

The missing link in the Harris health reform is long-term care. The theory seems to be that relief to our shattered hospitals will come from a promise of $1.2 billion invested in 6,200 long-term care beds. So-called "bed-blockers" will leave the hospitals for their new nursing homes, restoring capacity to the system.

Unfortunately for the theory, there are 12,000 people already on the waiting list for long-term care beds. Moreover, the long-term care "reinvestment" is spread out over 8 years. The new beds will not be all built until 2006. And to add one more twist of insanity, in Toronto two major long-term care facilities have been closed by the Hospital Restructuring Commission, which has cut over 3,500 long-term care beds. That represents more than half the new beds promised to Toronto.

And finally, it is also the fact that the new-model long-term care system will be privatized, for-profit medicine, run by multi-national health care corporations on a cost-plus basis, with profits extracted from reduced levels of service to their elderly and infirm patients. Mandatory hours of nursing care per day have already been lowered from the former standard of 2.25 hours in order to make the new geriatric warehouses profit centres for the private sector.

All of the $1.2 billion in long-term care funds will be put to tender. And existing home care services ,like those run by the VON, are being privatized by being put to tender at the rate of 10% the first year, 20% the second year , 30% the third year and 100% in the fourth.

The bidding process is rigged to make awards to the cheapest service, not to the highest quality of care.

REAL HEALTH SPENDING CUTS IN CONSTANT DOLLARS

In its paper titled *Promises Made...Promises broken. The real story on Health Care Spending in Ontario,* the Ontario Alternative Budget project was able to calculate for the first time the real spending cuts to Ontario's health care system. Our analysis of independently prepared data on health spending in Ontario shows that, when spending is measured and compared on a consistent basis, close to $2 billion has been cut from Ontario's health care budget.

PROMISES BROKEN

Figures released by the Canadian Institute for Health Information (CIHI)[7] last November now allow us to examine what is really happening to health care funding in Ontario. Analysis of CIHI data reveals that, rather than increasing health care funding by $1.5 billion as claimed, funding has actually been reduced by $1.97 billion, when measured in real per capita terms, over the term of this government . When the Harris government claims that it is spending more money than ever on health care it is ignoring a 4.2% increase in the population and inflation of 4.5% in the price of health care[8].

In real, per capita terms, the government has cut an increasing amount from health care each year since coming to power. The government cut $266 million in 1996, a further $628 million in 1997 and $1.1 billion more in 1998 (see Figure 4).

But that's not the end of the distortion. Even the reported figures are misleading. The figures for 1998-9 include $529 million in one-time costs associated with hospital closures and layoffs that are not part of the permanent health budget. A further $206 million is reported as provincial spending but in fact only appears on the province's books because it has not yet been downloaded to municipalities as planned in the "Who Does What?" exercise[9].

Taken together, the loss in real per capita health spending and the artificial inflation of the totals for 1998-9 disguise a health funding loss of roughly $2 billion.

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[7] Canadian Institute for Health Information, *Health Expenditure Trends 1975-1998*, Ottawa: Ontario, November 19, 1998.

[8] Health care prices climbed by 4.5% from 1995 to 1998 based on the Statistics Canada Health Care Price Index for Ontario.

[9] 1998-99 health expenditures include $529 million in one-time funds for transitional assistance for restructuring (largely for layoffs and severance), and $206 million that will be reimbursed by the municipalities. As a result, 1998 CIHI current dollar expenditures have been adjusted downward by 3.93%

FIGURE 4

Provincial Government Spending on Health Care

	Expenditures Current $ (millions)	Per Person Expenditures Current $ (dollars)	Health Care Price Index, Ontario (1992=100)	Real Expenditures 1992 $ (millions)	Population	Real Per Person Expenditures (1992 $)	Cumulative Per Person Deficit (1992 $)	Cumulative Total Deficit 1992 $ (millions)
1995	18,572.4	1,673.50	104.2	17,823.8	11,098,137	1,606.02	0.00	0.0
1996	18,704.0	1,661.50	105.0	17,813.3	11,257,501	1,582.35	23.66	266.4
1997	18,842.8	1,651.80	106.5	17,692.8	11,407,641	1,550.96	78.72	894.5
1998	19,044.0	1,647.20	108.9	17,487.6	11,561,162	1,512.61	172.13	1,974.4
Change fr.1995	471.6	(26.20)	4.5%	(336.2)	463,025	(93.40)	172.13	1974.4

Source: Canadian Institute for Health Information, National Health Expenditure Trends, 1975-1998

Per person spending is now at its lowest level ever, with the provincial government spending $97.60 less in today's dollars than when they came to power. Over the course of the past three years health care funding has been cut by a total of $172 per person, or $516 for a family of four.

Recent government announcements of "new" money for health care have largely been media-fuelled, stop-gap measures that come nowhere close to making up for previous spending reductions.

PUBLIC SERVICES DOWN; PRIVATE COSTS UP — MOVING TO A TWO-TIER HEALTH SYSTEM

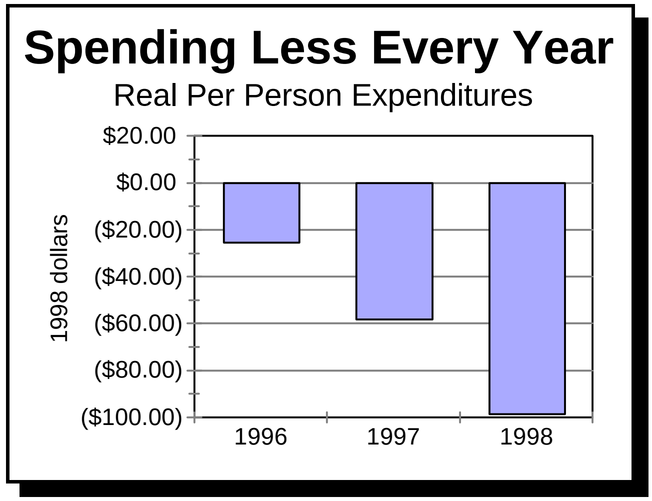
When Ontarians get sick, we do what we can afford to do to get better. And if we can't afford to supplement the system, we go without. That's how two-tier medicine gets started. And that's where we're going in Ontario.

The data from the CIHI show clearly that, during the term of the Harris Government, Ontarians who can afford it have been relying increasingly on the private market, using private funds, to get what they need.

Faced with a declining level of health care, Ontarians are spending more than ever out of their own pocket and through private insurance for health services. Ontarians face new user fees for chronic care, pay for more home care, now have to pay for de-listed services and face increased drug costs as they are shuffled out of hospitals "quicker and sicker." We now have the highest private health expenditures in Canada, as annual spending has risen by more than $1 billion over the last three years.

Some of this increase would have happened anyway. Ontario has always had a mix of public and private spending in its health system, and private costs are going up along with public sector costs. But 41% of that $1.06 billion increase in private spending can be attributed to cuts in the public system.

FIGURE 5



Overall health care costs

In its 1999-2000 Budget, the Federal Government announced an increase in funding for medicare, and a change in the funding formula to provide a constant, per capita amount for every province. On a full-year basis, Ontario stands to gain $800 million in Federal transfers for health care.

While the Harris Government has seized on this reversal of Federal policy as an admission of responsibility for health care cuts, the claim simply does not wash. The $800 million Ontario is receiving in additional Federal funding is less than half of the amount cut, in real, per capita dollars, from Ontario's health budget since Harris was elected. In addition, it is worth pointing out that the amount being put into the system by the Federal Government is roughly 13% of the 1999-2000 cost of the Harris income tax cut.

In the 1999-2000 Ontario Alternative Budget, every cent of this additional Federal funding will be put directly into the health budget as an addition to the OAB spending target of restoring public services to their 1995-6 real per capita level. This funding will be in addition to the measures outlined below for hospitals, long-term care, public health and supportive housing.

Hospitals

The Harris government has been waging war on the hospital system. $800 million has already been stripped from hospital budgets, with another $500 million still to go when "restructuring" is completed.

The impact of these cuts, overseen by an authoritarian and unaccountable Hospital Restructuring Commission, has been devastating. Thirty community hospitals are in the process of closing and merging, with dramatic consequences all across the Province. Medical authorities have described the ensuing chaos as rivalling the health care conditions in underdeveloped countries.

The Ontario Alternative Budget accepts the fundamental fact that Ontario's health care system remains hospital centred. When people get sick, they have a right to expect their hospital will be there for them. And they expect their hospital to be fully and properly staffed with the full range of caring health workers who only yesterday made Ontario's health care system one of the best in the world. It can and will be again.

We would restore the $800 million cut from Ontario hospital budgets, re-invest in our front-line hospital staff, and restore stability and quality to our hospital system.

The destructive work of the HRC will be terminated. Additional savings no longer required for hospital restructuring will be reinvested in health services.

As part of the Ontario Alternative Budget's program to deal with homelessness, a portion of this appropriation will be dedicated to reinforcing the capacity of Ontario's mental health care system to provide both residential respite and community support services.

Long-Term Care

Ontario's long-term care system, which compromises both long-term residential care and community or home-based health care, is badly under-funded. Thousands of elderly Ontarians are unable to receive the in-home services they require to stay in their own homes or to get quality nursing home care when they need it.

The OAB would invest $300 million in residential care and $100 million in community care to expand long-term care for seniors. We would begin to convert community care to a model based on direct provision rather than the current model based on contracting-out. Funds would be directed to adding home-based health care, restoring the mandatory 2.25 hours of daily residential nursing home care and adding new long-term care beds to the system.

Altogether these initiatives will raise Ontario's investment in health care to $20 billion.

HOUSING AND HOMELESSNESS

In September 1995, the most powerful of private sector development interests in the province met secretly with Al Leach, Ontario's Minister of Municipal Affairs and Housing. At this meeting were representatives from the Fair Rental Policy Organization, Greater Toronto Home Builders Association, Metropolitan Toronto Apartment Builders Association, Ontario Association of Architects, Ontario Home Builders Association and the Urban Development Institute of Ontario.

The private sector lobbyists presented Minister Leach with a 26-page "wish-list" called "Private Rental Construction: Barriers, Prospects and Strategy". On the list was the big-ticket items, such as an end to rent controls and demolition/conversion controls. Also included were highly technical matters, such as changes to building and fire codes and the *Occupational Health and Safety Act.* The developers wanted the province to cut taxes and development charges.

For all their demands, however, the developers made no promises that they would start building new rental units.

The Harris government was already hard at work even before the September meeting. Just days after being elected, Premier Harris emerged from his first Cabinet meeting to announce plans to kill 17,000 co-op and non-profit housing units that were under development. The Ontario government, as Premier Harris and Minister Leach would say *ad nauseum*, is “getting out of the housing business”.

By the September meeting with private developers, the Harris government’s plan to slash welfare cheques, including the shelter component (which covers rent), by 21.6% were nearly in place. Most welfare recipients live in private rental housing. Few, if any, landlords offered 21.6% cuts in rents. Within months of the welfare cuts, the courts were clogged with applications from landlords seeking to evict tenants who couldn’t pay their rents.

As steady as clockwork, the Harris government worked to implement the “wish list” from developers. Rent controls were gutted. Once controls were effectively removed in June of 1998, tenants started reporting rent increases of up to 30% on vacant units. Demolition and conversion controls were removed, leading to a net loss in the number of rental units. In Ottawa, more than 1,500 rental units were approved for conversion to condominium in the last 18 months, but only 15 new rental units were completed. Human rights and tenant protection laws were stripped, allowing landlords to discriminate against tenants based on source and amount of income.

Far from the boom in rental accommodation construction promised by the developers, these policies have resulted in a growing housing crisis and a deepening disaster of homelessness. The rental vacancy rate for Ontario dropped to a critically low 2.6% in 1998. In Ottawa, St. Catharines, Kitchener, London, Oshawa and Windsor, the rate has plummeted. It was already painfully low in Toronto.

Despite all the concessions to private developers, new rental starts continued to drop. The new starts fell from almost 11,000 back in 1988 to 2,000 in 1993 to less than 800 new units in all of Ontario in 1997.

In the last three years, the private sector has built only a fraction of the number of affordable housing units killed by the Harris government in its first few days in office.

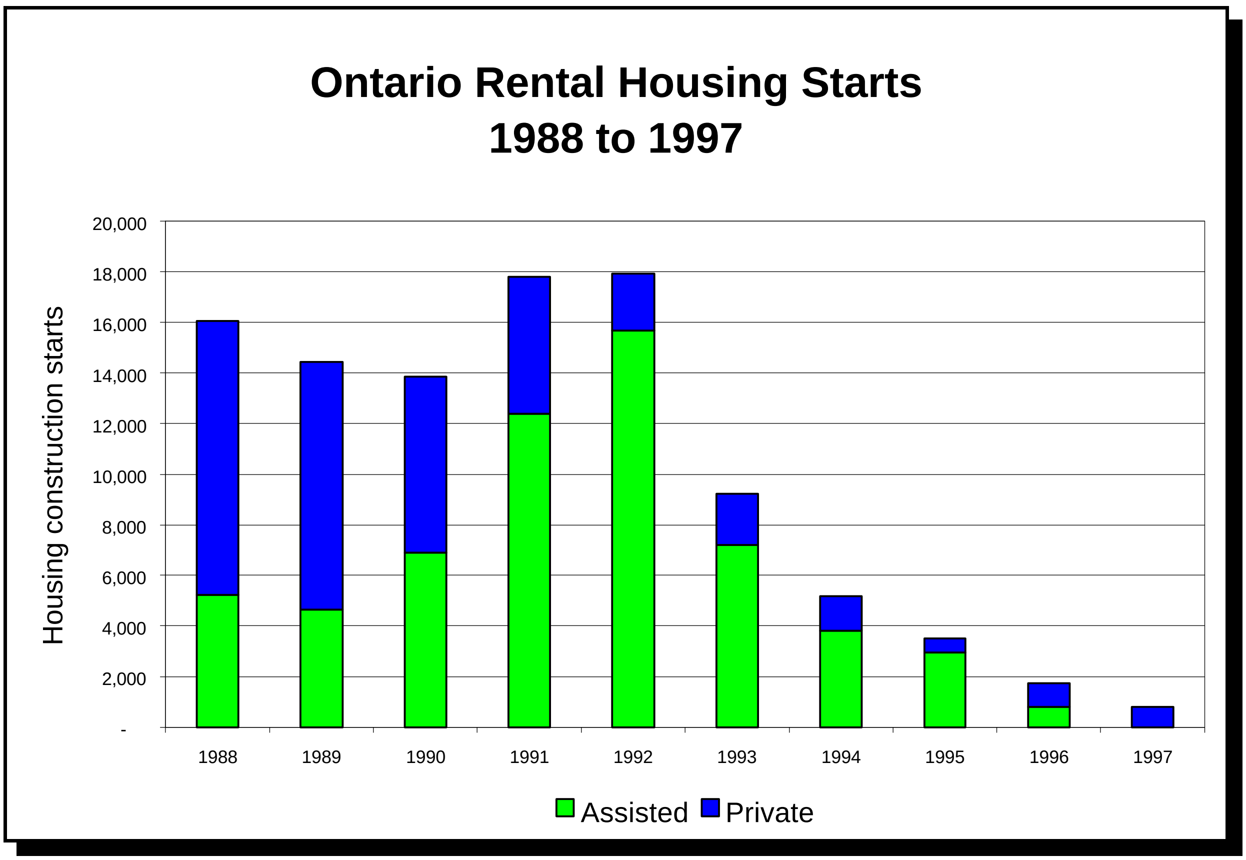
Low vacancy rates, almost no new private construction, an end to new social housing construction, growing poverty, cuts to welfare cheques, an end to effective rent controls – Mike Harris created a “made-in-Ontario” housing crisis and homeless disaster.

The numbers on waiting lists for social housing are growing in every part of the province. Line-ups at foodbanks are filled with people who cannot afford food because most of their income goes to rent. Court-ordered evictions are rising as tenants cannot pay their rent. Toronto’s hostels for homeless families were full years ago. Then the “welfare motels” in Scarborough got full and city officials were forced to rent motel rooms outside of Toronto to handle the flood.

Community advocates, working with the homeless and low-income tenants, mounted effective campaigns to call attention the homeless disaster. Early in 1998, Toronto Mayor Mel Lastman called on Anne Golden to head up Toronto’s Homelessness Action Task Force.

The Golden report, delivered in January of 1999, is a graphic snapshot of homelessness in Toronto. She reports that the fastest growing group of homeless are teenagers and families with children. There were 5,300 homeless children in 1996 in Toronto. Homelessness and the housing crisis is not confined to Toronto, but it has been most closely documented in that city.

FIGURE 6



Since the current homelessness disaster has been manufactured, then the solutions can also be found. It is a question of political choices.

Or, as Dr. Golden states, “our report demonstrates that the problems are solvable and the solutions are available”. The key solution, as the Golden report states, “is that everyone, including all three levels of government, must take ownership of the problem and responsibility for solving it".

For the provincial government, responsibility means a series of legislative changes to restore rent controls and demolition / conversion regulations. It means raising the shelter component of welfare cheques closer to the actual rent. It means restoring social housing to full provincial administration.

And it means funding the construction of desperately needed new affordable housing.

The growing gap between the high cost of building affordable housing and low tenant incomes is the reason why private developers started to slow down the construction of new rental stock in the early 1970s (well before rent controls were introduced in Ontario). Private developers prefer the quick and guaranteed return from condominiums and commercial development (if they choose to invest in real estate at all). Private developers won't return to rental construction unless either the cost of housing drops dramatically or the incomes of tenants rise dramatically -- or both.

The solution to the housing crisis is to close the gap between the cost of housing and the income of tenants.

While the Golden report draws a compelling picture of the homeless crisis, we have concerns about two key recommendations: the proposal for shelter allowances and the plan for a new supply initiative.

Shelter allowances are subsidies paid directly to low-income households. They benefit landlords, but there is no ability to control the quality or affordability of the housing. Bringing in shelter allowances at a time when the provincial government has just lifted rent controls is an open invitation to private landlords to fill their bank accounts at the expense of low-income tenants.

Instead, we support a major expansion of rent supplement programs. Rent supplements benefit low-income households living in private rental housing. But, unlike shelter allowances, there is a direct contractual relationship with the private landlord. Proper standards can be set for the housing and rents can be kept affordable over time.

The Golden plan for new housing supply is a complicated, eight-step process that involves three levels of government and numerous approvals. It requires a sophisticated municipal housing department to broker the complex deals required to produce the new housing. Outside of Toronto and perhaps Ottawa, there are few municipalities with the expertise or the interest to take on these responsibilities.

The common-sense conclusion is that federal and provincial governments should fund new social housing programs. Instead, Golden suggests a mix of tax incentives and direct subsidies to encourage private investors. Overall the Golden recommendation is too complex to be effective. The initial reaction of several prominent developers suggests that the stew being offered by Golden is not rich enough to entice private investors to build affordable housing.

In this Budget, we propose the establishment of a new non-profit and co-operative housing program

The main components are:

An on-going rental housing supply program to create 3,000 new units this year, funded by $120 million in interest-free repayable loans. This is the start of a multi-year initiative that would see 4,000 new units committed next year and 5,000 new units the following year.

A rental housing stabilization and rehabilitation program aimed at enabling tenants to secure and rehabilitate 5,000 units a year, funded at $125 million per year.

A new rent supplement initiative for 5,000 units. This would cost $25 million this year and would allow low-income and special-needs households to access the new or acquired housing.

An increase in the shelter component in social assistance to 85% of market rent. We estimate that this change would cost $100 million across the province.

A new rent supplement program for an estimated 82,400 working households. The Golden Task Force estimated that such a program would cost $178 million for the entire province.

A minimum of 2,800 new supportive housing units across Ontario annually, as recommended by the Golden Task Force, at an estimated cost of $32 million.

Our program would see the start of construction of 10,800 new and rehabilitated housing units this year. These units would provide a home for about 30,000 women, children and men. Although we want to maintain the commitment to mixed-income housing that has been a hallmark of social housing programs in this country for the quarter century, we will ensure that almost three-quarters of these units are subsidized and available to low-income households.

Our new shelter allowance program would support almost one-quarter of a million women, children and men, while the increase in the shelter component of the welfare cheque would benefit another 652,623 people who are recipients of welfare.

Our new provincial housing program must be seen in conjunction with a new federal housing supply program. The 1999 Alternative Federal Budget proposes a $2.2 billion Housing Investment Fund that would allow for the construction of up to 32,500 new housing units nationally. About one-third of those units (about 11,000 new units annually) would be built in Ontario. Included in the federal initiative is a $100 million homeless initiatives fund, plus a new Housing Foundation with an annual $200 million endowment.

The return of both the federal and provincial governments to an active housing role would signal an end to the finger-pointing that has marked housing policy debate in Canada.

For more details on our housing proposals, please see Chapter 11 of the 1997 Ontario Alternative Budget Papers.

Ending Ontario's housing crisis and homeless disaster won't come cheap, but it will be money well-spent.

In addition to ensuring that the people of Ontario have access to good quality, affordable homes, these housing measures will create jobs, generate taxes and provide other benefits to our communities and our economy.

THE GROWING GAP – IN THE LABOUR MARKET

Of all of the inflated rhetoric that has accompanied the so-called Common Sense Revolution, none has been as transparently ridiculous as the Harris Government's claim that its tax cut is responsible for Ontario's job creation performance.

The Government has claimed repeatedly that the tax cut pays for itself when you take into account the jobs created as a result of the tax cut.

Far from creating the astronomical number of jobs required to "pay for itself", both econometric analysis and empirical evidence suggest strongly that the combination of the tax cut and the public services cuts required to pay for it and balance the budget have actually cost Ontario jobs compared with what would have happened if neither the tax cut nor the services cuts had taken place.

Because spending on public services has a more powerful positive impact on employment than an equivalent-value tax cut, a tax cut offset by an equal cut in spending would reduce employment.

Since June, 1995, employment in Ontario has grown by 483,000.

As strong as this performance looks compared with the recession years of the 1990s, it is not as strong as the rate of recovery from the previous recession in the 1980s. Between June 1995 and January 1999, employment grew by 483,000 or 9.2%. During the corresponding period in the 1980s, employment grew by 586,000 or 12.7%.

More important for the Government's claims, however, is an evaluation of the relationship between the actual economic improvement that has taken place and the influence of the tax cut.

In evaluating the influence of the tax cut on employment, it is important to isolate its influence from other influences on Ontario's economy unrelated to the tax cut. The most obvious of these is Ontario's export performance.

Between the third quarter of 1995 (the quarter that began in July, 1995) and the third quarter of 1998 (the most recent period for which figures are available), Ontario's real gross domestic product, in current dollars, grew by just under $32.2 billion. Over the same period, Ontario's exports of goods and services grew by $51.4 billion. Ontario's exports outside Canada grew by more, in absolute terms, than the Ontario economy as a whole.

This suggests strongly that the difference between Ontario's economic performance and that of the rest of Canada is due to export performance, rather than the tax cut. The fact that the export economy grew more, in absolute terms, than the economy as a whole tends to support the prediction from econometric models that a tax cut paid for by expenditure reductions would actually cause Ontario to lose jobs – at a rate of 15-20,000 jobs for each $1 billion in balanced tax and spending cuts.

Another way to look at the same question is to compare the tax cut as a potential factor in promoting exports with other known factors:

- Continued strong economic growth in the United States, which acts as a powerful export draw for Ontario; and

- The declining value of the Canadian dollar, which reduces the prices of Canadian exports in the United States.

There is clear evidence that factors with a known and direct influence on Ontario's export performance are fueling Ontario's growth, it is difficult in the extreme to attribute any impact to a factor such as the tax cut, especially given the fact that no economically verifiable mechanism has been articulated that would link the tax cut to Ontario's economic performance. Indeed, as noted above, the accepted and understood economic mechanisms would suggest that Ontario's balanced tax cuts and spending cuts would depress employment levels.

Although the job growth that has taken place has been impressive by the standards of the 1990s, it falls short of the extravagant promise of 725,000 new jobs in the 1995 election campaign. Employment grew by 483,000 jobs since the election of June 1995 to January 1999. That is just two-thirds of the promised total, with just months left in the Governments term of office.

Furthermore, the numbers themselves reveal serious underlying problems in Ontario's labour markets.

As one would expect, public employment declined by 45,000 from June 1995 to January, 1999. Private employment increased by 293,000, leaving a net gain in employment of 258,000 in 43 months. Much of the employment creation action has been in self-employment. Since the Harris Government was elected, 235,000 or 48% of the total jobs created were in self-employment.

The government and its supporters would like to see this as a sign of entrepreneurial energy. The reality is that for most people, self-employment is a last resort to avoid being labelled as unemployed.

The claims of Mike Harris and Ernie Eves notwithstanding, there isn't much that an Ontario Government can do to influence the performance of the US economy – now by far the biggest driver of our economic performance – or to determine the basic monetary and exchange rate framework that is so critical to this province's economic success.

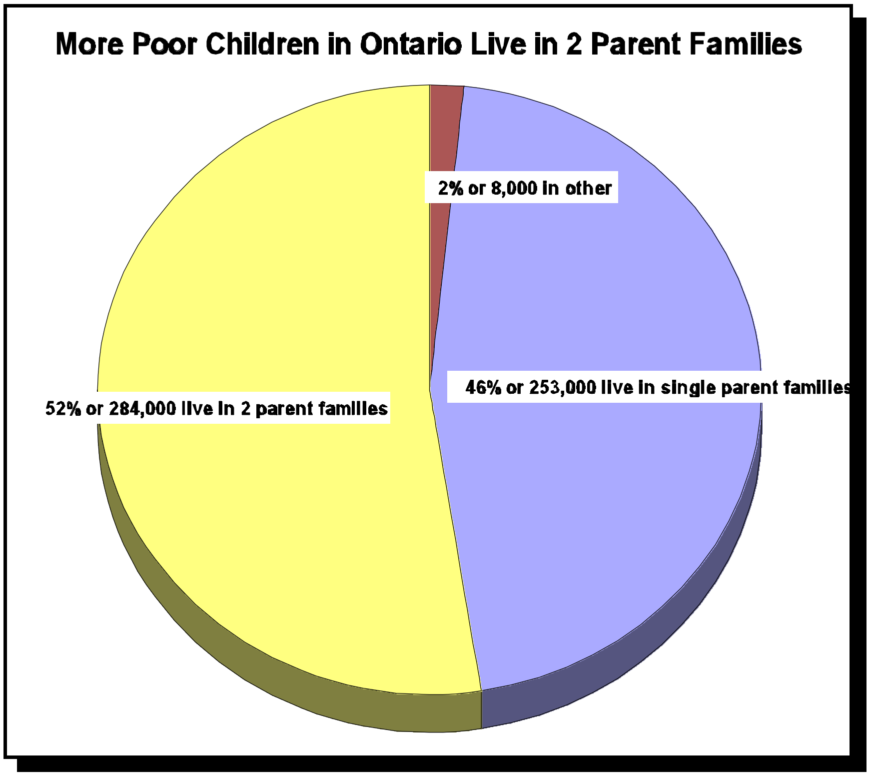
Ontario's own fiscal policies and public programs, however, can make a difference in employment.

The Ontario Alternative Budget for 1999-2000 increases program spending by approximately $7.5 billion, offset in part by tax increases totalling approximately $6 billion. The combined net effect of these changes in Ontario's fiscal position will be to create an estimated 75,000 new jobs in Ontario and an additional 50,000 new jobs in Canada outside Ontario.

THE GROWING GAP – AN ECONOMY INCREASINGLY BUILT ON INEQUALITY

In July 1995, as one of its very first acts, as a down payment so to speak, on the tax cut for the rich, the Harris government cut Ontario's social assistance rate by 21.6%. The effects are devastating. Research has documented that children are going hungry as a result. Homelessness has escalated. Child poverty has increased.

> Between 1995 & 1996 the number of families with children in poverty increased by 2% or 43,000. By 1996 there were 592,000 poor children in Ontario.



This welfare cut was followed by the introduction of the most harsh welfare law in Canada, Bill 142, a statute which replaces the legal right to income support whenever need is established with a contingent and largely discretionary loan.

During this same period, 1995-1998, Ontario's GDP has increased by almost 9 percent, and corporate profits have increased by 40 percent.

The OAB would immediately increase Ontario's social assistance rates by 21.6%. This would increase the housing component of social assistance to more realistic levels. This is in addition to the increases to meet the 85% of market target set in the Golden Report.

Restoring and Repairing Essential Services

The Harris spending cuts have taken a heavy toll on Ontario's network of social services. The Ontario Alternative Budget invests $700 million in restoring funding cuts to social programs such as child welfare and family services. It is also time to move forward again with significant social reform.

This program includes three new initiatives:

- ➜ The Early Years Program for 3 to 5 year-olds, together with a new child care funding model, proposed above;

- ➜ The new Ontario housing supply program, proposed above; and

- ➜ A meaningful "Fair Work" program which will give real jobs with decent wages and benefits to jobless Ontarians seeking to escape from the welfare trap as a replacement for the mean-spirited and largely useless "workfare" program.

Replacing Workfare with Fair Work

People on welfare want to work; they don't need to be forced to work. The Harris Government's Workfare program is a violation of fundamental rights. Jobless men and women are forced to work for welfare level wages, without worker protection laws and with no hope of advancement. It is obvious that the real intent is to replace regular public sector jobs with workfare jobs as the public sector is shrunk to pay for the tax cut.

The Ontario Alternative Budget working group proposes to scrap the current workfare scheme. We would replace it with a Fair Work plan, funded at the level of $100 million for the first year, to create 30,000 new jobs for social assistance recipients at the average wage. These jobs would be available for those who are unemployed and receiving social assistance, and they would incorporate earning and learning at the same time through on-the-job training.

Additional funds for real job creation, child care and training will come from re-allocating the $150 million currently budgeted for ineffective employment initiatives.

Supporting communities

In its zeal to transfer billions of dollars in tax cuts to Ontario's upper middle class, the Harris government has withdrawn hundreds of millions of support funds from essential social and economic infrastructure. Thousands of cultural, social, recreational and community action organizations across the Province have been "de-funded".

These groups organize and generate the voluntary community-based activity which forms an essential part of Ontario's social fabric. They are also an important source of potential job growth, performing important human and community service functions which are otherwise neglected.

The OAB would restore $200 million in funding support for community-based social and economic development activity.

In addition, cuts to child welfare services will be reversed with a $75 million enhancement.

EDUCATION

It is now clear that the combined effect of two years of budget cuts, the Harris Government's take-over of control over education and the Bill 160 funding formula that went with it has been to reduce the resources available for elementary and secondary education in Ontario, and to compromise the quality of the system across the province.

The effects are already being felt.

Despite its pledge to protect classroom spending, between 1997 and 1998, while public elementary enrolments were growing by 0.3%, the number of teachers went down by 0.5%. From 1993 to 1996, enrolments increased by 4% while the number of teachers in schools declined by 2.7%.

Fewer teachers in schools mean less diversity in programs, fewer extra-curricular activities such as sports and drama clubs, and less supervision outside the classrooms. A survey by People for Education in 1998 found that 64% of the schools in the sample had no physical education teacher; 44% had no music teacher; 18% had a library that was open only part-time.

In the same survey, 60% of the schools reported that children are required to share textbooks; 76% reported use of worn or out-of-date textbooks.

One clear warning sign is in increased reliance by schools on fundraising. The People for Education survey found that 39% of money from fundraising went to textbooks and classroom supplies; 46% was spent on computers. An earlier study by the Ontario Public School Teachers' Federation showed a wide range of fundraising results, from $500 to as much as $72,000 for a single school.

In many elementary schools, students are expected to bring their own supplies, including such items as pencils, glue, crayons, markers, erasers, scissors, calculators, paper, rulers, binders and dictionaries.

In spite of the rhetoric, class sizes in Ontario continue to be a problem. The Harris Government has maintained that its average class size regulations will solve this problem. In fact, many classes are still too large for effective learning. Capping across-the-board average class size at 25 looks good on a news release, but it does not actually limit actual class sizes to 25 students.

A class size "contest" conducted by the Elementary Teachers' Federation of Ontario revealed classes for elementary students with well over 40 students in a classroom. So much for the Tories' class size crusade.

In secondary schools, the chaos created by phony class size restrictions and the elimination of preparation time has been compounded by uncertainty about the new secondary school curriculum for 1999-2000.

THE HARRIS EDUCATION CUTS TO PRIMARY AND SECONDARY SCHOOLS

In the first two years of its mandate, internal government documents reveal that the government reduced provincial operating grants by $525 million.

Funding has been cut in two stages. In the first stage, cuts in provincial grants resulted in a reduction in total spending on elementary and secondary education of approximately $525 million. In the second stage, the new funding formula threatens to remove a further $667 million, once it is fully implemented and transitional funding is removed.

When it introduced its new education funding formula in Bill 160, the government made extravagant claims that classroom spending was being protected and overall funding increased. That's the rhetoric. And that's what the Government says in its "non-political" advertising. In fact, the new funding formula picks up where the initial cuts left off.

When account is taken of temporary transitional funding, enrolment growth and inflation between the last year under the old funding formula in 1997, and the first year of the new formula in 1998-9, the Ministry's own data revealed a further cut in funding of an estimated $883 million. The revised funding for pupil accommodation announced by Premier Harris in November 1998 to quiet down concerns about school closings, increased funding by $211 million on an on-going basis, thereby reducing the effective cut to $672 million.

$299 million of the $12.89 billion the Government claims it is spending on education in 1998-9 is described in its own documents as "Phase-in Adjustments" and is not part of the core long-term funding arrangement. A further $120 million is in teacher compensation adjustments for secondary school teachers and department chairs which are identified as being for 1998-9 only. Another $290 million has been eaten up by the 2.3% total enrolment increase between 1997 and 1998-9. Finally, $264 million has been consumed by inflation between 1997 and 1998-9.

Funding declines to $11,917 million. Adding back the $211 million increase in pupil accommodation funding brings the total to $12,128 million – $672 million less than the $12.8 billion spent in 1997.

The funding formula

The Government has touted its new education funding model as a simple, fair and objective method for allocating education funds among school boards for the benefit of elementary and secondary students.

Simple? The old funding formula was condemned by the Government as excessively complex, with its 34 separate grant components. However, in cross-examination in the Bill 160 court challenge, the government's own expert witness admitted that there were at least 34 separate grants in the new funding formula, many of which in turn were divided into sub-categories. The witness acknowledged under oath that the difference in complexity was a matter of "semantics".

Fair and objective? A review of the major elements of the funding formula makes it clear that benchmarks were constructed and formula calculation factors established with the single objective of producing a reduction in overall education funding, while at the same time providing support for the Governments claim that it is maintaining classroom spending.

It is systematically biassed against students who live in large urban areas. It reduces funding available for special education. It fails to recognize adequately additional costs associated with the education of disadvantaged children and the children of immigrants whose first language is not English.

The Ontario Alternative Budget proposes a four-step program designed to stabilize elementary and secondary education in Ontario, to restore the crucial element of local accountability and flexibility to the system, and to enhance its capacity to meet the needs of Ontarians in the future.

Increase grants to provide every board with a minimum per-student funding level equal to its 1995-6 funding.

Our budget addresses both of the major education cuts.

The OAB would restore the $500 million cut and reinvest it in all facets of education. This will include provincial funding for junior kindergarten.

Short-term repair of the funding formula

The funding formula introduced by the Harris Government has resulted in increased funding for students in some previously-underfunded school boards. But, once the various bits of transitional funding have expired, this funding increase has been more than offset by massive cuts in funding for students in other – mainly urban and northern – boards.

We have calculated that a funding increase of $650 million would have been sufficient, at 1995-6 funding levels, to bring all school Boards in Ontario up to the provincial average of per pupil spending. This amount will now be sufficient to offset the losses of all boards that stand to lose funding in the new funding formula and address major remaining inequities.

Restore the right to tax locally

The Harris funding formula makes the assumption that a single funding formula, centralized at Queen's Park can take account adequately of local educational needs in a province as diverse as Ontario. On its face, the assumption is absurd. Yet the funding formula implicitly makes that assumption by eliminating the right of local school boards to raise money locally to meet local needs.

As part of a renewed approach to education funding in Ontario, the Ontario Alternative Budget would permit school boards to raise additional funds in excess of their provincial funding allocation to meet locally determined needs and priorities. On an interim basis, access to the local tax base would be capped at 10% of a school board's provincial allocation. Whether or not there should be a cap in the longer term, and if so at what level, would be determined as part of the broader review of the funding formula proposed below.

Begin phase-in of an Early Years Program and Child Care Reform

In our 1997-8 Budget Papers, the OAB project outlined a model for child care reform which is urgently needed.

Ontario requires a comprehensive system of early education and care services and programs to meet the needs of children and their families. Over 75% of children under 12 are in non-parental care arrangements for substantial periods of time. The quality of care and education they receive is critical to the well being of children, their families and society.

Ontario requires a family policy which includes extended maternity and parental leaves and a seamless system of early childhood services contributing to healthy child development and support for all families, regardless of their parents' labour force attachment.

The Early Years program is a publicly funded early education and care program. Phase one would meet the needs of 3 - 5 year-olds. Parents who choose to use the program could send their children for a half, full or extended day. The program would be voluntary. The statutory school age would not change.

It would represent a major head-start for the next generation of Ontario's learners.

In Phase 2 the program would grow to include children under age 2 and provide before and after school and holiday programs for children of school age.

A new structure and funding model would address issues of program stability and affordability for parents. At present, unsubsidized day care fees total $800 per month per child and the cuts and erratic rationing of subsidy spaces has totally destabilized the child care system.

A sliding scale fee system would replace the current all-or-nothing arrangement.

Details are set out in Chapter 7 of the *1997 Ontario Alternative Budget*. Costs for the first year total $120 million, rising to $233 million by the third year and then increased in stages as resources are available.

An open revision process for education funding

The Mike Harris funding formula for education was not designed to deliver a high-quality education to every student in the province. It was designed to cut enough funding from the system to pay Ontario students' share of the cost of the Harris income tax cut. It was designed to attack the finances of large urban and northern boards not considered politically important to the Harris

Government. And it was designed to be manipulated to create the appearance that the 1995 election commitment to maintain classroom spending was being met.

While we believe it is important to provide school boards with the flexibility to meet local needs, we also believe it is the responsibility of the provincial government to provide sufficient resources to ensure that every student in Ontario receives all the support needed to reach his or her potential.

The Ontario Alternative Budget will initiate a public process for the review and revision of the funding formula, to ensure that its allocations reflect the actual costs of delivering a high-quality education to every student in Ontario.

Colleges and Universities

Post secondary education has been thrown into a crisis of affordability for all but the most wealthy. In the 1996-97 academic year, $400 million was cut from the operating budgets of universities and colleges – a 17% cut in operating budgets.

The new policy of deregulated tuition fees and loan-based student assistance is producing a class of indentured graduates who start life tens of thousands of dollars in debt.

The tuition increases have been staggering. Maximum levels of tuition for undergraduate arts and sciences programs in Ontario have increased from $2,228 in the 1994-5 academic year to $3,915 in the 1999-2000 academic year.

Increases in professional schools have been much higher. Medical school tuition at the University of Toronto, for example, has increased from $5,000 to over $10,000 a year.

As a first step towards improving the accessibility and quality of higher education, the OAB would increase the post secondary education funding base by $416 million, restoring the Harris cuts, with an adjustment for inflation.

We would also restore the $80 million cut from the Ontario Student Assistance Program (OSAP).

In recognition of the extreme hardship that tuition fee increases have imposed, we would freeze tuition fees at the 1997 level.

These measures, taken together, will result in a significant increase in grants to colleges and universities as well as major relief for beleaguered students.

ENVIRONMENTAL PROTECTION – THE HIDDEN HARRIS GOVERNMENT CASUALTY

Occasionally, the consequences of failure in environmental regulation are displayed in spectacular fashion, as was the case with the Hagarsville fire in the late 1980s and the plastics plant fire in

Hamilton in the mid-1990s. More often, however, environmental problems develop quietly, over many years. The environmental problems created by regulatory failure become obvious to the public only after they have become intractable.

The Harris Government is dismantling this province's framework for environmental protection. All of us will pay the price in years to come.

The third year report on "Ontario's Environment and the 'Common Sense Revolution'", produced by the Canadian Institute for Environmental Law and Policy, document the process.[10]

Fines for environmental offences averaged $2.6 million a year between 1988 and 1995. By 1997, they had dropped to less than $1 million.

The Ministry of Natural Resources has terminated its agreement with the Federal Government to enforce the habitat protection provisions of the Federal Fisheries Act.

In February, 1998, the courts found the failure to enforce the requirements of the *Crown Forestry Sustainability Act.*

Since the 1994-5 fiscal year, the operating budget of the Ministry of Environment has dropped by 45%; the capital budget by 81%. In the 1998-9 Ontario Budget, the Government announced an increase of $35 million in environmental spending. Closer examination of the numbers revealed that, in fact, the combined operating and capital budgets of the Ministry of Environment and Ministry of Natural Resources had been reduced by over $100 million.

40% of the staff capacity of the Ministry of Environment has been eliminated. During the toxic fire in Hamilton in 1997, the Ministry was so incapable of responding to this major pollution emergency that citizens had to rely upon Greenpeace for essential information.

The massive cuts initiated by the Harris Government have essentially crippled this province's ability to regulate environmental quality in the public interest. Ontario no longer has the capacity even to monitor environmental performance, much less to enforce existing environmental standards or develop and implement new standards that further improve environmental performance.

Its one and only environmental initiative, motor vehicle testing, is falling flat on its face. It took more than three years to be announced. And because of its insistence on privatized delivery, it has turned into a boondoggle for the large corporate automobile repair facilities that can afford the expensive equipment required for the testing.

Ontario has been widely criticized for its failure to enforce environmental standards and for its failure to take any steps towards the implementation of Canada's Kyoto commitments on greenhouse gas emissions.

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[10] Ontario's Environment and the "Common Sense Revolution": A Third Year Report, Canadian Institute for Environmental Law and Policy, June 1998

The OAB proposes to fully restore funding to these key environmental ministries. We would refill the staff complement required to protect the citizens of this Province from those who would pollute our water, air and lands.

Funding for the Ministry of Environment would be increased by $80 million.

The Ministry of Natural Resources' funding would be increased by $155 million.

LOCAL GOVERNMENT AND THE AFTERMATH OF "WHO DOES WHAT?"

Nowhere are the consequences of using public services to pay for the Mike Harris tax cut more clearly defined than in the funding and organization of local government.

It was evident right from the beginning that services delivered by local governments would play a major role in funding the Harris Government's tax policies. The size of the local government sector alone made it an attractive target for the common sense revolutionaries. The fact that other, local, politicians would take the hit for any cuts made the sector that much more attractive as a target.

Now, four years into the Harris Government's term of office, the size of the local government sector's contribution to the tax cut is coming clearly into focus.

About $800 million in spending responsibilities has been shifted from the provincial government to municipalities.

At the end of the day, municipal service cuts and property tax increases, combined with education cuts, will have contributed roughly $2.9 billion towards the original $4.7 billion cost of the Harris income tax cut.

While the government may have achieved the bottom line result it was looking for, however, the Harris Government's meddling in the local government sector has been a disaster.

In "Who Does What?" and property tax reform the government's reform agenda was marketed to Ontarians with references to improving the quality of service, eliminating duplication, rationalizing delivery and improving accountability.

But the result has never measured up to the rhetoric. Quite the opposite. In "Who Does What?", the government's stated objective was to replace a tangled web of provincial and municipal responsibilities with a rationalized system in which responsibilities were clear and services delivered at the level of government that could best finance and operate them. The first attempt at reallocating responsibilities collapsed, both economically and politically. And when the final plan came out, it was clear that only two things had been accomplished. Nearly a billion dollars in financial responsibilities had been shifted from the province to municipalities. And the tangled web of provincial and municipal responsibilities had been replaced with a different tangled web of provincial and municipal responsibilities.

The government based its case for property tax reform on the claim that it would create a uniform and transparent system across the province. But reassessment was so hastily implemented that the appeals system is now bogged down with hundreds of thousands of cases. Decisions about reassessment have been shifted from local government to Queen's Park. Rather than a uniform system of property taxation for education, as originally promised, we now have different rates of provincial taxation for education in every municipality in Ontario. Tax rate decisions are no longer made locally, in public, by locally elected officials. They are made at Queen's Park, behind closed doors, by the provincial cabinet. The entire exercise has replaced a hopelessly complicated system that at least had the virtue of local accountability with a different hopelessly complicated system from which local accountability has vanished.

There are three fundamental problems with the government's approach to local government services. The first is that in every case, the "reform" effort has been a thinly disguised attempt to cut provincial funding in order to generate funding for the income tax cut.

The second is that, time after time, the government has failed to appreciate the complexity of the system of local government and local services delivery in Ontario. Time after time, the Harris Government has moved forward with "reforms" designed to contain negative impacts to politically unimportant areas (to the Harris Government) like Toronto, other large cities and Northern Ontario. Time after time, it has discovered only later that dozens of municipalities and school boards in other parts of the province would be hit even harder. Time after time, it has been forced to retreat.

The third fundamental problem is that the Harris Government's simple-minded approach to local government reveals a complete lack of understanding of the role that local governments have played, and continue to play, in delivering public services in Ontario.

The genius of the Ontario system of provincial/local government services is that by building on partnerships between levels of government, it has encouraged local innovation while ensuring steady progress in important provincial standards. For some services, standards would improve locally as local governments – particularly in larger urban areas – introduced innovative new programs. Those services became available generally in Ontario only after the provincial government either set standards and provided funding, or designed and delivered the services directly. Other services would never have developed at all had the provincial government not been prepared to provide consistency in program funding, design and delivery.

Provincial objectives in areas like environmental quality and economic efficiency were served by the introduction of cost-sharing arrangements for sewer and water services and public transit. Programs like junior kindergarten and English as a second language were introduced first by a few school boards and then, as the merit of these programs was demonstrated, added to the range of programs supported by the provincial government.

The local dimension to these evolving partnerships makes local services more responsive to local needs. Programs like AIDS awareness were a feature of the local public health systems in Ottawa and Toronto long before the issue was addressed in provincial programming. It also acts as a safety valve against provincial government decisions. Without the substantial scope for local action built into the current system for funding education in Ontario, for example, it is unlikely that education in Toronto, Ottawa or urban northern Ontario would have responded nearly as effectively to the needs of their increasingly diverse student populations.

The provincial dimension ensures that successful innovations are generalized, that everyone in Ontario benefits from an adequate standard of public services, and that local services are delivered in a way that is consistent with broader public policy objectives. It is difficult to see, for example, how Ontario could meet its commitments in such areas as water quality without an active provincial effort to improve sewer and water treatment standards.

Partnerships cannot be written in stone. They evolve over time. The right balance has to be maintained between tax fairness and local initiative; between local control and flexibility and the need to ensure consistent high standards of public services.

From time to time they must be renovated and even rebuilt. But to destroy the provincial/local partnerships that built this province and to reject even the idea of partnership is to undermine the very foundation of our society.

The changes imposed by the Harris Government on local institutions are so massive, so unplanned and so idiosyncratic in their consequences that it is impossible to undo them in one sitting.

The task of restoring local democracy, sound municipal financing and a rational division of responsibilities must await a full analysis of the impacts of "Who Does What?"

We propose to renew the provincial/local partnership in municipal services in a step-by-step process.

The first step, in this 1999-2000 Budget is to deal with the immediate crises created by the municipal download.

To re-balance the provincial/municipal financial picture, responsibility for the funding of social housing will be returned to the provincial government. This move would transfer total costs of $807 million from municipalities to the Province and eliminate the general increase in property taxes driven by the downloading exercise.

In addition, legislation would have to be introduced to restore full successor rights, pension rights and termination and severance rights to the employees who deliver public services. The downloading and education finance reform exercises as they now stand are carefully designed smokescreens for cuts in public services and attacks on the wages and benefits of the women and men who deliver them. Neither of these outcomes is tolerable, and we will act immediately to reverse them.

Having addressed the immediate problems, future budgets will renew the provincial/local partnership in the delivery of public services.

SECTION IV

PROGRAM SPENDING SUMMARY

The Ontario Alternative Budget for 1999-2000 is based on a commitment to restore to Ontarians the level of public services they enjoyed in 1995-6, before the Harris Government's attack began. That means protecting the real value of spending on public services, on a per capita basis.

The target was determined in two steps. First, base spending in 1995-6 was adjusted to eliminate phantom spending introduced during the Government's first term of office. This spending was added to the budget in part to inflate deficit projections for the last full year in office of the previous government and in part to build a cushion of funds that had been budgeted but not actually spent. Second, we adjusted this base spending level to reflect inflation and increases in population.

This resulted in a spending target of $53,192 million. This compares with a flat-line projection for spending by the Harris Government for 1999-2000 of $45,434 million after adjusting for temporary spending and for the $2,247 million in municipal "Who Does What?" spending included in the 1998-9 data.

This would permit additional program spending for 1999-2000 of approximately $7.5 billion.

Of that amount, $807 million represents the transfer of housing responsibility from municipalities to the province, resulting in an offsetting saving in property taxes. An additional $1 billion is held in reserve to cover unanticipated costs associated with rebuilding public services in the wake of the Common Sense Revolution.

The details of most of the OAB spending program are set out in Section III. In addition to the initiatives detailed there, the OAB proposes to allocate $30 million to restore the capacity of the Ministry of Labour to regulate and oversee labour markets and protect worker health and safety and a further $25 million to re-establish the Wage Protection Fund. The Fund, cancelled by the Harris Government in its first few months of office, was originally created to compensate workers who were not paid after a corporate bankruptcy.

Spending changes are summarized in Figure 7 below.

FIGURE 7

Summary of Ontario Alternative Budget Spending Program

	$,000,000	
Current Harris base spending, excluding temporary items	47,681	
Allowance for “Who Does What?” completion	2,247	
Spending base on a comparable basis	45,434	
OAB Real Per Capita Projection	53,192	
Program and capital spending change	7,758	
Rebuilding Health Care		
Hospitals	800	
Long-term care	400	
Income Support		
Increase social assistance rates to 1995 levels		1,000
Early years program	120	
Housing the homeless		
Rental housing supply (3,000 units rising to 5,000 units)	120	
Rental housing stabilization and rehabilitation (5,000 units per year)	125	
Rent supplement for access to new housing (5,000 units)	25	
Increase shelter component of social assistance to 85% of market rents	100	
Rent supplement program for working adults	178	
Supportive housing program (2,800 units annually)	32	
Fair work program	100	
Supporting communities		
Community economic development	200	
Transportation and transit	330	
Native Affairs		8
Legal Aid	130	
Education		
Restore elementary and secondary funding cuts	525	
Repair elementary and secondary funding formula	650	
Early years program (recorded above)		-
Increase post-secondary education funding base	416	
Cancel cuts to Ontario Student Assistance Plan	80	
Environmental protection		
Environment (MOE) Restore pre-Harris funding		80
Natural Resources (MNR) Restore pre-Harris funding	155	
Local Government		
Province re-assume responsibility for housing (offset by property tax reduction)	807	
Protecting Working People		
Restore Ministry of Labour	30	
Wage Protection Fund	25	
Total allocated	6,436	
Harris Legacy Repair Fund	1,000	

SECTION V

REBUILDING ONTARIO'S FISCAL CAPACITY

The tax cut is at the root of Ontario's current fiscal problems. It is the single most important obstacle to rebuilding our capacity to pay for the public services we need.

Cancellation of the tax cut for high income earners is also the first step towards reviving Ontario's public services. Additional revenue can be raised by restoring fairness to health funding by:

- eliminating exemptions from the Employer Health Tax;
- restoring tobacco taxation to its early 1990s level; and
- eliminating corporate tax breaks – some of which were introduced by the Harris Government – by harmonizing Ontario's Corporate Income Tax with the Federal Corporate Income Tax.

Taken together, these tax measures will generate a "Public Services Revival and Enhancement Fund" of just over $6 billion. This additional revenue will move Ontario a giant step towards repairing the damage done by the Harris Government to public services in Ontario and which forms the foundation for a fiscal plan that will see the budget balanced by the year 2000.

1. Canceling The Tax Cut

With the change effective January 1, 1999, the Harris Government's personal income tax cut has now been fully implemented.

Based on Ministry of Finance data, we estimate that the personal income tax cut will reduce revenue by over $6 million in budget year 1999-2000.

The 1999-2000 Ontario Alternative Budget would amend tax rates and surtaxes so as to recover the full amount of the revenue lost from the tax cut from top 20% of Ontario taxpayers. Taxpayers with incomes below the median would not experience any tax increase. And for the 30% of taxpayers between the median income and the top 20%, benefit from the tax cut would be phased-out through the income range.

The half of Ontario taxpayers with incomes below the median level (an estimated $37,500 in 1998) would be fully protected from increases resulting from the OAB tax cut cancellation.

The next 10% of taxpayers (with incomes between $37,500 and $43,500) would see an average increase of $130.

The next 10% of taxpayers (with incomes between $43,500 and $50,700) would have an increase of $500 – a cup and a half of coffee a day.

Even for these taxpayers, however, the additional cost from tax cut cancellation would likely be dwarfed by the benefit from the restoration of public services. Avoiding the property tax increase from the "Who Does What?" download alone, for example, will save the average household over $200.

The Harris tax cut has had a significant negative impact on Ontario's fiscal capacity. Ironically, because the tax cut's benefit is so regressively distributed, it is possible to restore most of that lost fiscal capacity with no tax increase for the majority of taxpayers and either low or modest tax increases for the vast majority of other taxpayers.

For the 1999-2000 fiscal year, the OAB's approach to reversing the tax cut would increase revenue by $3.5 billion compared with estimated 1999-2000 revenue with the full tax cut in place.

2. Paying for Health Care

When the Ontario Employer Health Tax (EHT) was introduced in the late 1980s as a replacement for OHIP premiums, it included a graduated rate structure. The rate was 0.98 per cent for employers with total payrolls of less than $200,000, increasing on a graduated scale to 1.95% on payrolls exceeding $400,000.

It was the only payroll tax levied in Canada with a graduated rate structure. In its analysis of the tax, the Ontario Fair Tax Commission concluded that the graduated structure in place at the time was not appropriate. Although it was presumably designed to provide relief to small business, benefit from the rate structure concession actually bore very little relationship to the size or nature of a business or its ability to pay the tax.

For example, families employing care-givers would benefit from the graduated rate, as would large businesses which happen to have a small number of employees. The fact that payroll taxes tend to be shifted back onto employees raised further questions about the fairness of the system.

Since the graduated rate was based on total payroll rather than the pay of individual employees, an individual earning $200,000 a year in a one-employee business would pay the preferential rate whereas a minimum wage employee in a supermarket would pay the full rate. In its first budget, the Harris Government compounded the unfairness. It replaced the graduated structure with a blanket exemption for the first $400,000 of annual payroll. In addition to being unjustifiable on fairness grounds, ironically, this exemption is not even primarily of benefit to small business.
The Fair Tax Commission's analysis of the Employer Health Tax found that two thirds of the benefit from an exemption for the first $100,000 of payroll would go to employers with annual payrolls in excess of $400,000. Using data from the same Fair Tax Commission Technical Paper on the EHT, we estimate that the Harris Government's EHT exemption reduces EHT revenue by a total of $626 million in 1999-2000 compared to what would have been raised on

the pre-CSR graduated scale. More than 54% of the benefit from the Harris exemption went to employers with payrolls in excess of $400,000 a year.

In addition to the problems of fairness and targeting of the EHT exemption, there is a further problem in principle. Public health insurance is not only a major benefit to Canadian individuals and families, it is also a significant competitive advantage for Canadian business. The EHT is the only tax levy that reflects in any way that competitive advantage, and in fact covers only a fraction of the cost of OHIP.

The Alternative Budget returns the EHT design to the graduated rate structure that existed before the Harris government took office. This change would add $202 million to our 1998-9 revenue base.

3. Tobacco Taxation

In the early 1990s, the tobacco industry persuaded the Government of Canada that high taxes on tobacco products in Canada were giving rise to a massive increase in tobacco product smuggling. According to tobacco industry reports, a substantial proportion of the market for Canadian cigarettes was being taken up by Canadian-manufactured cigarettes exported to the United States and smuggled back into Canada.

Despite widespread evidence that steady increases in tobacco taxation over the years had a real impact on smoking by young people, the Federal Government met the industry's request and reduced its taxes. But rather than simply lower federal excise taxes on cigarettes, the Federal Government chose to lever corresponding reductions in provincial taxes. In provinces which chose to lower their taxes, federal taxes would be reduced. In provinces which did not choose to give the industry a break, there would be no federal tax reduction.

Ontario reduced its taxes, as did Quebec. Other provinces either reduced taxes by lesser amounts, or did not reduce taxes at all.

It is now evident that this policy shift was a significant mistake. Evidence is mounting that tobacco use by young, first-time smokers is on the increase. The promised dramatic reductions in smuggling activity did not materialize, and to the extent that smuggling has declined, the change has been attributed to other factors.

In addition, the fact that Ontario reduced its taxes while Manitoba did not, has created an Ontario-Manitoba tax avoidance problem.

The Alternative Budget for 1998-9 restores tobacco taxation to its pre-cut level. This contributes $489 million to the Public Services Renewal Fund, enough, by itself, to restore more than half of the cut in health programs imposed by the Harris Government.

4. Corporate Taxation

At the same time as the Harris Government has been imposing savage cuts on public services in Ontario, it has opened up the till for tax expenditures for business. After years of steady improvement in corporate tax fairness, the Harris Government has, with each budget, created new opportunities for tax avoidance by large corporations.

In some cases, these tax concessions replace grant programs, such as those for film development. In other cases, they are simply new give-aways.

The Alternative Budget for 1998-9 eliminates all of the corporate tax concessions introduced by the Harris Government, and restores the grants for film production and book publishing that they replaced. Net of the cost of reinstating these grants, this would restore approximately $226 million in lost revenue.

Ontario's corporate tax concession binge raises a broader question as well. Ontario is currently one of only two provinces that has its own corporate tax system, separate from the Federal Corporate Income Tax. It is thus required to maintain its own collection system and auditing capacity in corporate taxation, diverting tax enforcement resources from other areas. There is very little evidence that provincial-level corporate tax concessions accomplish anything more than the creation of additional avenues for tax avoidance by corporations. In any case, the differences between the Federal and Ontario corporate tax bases are small, accounting for less than 7% of Ontario corporate tax revenue, an amount that is almost certainly comparable to the additional compliance and administrative costs associated with the operation of a second tax system.

Differences in corporate tax systems among sub-national jurisdictions are an invitation for tax avoidance. It is difficult enough in this economic environment for national governments to defend their corporate tax bases from international tax avoidance. For a sub-national jurisdiction like a Canadian province, defending a corporate tax base against inter-provincial avoidance is that much more difficult.

In the longer term, preserving tax fairness in Canada requires that tax bases be reallocated between the federal and provincial governments on a basis that maximizes our ability to collect the taxes that are actually due. In our view, this means that Ontario should not be levying its own corporate income tax.

For the 1998-9 Ontario Alternative Budget, the Ontario Corporate Income Tax base and credit structure would be harmonized fully with the Federal Corporate Income Tax, and an agreement negotiated for tax collection by the Federal Government.

This would generate additional revenue of $569 million, not counting administrative and compliance cost savings.

In the recovery from recession in Ontario and in Canada, corporate income has fared much better than the incomes of average families. Corporate profits have soared to record heights;

real median family incomes are stuck at their 1986 level. We believe that it is important for corporations to make an additional, visible, contribution to addressing the problems in public finance in Ontario created by the recession. In the 1999-2000 Ontario Alternative Budget, the corporate income tax rate increases by one percentage point, raising an additional $509 million.

SECTION VI

ONTARIO'S FINANCES – COMPARING THE PICTURES

Our analysis of Ontario's fiscal situation for 1999-2000 leads to three key conclusions.

First, the Harris Government is on track to report a budget surplus in the year 1999-2000.

Second, it is possible to balance the budget on the same timetable as originally set out in Mike Harris' Common Sense Revolution while rebuilding the public services so badly undermined by the Harris Government. In the OAB plan, we project a surplus of over $1 billion in fiscal year 2000-1. Ontario's fiscal capacity is rebuilt to the extent that program spending can be restored to the same real per capita level as in 1995-6 while sticking to the deficit reduction timetable.

Third, if there had never been a common sense revolution – if Mike Harris and Ernie Eves had spent the last four years in a closet, the budget would have been balanced about half way through the current 1998-9 fiscal year. Our analysis demonstrates that the hysteria whipped up by Harris over the deficit was a smokescreen to hide the real objective of cutting public services. And our analysis proves that the real objective behind the tax cut was to reduce the capacity of the provincial government to pay for public services.

The economic assumptions on which our analysis is based flows from consensus economic forecasts for 1998, 1999, 2000 and 2001, as shown in Figure 8.

FIGURE 8[11]

Base Economic Assumptions

	1995-6	1996-7	1997-8	1998-9	1999-0	2000-1	2001-2
Inflation	2.2%	1.7%	1.7%	1.2%	1.8%	2.1%	2.1%
Real Growth	3.0%	2.1%	4.3%	3.8%	3.4%	3.0%	3.0%
Interest Rate	8.2%	7.2%	6.2%	5.8%	5.8%	5.8%	5.8%

Expenditure and revenue data for 1998-9 are drawn from the current (2nd quarter 1998-1999) issue of Ontario Finances, released by the Minister of Finance in November, 1998 and adjusted

[11] In these projections, growth is as measured by Statistics Canada and other agencies and employed in forecasting government revenues. As such, it does not reflect debates over how much growth there actually is in the economy (the gross growth vs. net growth debate) or over the relationship between economic growth as conventionally measured and economic progress (the Gross Domestic Product vs. Genuine Progress Indicator debate). Net Growth is GDP growth after adjusting for the loss from depreciation of fixed assets. The Genuine Progress indicator, in principle, differs from GDP in that it takes into account environmental and other "qualitative" changes during the year.

to reflect the more optimistic view of Ontario's economic prospects prevailing in the current economic environment.

Income tax revenue projections take into account the reduction in Ontario's income tax base caused by the1999-2000 Federal Budget's increase in the personal exemption level as well as the slight increase in income tax revenue for 1999 resulting from the EI premium reduction.
Neither revenue nor expenditure projections have been adjusted to reflect the increase in the Federal Government transfers for health care. It is assumed that expenditures will increase dollar for dollar with transfers, resulting in offsetting revenue and expenditure increases.

We modelled three scenarios: a continuation of the current government's fiscal framework; the fiscal framework for the 1998-9 Ontario Alternative Budget; and a hypothetical framework which assumes no spending cuts and no major tax cuts from the reported 1995-6 levels.

THE HARRIS GOVERNMENT'S FISCAL FUTURE

In this projection, we forecast revenue using the base economic assumptions above, adjusting personal income tax revenue to reflect the fact that 1999-2000 will be the first fiscal year following the full phase-in of the tax cut.

We assume that expenditures will remain at their 1998-9 levels, after adjusting for temporary items, as set out in Figure 9. We assume that school board transitional funding, reported in 1998-9 as restructuring funding, will be repeated in 1999-2000. Management Board Contingency and Municipal Capital and Operating Restructuring are assumed not to continue.

FIGURE 9

Expenditure Adjustments for 1998-9

School Board Transition	Add from restructuring	161
Unallocated Restructuring	Deduct from program	400
Management Board Contingency	Deduct from program	610
Municipal Capital & Operating Restructuring	Deduct from capital	29
Hepatitis C Compensation	Deduct from program	200

Based on these assumptions, the provincial budget, as reported by the Government in its accrual accounting system runs a surplus of roughly $1.6 billion in 1999-2000.

Our projections are detailed in Figure 10.

FIGURE 10

Harris Scenario: 1998-9 spending base; temporary spending excluded; revised revenue estimates

	1995-6	**1996-7**	**1997-8**	**1998-9**	**1999-0**	**2000-1**	**2001-2**
Program + Capital	49,798	47,748	47,725	48,930	47,681	47,681	47,681
Public Debt Interest	8,475	8,607	8,729	8,809	8,778	8,433	8,171
Total Revenue	49,473	49,561	52,970	56,110	58,119	60,655	63,384
Deficit (-) / Surplus (+)	- 8,800	- 6,794	- 3,484	- 1,629	1,661	4,541	7,532
Revenue Loss From Tax Cut	-	1,140	3,305	5,391	6,158	6,503	6,866

Note that in fiscal year 1999-2000, we estimate that the loss in income tax revenue alone arising from the tax cut will have risen to over $6 billion.

The total cost of the tax cut, to date, is summarized in Figure 11.

FIGURE 11

How the tax cut debt builds

	1995-6	**1996-7**	**1997-8**	**1998-9**	**1999-0**	**2000-1**	**2001-2**
Annual Cost of Tax Cut	-	1,140	3,305	5,391	6,194	6,595	6,987
Interest Costs During Year	-	41	141	326	618	998	1,434
Previous Year's Tax Cut Debt	-	-	1,181	4,627	10,344	17,156	24,749
Carrying Cost of End-Year Debt		-	85	289	595	986	1,423
							1,907

By the end of the Harris Government's original deficit elimination timetable in 2000-1, nearly $25 billion in debt will have been accumulated as a result of having to borrow the money to fund the tax cut.

The annual carrying cost for that amount of debt is $1.4 billion.

The 1999-2000 Ontario Alternative Budget

The fiscal plan for the Alternative Budget is designed to restore public services in Ontario to their 1995-6 level, adjusted to reflect inflation and population change, and to eliminate the deficit by fiscal year 2000-1, the same target year in the original Harris fiscal plan.

The expenditure target for the Alternative Budget is to return real, per capita program activity to its 1995-6 level. Program spending for 1995-6, used as the base for calculating the annual the real per-capita targets, is actual spending in 1995-6, adjusted to exclude "accrual accounting" adjustments made by the Government after the end of the fiscal year.

Expenditures total $53.2 billion. This compares with adjusted 1998-9 spending of $46.7 billion, for an increase of $6.5 billion.[12]

Economic assumptions start with the base case of consensus forecasts used to project the current situation. Growth forecasts are adjusted for 1999, 2000 and 2001 as follows. As a result of the elimination of the fiscal drag created by the Common Sense Revolution's budget cuts – estimated in the CSR at 0.4% a year – assumed growth is increased by 0.2% in 1999 and by 0.4% in 2000 and 0.2% 2001. In addition, we estimate that the rapid restoration of public services called for in the OAB will add to growth by 0.45% in 1999, 0.9% in 2000 and 0.45% in 2001.

Elimination of the tax cut for the highest-income 20% of taxpayers, along with the other revenue measures proposed above increase revenue by approximately $5 billion, compared with what it would have been under the current Harris tax regime. After allowing for the completion of the "Who does what?" transfers, total revenue for 1999-2000 would be $60.6 billion including $2 billion in revenue growth resulting from economic growth.

$807 million of this revenue growth is offset by property tax savings.

Figure 12 highlights the Alternative Budget fiscal plan to the year 2000-1. It shows actual data for 1995-6, 1996-7, 1997-8, a projection for 1998-9 to the year 2000-1 and forecasts for 1999-2000 and 2000-1.

[12] $2.2 billion in expenditure responsibilities were scheduled to be transferred to municipalities under "Who does what?" but were delivered by the province in 1998-9. The 1998-9 budget included this $2.2 billion as an expenditure item and the offsetting payment from municipalities as a revenue item. For comparison purposes, the OAB projections remove the revenue and expenditure from both sides of the ledger. In addition to the $6.5 billion in increased spending in the OAB plan, a further $1 billion is reallocated from temporary or restructuring funds to program spending.

FIGURE 12

OAB Real Per Capita Scenario	1995-6	1996-7	1997-8	1998-9	1999-0	2000-1	2001-2
Program + Capital	49,798	47,748	47,725	48,930	53,192	55,015	56,900
Public Debt Interest	8,475	8,607	8,729	8,809	8,777	8,606	8,594
Total Revenue	49,473	49,561	52,970	56,125	60,604	63,828	67,046
Deficit (-) / Surplus (+)	- 8,800	- 6,794	- 3,484	- 1,614	- 1,364	207	1,552
Real Per Capita Base	47,478	48,840	50,438	51,631	53,192	55,015	56,900

The plan projects a budget surplus of just over $200 million in 2000-1.

This conclusion is independent of assumptions about increased economic growth generated by our program. Adjusting only for the end of the CSR drag still results in a balanced budget during fiscal year 2000-1. To the extent that the underlying base growth varies from the projections, it will have equivalent impacts on the Harris Government's fiscal plan and our own.

THE MIKE HARRIS LEGACY – WHAT IF MIKE HARRIS AND ERNIE EVES HAD BEEN LOCKED IN A CLOSET IN JUNE 1995

In addition to projecting the current Harris program into the future, and modelling the fiscal situation of the province with the Ontario Alternative Budget, we asked the question:

What would the fiscal position of the Government of Ontario have been if there had never been a tax cut and if nothing had been cut from actual 1995-6 spending from its 1995-6 level. While this budget scenario would have required some constraint on public spending, given the fact that it does not allow for inflation or population growth, nothing like the upheaval Ontario has experienced under Mike Harris would have taken place.

In this scenario, we assume that spending remains what it was in 1995-6, after deducting “restructuring and other charges” of $1.3 billion recorded on the books for that year. These charges were all related directly to the Harris spending cuts, and would not have been incurred in the absence of those cuts. Revenue is adjusted to add back into the revenue stream the income and employer health tax cuts. No adjustment was made to restore the growing list of corporate tax give-aways introduced by Harris.

Budget balances were re-calculated and debt service cost changes re-estimated to reflect the changes in revenues and expenditures in this scenario.

The results are dramatic, and startling. There would have been a budget surplus of over $1. billion in 1998-9, two full years ahead of the schedule set out in the Common Sense Revolution.

The details are set out in Figure 13.

FIGURE 13

No CSR – i.e. no spending cut from 1995-6; no income tax cut; no EHT cut

	1995-6	**1996-7**	**1997-8**	**1998-9**	**1999-0**	**2000-1**	**2001-2**
Program + Capital	48,446	48,446	48,446	48,446	48,446	48,446	48,446
Public Debt Interest	8,475	9,013	9,435	9,436	9,232	8,718	8,239
Total Revenue	49,473	50,701	55,756	59,261	62,288	65,482	68,736
Deficit (-) / Surplus (+)	- 7,448	- 6,758	- 2,125	1,379	4,610	8,319	12,050

The plan projects a budget

Whatever Ontarians were intended by Mike Harris to think the Common Sense Revolution was about, the numbers show clearly that it was not about eliminating the deficit. With an expenditure freeze, the deficit would have disappeared on its own two years ahead of the Harris Schedule.

APPENDIX

COMPARING HOUSEHOLD TAX CUT SAVINGS WITH THE IMPACT OF THE OFFSETTING COSTS OF THE COMMON SENSE REVOLUTION

HOUSEHOLD IMPACTS

The Social Policy Simulation Database and Model is a sophisticated analytical tool produced by Statistics Canada for use in modeling the impact on Canadian individuals and families of public policy changes. It brings together information from a wide variety of different databases maintained by Statistics Canada and other Federal Government Agencies.

Using the model, it is possible to estimate the impact, across all households in Ontario as well as for sub-groups of households, of changes in the Ontario tax system.

The analysis compares income taxes payable by Ontario residents in 1999, with the Harris Tax Cut fully implemented, and the taxes that would have been paid with the 1995 tax system and rates. The 1999 tax payable estimate reflects the 1998 Federal Personal Income Tax changes, but not those introduced in 1999. As a result, the analysis attributes the impact on Ontario tax payable of the 1998 Federal PIT changes to the Harris tax cut, but ignores the impact on Ontario tax payable of the 1999 changes. Including the impact of the 1999 changes would have resulted in a further overstatement of the Ontario tax cut impact.

In the analysis, whenever we refer to the median household, we are referring to a household in the middle of the household income distribution, with the median household size of three. To avoid distortions based on household size, we assume three-person households in all comparisons, unless a different number of household members is specifically identified.

MEASURING OFFSETTING COSTS

There is no direct measure available of the costs to Ontario families of the increases in property taxes, user charges and other fees. The comparative impact analysis in Section II of the 1999-2000 Ontario Alternative Budget is based on indirect measurement of these costs.

These indirect measures are drawn from a number of different sources. Costs resulting from fees and other charges levied by Municipalities, Universities and Colleges, School Boards and Hospitals (the so-called MUSH sector) are measured using a database prepared by Statistics Canada on the finances of these institutions. Because the data set is complete only to the end of 1997, these data capture only the impact of the first two years of the Harris Government's term of office.

As discussed in the text, the percentage increase in property taxes is determined from data released annually by the Fraser Institute on taxation in Ontario. The most recent year available is 1998, which captures three years of the Harris administration. The increase is then applied to the residential portion only of total property taxes levied in Ontario to produce an estimate of overall property tax increases on residential property. The Fraser Institute's data cannot be used directly as reported, because they allocate both commercial and industrial and residential property taxes to individuals.

Sewer and water user charges are estimated using expenditure data from Statistics Canada's Family Expenditure Survey and the increase in the sewer and water charges component of the Consumer Price Index.

The carrying cost of the provincial debt accumulated to pay for the tax cut is estimated by assuming that the accumulating costs of the tax cut will have been borrowed until the provincial budget is balanced in the year 1999-2000.

Ontario drug plan user charges are as reported by the Government of Ontario for the 1997-8 fiscal year.

The final step in the analysis is to distribute these increased costs among Ontario households. In the analysis, we used three different approaches to distributing costs, in varying combinations depending on the particular cost being distributed: a distribution in equal per capita amounts; a distribution in equal per household amounts; and a proportional distribution based on income.

The allocation methods are summarized below.

FIGURE 14

	Allocation		
	Per head	Per Household	Income
University & College			
Tuition	25%		75%
Other fees	25%		75%
Other own source	25%		75%
Health & Social Services			
Goods & services	100%		
Other own source	100%		
School Boards - Rentals	100%		
Local Government			
Licences & permits	100%		
Rentals	100%		
Other goods & services		100%	
Miscellaneous		100%	
Property taxes	50%	25%	25%
Water charges (CPI)	100%		
Interest costs on tax debt			100%
Drug plan user charge	100%		

In each case, a combination of methods of allocation was chosen to approximate the distribution of these and similar costs in other studies.

For example, since the interest cost on the tax cut debt is borne by taxpayers as a whole, the cost should be distributed in the same way as the total for all provincial taxes. Other studies have found that the Ontario tax system as a whole has an impact that is approximately proportional to income – i.e. that the tax system as a whole is neither progressive nor regressive.

Water usage, on the other hand, can best be approximated as a fixed amount per individual.

University and college tuition and other fees were distributed by allocating 25% of the total on a per-capita basis and the other 75% in proportion to household income. This reflects the fact that benefit from university and college attendance increases with income, while avoiding allocating the full impact to one and two-person households.

ADDING IT ALL UP

The first step in the analysis is to estimate the total amount for Ontario of various offsetting fees, charges and costs. The second step is to estimate the distribution of those costs among households based on household characteristics. The third step is to allocate those costs to individual example households, based on their household characteristics.

For example, for a household consisting of four individuals with a total income of $60,000, costs are determined as follows:

1. The amount of all costs distributed on a per-household basis – specifically, 25% of the increase in property taxes and 100% of the increase in miscellaneous municipal fees – is determined; added to this is

2. The amount of all costs distributed on a per-capita basis – for example 50% of property tax increases is allocated on a per-capita basis – is determined and multiplied by 4, the number of persons in the household; and added to this is

3. The amount of all costs distributed based on income – for example, 75% of university and college tuition increases – is determined. That amount is then expressed as a percentage of total household income for the province. Finally, the household's share of the costs distributed on the basis of income is determined and added to the total.

WHY THIS APPROACH?

This method produces a much more realistic picture of how these costs are actually borne by residents of Ontario than would a simple per-capita or per-household allocation. Such an allocation would tend to over-state the offsetting costs borne by low-income households and under-state the costs borne by higher-income households.

MEASURING THE IMPACT OF TUITION FEE INCREASES ON A YOUNG FAMILY

Some of the offsetting costs resulting from the Harris Government's policies are felt immediately, and by everyone. Property tax increases are current year costs that are borne by everyone.

Other costs have a direct impact only if you use the service in question. For example, tuition fee increases only have an effect if you either pay or expect to have to pay tuition fee increases. If you or one of your children are currently studying at a university or college the impact is immediate and easy to measure.

Less obvious is the impact on the future financial situation of families who have younger children who expect to attend college or university.

To compare the cost of tuition increases that will be borne in the future, we first determine what the value of the increased tuition will be in the future, and then discount that value to express it in today's dollars.

On the tax cut side, we measure the average net saving from the Harris tax cut, after allowing for property tax and water charge increases and the cost of carrying the tax cut debt. We then assume that the family will gain that same benefit, after allowing for inflation, every year until the household heads have retired. We also assume that they will continue to receive a tax cut benefit of one third of that amount from retirement until death at age 80. Finally we add up the annual benefits and discount their value to express the total in today's dollars.

We assumed a real interest rate of 3.5%; inflation at 2% and tuition increases at 1% above the rate of inflation.

In the example used in the text, the cost in today's dollars of the tuition increases already mandated by the Harris Government is $12,980. This compares with a value for a lifetime of Harris tax cuts, in today's dollars, of $9,800.