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## **Equity in Times of Austerity: Ontario's Revenue Crisis in Historical Perspective**

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### **Abstract**

*Concerns for health equity have found entry into social policy discussions in Canada at both the national and provincial levels of government. However, in the aftermath of the global financial crisis social programs improving the distribution of social determinants of health (SDHs), such as adequate housing and income, secure employment opportunities, affordable education and health care are increasingly under attack. In light of persistent deficits, historically high debt, and the precarious state of the global economy, there is a need to re-examine various revenue tools as, to date, there has been little historical analysis of the structural changes made to revenue sources or acknowledgment of the need to re-examine the revenue side of government activity in addressing fiscal imbalances. The article interrogates changes to the Ontario taxation system, especially during the deepening of neoliberal policies in the province (post 1990), to provide historical context to the current state of the provincial treasury. It focuses particularly on income, sales, and corporate income tax, which comprise the majority of revenue generated through taxation. The decline in government revenue is then linked to three key pathways affecting the distribution of social determinants of health: social assistance, labour market policy, and housing. The article finally probes the plausibility of alternative tax structure scenarios and their potential for financing social programs that address health equity.*

**Keywords:** health equity; austerity

### **Résumé**

*Une préoccupation pour l'équité en matière de santé a été incorporée aux discussions de politiques sociales, tant au niveau provinciale que fédérale. Cependant, suivant la crise financière globale, l'amélioration d'une distribution plus équitable des déterminants sociaux de la santé par des programmes d'aide sociale, comme un logement et un revenu approprié, la sécurité d'emploi, une éducation et des soins de santé accessibles, sont chaque jours plus menacés. Considérant les déficits constants, un historique de dette élevée, ainsi que l'état précaire de l'économie globale, il existe un réel besoin de réexaminer différents outils du revenu. À date, il n'y a eu que très peu d'analyses historiques des changements structureaux qui ont été apportés aux sources de revenus, et même, de la nécessité de réexaminer le côté revenu de l'activité gouvernementale lorsqu'on aborde le déséquilibre budgétaire. Cet article interroge les*

*changements apportés au système de taxation de l'Ontario, surtout lors de l'approfondissement des politiques néolibérales (après 1990), afin d'offrir une analyse historique de l'état actuel de la trésorerie provinciale. L'article examine plus particulièrement les taxes sur le revenu, les ventes, et sur la fiscalité des sociétés, ce qui comprend la vaste majorité des revenus obtenus à travers la taxation. La baisse de revenus gouvernementaux est reliée avec trois voies majeures affectant la distribution des déterminants sociaux de la santé: l'assistance sociale, la politique du marché du travail, et le logement. Finalement, des structures de taxes alternatives sont examinées, ainsi que leur plausibilité et leur potentiel pour financer des programmes d'assistance sociale qui traitera de l'équité en matière de santé.*

**Mots-clefs:** équité en matière de santé; austérité

## **Introduction**

Concerns for health equity have found entry into social policy discussions in Canada at both the national and provincial levels of government. The concept of health equity focuses attention on the distribution of resources and processes that drive systematic inequality in health status between more and less advantaged social groups (Braveman & Gruskin, 2003). There is a growing consensus that a central element of any strategy to reduce existing health inequities must focus on improving the distribution of social determinants of health (SDHs), such as adequate housing and income, secure employment opportunities, affordable education and health care and other social protection measures in which government programs play a central role (Raphael, 2013). Ontario, Canada's most populous province, is notionally committed to reducing health inequities, and before the onset of the global financial crisis in 2008 was in the process of improving social protection measures. However, in the wake of the crisis and the deep recession that followed it, Ontario has come under immense pressure to return to a balanced budget and initiated cut backs in social service provision.

In light of persistent deficits, historically high debt, and the precarious state of the global economy, the government's recently commissioned report on the reform of Ontario's public services recommended substantial cuts to the rate of government spending (Commission on the Reform of Ontario's Public Services, 2012). Such cuts, especially in areas such as housing, social assistance and employment, will have negative health equity implications as they disproportionately affect many social determinants of health affecting citizens in the bottom half of the socioeconomic gradient (Commission on Social Determinants of Health, 2008b; Ruckert, 2012), who have already seen their income share of economic growth fall in both absolute and relative terms since the mid-1990s (Yalnizyan & Schrecker, 2010). Although the Ontario

government recently acknowledged the need to re-examine various revenue tools, to date, there has been little historical analysis of the structural changes made to revenue sources or acknowledgment of the need to re-examine the revenue side of government activity in addressing fiscal imbalances (noting that increasing taxation was explicitly excluded from the mandate of the 2012 Ontario government report on reform of public services).

This article begins with a discussion of how Ontario's revenue decline is part of a larger macro-structural process of transformation, the globalization of the world economy and the ascendancy of neoliberal policy solutions. It next interrogates changes to the Ontario taxation system, especially during the deepening of neoliberal policies in the province (post 1990), to provide historical context to the current state of the provincial treasury. It focuses particularly on income, sales, and corporate income tax, which comprise the majority of revenue generated through taxation. The decline in government revenue is then linked to three key pathways affecting the distribution of social determinants of health: social assistance, labour market policy, and housing investments. We conclude by suggesting that, if policy-makers are serious about promoting health equity, new revenue streams will have to be found, and austerity measures will need to be abandoned in favour of more equitable revenue generation. To this end, we briefly probe the plausibility of alternative tax structure scenarios and their potential for financing social programs that address health equity. We finally propose some alternative social policy and program options that could contribute to rebuilding the welfare state in Ontario, with directly beneficial consequences for health equity.

### **Ontario's Revenues in Global Context**

*Globalization and Public Revenue Decline*

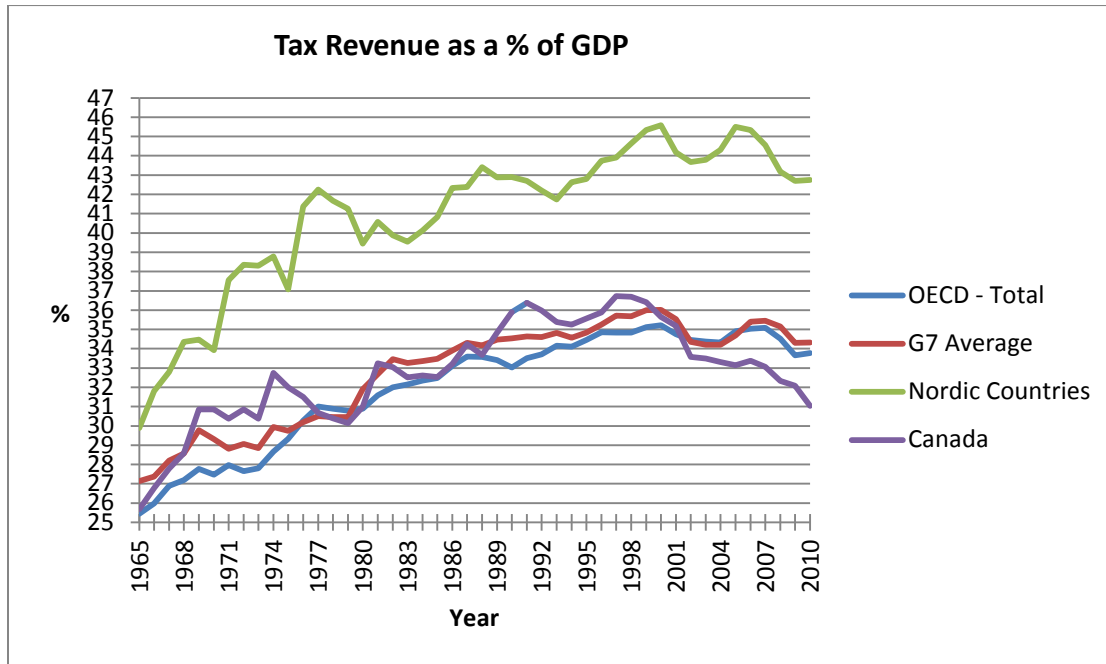
The decline in the Ontario government's revenue is located within the dominance of a neoliberal economic orthodoxy that has driven much of the processes of global economic integration over the past three decades (Labonté, Schrecker, Packer, & Runnels, 2009). Neoliberalism emphasizes markets as the primary allocators of resources and reshapes the governments' role in the provision of public services through ideological emphasis on 'steering' rather than 'rowing' (Kuhlmann, 2010), contracting out to private providers and engaging in new forms of 'public-private partnerships' (Loxley & Loxley, 2010), and emphasizing the need for individual responsibility for social protection (such as tax-supported personal pension, education and health insurance plans available primarily to higher-income earners) (Galvin, 2002). As a result of trade and investment liberalization, technological diffusion, and a reduction in transportation costs, global market integration, a key tenet of contemporary globalization, has created 'implicit conditionalities' which increase pressure on governments to restructure their economies and policies to attract foreign direct investment (FDI) and to prevent capital flight (Griffith-Jones & Stallings, 1995), including reductions in and restructuring of taxation measures.

Although there is still substantial variation in tax revenue generated by governments, a clear trend over the past few decades, and notably in OECD countries such as Canada, has seen corporate and personal income tax rates (especially at the top marginal rate) fall, and consumption taxes rise (Brooks & Hwong, 2010). The net effect has been a reduction in public revenue as a proportion of overall GDP, accompanied by a shift in public spending priorities towards economic growth investments, and decreased support for social programs affecting social determinants of health, such as public housing, social assistance, education and labour market [re]training (Bryant, Raphael, Schrecker, & Labonté, 2011).

*Examining Structural Changes to the Ontario Government's Revenue*

In the last quarter of the 20<sup>th</sup> century, Canada, much like other high-income countries, increased its amount of revenue generated through taxation. In 1965, federal and provincial government tax revenue as a percentage of GDP was 25.7%. By 2000, it had increased to 35.6%. Measured by international standards, Canada's level of tax revenue has been average (Figure 1), at least until the late 1990s when it began to fall and settle into the bottom third or lower of the OECD countries.

**Figure 1: Combined Federal and Provincial/State Government Tax Revenue**



Source: OECD 2012

Provincial governments generate revenue through two broad sources: ‘own source’<sup>1</sup> revenue and federal transfers. Own source revenue, the larger of the two, consists of various taxes, royalties,

<sup>1</sup> For a detailed list of various sources of tax revenue see: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/govt56b-eng.htm>.

and income investment collected by the government. Federal transfers currently consist of the *Canada Health Transfer*, the *Canada Social Transfer*, and the *Equalization and Territorial Formula Financing*. The Ontario government, like most provinces in Canada, relies significantly on taxation revenue to fund expenses. In 2012, 85% of provincially generated revenue was from taxation<sup>2</sup> (Ontario Ministry of Finance, 2013). Of that tax revenue, 72% was generated from three sources: personal income tax (32.4%), sales tax (26.7%), and corporate income tax (13.1%). Therefore, modest changes to tax structures substantially impact the government's ability to fund public services that are important to the health and well-being of Ontario citizens. To understand the government's current fiscal situation, it is necessary to assess the extent of changes made to the tax system in recent decades. These changes began in the 1990s, a decade which saw a devastating recession (1990-91), uncharacteristically high debt, and a departure from a longstanding trend of increasing tax revenue.

### **Tracing Ontario's Revenue since the Neoliberal Turn**

#### *The Common Sense Revolution*

Prior to the 1990 recession, Ontario provincial debt was 12.7% of GDP. However, the deep recession and five years of deficits increased the debt load to 28.6% of GDP, the highest level in decades (Ontario Ministry of Finance; 2013b). This unprecedented fiscal situation, by no means limited to Ontario, foreshadowed a dramatic political and economic shift catalyzed by the election of the Progressive Conservatives (PCs) on June 8<sup>th</sup>, 1995 (Brooke, 1999). During the election campaign, the PCs ran a "Common Sense Revolution" platform, adopting a neoliberal

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<sup>2</sup> This figure represents revenue generated strictly by the Ontario government and excludes federal government transfers. With federal transfers included, provincial taxation revenue in 2012 represented 69% of the Ontario government's total annual revenue.



economic orthodoxy that emphasized reducing the size and role of the government, promoting individual economic responsibility, and balancing the budget (Ontario Progressive Conservatives, 1994). One of the centre pieces of the policy platform was a commitment to reducing taxes – particularly personal income taxes – through a 30% income tax cut to be delivered within three years, the largest tax reduction in Canadian history.<sup>3</sup> While most provinces focused primarily on spending restraint or cuts to tackle their deficits, Ontario's peculiar strategy of cutting both spending and taxes more closely resembled the US Republican Party's strategy during the 1980s (Ackerman, 1982). Initially, the government's deficit reduction projections failed to consider the decreased revenue that would result from planned tax cuts, however, once taken into consideration, various estimates, including government figures, indicated that the tax cuts would cost the treasury \$15-\$20 billion in foregone revenue between 1995 and 2000 (Mackie, 1997).

The PC government sought to justify tax cuts by emphasizing the positive effect they were having on stimulating consumer demand and consequent job growth. When the economy began recovering, mostly the result of record low interest rates (Ip, 1996), a low Canadian dollar fuelling exports, and a flourishing American economy, Premier Mike Harris was quick to equate causality, suggesting it was proof his tax cuts were working (Girard, 1997). Certain taxes, particularly capital taxes and those directed at small businesses, were inhibiting job growth, however, the emphasis on personal income tax cuts to stimulate job growth was an exaggeration of the economic evidence. Economist Mark Mullins, one of the original crafters of the PCs' *Common Sense Revolution* policy platform, later admitted that the idea that tax cuts equal job

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<sup>3</sup> Prior to the year 2000, Ontario income tax was calculated as a percentage of basic federal tax. Based on federal definitions of taxable income, taxpayers would claim various deductions to arrive at their taxable income. They would then use the federal tax rates and brackets to determine the amount of gross federal tax. When the PCs first took office, Ontario's basic income tax rate was set at 58% of a taxpayer's basic federal income tax.

creation was “extremely simplistic” and that regardless of who was in power in the late 1990s, the Ontario economy would have grown by 4% on average (McCarthy, 1997). Ontario’s economic growth permitted the PCs to implement their 30% income tax cuts six months earlier than planned.<sup>4</sup> By the end of their first term, the Harris government had made 69 tax cuts and reduced the provincial income tax rate from 58% of a taxpayer’s basic federal income tax to 40.5%. By 1999, the cuts were estimated to have cost the government \$10 billion in lost revenue (Brennan, 1999).

After winning a second majority in 1999, the PCs announced plans to cut income taxes by an additional 20% over five years. They also began reducing the corporate income tax rate, which had remained unchanged since 1985, and started to focus on capital gains tax rates (Ontario Ministry of Finance, 2009c). The General and Small Business Corporate tax rates were to be cut in half by 2005 and the Capital Gains rate reduced from 75% to 50% by 2004.<sup>5</sup> The objective was to signal to investors that the province was open for business. The PCs also transformed the provincial tax system, opting to separate from the federal government’s basic rate in favour of creating their own brackets and rates (Ontario Ministry of Finance, 2009a). Finally, the *Taxpayer Protection Act* was implemented, which was supposed to prevent any future government from increasing taxes unless permission from the public was obtained through a referendum.

During the 2003 election campaign, the PCs claimed to have cut taxes a total of 225 times. Most of these cuts were comprised of tax credits for businesses, although income tax reductions were substantial. The 30% personal income tax cut enacted in their first term was deepened by a

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<sup>4</sup> Concurrent to the income tax cuts, the government introduced a “Fair Share Health Care Levy” that replaced an upper income surtax, which resulted in higher income earners benefiting less, at least proportionally, from the tax cuts. The levy was designed to offset the lost revenue from cutting the employer health tax for small businesses. The revenue from the levy, which goes straight into government coffers rather than allocated directly to health, was meant to be a transitional levy but remains in place, now referred to as the *Ontario Surtax*.

<sup>5</sup> Capital Gains tax is charged when the disposition of a capital asset (stock, bond, real-estate) results in a profit.

further reduction of approximately 15% (not quite the 20% promised) in their second term. Although low and middle income earners benefited substantially from these cuts, new user fees, increasing municipal taxes, tuition fee increases, and property taxes (all initiated to compensate for reductions in provincial financing) offset most, if not all, of the benefit; with such costs no longer sensitive to a family's ability to pay (Ontario Confederation of University Faculty Associations, 2004; Canadian Centre for Policy Alternatives, 2001). The PC government also initiated their planned reductions to Corporate Tax rates (Figure 3). During the PC's 8 year tenure, it was estimated that the Ontario treasury lost \$16 billion through direct tax cuts (Mallan, 2003).

**Table 1: Ontario Corporate Income Tax Rates**

<b>Ontario Corporate Income Tax Rates: Recent Changes</b>				
<b>Year</b>	<b>Ontario General Corporate Income Tax Rate</b>	<b>Ontario Manufacturing and Processing Corporate Income Tax Rate</b>	<b>Ontario Small Business Tax Rate<sup>6</sup></b>	<b>Combined (Federal/Ontario) General Corporate Income Tax Rate</b>
1997	15.5%	13.5%	9.5%	
1998	15.5%	13.5%	9%	
1999	15.5%	13.5%	8%	44.6%
2000	14.5%	12.5%	8%	43.6%
2001	14.0%	12%	6.5%	42.1%
2002	12.5%	11%	6%	38.6%
2003	12.5%	11%	5.5%	36.6%
2004	14.0%	12%	5.5%	36.1%
2005	14.0%	12%	5.5%	36.1%
2006	14.0%	12%	5.5%	36.1%
2007	14.0%	12%	5.5% <sup>7</sup>	36.1%
2008	14.0%	12%	5.5%	33.5%
2009	14.0%	12%	5.5%	33.0%
2010	12.0%	10%	4.5%	30.0%
2011	11.5%	10%	4.5%	28.0%
2012	11.5%	10%	4.5%	26.5%
2013	11.5%	10%	4.5%	26.5%

**Source: Author's Creation**

### *Liberals and the Global Financial Crisis*

Despite undertaking the largest tax reductions in the province's history, the Ontario people voted for change in the fall of 2003. It wasn't long before the new governing Liberals cancelled and began reversing some of the tax changes. In the fall of 2003, they introduced a bill to repeal the planned corporate and income tax cuts. They returned the General Corporate Income Tax rate to 14%, Manufacturing and Processing rate to 12%, increased the taxable threshold for Small Businesses to \$400,000, and cancelled the final instalment of personal income tax cuts. In their

<sup>6</sup> The threshold at which companies can qualify for the lower small business rate has changed a few times over this period, e.g., from \$280,000 in 2002 to \$400,000 in 2004.

<sup>7</sup> The small business threshold has been increased to \$500,000, retroactive to January 1<sup>st</sup>, 2007.

first budget, they re-introduced the Ontario Health Premium<sup>8</sup>, previously removed by a Liberal government in 1989. Aside from harmonizing the corporate income tax collection system with the federal government, providing various tax credits to selected industries, and eliminating the Capital Tax, the Liberal government made very few changes to the taxation system in the following years.

With the onset of the global financial crisis in 2008 and with growth projections drastically reduced, however, the government introduced a number of new tax reforms, including a 30% reduction to corporate tax rates to take effect by 2013. Additionally, in light of the credit market collapsing and a significant reduction in aggregate demand, the government issued a \$27.5 billion stimulus package. After much consultation and persuasion by the federal government, the province in 2010, in need of new revenue sources, introduced its most controversial tax reform, the Harmonized Sales Tax (HST), which combined the Provincial Sales Tax and the Federal Government Sales Tax. This harmonization increased consumption taxes for many products previously exempt from retail sales tax such as gasoline, electricity and home heating, home maintenance services (electrician, plumber, carpenter, etc...), taxis, and many other products.<sup>9</sup> Consumption taxes are regressive since the same rate applies to all purchasers regardless of their income levels (higher rates on ‘luxury’ items would make such taxes slightly progressive). To offset the burden of the HST increase, the government issued three ‘transition’ cheques between June 2010 and June 2011, tied to personal income tax filing. For single individuals earning up to \$82,000/annum, the combined rebate was \$300; for families earning up to \$162,000/annum it

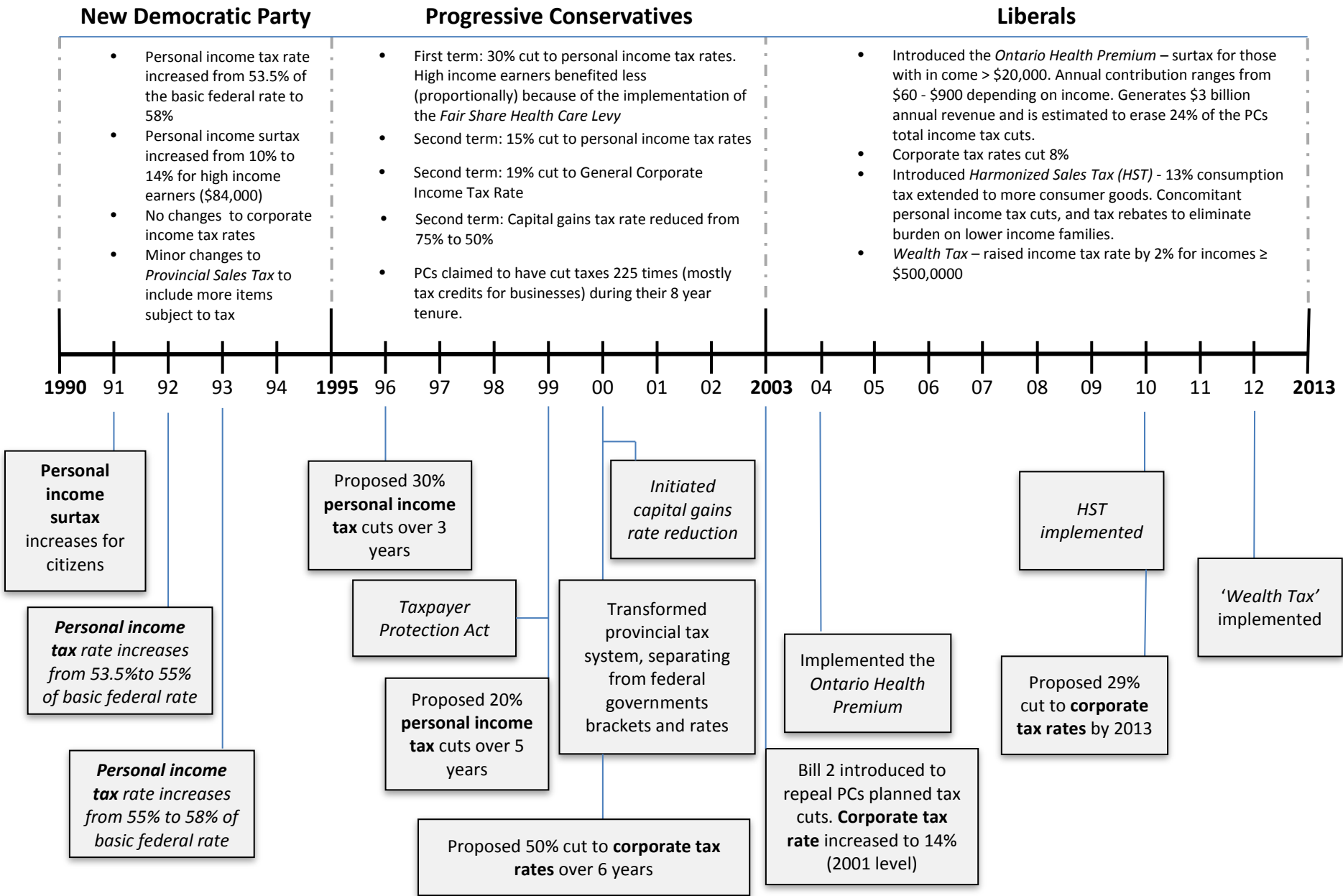
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<sup>8</sup> Several provinces levy health premiums as a form of income tax surcharge tied specifically to health care financing. Ontario’s health premiums, last updated in 2010, are progressive, ranging from \$0 for taxable income below \$21,000 to \$900 for taxable income above \$200,600  
(<http://www.fin.gov.on.ca/en/tax/healthpremium/rates.html>).

<sup>9</sup> For an exhaustive list of items affected by the new HST and for more details, see:  
<http://www.fin.gov.on.ca/en/tax/hst/taxable.html>

was \$1,000. Those earning above these income thresholds received a discounted rebate (StackExchange, 2013). Sales and property tax credits were also introduced to low and middle income families, with the former to be paid out quarterly. The same year (2010), the government reduced the income tax rate for the lowest bracket (\$36,848) of taxable income from 6.05% to 5.05% to ease the HST transition. The most recent change in personal income taxation is the introduction of the 'wealth tax' in the 2012 coalition budget, as the ruling Liberal party was in a minority position and required the support of the social-democratic NDP to avoid a non-confidence motion on its budget. The wealth tax raises the income tax rate by 2% for individuals with incomes of \$500,000 or more, and is estimated to generate an additional \$200- \$570 million annually for the treasury (to view major changes to the tax system since 1990, see figure 4).

**Figure 2: Key Revenue Changes in Ontario: 1990 - 2013**



### **From Revenue to Social Determinants of Health: Key Pathways**

Government revenue is a central aspect of a government's ability to provide social and welfare programs. Many studies show a correlation between levels of taxation and revenue generation, on the one hand, and how generous welfare programs are in providing for the basic needs of citizens, a link often referred to as the fiscal synchronization or revenue-spend hypothesis (Fasano and Wang 2002). Revenue levels are thus critical to reducing health inequities as they influence the degree of social provisioning, which is a powerful social determinant of health, given that health outcomes at both individual and population levels are not solely impacted by biological factors or individual behavioural choices but are, to a large extent, determined by the socio-economic structures in which individuals are embedded (Commission on Social Determinants of Health, 2008a). A central structural element is the degree to which governments insulate individuals from inequalities, insecurities and undersupplied public goods inherent in markets. This generally takes the form of provision of essential services, income or labour market support to the unemployed, housing benefits and direct cash transfers, collectively referred to as social protection measures. There is growing evidence that the extent to which governments engage in social protection spending has direct implications for a wide range of population health metrics, including life expectancy, morbidity rates and the prevalence of mental illness, amongst others (McKeeargue, 2010). Countries that allocate more resources to public spending through health and other social programs fare better in terms of population health outcomes, and in how equitably these outcomes are distributed across the population, than those that spend less (Bryant et al., 2011). The following discussion highlights how social assistance, labour market and housing programs, considered to be important social determinants of health, have been impacted by the decrease in government revenue since the mid-1990s.



*Social Assistance*

In Ontario, reduced support for many social programs and structural changes to the labour market have coincided with declining government revenues. In 1995, after a few modest changes in eligibility made under the previous government, the PCs dramatically transformed social assistance converting welfare to workfare (Jackman, 1995). Workfare policies – a set of conditions placed on welfare beneficiaries, often punitive – such as coercing dependents into paid labour, training, or community service in order to receive benefits, in an attempt to reduce welfare dependency – have been located by some analysts within the hegemonic neoliberal economic paradigm, which seeks to restructure the welfare state (Teeple, 1995). In addition to stricter eligibility criteria, the PCs cut welfare rates by 21.6%<sup>10</sup> (Morrison & Pearce, 1995) and froze them for 8 subsequent years (Wilson, Lightman, & Mitchell, 2009). By the end of the second PC term, inflation adjusted social assistance rates were 35% lower than when they had assumed office (Stapleton, 2004). Benefits outside of the provincial social assistance system, however, had begun to accrue, albeit unevenly. Shortly after the PC cuts to welfare, the national government introduced a National Child Benefit (NCB) – monthly payments and other health benefits and services provided to low income families with children. By only targeting individuals with children, this program, although welcomed by many advocates, further exacerbated the division between the ‘deserving’ and ‘undeserving’ poor, initiated by the PCs.<sup>11</sup> The PCs, like many other provincial governments, used the introduction of the NCB to reduce

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<sup>10</sup> Except for individuals with disabilities and their families

<sup>11</sup> The PCs decision to restructure welfare, creating separate programs (Ontario Works and Ontario Disability Supplement Program) for ‘able bodied individuals’ and individuals with disabilities, was seen by many commentators as a form of government discrimination by factors other than one’s need for benefits.

their financial commitment to social assistance recipients by ‘clawing back’<sup>12</sup> a significant portion of the NCB.

The election of the Liberal party in 2003 was viewed as a sign of hope by many social justice advocates who hoped the new government would reverse the changes to welfare. In their first budget, welfare rates were raised by 3%, the first increase in 11 years. However, further increases were intermittent and often only enough to keep pace with inflation, so that welfare rates only increased by 14% between 1996 and 2013, whereas inflation rose by 34% (Monsebraaten, 2011). In 2007, the Liberal government introduced the Ontario Child Tax Benefit – monthly financial support (up to \$1,210 annually in 2013) aimed at all low-income families, regardless of whether the parents were employed or on social assistance. Although Ontario was one of the last provinces to introduce a child benefit for low income families, the new support was a substantial contribution to the goal of eliminating child poverty in the province. However, these measures had no relevance for the 60% of non-disabled welfare recipients (individuals receiving Ontario Works) with no dependants. For these recipients, inadequate increases to the rates during the Liberals’ tenure left them well out of reach of a basic standard of living. According to the National Council of Welfare, a single person with no dependants in 2009 received an annual social assistance income of \$7,501, 48% of the Market Basket Measure (National Council of Welfare, 2009).<sup>13</sup> Using the Basic Measure of Adequacy, a stricter metric of standard of living, the 2012 Commission for the Review of Social Assistance in Ontario, estimated that single recipients were receiving 60% of their metric’s threshold, and

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<sup>12</sup> When the NCB was introduced in 1998 by the federal government, many of the provinces, including Ontario chose to integrate it with their social assistance program by reducing their financial contributions to social assistance recipients. This unfavourable move resulted in a Charter challenge, claiming the decision was discriminatory in nature, affecting only those on welfare.

<sup>13</sup> The Market Basket Measure is a tool developed by Statistics Canada which measures the cost of an array of goods that represent a basic standard of living.

recommended an immediate \$100/month increase to the rates (Commission for the Review of Social Assistance in Ontario, 2012). Given the importance of non-market income for the health of vulnerable populations, the decline in social assistance rates has had obvious negative impacts on health equity trends within the province (Raphael, 2013).

### *Precarious Employment and Active Labour Market Policies*

At the same time that social assistance rates were declining, the Ontario labour market was undergoing substantial change. Traditionally a strong manufacturing economy, Ontario, under fierce competition from an increasingly globalized economy, characterized, in part, by extensive out-sourcing to lower wage countries, was experiencing increasing flexibilization of its labour market. This increased precarious employment<sup>14</sup> in the province. In Toronto, Ontario's largest metropolis, precarious employment has increased by 50% in the last 20 years, disproportionately affecting women and recent immigrants (Poverty and Employment Precarity in Southern Ontario (PEPSO), 2013). Although significant heterogeneity exists amongst workers in precarious arrangements, generally the work is associated with low[er] wages, reduced benefits, varying work schedules, and an increased risk of cycling through bouts of unemployment (Lewchuk, Clarke, & De Wolff, 2011; Fang & Macphail, 2008). At the same time, hypermobility of capital and off-shoring of employment in the past few decades has resulted in downward pressure on wages. Efforts to mitigate these consequences can be seen through the evolution of the minimum wage in Ontario. Upon taking office in 1990, the New Democrats initiated year over year increases raising the minimum wage from \$5/hour to \$6.85 in 1995, a 37% increase. The mood changed entirely with the arrival of the PCs who immediately froze the rate for the duration of

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<sup>14</sup> Precarious employment describes work arrangements that are associated with employment instability, reduced social protection, reduced worker control over the labour process, and low wages.

their 8 year tenure. In tabling their first budget in 2004, the Liberals introduced a series of gradual increases raising the rate to \$10.25 by 2010, where it has since remained.

Under conditions of increasing precarity, government intervention and support for workers to reintegrate into changing labour markets becomes more important, and represents another indirect pathway by which health equity outcomes are shaped. Coinciding with reduced support for social assistance recipients has been varied commitment to active labour market policies (ALMP) – government programmes designed to move workers from unemployment to employment, usually through training opportunities, wage subsidies, and job search resources.

The NDP government in the early 1990s, in an attempt to foster employment solutions between labour, business, and governments, established 25 regional training boards across the province, designed to localize community based training according to regional economic needs (Schneider & Klassen, 2004). In 1992, in response to the effects of the recession, the government created the Jobs Ontario Training Fund, which provided companies up to \$10,000 in subsidies to hire individuals who had exhausted their Employment Insurance and were receiving welfare. This \$1.1 billion program was also designed to increase single parent employment rates by paying for the childcare costs of those enrolled. The purpose of the program was to influence companies to hire and support individuals that were hardest hit by the recession and labour market restructuring, viz. the long-term unemployed. The program, which was designed to be temporary, was immediately cut once the PCs took office. The PCs chose a hands-off approach to ALMP, putting it much further down their list of priorities, trusting employers and the free market to address labour market concerns (Schneider & Klassen, 2004). Unlike most provinces, they refused the federal government's offer to transfer responsibility, staff, and financing of ALMP, through labour market development agreements, seen by some analysts as a way of

ensuring the size and scope of the government did not increase. The subsequent Liberal government's approach more closely resembled that of the NDP in the early 1990s. In 2006 they signed the Canada-Ontario Labour Market Development Agreement; and in 2008 the Canada-Ontario Labour Market Agreement. These agreements, valued at more than \$1 billion, delegated authority and transferred the operation of various federally run programs and services to the province. The array of programs and services operate under the Employment Ontario umbrella, designed to provide the unemployed and minimally skilled workers with training resources to assist them with their transition to or within the labour market (Ontario Ministry of Training, 2012). Recently, the federal government proposed the Canada Job Grant, a cost sharing mechanism between employers, provinces, and the federal government for skills training. This grant proposes to renegotiate current labour market agreements with provinces rather than injecting new funding. The job grant, which is yet to be accepted by the Ontario government, will force the government to divert resources away from current programs in order to comply with the new agreement (Ministry of Training, 2013).

### *Housing*

Housing, another key social determinant of health (Shaw, 2004), represents another area where reductions in government revenue throughout the 1990s eventually translated into faltering support for social housing programs and cutbacks to investments in affordable housing, with detrimental health equity results (Bryant, Chrisholm, & Crowe, 2002). Adequate and affordable housing is a persistent issue for many Ontarians that has been recently exacerbated by the financial crisis and ensuing economic downturn. Currently, 156,000 Ontario households are on the affordable housing wait-list (or roughly 3% of all households in the province), an increase of

17.7% since the beginning of the financial crisis in 2008; with many more discouraged to even initiate the process. According to the Canada Mortgage and Housing Corporation (CMHC), households that spend 30% or more of their income on housing expenses experience problems with “housing affordability”. Since the early 1990s, the number of households spending more than 30% on housing has sharply risen from 30% (in 1990) to reaching almost 45% by 2011 (Bryant et al., 2011). Disturbingly, it is estimated that approximately 20% of tenant households in Ontario are currently paying at least 50% of their income on rent, up from 13% in 1990, which places them at immediate risk of homelessness (Ontario Non-Profit Housing Association, 2013). This change in housing affordability is related to a number of developments: rental costs have far outpaced income gains since the early 1990s (Bryant et al., 2011); government regulation to foster home ownership through mortgage insurance allowed those to enter the market that could not otherwise afford a down payment, creating more demand for housing; cheap credit has been driving up housing prices and associated market rents; a cultural shift in the perception of housing so that housing is now seen as an asset for investment<sup>15</sup>, and not a basic human right; and changes in federal and provincial housing policy with steep reduction in investments to create affordable (public or subsidized) housing. Finally, changes to the way in which mortgages are regulated in Canada, spear-headed by the Ministry of Finance, permitted mortgages with lower down payments, or if insured with no down payments at all, while also extending the

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<sup>15</sup> A particular concern here is how foreign ownership, particularly in Toronto and Vancouver, has contributed to the rise in real-estate prices, pushing many local residents out of the market. A notable example is a recent case of enormous over bidding for a three bedroom bungalow in the north end of Toronto by a first year university student. The student, whose parents live in China and own a business in San Francisco, purchased the house at \$421,800 more than the owner’s asking price (Yelaja, 2012). This example is indicative of many other cases across the country, in which local residents are infuriated and felt to be priced out of the market by international capital. Foreign direct investment in the Canadian housing market, a substantial contributor to the current housing bubble, is concerning because of the limited regional economic benefit accrued in comparison to other forms of investment.

amortization period from 25 to 40 years. However, some of these changes were rolled back by the Conservative government in the aftermath of the global financial crisis.

Given the growing affordability crisis in housing, the decline in resources allocated to social housing is a deeply disconcerting development. This trend started in the 1990s under the PCs, who were unwilling to shoulder the financial burden from the federal government's decision to discontinue funding public housing, and opting instead to privatize existing units and download responsibility for public housing to municipalities. In 1995, the PC government imposed a moratorium on new social housing units and amended legislation to permit landlords to use income criteria to screen potential tenants, severely reducing access of low-income population to housing (Bryant, 2004). In 2001, through the *Affordable Housing Framework Agreement*, the federal government re-entered the social housing sector, and committed \$680 million to the construction of new public housing units over five years; however, because of the unwillingness of the PCs to match federal funds, little of the money was actually used in Ontario to build affordable housing.

Housing policy improved slightly when the Liberal government assumed office in 2003. The *Planning Act* was amended in 2006 to enhance the ability of municipalities to plan for mixed and integrated neighbourhoods, and the *Delivering Opportunities for Ontario Renters (DOOR)* program of 2007 provided \$127 million to create or rehabilitate affordable rental housing units. In 2008, the provincial government provided another \$100 million to municipalities to repair nearly 4,000 social housing units that have fallen into disrepair (a major concern from a health equity perspective due to the link of substandard housing conditions and associated health concerns). And in 2009, Ontario invested \$622 million to match federal funding to generate about \$1.2 billion to rehabilitate 50,000 social housing units and to build 4,500 new housing

units for low income Canadians (Hadi & Labonte, 2011). However, such investments have not been large enough to mitigate the affordable housing crisis in Ontario. A comprehensive review of affordable housing conducted in 2013 (Ontario Non-Profit Housing Association, 2013) found that Ontario's affordable housing crisis had grown worse, especially in the private rented sector where most low and moderate-income households are required to find a home. Tens of thousands of very-low income renter households across the province cannot afford current market rents and have been squeezed out of the traditional private rented sector, and relegated to substandard, secondary rental housing.

### **Conclusion**

This article discussed various ways in which taxation changes and related expenditure cutbacks have undermined social programming in areas crucial for addressing health inequities in Ontario. The challenging fiscal climate we are currently in will likely amplify this process, due to the ascendancy of austerity politics to address Ontario's fiscal imbalance. While the austerity measures introduced in the 2012 austerity budget are, in principle, designed to reduce public debt and the size of budget deficits, recent experiences with austerity around the world indicate that solely focusing on reducing government spending might likely back-fire. Relying only on cuts to the spending side has led to an economic downward spiral as government cutbacks undermine economic activity and sap consumer confidence. This, in turn, leads to a decline in corporate investment as seen in the case of Ontario, with corporations sitting on record amounts of capital on their balance sheets (Stanford, 2013). Such developments have culminated in a re-evaluation of the desirability of austerity amongst leading global institutions and think-tanks, including the International Monetary Fund and the Organization for Economic Cooperation and Development



(OECD, 2014). It is increasingly clear that to address fiscal imbalances will require some major overhaul of Ontario's taxation regime.

Untangling the many changes to different taxes and their effect on the provincial treasury is a complex task. However, it is obvious that despite recent increases to income tax, such as the Ontario Health Premium and 'wealth tax', cuts made by both the PCs and the Liberals resulted in a significant net reduction in public revenue for Ontario's treasury. The provincial government's own source revenue as a percent of GDP decreased from 15.9% in 1999 to 13.6% in 2011, below the provincial average of 14.6% and second lowest to Alberta. Between 2000 and 2010, various tax cuts resulted in an estimated \$10 - \$18 billion annual reduction to the treasury, mostly the result of personal income tax reductions (Mackenzie, 2013). What does this mean to the current scenario of deficit reduction? A government commissioned report of Ontario's Public Services, chaired by Don Drummond, former Chief Economist at Toronto Dominion Bank, emphasized that the government's projected spending was based on overly optimistic growth figures and that to ensure the budget would be balanced by 2017-2018, the proposed timeline, government program spending needed to be reduced from a 1.4% annual increase to 0.8%. The report, which as noted earlier was instructed to not consider raising taxes, provided 362 recommendations to constrain government spending and reduce inefficiencies. However, if the government was willing to increase tax revenues to 15.9%, the level midway through the PCs' tenure of tax reductions, and to keep expenditure figures consistent with the 'preferred scenario' (0.8% increase in program spending) identified by the report, not only would the budget be balanced by 2017-2018; there would be a \$20.8 billion surplus (Schrecker, 2012). A more conservative estimate would be to utilize the average across all provinces of 14.6% of GDP. In this case, the surplus would be \$10.3 billion (author's calculations).

Admittedly, these alternative scenarios are simplistic because investment distortions are not taken into account, however, evidence suggests that the market distortions are much smaller than the tax-cutting PC government had suggested. A recent government study, undertaken years after the defeat of the PCs that ushered in the era of tax cuts, estimated that the tax burden to Ontario companies represents, at most, only 13% of location-sensitive costs; and that multiple factors including labour costs, business environment, infrastructure, quality of life issues, and many others are of significant consideration (Ontario Ministry of Finance, 2009b). A second study, drawing on the positive association between businesses' after-tax cash flow and investment, simulated the effect corporate tax reductions would have on business investment. It concluded that only 10% of incremental cash flow, or 10 cents of every dollar in tax savings, would be translated into incremental investment spending (Stanford, 2013). It may be reasonable to assume that a significant amount of revenue can be generated, at little cost, if any, to the overall economy by restoring or modestly increasing certain tax rates. The specific and most appropriate changes needed to increase government revenue are beyond the scope of this article. However, it is clear that higher corporate taxes are particularly pressing at this moment, given the tendency of firms to sit on 'dead money', i.e. excess cash not invested productively, valued at \$526 billion in Canada in early 2012 or roughly 30% of total 2011 GDP (Carmichael, Keenan & Blackwell, 2012).

Additional revenue generated by a more progressive taxation regime could go towards re-investing in social programs that have long been neglected to the detriment of health equity. As a first step, Ontario should simplify its benefit structure and set more realistic levels of social assistance pay. Currently, single adults on social assistance receive around \$8000 annually, roughly 50% below the poverty line in Ontario. The Commission for the Review of Social

Assistance in Ontario noted the inadequacy of current benefit levels in 2012, and called for an immediate increase by at least \$100 per person (CRSAO, 2012). However, in the long run assistance rates should be adjusted so that they are closer to the poverty threshold. More adequate assistance rates should be accompanied by extended health benefits which are already available for those on social assistance, and those fortunate enough to obtain benefits through employment; however low income workers cannot generally access these extended benefits through their employers. The situation in Ontario differs from innovators elsewhere, for instance in Alberta, where extended health benefits are available to all low income earners (Lankin & Sheikh, 2012).

Second, a key area of concern in social programming in Ontario is the lack of adequate skills training for the unemployed. The Review Commission concluded in its 2012 report that "the limited focus on skills development in social assistance, along with the precariousness of the labour market, mean that recipients who exit social assistance do not escape poverty and are forced to cycle through periods of receiving and not receiving social assistance"(CRSAO 2012, p.149). Given the key role that employment income plays as a social determinant of health, investments in skills training will have a large pay-off in terms of reducing health inequities in Ontario.

However, to significantly improve social provisioning, there also is a need for better cooperation between different levels of government. To ensure the ability of provinces to provide adequate income assistance to those on social assistance, social transfers to the provinces would need to be increased substantially, as provincial governments cannot solely be blamed for their declining revenue base. The share of federal expenditures transferred to the provinces and territories ranged from four percent to 4.6 percent of GDP in the early and late 1980s. However, since the

mid-1990s it has ranged from 2.7 to 3.2 percent of GDP (Authors' calculation based on the Department of Finance's Fiscal Reference Tables). In short, large sums of money that were once transferred to the provinces and territories and had previously been used for health, housing, and social assistance were unilaterally withdrawn. This implies that equitable revenue generation also requires more reasonable levels of financial support from the federal government. This ultimately means taking on neoliberal ideology and the myth that taxpayers will not vote anybody into office that runs on a higher tax platform. Recent polls show unequivocal support for higher taxes if such taxes are used to improve public services (Broadbent Institute, 2012). If policy-makers are serious about health equity concerns, current budget woes would have to be dealt with by restoring the fiscal capacity of Ontario and generating more equitable revenue streams.

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