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# **Fixing the Fiscal House: Alternative macroeconomic solutions for Ontario**

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## **Executive Summary**

This paper offers a reading of the macroeconomic situation of Ontario which differs from that of credit rating agencies, bankers and major political parties in Ontario.

Using provincial government data on the Ontario fiscal situation, as well as data on the fiscal situations of the USA, Greece and other European countries, it identifies relatively small deficit and debt-to-GDP ratios for Ontario. It is argued that like the central government of Greece, the Ontario government faces a structural deficit largely due to low taxation of corporations and the wealthy. The principal social consequence of this, in both Greece and Ontario, is relatively low public social spending based on a small and dwindling revenue base.

Using Ontario government data on production and profit rates in Ontario from the late 1990s to present, it is further demonstrated that the link that has long been made by various governments, between low taxation of corporations and increased job creation is overly simplistic and effectively inaccurate. It is shown that in the period of reduced taxation, the Ontario economy has undergone falling or stagnant production levels, falling employment, and healthy profit rates. Rather than increased employment and production, the outcomes of reduced taxes on corporations and the wealthy are increasing wealth for the wealthy and work intensification for the majority.

Based on this analysis, it is argued that reducing public sector spending at this time will merely increase the total number of unemployed workers in Ontario, and in turn, reduce domestic consumption and stave off economic recovery.

Drawing on post-2008 policy measures adopted in China, Brazil, Kenya and Australia, recommendations are made around increasing public sector investment in Ontario in order to increase overall employment, fuel domestic demand, and improve the well-being of all Ontario residents. It is argued that such an approach will help rebuild the economy by making the entire population more resilient and the working-age population more productive within a trying global economic context.

## **Recommendations**

1. Given decreasing employment in the private sector in Ontario, persistently low levels of private-sector job creation, and decreasing exports, the Ontario government should avoid creating more unemployment in the province, whether it be through the elimination of positions in the Ontario Public Service or expenditure decreases in public health care, education and other social programs. The Ontario government should bolster employment, and hence domestic demand in the economy, by increasing investment in public services and social programs, thus continuing the work of undoing the damage caused during the reign of Mike Harris.
2. In the area of health care, the Ontario government should commit financial resources to create an additional 9,000 permanent full-time equivalent RN positions by the end of

fiscal year 2014-15 in order to begin addressing the particularly low RN-to-patient ratios in Ontario relative to other Canadian provinces. A plan establishing targets and conditions for annual base funding, by sector, should accompany the financial allocation.

3. Additionally in the area of health care, the provincial government should commit to and enforce the principle of not substituting or replacing RNs with registered practical nurses, given that both acute care and chronic care to a certain degree require the expertise of registered nurses. In the long-term care sector, a minimum staffing standard should be funded and regulated at an average of 3.5 worked hours of nursing and personal care per resident, per day, including .68 RN hours per patient per day. The skills, knowledge, depth and breadth of practice of RNs are key to improving patient outcomes and reducing to an extent, health-care delivery costs.
4. Building on its Poverty Reduction Strategy goal of reducing child poverty by 25 per cent by December 2013, the Ontario government should work with the federal government to initiate the mass construction of low-income housing in Ontario, thus working toward reversing the deficit of social spending in Ontario relative to the majority of Canadian provinces.
5. In order to eliminate the province's structural deficit, the Ontario government should develop a schedule to increase state revenue through taxation of corporations and the wealthy, beginning with cancelling the reduction of the corporate tax rate to 10 per cent in 2012.
6. To fulfill the 2009 G20 Pittsburg commitment to put quality jobs at the heart of economic recovery – part of the coordinated G20 stimulus plans to which Canada was a signatory – the Ontario government should work with the federal government to establish job creation targets in various areas. This should include job-intensive green job creation and fully subsidized skills training programs accessible to all unemployed and underemployed workers.

## Introduction

In mid-December 2011, Moody's Investors Service issued a warning regarding Ontario's fiscal position. As a *Globe and Mail* (December 15, 2011) headline read, "Moody's warns Ontario its credit rating is at risk." The response of Canadian bankers was a familiar one, as exemplified by the words of Craig Alexander, Chief Economist of TD Bank Group: "The credit rating agencies are putting pressure on government, in Europe, the U.S., and now Ontario, to make a compelling case that over a reasonable length of time they will put their fiscal houses in order." (*Globe and Mail*, December 15, 2011)

Ontario Conservative party opposition leader Tim Hudak used the Moody's warning to reiterate his long-standing call for spending cuts to public programs and a wage freeze for public sector workers. (*Canadian Press*, December 16, 2011) MPP Hudak went even further to say that the downgrade of Ontario's credit rating is an indication that, "...Ontario is on the road to becoming the Greece of Canada."

Finance Minister Dwight Duncan commented that Moody's action shows that the government must be "relentless" in meeting its target to eliminate the province's deficit by 2017-18. (*Globe and Mail*, December 15, 2011). To date, we know of two major approaches proposed to achieve such a deficit reduction. One, as per the 2011 Ontario Budget Papers (pp. 53-57): to realize provincial government savings of 1.5 billion CAD from April 2011 to April 2014, including through the elimination of 1,500 jobs in the Ontario Public Service (OPS). Two – as per preliminary comments of Don Drummond, Chair of the Ontario government-appointed Commission on Broader Public Sector Reform – to reduce annual increases of provincial spending on public programs to one per cent for the next six years. Health care is not spared here, an area in which provincial spending, as estimated by Drummond, has been increasing by six per cent per year.

In the current political-economic climate, certain questions are not being asked whether for the 'fiscal houses' of Greece, Britain, Ireland, Iceland, the USA or Ontario. For example, how are the methods employed by Moody's and other credit rating agencies different when rating countries, provinces and states from those used to rate companies like Lehman Brothers and Bear Stearns, which received "AAA" ratings, or the highest possible rating, from Moody's just prior to going bankrupt in 2008?

Most important among the unasked questions are the following: *Is the 'fiscal house' really out of order? If it is, how did the fiscal house lose order? What are the lived consequences of the house 'repairs' proposed by most governments and opposition parties? Are there alternatives?*

The purpose of this paper is to raise these questions for public debate as well as to provide some answers to these questions. The paper is organized in the following sections:

- A. The Ontario Fiscal House
- B. The Greek and Ontario Fiscal Houses Compared
- C. The Consequences of the "Repairs": The Real Disorder
- D. Alternatives
- E. Recommendations

## A. The Ontario Fiscal House

In July and August of 2011, much was said and heard about a “debt ceiling crisis” in the United States. The so-called “crisis” was based on legislation passed in 1917, which sets a numerical limit (i.e. in absolute dollar terms) on the amount of debt that may be accumulated by the US federal government. Due to the fact that virtually every year prices as well as US total output rise, the government’s revenue and spending also rise. In turn, the numerical debt ceiling set in the 1917 law must be, and is, increased annually.

Prior to the debt ceiling increase instituted in early August 2011, not much was made by politicians and the media about this legislative activity that has become quite standard to amend a questionable law nearing its 100<sup>th</sup> year birthday. However, this year was different. As former University of Cambridge economist Prabhat Patnaik (2011) put it, the US Republican Party decided to condition its approval of the debt limit increase on a “pound of flesh” in the form of additional spending cuts on social security and other programs benefitting working and impoverished people in the USA.

### Two tools to better understand public debt

To better understand the size and extent of public debt in the USA, Greece, Ontario or elsewhere, two analytical tools are useful: an analogy with personal debt and the *debt-to-GDP ratio*. Beginning with the first, when an individual borrows money from a bank to buy a house, the debt incurred (i.e. the mortgage), is backed by one or more assets (including the house in question) in the possession of the individual. The total value of the individual’s assets amount at the very least to the value of the debt incurred. The *net debt* of the individual, therefore, is the amount owed minus her/his assets. This is the most accurate measure of the individual’s debt, combined with the level of interest charged by the bank, which may be seen as the *cost* of the debt.

Similarly, when assessing the extent of public debt of a given country, state or province, the *net debt* is the key measure, that is, total government liabilities minus total government assets. In the instance of Ontario, the net debt as of March 31, 2011 was 217.3 billion CAD. (2011 Ontario Budget Papers, p. 288) The cost of the total public debt, or the effective interest rate, has been steadily decreasing since fiscal year 1990-1991. In that year, the effective interest rate (as a weighted average) on total debt was 11 per cent. By fiscal year 2009-2010, it was five per cent and is continuing to fall. (2011 Ontario Budget Papers, p. 293) Returning to the personal debt analogy, when interest rates are low, borrowing against one’s assets is generally positive and tends to feed into growing the economy.

The second analytical tool is the debt-to-GDP ratio. GDP (Gross Domestic Product) is the total goods and services produced via various public and private entities within a country, state or province. Because public debt is carried by the citizens and residents of a particular country, state or province, in order to ascertain the magnitude of this debt, it is logical to measure the net public debt against the total goods and services produced by the citizens and residents of the country, state or province in question. This measure is the *debt-to-GDP ratio* and is used in economic planning by governments and intergovernmental bodies around the world.

In Ontario, the debt-to-GDP ratio in fiscal year 2010 was 35.4 per cent. (2011 Ontario Budget Papers, p. 292) This compares with debt-to-GDP ratios for fiscal 2010 of 32.2 per cent for Canada (IMF 2010 estimate, as cited in 2011 Ontario Budget Papers, p. 292), 41.1 per cent for the USA (Weeks 2011)<sup>1</sup>, 58.7 per cent for Germany (IMF 2010 estimate, as cited in 2011

<sup>1</sup> This calculation, by UK economist John Weeks, is based on the amount owed by the US state to entities outside of the US state. In other words, money lent to one institution within the US government by another

Ontario Budget Papers, p. 292), and 109.5 per cent for Greece. (estimate, IMF: 2010). To facilitate comparison, net debt-to-GDP ratios for various countries as well as Ontario are presented in Table 1.

**Table 1. Net Debt-to-GDP Ratios, Various Countries and Ontario, fiscal 2010**

Country/Province	Net Debt/GDP (%)
Greece	109.5
Italy	99.0
Portugal	79.0
France	74.5
United Kingdom	68.8
Germany	58.7
Ireland	55.2
Spain	54.1
United States of America	41.1
Ontario	35.4
Canada	32.2

Sources: *International Monetary Fund (2010)*; *Ontario Financing Authority; 2011 Ontario Budget Papers; Weeks (2011)*.

In the Maastricht Treaty – the agreement aiming to bring European countries into an integrated political-economic union – the debt-to-GDP ratio member countries are required to meet is 60 per cent (assuming there is growth in the economy). Using this figure as a basis to determine whether there is order in the various fiscal houses listed above, two points stand out.

First, more than half of these fiscal houses are in order, but are undergoing public spending cuts of the “pound of flesh” nature noted above. This has been justified by governments and parties of all political shades on the basis that governments must protect credit ratings as determined by Moody’s and other credit rating agencies and that GDP growth has been either low or negative.

Second, on the low end of the list is Ontario; on the high end is Greece. A brief analysis of the Greek fiscal house follows to explain the differences – and bring out some similarities – between Greece and Ontario.

## **B. The Greek and Ontario Fiscal Houses Compared**

In autumn of 2008, the Greek government issued a blanket guarantee on the deposits of six major banks in Greece. The total of bank liabilities at the time amounted to 320 billion Euro. (*Telegraph*: 2008). In 2009, due to the global economic crisis that continued despite government bailouts of banks such as those in Greece, GDP growth in Greece was -2 per cent, down from 4.5 per cent in 2007 (Albo and Evans: 2010, 299). By early 2010, the Greek government was facing a budgetary crisis and needed a major loan to stay afloat. The European Union and International Monetary Fund (IMF) provided Greece with a 110 billion Euro loan conditional on five billion Euro worth of cuts to state expenditures. (Albo and Evans: 2010, 300)

The five billion Euro “pound of flesh” public expenditure cuts purported to fix the fiscal house in Greece involve the following changes (Albo and Evans: 2010, 300; *Le Monde Diplomatique*: July 2011):

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such institution is not included given that the cost is ultimately nil. Interest payments on these debts are essentially a shift of funds from one “pocket” of government to another. (Weeks: 2011)

- Elimination of holidays and other benefits for public sector workers equivalent to a 20 per cent wage cut.
- Seven per cent wage cut in 2010, followed by a five-year wage freeze for public sector workers.
- Elimination of all contract and other temporary workers in the public sector.
- Replacement of only one worker for every five workers retiring from the public sector.
- An average reduction of seven per cent to all pensions (private and public sectors).
- An increase in the retirement age for all workers from 60 years to 67, to be fully instituted by 2014.
- Pension benefits for all workers calculated on the basis of lifetime earnings rather than the last year's salary (which is usually the highest in an individual's work history).
- An increase in total working years required to qualify for pension from 37 to 40.
- Between 45 and 60 per cent reductions in pension benefits for all workers.
- A new income tax of three per cent payable only by public sector functionaries.
- Forty per cent decrease in the minimum wage for youth.
- Forty per cent decrease in unemployment benefits for the long-term unemployed.
- An increase in value-added tax from 21 to 23 per cent.
- Whole or partial privatization of state assets including public water, electricity and telephone companies, public transport, post offices, ports.
- The sale of a portion of public shares in the national lottery entity, and entities involved in natural resource extraction.

As is well-known, to date these measures have not been effective in repairing the Greek fiscal house and further loans have been made to the Greek state. Why have these measures not solved the problem of deficient state revenues? A longer view is needed to answer this question. Problems with the Greek fiscal house began long before the 2008 global banking panic and the quick government fix in the form of loan guarantees for six major banks in Greece.

Between 1996 and 2006, total revenues of the Greek state amounted to an average of 37.9 per cent of GDP. This compares with state revenues of 54 per cent of total GDP in Sweden and an average state revenue of 45.3 per cent of GDP in the 15 countries of the Euro zone (known as the EU-15) (Albo and Evans: 2010, 300; Navarro: 2011). As a result, public social spending in Greece – for example on pensions, health care, home care, education, social services – amounts to a smaller percentage of Gross National Product (GNP) than in the EU-15. Whereas in the EU-15, average public social expenditures amount to 27 per cent of GNP, in Greece they account for 25.9 per cent. (Navarro: 2011)

The principal reason why Greek state revenues and, in turn, public social spending are relatively low is that taxation of the wealthy in Greece is minimal to non-existent (Albo and Evans: 2010, 300; Navarro: 2011). More specifically, a range of business activities are tax exempt including profits earned on the sale of stocks, income earned in the shipping industry and capital gains made on family business sales. Additionally, while the nominal tax rate for corporations in Greece is 25 per cent (in line with the OECD average of 25.7 per cent), the real corporate tax rate is far below the EU average due to rampant corporate tax evasion as well as inconsistent value-added tax collection by the state.

Rather than eliminating tax evasion and increasing taxation of the wealthy to increase state revenues and truly fix the fiscal house, in 2010 the Greek state introduced a one per cent per year reduction in the corporate tax rate for a period of five years (Albo and Evans: 2010, 300). The overall outcome of “repairs” to the Greek fiscal house – lower corporate taxes and the

“pound of flesh” changes listed above – is and will continue to be shrinking incomes for the majority in Greece (or those who are actually paying taxes) and a decrease in taxes collectable from the wealthy. All of this clearly amounts to less revenue for the Greek state and an exacerbation of budgetary shortfalls.

Put within larger socio-political context, ongoing resistance by workers in Greece to the “house repairs” – beginning with five 24-hour general strikes between February and June 2010 – is logical and not surprising. Portrayals of workers in Greece or other places in similar situations as uncooperative, greedy or unproductive are little other than a masking of the fundamental social inequalities now being expressed in “pound of flesh” reforms in countries, provinces/states and cities around the world. Not unrelated, on November 24, 2011, Nikos Photopoulos, President of the power workers union, GENOP/DEI, and more than 12 other trade unionists were arrested by Greek police for protest activity against austerity measures of the Greek government.<sup>2</sup>

### **Ontario compared**

Beginning with the 2008 global financial crisis, the Ontario provincial government did not have to produce funds to bailout major banks operating in Ontario. The bailout of chartered banks in Canada was quietly handled by the federal government in October and November, 2008. According to the official statement of the federal government, the government purchased 75 billion CAD worth of insured mortgage pools of chartered banks, via the Canada Mortgage and Housing Corporation, in the effort “to maintain the availability of long-term credit in Canada.” (Department of Finance Canada: 2008). In January 2009, the federal government announced a 64 billion CAD deficit, significantly different from the 2.3 billion CAD budget surplus projected by Federal Finance Minister Jim Flaherty just one month earlier, in December 2008. (Chossudovsky: 2009).

In terms of falling government revenue resulting from tax cuts, Ontario has much in common with Greece. Between fiscal year 1998 and fiscal year 2003, through a combination of corporate and other income tax cuts, the Ontario government eliminated 61.9 billion CAD from its revenue base. (Evans: 2007, 20). The upcoming proposed corporate tax cut (following from a reduction of 2.5 per cent between 2009 and 2010) will reduce the Ontario corporate tax rate from 11.5 to 10 per cent. This is estimated to amount to a further loss of fiscal capacity of 2.5 billion CAD by the end of fiscal year 2012. (Mackenzie: 2011, 7).

Even a successful, two-year public sector compensation freeze, as called for by the Ontario government in July 2010 – contrary to the collective bargaining rights sanctified in the Canadian Charter of Rights and Freedoms – would not make up for this 2.5 billion CAD loss of fiscal capacity. As estimated by economist Hugh Mackenzie, a two-year public sector wage freeze would amount to 1.7 billion, assuming a four per cent rate of inflation. (Mackenzie: 2011, 7) As estimated by MPP Hudak, a two-year wage freeze would amount to a “savings” of 2 billion CAD. (*Canadian Press*, December 16, 2011).

Like other governments in Canada and elsewhere, the Ontario government maintains that reduced corporate income tax rates lead to employment creation in the private sector. Nationally between 2000 and 2010, under both Liberal and Conservative governments, the federal corporate tax rate in Canada was reduced from 29 per cent to 16.5 per cent. In 2007, the Conservative federal government announced plans to reduce the corporate tax rate to 15 per

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<sup>2</sup> For more information, see the Labour Start campaign website, [www.labourstart.org/cgi-bin/solidarityforever/show\\_campaign.cgi?c=1231](http://www.labourstart.org/cgi-bin/solidarityforever/show_campaign.cgi?c=1231)

cent by 2012. Were the link currently being insisted upon by governments regarding lower corporate tax rates and greater job creation correct, falling corporate tax rates in Canada and Ontario would have made for increased employment and production, even after the onset of the "Great Recession."

### **Examining employment levels**

Employment, unemployment and production figures for Canada and Ontario tell otherwise. As is fairly well-known among economic historians, due to a shift toward speculative investment and a corresponding shift away from productive investment by corporations and the wealthy around the world, levels of unemployment and underemployment have been on an upward trend since the early 1980s. (Arrighi and Silver: 2001, 62). Tabulating unemployment and underemployment figures from the International Labour Organization report (2008), *The Global Employment Challenge*, Foster, McChesney and Jonna demonstrate that 2.4 billion people around the world are currently unemployed, vulnerably employed or economically inactive (i.e. workers between the ages of 25-41). This compares with 1.4 billion people around the world who are employed. (Foster et al.: 2011).

In the Canadian instance, according to a report of Statistics Canada, "[A]lmost all manufacturing industries have been in sharp decline since 2004." (Bernard: 2009, 7). Between 1998 and 2004, 93,400 jobs were eliminated in nine of 23 manufacturing industries across Canada. Between 2004 and 2008, a further 342,500 jobs were eliminated in 16 of 23 manufacturing industries.<sup>3</sup> Since October 2008, when the global economic crisis became most pronounced in Canada and other wealthy countries, the number of manufacturing jobs in Canada – the large majority of which were held in Ontario and Quebec – has fallen from 1,958,400 to 1,781,900. (Labour Force Survey, as cited by Schetagne: 2011). This is the lowest recorded total of manufacturing jobs in Canada in 30 years. (Schetagne: 2011). In June 2008, the number of workers unemployed was just under 110,000, while in July 2011, the figure was close to 140,000. In August 2008, 720,500 workers in Canada were searching for full-time employment. In August 2011, 922,000 workers were searching for full-time employment. (Schetagne: 2011).

In Ontario, the percentage of the population in full-time employment fell by 1.4 per cent between September and October 2011. (Statistics Canada: 2011). The percentage change in employment growth for the third quarter of 2011 was zero per cent. For the first and second quarters of 2011, it was 0.8 per cent and 0.9 per cent respectively. (Ontario Ministry of Finance: 2011b).

### **Examining production and profit levels**

Production figures for a range of goods-producing and services-producing industries in Ontario further demonstrate that the link between reduced taxation of corporations and increased job creation is overly simplistic and effectively inaccurate. According to the *Ontario Economic Accounts: Second Quarter 2011 Report*, despite corporate tax rate decreases from 14 percent to 11.5 percent between 2009 and 2011, production by goods-producing industries in Ontario declined by one per cent in the second quarter and by 0.2 per cent in service-producing industries. (Ontario Ministry of Finance: 2011a).

Looking further back, though corporate tax rates have been relatively low or/and falling at the national and provincial levels from the late 1990s onward, Ontario production levels in various industries fell or remained steady between 2007 and 2010, when reduced corporate tax rates should have begun taking effect by significantly increasing employment and production. (Refer to table

<sup>3</sup> These figures were tabulated by the author based on industry-specific data in Bernard (2009).

2). The increasing numbers of job losses and involuntary part-time employment examined above, combined with falling or little changing production levels may be understood through the concept of work intensification.

**Table 2. Ontario Goods and Service Production by Selected Industries, 2007-2010, 2002 Prices (Millions of chained 2002 dollars)**

Industry	2007	2008	2009	2010
Mining	2,474	2,676	2,126	2,182
Natural Gas, Water, Other Primary Products	2,154	2,175	2,150	2,221
Food, Beverage, Tobacco Products	10,177	9,928	10,094	10,076
Wood Products and Furniture	4,435	3,781	3,239	3,429
Chemical and Petroleum Products	8,156	7,630	7,139	7,312
Primary Metal and Fabricated Metal Products	12,180	11,326	8,293	9,598
Machinery	6,270	5,772	4,751	5,141
Electrical and Electronic Products	5,964	5,609	5,210	5,451
Transportation Equipment	25,929	20,430	15,497	18,317
Transportation and Warehousing	19,312	19,480	18,635	19,482
Information and Culture (incl. Telecommunications)	19,826	19,798	19,548	19,621
Arts, Entertainment, Recreation	4,692	4,703	4,705	4,724
Accommodation and Food	9,510	9,695	9,327	9,526
Other Services	12,082	12,327	12,210	12,447

Source: Office of Economic Policy, Ontario Ministry of Finance and Statistics Canada.

In greater detail, in aggregate, the workload of the smaller number of individuals employed has increased such that the amount of output has remained fairly steady. In turn, gross profits (i.e. before taxes) as a percentage of nominal GDP have been steady for most years since 1997, ranging between 10 and 12 per cent. (Refer to table 3). Tax cuts for the wealthy and work intensification for the majority – in the private as well as public sector, as elaborated below – are two forces behind the growing wealth of the wealthy in Canada over the past 20 years. One expression of this is the fact that between 1999 and 2009, the number of billionaires in Canada more than doubled from 25 to 55. (McQuaig and Brooks: 2010, 9).

**Table 3. Corporate Profits before Taxes as a Ratio of Nominal GDP, Ontario, 1998-2010**

Year	Gross Profits to GDP (percentage)
1997	10.4
1998	10.4
1999	12.2
2000	12.3
2001	10.9
2002	12.6
2003	11.8
2004	11.9
2005	11.6
2006	11.7
2007	11.4
2008	10.7
2009	8.8
2010	9.5
2011	9.9 (average of first two quarters)

Source: Office of Economic Policy, Ontario Ministry of Finance and Statistics Canada.

### **C. The Consequences of the “Repairs”: The Real Disorder**

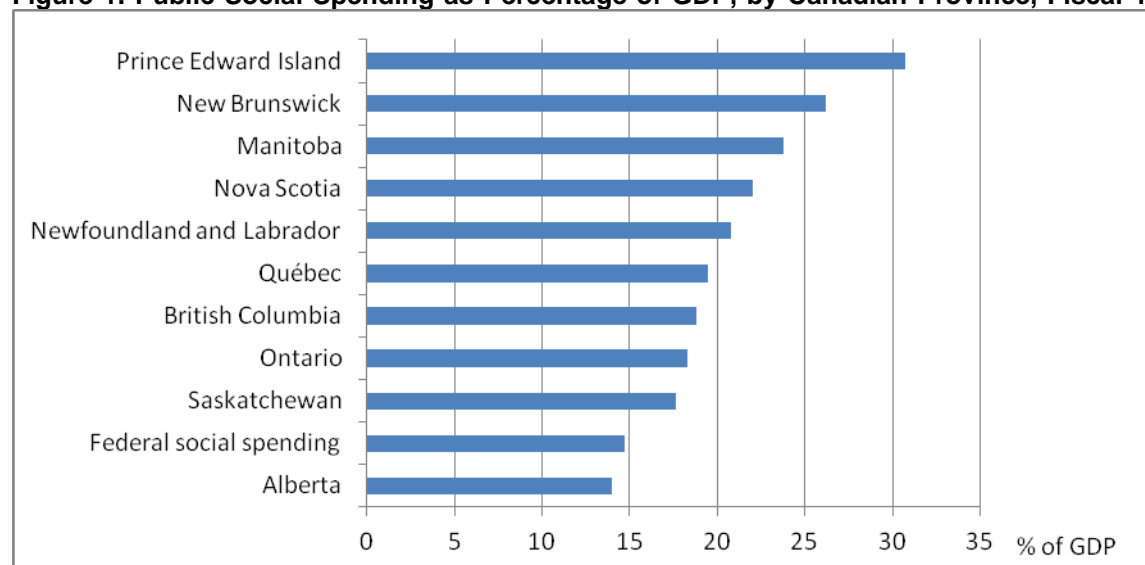
Within this setting of reduced corporate taxes, stagnant production and growing unemployment and underemployment in the private sector, ‘fixing’ the fiscal house by decreasing the size of the

public sector and reducing public service employment in Ontario will simply expand the number of unemployed workers and shrink demand for goods and services produced by those still employed. This is the “unvirtuous” cycle which was the experience of several countries in Africa, Latin America and the Caribbean in the 1980s and 1990s, and which has begun unfolding in Greece. In April 2010, the unemployment rate in Greece was 11.7 per cent, more than 2 per cent higher than the average unemployment rate from 1983 to 2010 (9.43 per cent). In October 2011, the unemployment rate had risen further to 17.5 per cent. (National Statistics Service of Greece: 2011)

In Ontario, such a cycle has not yet begun. If, however, the “pound of flesh repairs” promised in the 2011 budget and expected in the Drummond Commission Report are implemented, Ontario will be on the road to becoming what Greece is today – in more ways than were likely intended when MPP Hudak drew the parallel in mid-December. (See *Canadian Press*, December 16, 2011).

As alluded to above, Ontario has already taken some paths toward this road. Analyzing state revenues and public social spending in Spain, Ireland, Portugal and Greece, Vicente Navarro highlights that “low state revenues result from extremely regressive policies” whereby “the super-rich, rich, and high-income upper middle classes do not pay taxes at the same level and intensity as those in most of the central and northern EU-15 countries.” In turn “the public sectors in Portugal, Ireland, Greece, and Spain are extremely underdeveloped.” While the average ratio of public social spending to GDP is 27 per cent in the EU-15, it is 22.1 per cent in Spain and Ireland, 24.3 per cent in Portugal, and 25.6 per cent in Greece. (Navarro: 2011). Similarly Ontario, on the path of decreasing tax rates for corporations and the wealthy – a path initiated by the Conservative government but continued by the Liberal government – has seen a significant decrease in the state revenue base and this has fed into positioning Ontario as the third province from the bottom in terms of public social spending. (Figure 1).

**Figure 1. Public Social Spending as Percentage of GDP, by Canadian Province, Fiscal Year 2010**



Source: RBC Economics Research, based on data from Department of Finance Canada and various provincial budgets

Taking the sphere of health care, an area of public spending of vital importance to most residents of Ontario, this relatively low level of social spending is experienced in various ways. To mention a few examples: the shortage of long-term care beds and adequate home care services for the elderly, the lack of hospitals in rural areas and the North, and inadequate maternal and infant health care throughout the province. In terms of hospital care on the whole, Ontario government expenditure per capita is lower than that of all provincial governments other than Québec. (Ontario Hospital Association: 2011, 4).

### **The Consequences for Registered Nurses**

As the only health professionals providing medical care to the ill in hospitals on a 24-hour per day, seven-days per week basis, and as the primary health professionals providing medical care to the elderly outside of the hospital setting, registered nurses (RNs) are a crucial element of the health care system. As such, it is important to trace the impact of relatively low public social spending in Ontario on the RN labour force. This can be done at various levels.

In Ontario, the ratio of direct-care RNs to population in 2009 was 644 to 100,000 population (Canadian Institute for Health Information: 2010, 10). In the rest of Canada in 2009, the average ratio of direct care RNs to population was 689 to 100,000.<sup>4</sup> The significantly lower RN to population ratio in Ontario is a direct result of inadequate financing for front-line RN positions in hospitals and inadequate hiring and retention of RNs in non-hospital health care operations such as long-term care homes.

Compounding this shortage of RNs to population in Ontario is the fact that the majority of front-line RN positions in Ontario are part-time rather than full-time positions. In terms of front-line RNs forming the membership of ONA (i.e. the union representing 73 per cent of RNs in Ontario), 55 per cent are employed in part-time positions. In Northern Ontario, the proportion of ONA members holding part-time RN positions is even greater, at 66 per cent.<sup>5</sup>

Inadequate financing of RN positions in Ontario hospitals and government refusal to mandate RN care hours in non-hospital health care operations continue despite numerous studies demonstrating that patient outcomes improve when the proportion of care hours provided by RNs is raised. (Weiss et al.: 2011; Needleman et al.: 2011; Dall et al.: 2009; Aiken et al. 2002). Weiss et al. (2011), for example, found in a study of four hospitals in the Midwestern USA that the larger the number of RNs working in a hospital surgical unit at a given time, the lower the number of patients readmitted to the hospital or re-entering via the emergency department. The same study found that a reduction of RN overtime hours also contributed to a fall in the number of patients readmitted.

One consequence of the shortage of full-time RN positions and inadequate retention of RNs is the high number of overtime hours worked by nurses in Ontario. As a result of having to work excessive amounts of paid overtime, 1,000 RNs figured in the 2010 "Sunshine list," the list of Ontario public sector employees earning over 100,000 CAD annually. In turn, RN absenteeism

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<sup>4</sup> This ratio was calculated by the author on the basis of CIHI data on regulated nursing workforce and population estimates for all health regions in Canada. (See CIHI: 2009, 132-136)

<sup>5</sup> These figures are calculations of the author based on 2011 data of the Ontario Nurses' Association. They differ from figures of the College of Nurses of Ontario (2010). According to CNO data, 65 per cent of RNs in Ontario are full-time, 26 per cent are part-time, and 8 per cent are casual. The CNO figure for full-time RNs is higher because it includes RNs not working in the front line and providing direct care, for example, nursing college instructors, nursing professors, and nurse managers.

due to illness and disability is common. Excessive work hours affect the health of all workers, including and especially health workers who are regularly exposed to illness on the job. Additionally, health workers must perform physically demanding tasks on the job, tasks which are particularly more risky when performed by overworked, fatigued workers. In 2008, RN absenteeism due to illness and disability in Ontario was 8.8 per cent, up from 4.2 per cent in 1987. (Lasota: 2009, 34)

Adding to all this is the tendency to search for cost saving methods in health care delivery which often lead to harmful effects on those delivering or/and receiving the care. One instance from the Hemodialysis Unit of the Peterborough Regional Health Centre is of particular salience because of the negative effects on not only RNs, but also patients. In this instance, from the summer of 2010, RNs were replaced by lesser trained, registered practical nurses (RPNs), as recommended by a Peer Review Team commissioned by the East Central Local Health Integration Network (LHIN). The Peer Review Team was mandated by the LHIN to assess and address the ongoing deficit of the Health Centre. It therefore made the recommendation to replace RNs with RPNs specifically for the purpose of achieving a cost saving of 200,000 CAD. The recommendation was implemented by the Health Centre despite the fact that ONA RNs of the Hemodialysis Unit had formally identified a problem of short staffing to the Health Centre in 2009, citing that in addition to the shortage of RNs, the Unit was treating an increasing number of patients, an increasing proportion of which were of higher acuity levels.

Since the onset of the global economic crisis, the situation of RNs has become yet more grave in Ontario. Between April 2009 and August 2011, 2,550 RN positions were eliminated throughout the province.<sup>6</sup> In the months following August, front-line RNs and other front-line health workers continued to face lay-offs. For example, in mid-December 2011 front-line health promotion and disease prevention workers of the Peterborough County-City Health Unit protested the elimination of several positions, including one public health inspector, one nutritionist, one public health nurse and one health promoter. The current round of health worker layoffs translates into further intensification of work for those workers not laid-off, particularly RNs, who are in pronounced shortage. More specifically, for those RNs still employed, it means more patients per RN, less RN time per patient, more paid and unpaid overtime, more stress for workers, and likely, more illness and work-related injury.

#### **D. Alternatives**

In analyzing the fiscal situation of Ontario, Mackenzie points out that the risk facing Ontario is not that the deficit will persist at its current level, but rather that cost-cutting measures will be adopted causing the "choking off" of economic recovery and long-term damage to Ontario's public services. Mackenzie underlines that through public infrastructure investment in the past seven years in the areas of health care, child poverty reduction, full-day kindergarten, education, and renewable energy infrastructure, the Liberal government has made a mere beginning in reversing the damage caused by the policies of the Harris government in the 1990s. (Mackenzie: 2011, 3) A look at public sector wages in Ontario over time illustrates this view. Only in 2008 did the average real wage of public sector workers return to the level of value of average public sector wages in 1992. (Fanelli and Thomas: 2011, 155; McCarthy et al.: 2010, 1)

Currently Ontario's deficit stands at three per cent of real GDP. In other words, using government projections of a deficit of 16 billion CAD and real GDP of 533 billion CAD for 2011-12, the amount of shortfall in the current budget will be worth three per cent of total goods and

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<sup>6</sup> This figure is based on ONA data collection from 2009 to 2011.

services produced within Ontario by the end of March, 2012. This is not a large shortfall. Calculating the allowable deficit at the Ontario government's projected growth rate of 1.8 per cent and 60 per cent debt burden (i.e. the debt burden set in the EU's Maastricht Treaty, as discussed above), either the deficit to real GDP ratio must be reduced from three per cent to 1.08 per cent in the medium term, *or*, government can take action to help increase growth beyond the projected 1.8 per cent.

Given the weak employment figures in Ontario's private sector presented in Section B, and the importance of building domestic demand within a context of decreasing exports (particularly to the USA), it would be beneficial to all residents of Ontario for the Ontario government to invest in public service expansion to increase overall employment and fuel domestic consumption. Public investment in new social programs to increase the well-being of residents of Ontario will help rebuild the economy by making the entire population more resilient and the working-age population more productive within a trying global economic context.

Though little discussed in Canada and other rich countries, such an approach is being undertaken in certain countries. Partly as a result, countries like China and Brazil are doing far better in weathering the global economic downturn. In 2009, at the onset of the global economic crisis, China invested 21.7 billion yuan renmimbi (RMB), or 3.4 billion USD in "grassroots" public health care – part of its 4,000 billion RMB (632.5 billion USD) economic stimulus plan aimed to subvert decreasing demand for exports by building domestic demand. (Communist Party of China: 2010).

In greater detail, these funds were funneled toward the construction of 986 county-level hospitals (including hospitals based on traditional Chinese medicine), 3,549 hospitals in central towns and townships, and 1,154 community health service centers, as well as the purchase of medical equipment in rural medical institutions. Additionally, some 11 million rural women – among the lowest income earners in China – were provided state subsidies to give birth in hospitals, 11 million rural women in early pregnancy or of child bearing age women were provided with gratis folic acid treatment, and two million rural women received cervical cancer screening. In November 2010, the Ministry of Finance in China announced an allocation of a further 12.3 billion RMB (1.85 billion USD) to support these prevention and health-care-strengthening initiatives. (Xinhua: 2010)

In March 2009, the Brazilian federal government committed 34 billion Brazilian real (BRL), or 18.3 billion USD, to launch a massive public housing project. Aimed at building one million low-cost units throughout the country by 2014, the goal of the project, Minha Casa Minha Vida (My House, My Life) was expanded to building a further one million low-cost units, and a further 72 billion BRL (38.7 billion USD) were allocated by government in 2011. (*Rio Times*: 2011) Making connections between low wages, lack of adequate housing, and gender inequality, at least one third of the new homes are geared toward housing families with three or fewer members earning minimum wage salaries, with a focus on making females the official beneficiaries of the program given the greater propensity of women to channel the benefits of social programs. (*Rio Times*: 2011; States News Service: 2010).

Finally, with a specific focus on nurses, in New South Wales, Australia, and Kenya, in the midst of the economic downturn, governments have committed to hiring and retaining more nurses. In the instance of Kenya, making the link between the shortfall of trained health personnel and "numerous deaths," the Minister of Development of Northern Kenya, Mohammed Elmi, announced in December 2011, the intention of the government to hire more health personnel,

and offer competitive packages to deter nurses and others from leaving the public health care sector for private health care or “greener pastures.” (Syndigate News: 2011).

In New South Wales, Australia, in early 2010, following a public awareness campaign and illegal strike by 4,000 nurses and midwives around the lack of legislated nurse-to-patient ratios in the state, the New South Wales government conceded to the majority of the demands of the workers. Within the context of a Labour Party government-stated lack of financial resources due to the economic crisis, the government finally agreed on a package with the New South Wales Nurses' Association (NSWNU) including: hiring 1,400 new full-time-equivalent nurses in order to begin establishing nurse-to-patient ratios more similar to ratios in other Australian states, commitment to replace retiring RNs with RNs rather than nursing assistants (registered practical nurses in Ontario terminology), and a 9.7-per-cent salary increase over three years beginning in July 2010.<sup>7</sup>

### **E. Recommendations**

1. Given decreasing employment in the private sector in Ontario, persistently low levels of private-sector job creation and decreasing exports, the Ontario government should avoid creating more unemployment in the province, whether it be through the elimination positions in the Ontario Public Service, or expenditure decreases in public health care, education, and other social programs. The Ontario government should bolster employment, and hence domestic demand in the economy, by increasing investment in public services and social programs, thus continuing the work of undoing the damage caused during the reign of Mike Harris.
2. In the area of health care, the Ontario government should commit financial resources to create an additional 9,000 permanent full-time equivalent RN positions by the end of fiscal year 2014-15 in order to begin addressing the particularly low RN-to-patient ratios in Ontario relative to other Canadian provinces. A plan establishing targets and conditions for annual base funding, by sector, should accompany the financial allocation.
3. Additionally in the area of health care, the provincial government should commit to and enforce the principle of not substituting or replacing RNs with registered practical nurses, given that both acute care and chronic care to a certain degree require the expertise of registered nurses. In the long-term care sector, a minimum staffing standard should be funded and regulated at an average of 3.5 worked hours of nursing and personal care per resident, per day, including .68 RN hours per patient per day. The skills, knowledge, depth and breadth of practice of RNs are key to improving patient outcomes and reducing to an extent, health-care delivery costs.
4. Building on its Poverty Reduction Strategy goal of reducing child poverty by 25 per cent by December 2013, the Ontario government should work with the federal government to initiate the mass construction of low-income housing in Ontario, thus working toward reversing the deficit of social spending in Ontario relative to the majority of Canadian provinces.
5. In order to eliminate the province's structural deficit, the Ontario government should develop a schedule to increase state revenue through taxation of corporations and the

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<sup>7</sup> As reported by the NSWNA General Secretary, Brett Holmes in a presentation to the Canadian Federation of Nurses' Unions Convention in Winnipeg, June 15, 2011.

wealthy, beginning with cancelling the reduction of the corporate tax rate to 10 per cent in 2012.

6. To fulfill the 2009 G20 Pittsburg commitment to put quality jobs at the heart of economic recovery – part of the coordinated G20 stimulus plans to which Canada was a signatory – the Ontario government should work with the federal government to establish job creation targets in various areas. This should include job-intensive green job creation and fully subsidized skills training programs accessible to all unemployed and underemployed workers.<sup>8</sup>

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<sup>8</sup> For more information on the global economic crisis related proposals of Global Unions and G20 commitments, see 'The G20 and jobs – Time for Plan B.' (Evans: 2011)

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