The times they are a-changin'

What this week's provincial and federal budgets will mean for Ontarians

By Don Butler, Ottawa Citizen March 30, 2012

Once, it was A Place to Stand, A Place to Grow (Ontari-ari-ario!). But the ebullient optimism of that jaunty centennial-year ditty faded long ago. Ontario now resembles nothing so much as an aging star athlete struggling to manage eroding abilities and avoid an embarrassing end.

The province's economic growth has lagged the national average for the past decade, as global competition and a muscular petro-dollar ravaged its manufacturing base.

A quarter century ago, Ontario residents earned, on average, 20 per cent more than those in the rest of Canada. Today, they earn slightly less. The 2008-09 recession was significantly nastier here and unemployment remains persistently higher than the national average.

Since 2009, Ontario has been — shockingly — a have-not province, collecting $2.2 billion in federal equalization payments this fiscal year alone. Even so, the provincial deficit has spiked to $15.3 billion and could top $30 billion by 2017 without fundamental reforms, according to economist Don Drummond's recent report, which exhaustively documented the dimensions of Ontario's fiscal challenge and advocated hundreds of measures to deal with it.

Still, you may be forgiven if you missed the memo about Ontario's crisis. During its first two terms in office, Ontario's Liberal government ramped up spending by an average of seven per cent a year. The province's costly health care system is still one of the country's best, though it now consumes more than 40 per cent of government spending and threatens to crowd out other priorities.

Despite the lowest funding levels in Canada, post-secondary enrolment continues to grow rapidly. And Dalton McGuinty's government has poured money into elementary and secondary education, slashing class sizes and introducing full-day kindergarten. Money, it seemed, was no problem.

Meanwhile in Ottawa, successive governments also opened the spending taps, dramatically expanding the size and cost of the public service. According to the C.D. Howe Institute, federal personnel costs (excluding the military and the RCMP) surged 130 per cent from 1999-2000 to 2010-11. During the same period, the number of federal public servants expanded by nearly one-third — almost doubling in Ottawa — and the cost per employee rocketed to $106,500 from $60,500.

After years of surpluses, the federal government suddenly found itself with a budget deficit of nearly $56 billion in 2009-10 — by far the largest in Canadian history — following the 2008 financial crisis. That has since fallen back to a less alarming $24.2 billion.

Still, for the 13.5 million Canadians who live in Ontario, there was always going to be a day of reckoning. And this week's twin budgets — one provincial, the other federal — provided a glimpse of how our lives might change.

To differing degrees, both budgets embraced austerity. But while Ontario had little option but to do so, the federal government, whose fiscal position is far less dire, went down that path as much by choice as necessity.

"It's more ideologically driven," according to Mario Seccaraccia, an economics professor at the University of Ottawa, who says comparisons between Canada and basket-case nations like Greece are absurd. Canada's fiscal position is the envy of the world, he says. "Our debt-to-GDP ratio is around 30 per cent. Japan's is 230 per cent. The United States is over 100 per cent."

Nevertheless, Finance Minister Jim Flaherty's budget will cut more than 19,000 public service jobs over the next three years, a majority of them in the national capital region. The government's review of departmental spending will yield savings of $5.2 billion on an ongoing basis.

Flaherty's budget also effectively raised the retirement age for millions of Canadians by pushing eligibility for Old Age Security and the Guaranteed Income Supplement back two years, though the measure won't take effect for more than a decade. Freedom 67, anyone?

Meanwhile, Ontario Finance Minister Dwight Duncan's plan limits overall spending growth to just 0.6 per cent over the next six years. It relies on dozens of small measures — and arguably a bit of wishful thinking — to reduce planned spending by a cumulative $17.7 billion over the next three years, thanks in part to two-year wage freezes for doctors, teachers, provincial civil servants and other public sector employees.

The austerity measures in both budgets were less severe than many expected. Duncan spurned Drummond's advice to scrap big-ticket programs such as all-day kindergarten, tuition grants for university students and class size reductions. He even retained the bulk of the government's $1.1-billion electricity rebate program, excluding only large users. "These are just luxuries that we can't afford any more," says David Gray, an economics professor at the University of Ottawa.

The 6.9 per cent reduction in federal program spending announced by Flaherty falls at the low end of the range of five-to-10 per cent scenarios that departments were asked to prepare. Indeed, the budget stresses just how modest the cuts are, pointing out that they pale in comparison to those made in other countries and in the 1990s by the Chrétien government.

Both budgets disheartened fiscal conservatives looking for meaningful reductions in the size of government. In particular, their hopes were high that the federal Conservatives would take a chainsaw to federal departments and agencies.

Flaherty's failure to boldly go there in his first post-majority budget was "kind of shocking," says Gregory Thomas, national director of the Canadian Taxpayers Federation. "I mean, this is it. It doesn't get any easier from here on."

In commentary about both budgets, a common theme was that they lacked boldness, that neither qualified — to deploy an overused buzzword — as transformational.

But some perceive fundamental shifts in the two budgets. David Mitchell, president and CEO of the Ottawa-based Public Policy Forum, acknowledges that Duncan's budget "doesn't turn the world upside down." Nevertheless, he adds, "it's a serious effort on the part of the McGuinty administration to begin a reshaping of the province of Ontario. It signals that we're in a different world now."

Duncan's message, Mitchell says, is that Ontario can't simply keep going down the same road. "In order to address debt and make sure it doesn't cripple us in the future, we have to start thinking differently."

That implies rethinking the role of the state. If Ontario residents want to sustain their quality of life, they have to accept that the state can't provide all the answers and take on more personal responsibility, Mitchell says. The safety net will still be there for the truly needy, "but multiple percentage increases in benefits and services cannot be relied on simply as entitlements any more."

Though he says the federal budget was far from revolutionary, Mitchell believes the Conservative government was using it to send a clear signal. "What we're seeing here is a continued diminution of the role of the federal state in Canada," he says. "If you need government support, assistance or encouragement, look to the provinces, because Ottawa's not going to be there."

One sign of that is the absence of any tax increases in the federal budget, Mitchell says. "The government is not going to grow larger. It's going to grow smaller and it's going to become less in your face. It's going to become less relevant to you as a citizen of Canada."

Ian Lee, an assistant professor at Carleton University's Sprott School of Business, believes the federal budget will, in time, be seen as seminal. Past budgets tended to emphasize equity, protectionism and entitlement, he says. "I think this government is stepping away from that. It's going to create a more competitive country."

That means people will have to become more self-reliant and depend less on government. The losers will be those who can't or won't do that.

Lee thinks Flaherty's budget is a dividing point between the old Canada and the new Canada. "This really is a government that's taking Canada in a new direction.

"They're going to turn this country upside down. Ten years from now, you won't recognize it. We're going to be trading with everybody, it's going to be much less protected, much more competitive, the tax rates are going to be much lower."

And the re-engineering initiated by Flaherty will be hard for future Liberal or NDP governments to reverse, Lee says. "These are structural changes that go deep into the body politic and deep into the fault lines of the country."

What does this shift portend for Ontario? That it's alone in a world of trouble, it appears.

Flaherty's budget makes it clear the federal government views Western Canada's abundant resources as the key to prosperity. It provides financial incentives and promises of streamlined regulatory processes to speed them to market. But it offers virtually nothing to help Ontario.

In the past, says Mitchell, governments cooked up "industrial strategies" that provided assistance to various economic sectors. That's absent from Flaherty's budget, replaced by a laissez-faire approach that doesn't do much for Ontario's manufacturing, auto and technology sectors.

"The signal for a province like Ontario," Mitchell says, "is that you're on your own."

Because provinces deliver more programs to people, Ontario faces a bigger challenge than the federal government, says Glen Hodgson, chief economist of the Conference Board of Canada. "If you deliver health and education, people really are looking for those programs to be there," Hodgson says. By contrast, "a lot of the federal programs are affecting a small number of individuals."

Waddell points out that while the Ontario budget embraced austerity, it offered little to stimulate economic growth. Given the absence of help from the federal government, Ontario residents may be likened to passengers in a car hit twice by other vehicles, he says. "You're the accordion part in the middle that's just being squeezed tighter and tighter."

What of those of us who live in Ottawa? We largely escaped the consequences of the 2008-09 meltdown. But now, it seems, it's our time to suffer. The job cuts announced by Flaherty will disproportionately affect the national capital region, because most of the "back office" positions being eliminated are located here.

The cuts to departmental budgets will be phased in over three years — $1.5 billion in 2012-13, $3 billion the following year and $5.2 billion going forward. "It's not going to be a short-term impact," says Waddell. "It almost doubles every year for the next three years."

The phase-in strategy could help the city cope with the coming job losses. But there are downsides to that, as well. Public servants may rein in spending while they wait to see if the cuts will affect them. And, says Waddell, there's likely to be "a fair amount of chaos" for the next few years as government departments adjust.

"The risk you face in chaotic workplaces is that people throw up their hands and say, 'I don't need this any more' and go somewhere else. The problem for an employer is the people who go somewhere else are the people you can't afford to lose."

Moreover, a significant number of those affected by job cuts will be managers. That raises the spectre of a replay of the 1990s exodus that left the public service bereft of much of its managerial muscle, from which it's still recovering.

But Lee doesn't think the impact on the capital will be apocalyptic. He expects many of those designated for layoffs to arrange job swaps with public servants nearing retirement. "If a younger person gets designated, he's going to find himself a nice, convenient boomer who say, 'I want to get the hell out of here,'" Lee predicts.

In Ontario, Duncan's budget relies on wage freezes, rather than layoffs, to reduce the province's compensation bill. But Jim Stanford, an economist with the Canadian Auto Workers, says the impact of that may be less than it seems. The Ontario Public Service Employees Union has settled a number of recent contracts without raises in the first two years. "Why do the big shock and awe show about it now?" Stanford asks.

It's partly about optics, he says. "If unions are hated and reviled, especially public sector unions, then the government wants to be seen to be tough."

Does the budget herald a season of labour strife ahead? That depends, Stanford says. "If the government comes in and bargains hard, that's one thing, and people will live with that." But if it tries to remove established processes and rights that are considered sacrosanct, "then they will have an all-out war."

Apart from public sector workers, Ontario's budget explicitly targets few other groups. That doesn't necessarily mean the rest of us will escape unscathed, however. "Anyone who relies on public services in Ontario could be affected," says Hodgson.

There are serious questions, however, about whether the cuts in the provincial budget are achievable. Consider health care, by far the provincial government's biggest spending file. The budget plan says spending increases will be held to just 2.1 per cent for the next three years — less than the combination of expected inflation and population growth.

"There isn't a single jurisdiction in North America that has been able to get health care annual increases below about six to seven per cent for the past 30 years," Lee says. "I just don't see how it can be done."

A couple of numbers in the Drummond report provide a sobering insight of the dimensions of the challenge. One per cent of Ontario's population accounts for 34 per cent of health care costs. And just 10 per cent of the population accounts for 79 per cent.

If Ontario somehow meets its ambitious target, there’s a strong chance it will affect access to timely health care, But, says Hodgson, we don’t really have a choice. We have to find a way to control health care costs.

Doing so means transforming how we deliver health care, Hodgson says. Hospital presidents have told him they could live with a budget freeze if they were allowed to make structural changes within their hospitals.

Duncan’s budget talks about making those sorts of fundamental changes. But, Hodgson concedes, “Nobody really knows if we can do it.”

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