

How Compensation Spending Consumes Provincial Government Resources in Ontario

by Charles Lammam and Hugh MacIntyre

SUMMARY

This report measures the growth in provincial government compensation spending in Ontario and how such spending has consumed government resources from 2005/06 to 2013/14 (latest year of available data).

Over the period, increases in compensation spending (47.1% growth) have, by a wide margin, outpaced the combined rate of inflation (15.1%) and growth in the number of provincial government jobs (10.9%), resulting in higher compensation spending per job after accounting for inflation.

While the government has restrained the growth rate in compensation spending since 2009/10 (relative to five years prior), compensation spending has not been restrained to the same extent as other areas of program

spending. As a result, compensation spending has consumed a greater share of total program spending (52.0% in 2013/14, up from 50.1% in 2009/10).

In fact, compensation spending on provincial government workers is responsible for nearly three-quarters (73.5%) of the new program spending from 2009/10 to 2013/14.

Had the government kept the ratio of compensation spending to total program spending in 2009/10 constant at 50.1%, it would have spent a cumulative \$14.7 billion less on compensation from 2009/10 to 2013/14 and acquired less debt. In 2013/14 alone, the deficit would have been \$4.4 billion, or 42.4% smaller than the actual deficit (\$10.5 billion).

Introduction

Years of deficits and debt accumulation have put Ontario's government finances in a precarious position.¹ In fact, a recent study found that government debt is increasing at an unsustainable rate, which could provoke further credit downgrades and higher interest payments (Wen, 2015). Fundamentally, Ontario's financial troubles stem from the fact that the provincial government consistently spends more than the revenues it collects.

It is therefore important to scrutinize government spending. While the implicit assumption is that government spending directly benefits Ontarians, in reality this is not always the case. Government spending—and in particular, spending on the compensation of government employees—may not translate into more or better services. This report examines the growth in provincial government compensation spending in Ontario and how such spending has consumed government resources from 2005/06 to 2013/14 (latest year of available data).²

Increased compensation spending may not translate into more or better services

Before examining the data on compensation spending and its growth over time, it is important to explain why more government spending—and in particular, more spending on the compensation of government employees—may

not translate into more or better government services for regular Ontarians. This fundamental idea is particularly important to consider when we later present and analyze data on the level and growth of compensation spending.

In 2013/14, the Ontario government spent a total of \$126.4 billion. However, like a household, the government is forced to make interest payments on its accumulated debt. Interest payments are not discretionary; they have to be made. In 2013/14, the provincial government spent \$10.6 billion on interest payments to service existing debt (Ontario, Ministry of Finance, 2014a). This is money (roughly 8.4% of total spending) that didn't go to programs that Ontarians value such as health care and education.

After subtracting interest payments (\$10.6 billion) from total spending (\$126.4 billion), the amount left is what is referred to as the government's program spending (\$115.8 billion). However, even program spending does not always benefit taxpayers or consumers of government services if the money is wasted or spent inefficiently.³ Inefficient government spending often stems from its monopoly over service provision

¹ For studies on Ontario's precarious fiscal situation, see Di Matteo et al. (2014), Murphy et al. (2014), and Clemens and Veldhuis (2013).

² This period is chosen because 2005/06 marks the start of the reporting on spending on wages and benefits for the "broader public sector" (school boards, hospitals, and colleges) by the Public Accounts and the latest year of available data (2013/14).

³ For the provincial government's two largest programs, health care and education, research shows better outcomes or performance can be achieved by spending less or the same amount (Esmail and Walker, 2008; Van Pelt et al., 2014.) Furthermore, a series of Fraser Institute essays has identified areas of inefficient government spending in Ontario and given suggestions for cost saving reforms (Veldhuis and Lammam, 2012). Further examples of clear government waste and inefficiency have been reviewed by Ontario's provincial auditor general (http://www.auditor.on.ca/en/reports_en.htm). More generally, empirical research finds that a larger government (one that increases its spending) does not always lead to better outcomes (Di Matteo, 2013). For a summary of over 600 cases of government waste and inefficiency as identified by the federal auditor

and a lack of competing alternatives, as compared to the private sector where competition helps drive more disciplined spending.⁴

Within the program spending envelope are a number of types of spending. First, consider all program spending that is not compensation related. This includes various direct transfers to individuals or organizations as well as the cost of government office supplies and equipment.⁵ The total sums up to \$55.6 billion or 48.0% of program spending. The rest of program spending is consumed by compensation for government employees, which broadly includes wages and benefits such as pensions.⁶ At \$60.2 billion of the total (or 52.0%), this is the single largest expense for the Ontario government.

Not all compensation spending necessarily delivers services and benefits to regular Ontarians. This is certainly the case if part of the compensation spending on government workers is driven by overly generous wages

general over the period 1988 to 2013, see Lammam et al. (2013).

⁴ Artificial monopolies and restricted competition driven by government policies and regulations can arise in the private sector and the efficiency effects are also negative.

⁵ The complete list of the non-compensation categories of program spending includes: transfer payments, services purchased by the government, power supply, amortization of capital assets, supplies and equipment, and transportation and communication.

⁶ A government employee is loosely defined as a worker whose compensation is included in program spending as delineated in the Public Accounts. This definition includes physicians who receive compensation payments through the Ontario Health Insurance Plan, even though some would argue that physicians are technically not government employees but rather private corporations.

and benefits. Consider the findings of a recent study—reinforced by decades of academic research—that calculated, on average, that government workers in Ontario enjoy 11.5% higher wages than comparable workers in the private sector (Lammam et al., 2015). This wage premium is for all government workers in Ontario, including those from the federal, provincial, and local governments, and it accounts for differences in the personal characteristics of workers such as age, gender, marital status, education, tenure, type of work, size of establishment, industry, and occupation. However, the wage premium is likely understated because, due to data limitations, it does not account for the more generous non-wage benefits—such as pension coverage, earlier retirement, and job security—that government workers most likely also enjoy, or the productivity differences between workers in the two sectors.

A key reason that government workers receive higher pay than their private sector counterparts is that governments do not face the same competitive pressures and hard budget constraints as many private sector employers do (Lammam et al., 2015). With few or no alternatives available for government services, government workers and their union representatives are in a position to demand more generous compensation packages with little risk of driving their employer out of business. Taxpayers ultimately foot the bill.

In addition, compensation spending on government workers may not translate into more or higher quality services if the spending increases are primarily captured by existing employees and are not used to employ more front-line workers such as nurses, doctors, and teachers. For the average Ontarian, there's a difference between the government increasing spending to add more nurses and teachers compared to

the same increases being captured by existing employees and yielding no change in the number of employees. This core difference is critical to understanding the conceptual issue.

In 2013, there were roughly 648,000 provincial government jobs in Ontario, representing 10.2% of all jobs in Ontario excluding the self-employed (Statistics Canada, 2014a; Statistics Canada 2014b).⁷ Ideally, we would separate those 648,000 Ontario government jobs into front line and non-front line positions to

⁷ There is no readily available measure of the number provincial government jobs in Ontario that are directly comparable to the definition of government workers covered by compensation spending. Government jobs data are drawn from Statistics Canada's CANSIM Table 383-0030 and include three job categories: provincial government services, government educational services, and government health services. The data do not track jobs at government business enterprises (GBEs)—and neither does the compensation spending. To make the number of jobs more comparable to what's included in compensation spending, university government jobs are excluded from government education services (government jobs at colleges, however, are included). Notably, the government jobs data do not cover physicians who are not on hospital payrolls, while all physician payments are included in the compensation spending data. Because of differences in the coverage of data, compensation spending and the number of government jobs are not strictly comparable. It should also be noted that the number of government jobs is not adjusted for full-time-equivalents (FTEs). In addition, there is a distinction between the number of government jobs and the number of employees. It is possible for a government employee to hold two positions, meaning that the number of government jobs could overstate the number of employees. However, the number of government jobs very closely matches the number of government employees in the now terminated Statistics Canada CANSIM Table 183-0002—an average ratio of 100.1% for 10 overlapping years of data (2002-2011).

try to determine the percentage of the workforce that is directly engaged in providing services and how the mix has changed over time. Unfortunately, the available data do not clearly distinguish between the two types of government jobs. With this in mind, the rest of the paper examines compensation spending by the Ontario government in total, including the share of resources it consumes and how this has changed over time.

Compensation spending on provincial government workers in Ontario

Because the compensation of government workers consumes considerable government resources, it materially affects the Ontario government's overall fiscal position. Total compensation, in principle, includes all forms of employee payments. This includes not just wages and salaries, but also pension contributions, extended health insurance, and other benefits.

The data shown below on the Ontario government's total compensation spending were drawn from three categories of government spending as reported in the Public Accounts: salaries and wages, employee benefits, and pensions and other employee future benefits.⁸ The compensation figures include compensation spending by government ministries (otherwise referred to as the Ontario Public Service),⁹ "broader public sector organizations" (school

⁸ Definitions of "salaries and wages" and "employee benefits" are available on p. iv of Volume I in the 2013/14 Public Accounts and a breakdown of "pensions and employee future benefits" can be found in note 7 of the Consolidated Financial Statement.

⁹ Compensation spending on the Ontario Public Service is drawn from schedule 3 of the Public Accounts (Tim Cook, Manager, Fiscal Framework Unit,

Table 1: Compensation spending (billions \$) as a share of program spending, 2005/06 – 2013/14

	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14
Compensation spending	40.9	43.6	47.2	50.4	53.3	56.0	58.8	58.6	60.2
Program spending	81.0	85.5	94.1	94.8	106.3	111.2	112.7	112.2	115.8
Ratio	50.5%	51.0%	50.2%	53.2%	50.1%	50.4%	52.2%	52.2%	52.0%

Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); calculations by authors.

Note: Before 2009/10, the Public Accounts reported spending as net of revenues from school board property taxes, which were not included in total revenue. This practice ceased in 2009/10 when school board property tax revenue was added to the Public Account's total revenue figures. Adjustments were made to the program spending figures to ensure comparability.

boards, hospitals, and colleges), and payments to physicians. Compensation spending for some government organizations, such as universities, is not included in the total due to the limited available data, which means the compensation figures are conservative.¹⁰

Ontario Ministry of Finance, personal communication, March 10, 2015).

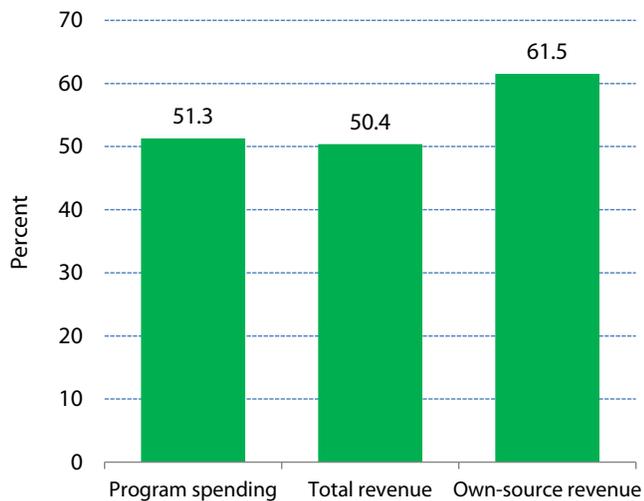
¹⁰ Three categories of government entities are not included in compensation spending due to limitations in the available data: universities, “other government organizations,” and government business enterprises. Universities are excluded because information on compensation spending by universities is not contained in the Public Accounts. Other government organizations are excluded because compensation spending over the entire period examined is not readily available for each entity. The Ontario government calculates that the total compensation cost of “Other Government Organizations” was \$1.4 billion in 2013/14 or 1.2% of all program spending (Special request to the Ontario Ministry of Finance, received December 17, 2014; calculation by authors). Finally, compensation spending for employees of government business enterprises (i.e., provincial Crown Corporations) are excluded because they are consolidated on an equity basis so any spending by an Ontario government business enterprise is

Table 1 displays compensation spending, program spending, and the ratio of compensation spending to program spending from 2005/06 to 2013/14 (appendix table 1 includes a breakdown of compensation spending by the three main areas delineated above). In 2013/14, the latest year of available data, the provincial government spent \$60.2 billion on compensation. That represents 52.0% of the government’s program spending, meaning that more than half of all program spending went to compensation for government workers.

Table 1 shows that compensation spending in 2013/14 consumed a larger share of program spending than it did in 2005/06. The share in 2013/14 (52.0%) is 1.5 percentage points higher than the share in 2005/06 (50.5%). Of course, the share of program spending consumed by compensation can be driven by changes in both program and compensation spending. Spe-

not counted as government spending by the Public Accounts (but is subtracted from revenue). A list of other government organizations and government business enterprises is available in schedule 8 of the 2013/14 Public Accounts.

Figure 1: Compensation spending as share of program spending, total revenue, and own-source revenue, average 2005/06 – 2013/14



Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); calculations by authors.

Note: Before 2009/10, the Public Accounts reported spending as net of revenues from school board property taxes, which were not included in total revenue. This practice ceased in 2009/10 when school board property tax revenue was added to the Public Account's total revenue figures. Adjustments were made to the program spending figures to ensure comparability.

cifically, the share of program spending consumed by compensation spending went from 50.2% in 2007/08 to 53.2% in 2008/09 because compensation spending (6.7%) grew nearly nine times faster than total program spending (0.8%). The following year the ratio dropped to 50.1% as overall program spending increased faster than compensation spending. Since 2009/10, however, the proportion of spending devoted to compensation has increased.

Figure 1 shows the average share of compensation spending relative to program spending

from 2005/06 to 2013/14. Because the government can, and does, borrow to pay for program spending, compensation spending as a share of program spending may not give a complete picture of how much compensation costs consume current government resources. Figure 1 therefore also presents the average share of compensation spending to total revenue and own-source revenue (total revenue minus federal government transfers) over the same period.

From 2005/06 to 2013/14, compensation spending consumed an average 51.3% of program spending and 50.4% of total revenues collected by the Ontario government. A portion of this revenue comes from federal government transfers. Of the revenue directly collected by the provincial government—its own-source revenue—an average of 61.5%, or nearly two-thirds of the resources it directly raised, went to compensation spending.

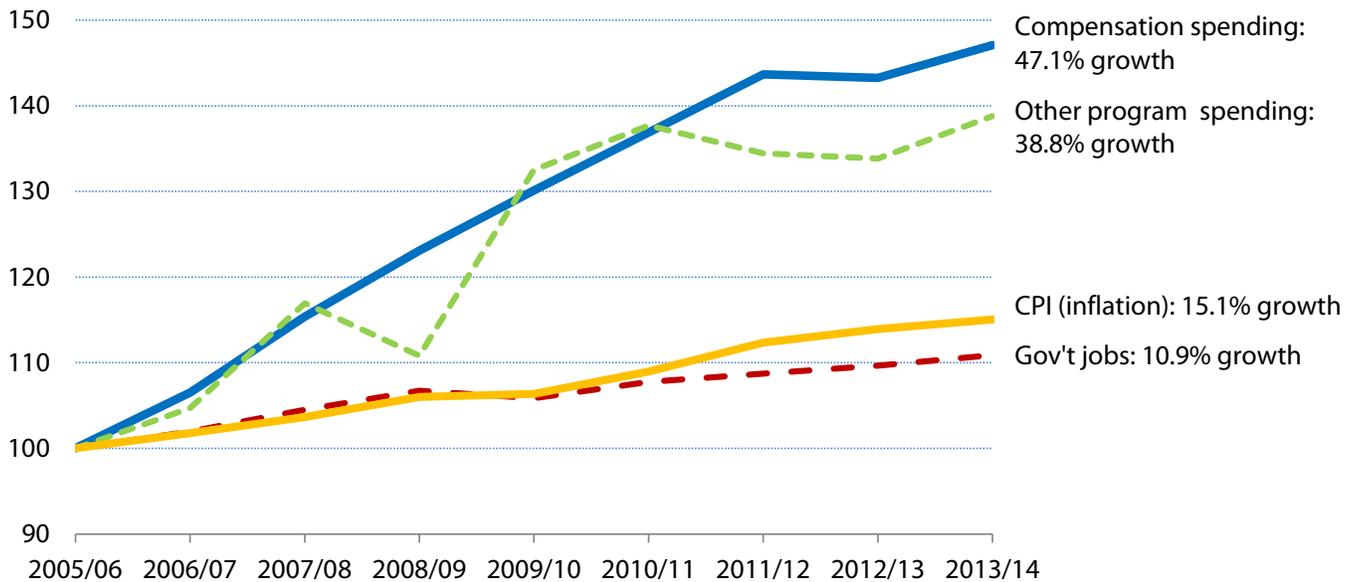
Compensation spending growth

Compensation spending not only now consumes a larger share of total program spending, but the growth in such spending has far outpaced other benchmarks, which include other areas of program spending, the rate of inflation, and the growth in the number of provincial government jobs. From 2005/06 to 2013/14, increases in compensation spending outpaced, by a wide margin, the combined rate of inflation¹¹ and growth in the number of provincial government jobs. Compensation spending also grew faster than other areas of program spending, although to a lesser degree. (Recall that other program spending includes spending on transfer payments and on government supplies and equipment.)

¹¹ Inflation is measured by Statistics Canada's Consumer Price Index for Ontario.

Figure 2: Index of Ontario government compensation spending and benchmarks, 2005/06 – 2013/14

2005/06 = 100



Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); Statistics Canada, 2014a; Statistics Canada, 2015; calculations by authors.

Notes:

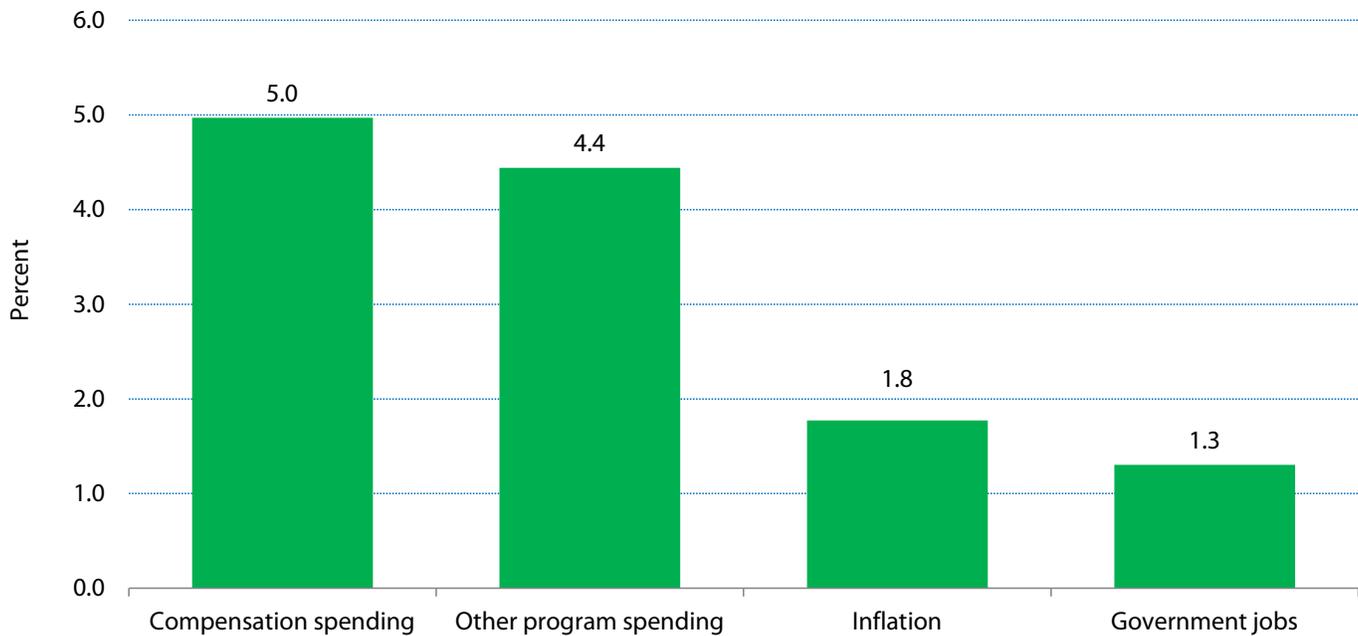
- 1) Inflation is measured by Statistics Canada’s Consumer Price Index for Ontario.
- 2) Other program spending includes all program spending that is not compensation spending such as transfer payments and the cost of supplies and equipment.
- 3) The number of Ontario government jobs was drawn from CANSIM Table 383-0030 and includes provincial government services, government health services, and government educational services. University jobs were excluded to ensure consistency with compensation spending. Due to the available data, the government jobs data exclude physicians who are not on hospital payrolls.
- 4) Figures for inflation and government jobs are in calendar year format.
- 5) The number of government jobs is not adjusted for full-time-equivalents (FTEs). An FTE count for all provincial government jobs in Ontario is not readily available.

Figure 2 presents compensation spending and these three benchmarks in the form of an index—which captures comparative changes—starting in 2005/06 and ending in 2013/14.¹² The 2005/06 value is made to equal

100, allowing us to more easily see and compare changes in the different variables over time. Over the period, compensation spending increased 47.1%; this is much greater than the increase in inflation (15.1%) and the growth in the number of government jobs (10.9%)—combined. Through most of the period, compensation spending and other program spending grew roughly in step with each other, except

¹² Figures for inflation and government jobs are for calendar years, while spending is calculated for fiscal years.

Figure 3: Average annual growth rates, 2005/06 – 2013/14



Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); Statistics Canada, 2014a; Statistics Canada, 2015; calculations by authors.

Notes:

- 1) Inflation is measured by Statistics Canada’s Consumer Price Index for Ontario.
- 2) Other program spending includes all program spending that is not compensation spending such as transfer payments and the cost of supplies and equipment.
- 3) The number of Ontario government jobs was drawn from CANSIM Table 383-0030 and includes provincial government services, government health services, and government educational services. University jobs were excluded to ensure consistency with compensation spending. Due to the available data, the government jobs data exclude physicians who are not on hospital payrolls.
- 4) Figures for inflation and government jobs are in calendar year format.
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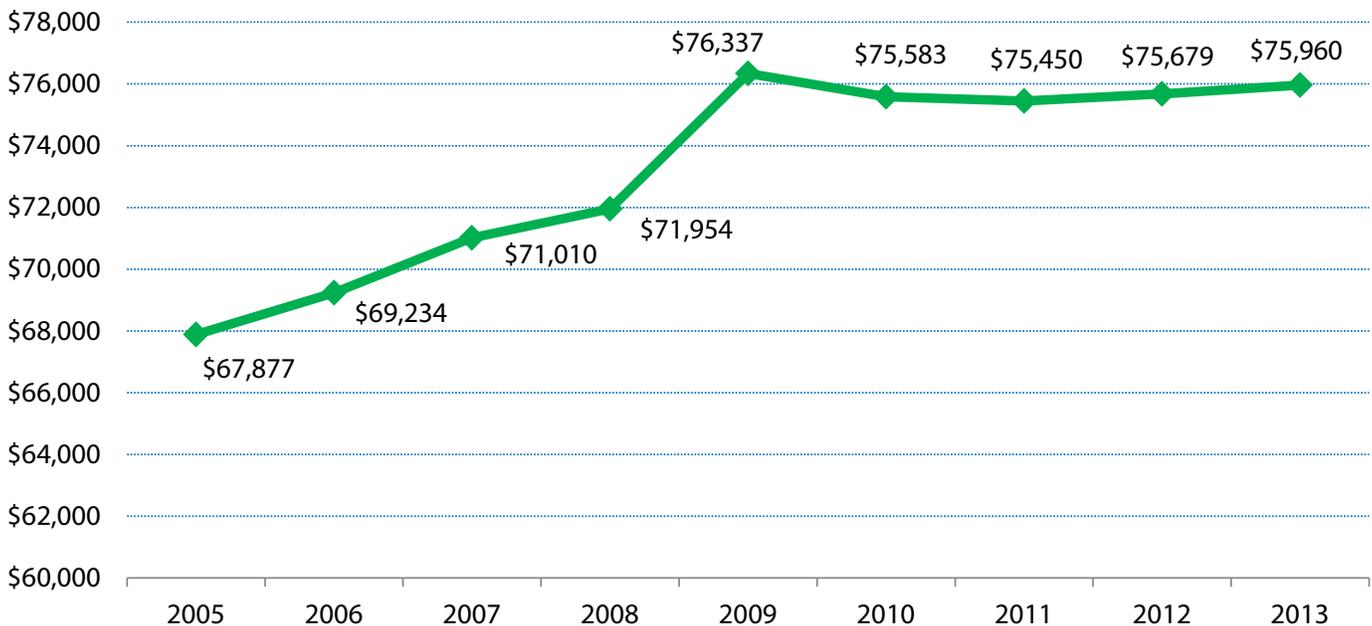
for a notable dip in other program spending in 2008/09. (This dip is what partly drove compensation spending’s greater share of total program spending that year.) The growth path of compensation spending and other program spending diverged dramatically again in 2011/12, with other program spending ending the period at a lower total growth rate (38.8%).¹³

¹³ Appendix table 1 provides nominal growth rates for the three specific areas of compensation spend-

Figure 3 compares compensation spending with the average *annual* growth rate of the same three benchmarks. From 2005/06 to

ing over the period including the Ontario Public Service, the broader public sector (hospitals, school boards, and colleges), and physician payments. While compensation spending on physicians grew faster than other areas of compensation spending, even if we exclude physician compensation, which accounts for about one fifth of the total, total compensation still grew by 43.7%.

Figure 4: Compensation per provincial government job, 2005 – 2013
(in 2013 dollars)



Sources: Statistics Canada, 2014a; Statistics Canada, 2015; calculations by authors.

Notes:

- 1) Statistics Canada's Consumer Price Index for Ontario was used to adjust the numbers for inflation.
- 2) To ensure consistency and comparability in the measure of compensation per provincial government job, compensation data in figure 4 come from the same Statistics Canada CANSIM table as government jobs (not the Public Accounts). Public Accounts data are used throughout the rest of the paper because they provide a more complete measure of the Ontario government's spending on compensation.

2013/14, compensation spending grew at an average annual rate of 5.0%, again faster than the annual growth in other program spending (4.4%), annual inflation (1.8%), and the annual growth in government jobs (1.3%).

As noted, we would ideally separate the growth in government jobs by type (front line or not) to determine the main type of provincial government job growth over the period. But this data is not readily available for Ontario's entire provincial government workforce. Nonetheless, the faster growth in compensation spending compared to government jobs suggests that increases in compensation spending are not due solely to an expansion of the workforce;

they are also due to increases in the wages and benefits of existing government workers, which research shows are higher than comparable private sector workers (Lammam et al., 2015).

Figure 4 displays the compensation per provincial government job from 2005/06 to 2013/14 (all figures are adjusted for inflation).¹⁴ Given the absence of readily available jobs data based

¹⁴ To ensure consistency and comparability in the measure of compensation per provincial government job, the compensation data in figure 4 come from the same Statistics Canada CANSIM table as government jobs (not the Public Accounts). Public Accounts data are used throughout the rest of the paper because they provide a more complete

on full-time equivalents (FTEs), the data presented in figure 4 should be interpreted only as roughly indicative of the trend in the wages and benefits of Ontario government workers, not a precise measure of average compensation per worker.¹⁵ Over the whole period, inflation adjusted compensation per provincial government job increased from \$67,877 to \$75,960 (all in 2013 dollars)—a total increase of 11.9%.

Notably, all of the growth in inflation-adjusted compensation per government job took place in the first five years (2005/06 to 2009/10). Since 2009/10, compensation per job has remained roughly constant in real terms. This result seems to accord with the provincial government's stated goal of restraining the growth in compensation costs as part of its overall strategy to eliminate the deficit. In the 2010 budget, the government acknowledged that, since compensation spending consumes more than half of program spending, restraining compensation costs was important for enabling the government to return to a balanced budget (Ontario, Ministry of Finance, 2010b: 45, 51). Most subsequent budgets, including the government's most recent (Ontario, Ministry of Finance, 2014b), have repeated the theme of curtailing the growth in compensation spending. Even the government's own Commission on the Reform of Ontario's Public Services, more commonly known as the Drummond Report,¹⁶ included the recommendation.

measure of the Ontario government's spending on compensation.

¹⁵ Due to data limitations, the data on compensation per government job excludes physicians who are not on hospital payrolls.

¹⁶ The official name of the Drummond Report is *Public Services for Ontarians: A Path to Sustainability and Excellence*.

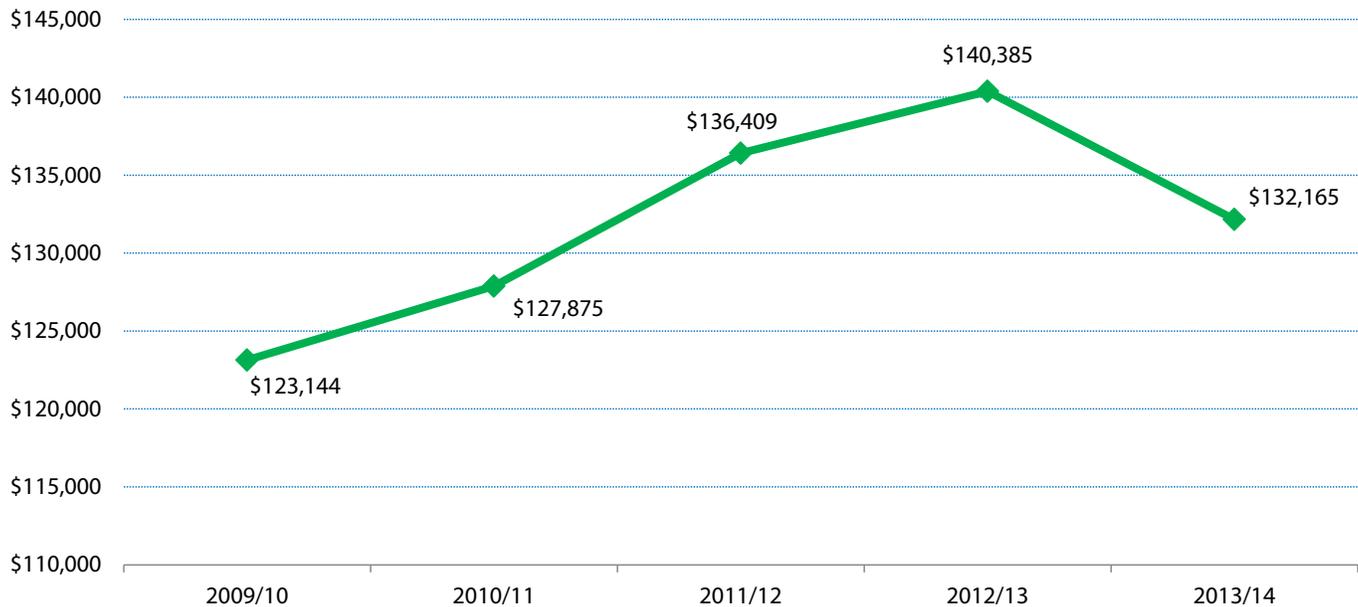
One way the government claims to have restrained compensation spending is by pointing to a reduction in the number of full-time equivalent workers in the Ontario Public Service (OPS). The OPS, which makes up only a portion of the total number of provincial government jobs and about 15% of total compensation spending (see appendix figure 1), includes government employees that work directly for core government entities such as government ministries and a mix of frontline and non-frontline workers.¹⁷ An examination of this subset of the government's workforce shows that from 2009/10 to 2013/14, the number of OPS full-time equivalent workers decreased by 5.4%—from 68,170 to 64,518 (Special request from the Treasury Board Secretariat received March 2, 2015; calculations by authors). However, over this same period, total compensation spending on OPS employees increased in nominal terms by 9.9% (see appendix table 1), suggesting a considerable increase in the average compensation per full-time equivalent OPS worker.

Figure 5 shows OPS compensation spending per full-time equivalent worker from 2009/10 to 2013/14 (in 2013 dollars). At the start of the period, OPS compensation spending per FTE was \$123,144, growing by 7.3 % (after accounting for inflation) to \$132,165 in 2013/14.¹⁸ This growth indicates that more compensation spending is going to a fewer number of workers, some of which are likely front line workers.

¹⁷ Examples of OPS workers that could be categorized as front line include social workers, customer service representatives, information officers, and correctional officers. For a general list of OPS job categories see <http://www.gojobs.gov.on.ca/CareerStreams.asp>.

¹⁸ As figure 5 shows, OPS compensation per FTE increased steadily from 2009/10 to 2012/13, but then declined in 2013/14, the latest fiscal year.

Figure 5: Ontario Public Service compensation spending per full-time equivalent employee, 2009/10 – 2013/14 (in 2013 dollars)



Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); Special request to the Ontario Treasury Board Secretariat, received February 2, 2015.

Note: Statistics Canada's Consumer Price Index for Ontario was used to adjust the numbers for inflation.

With more compensation going to fewer workers, it's hard to see how Ontarians are benefiting directly from this particular type of compensation spending, though further research and data are needed to determine this more concretely.

Greater compensation spending restraint would have led to a smaller deficit and less debt

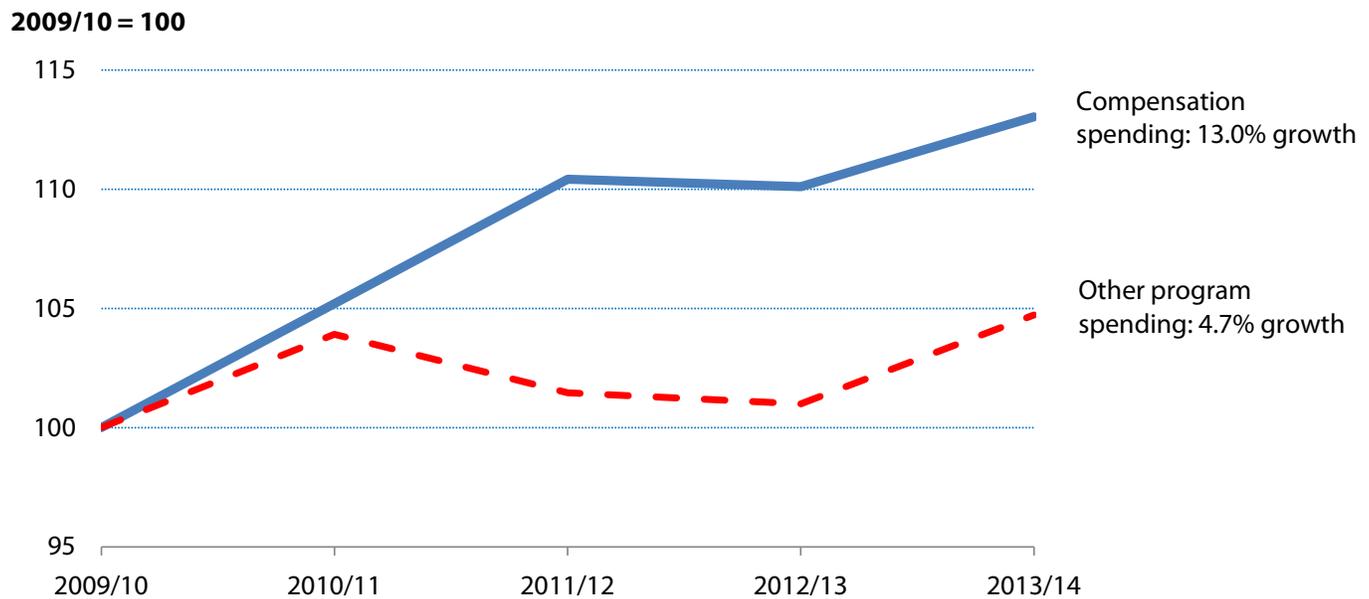
While the Ontario government has restrained the growth of compensation spending in recent years,¹⁹ the reality is that, over the most recent five year period (2009/10 to 2013/14), compen-

sation spending has not been restrained to the same degree as other program spending. This is why the ratio of compensation spending to total program spending has grown. Figure 6 compares compensation spending and other program spending over that period. The data are in the form of an index with the 2009/10 value made equal to 100. Compensation spending grew by 13.0% while other program spending grew by 4.7%. This means a greater share of total program spending went to compensation and less to such things as transfer payments to individuals and organizations. As transfer payments more clearly and directly benefit recipi-

¹⁹ Specifically, over the five-year period from 2005/06 to 2009/10, total nominal compensation

spending grew 30.1% compared to 13.0% in the latest five-year period (2009/10 to 2013/14).

Figure 6: Index of Ontario government compensation spending and other program spending, 2009/10 – 2013/14



Sources: Ontario, Ministry of Finance (2010a, 2011, 2012, 2013, 2014a); calculations by authors.

Note: Other program spending includes all program spending that is not compensation spending such as transfer payments and the cost of supplies and equipment.

ents, this casts doubt on the notion that Ontarians are generally benefiting from the increases in program spending.

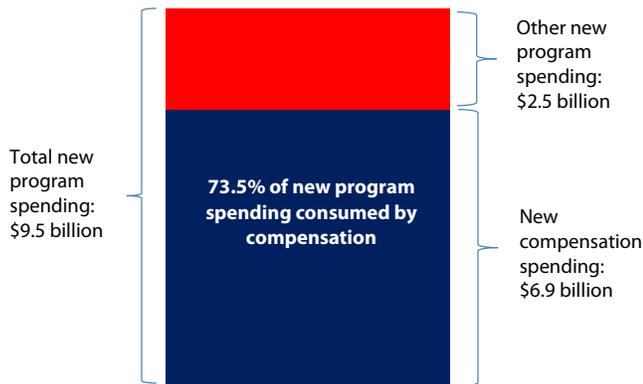
With compensation spending growing faster than other program spending, it has been the main driver of program spending increases from 2009/10 to 2013/14. Figure 7 shows that from 2009/10 to 2013/14, program spending increased by \$9.5 billion. Of that, \$6.9 billion (or 73.5%, nearly three quarters of the growth in program spending) went to new compensation spending.

Figure 8 measures the extent to which the comparably faster growth in compensation spending relative to other program spending has contributed to the provincial government's

growing deficits and debt. It compares actual compensation spending to how much compensation spending would have been had the 2009/10 level grown at the same annual rate as the growth in other program spending. That is, it assumes that the government had fixed the ratio of compensation spending to program spending at the 2009/10 level of 50.1%. In this case, compensation spending is restrained to the same degree as other program spending.

From 2009/10 to 2013/14, the Ontario government spent a cumulative \$286.9 billion on compensation. If compensation spending had grown at the same rate as other program spending, then the government would have instead spent \$272.2 billion on compensation

Figure 7: Share of new program spending (2009/10 – 2013/14) consumed by compensation spending



Source: Ontario, Ministry of Finance, 2010a; Ontario, Ministry of Finance, 2014a; calculations by authors.

Note: Other program spending includes all program spending that is not compensation spending such as transfer payments and the cost of supplies and equipment.

over the same period.²⁰ That represents \$14.7 billion fewer dollars that would have been borrowed (and so less government debt) to pay for current spending in the form of government employee compensation.

For 2013/14 alone, compensation spending would have been \$55.8 billion had the 2009/10 level grown at the same rate as other program spending. That is \$4.4 billion, or 7.4%, less than

²⁰ Alternatively, and over a longer period, had compensation spending in 2005/06 grown at the combined annual rate of inflation and the growth in provincial government jobs, the cumulative compensation spending on government workers would have totalled \$421.0 billion from 2005/06 to 2013/14 instead of the actual cumulative total of \$469.1 billion. This would have meant cumulative savings of \$48.1 billion or \$8.1 billion in 2013/14 alone.

the \$60.2 billion of actual compensation spending in 2013/14. This means that the deficit in 2013/14 would have been \$6.0 billion instead of the actual \$10.5 billion (or 42.4% less), assuming that revenues remained the same (Ontario, Ministry of Finance, 2014a; calculations by authors).

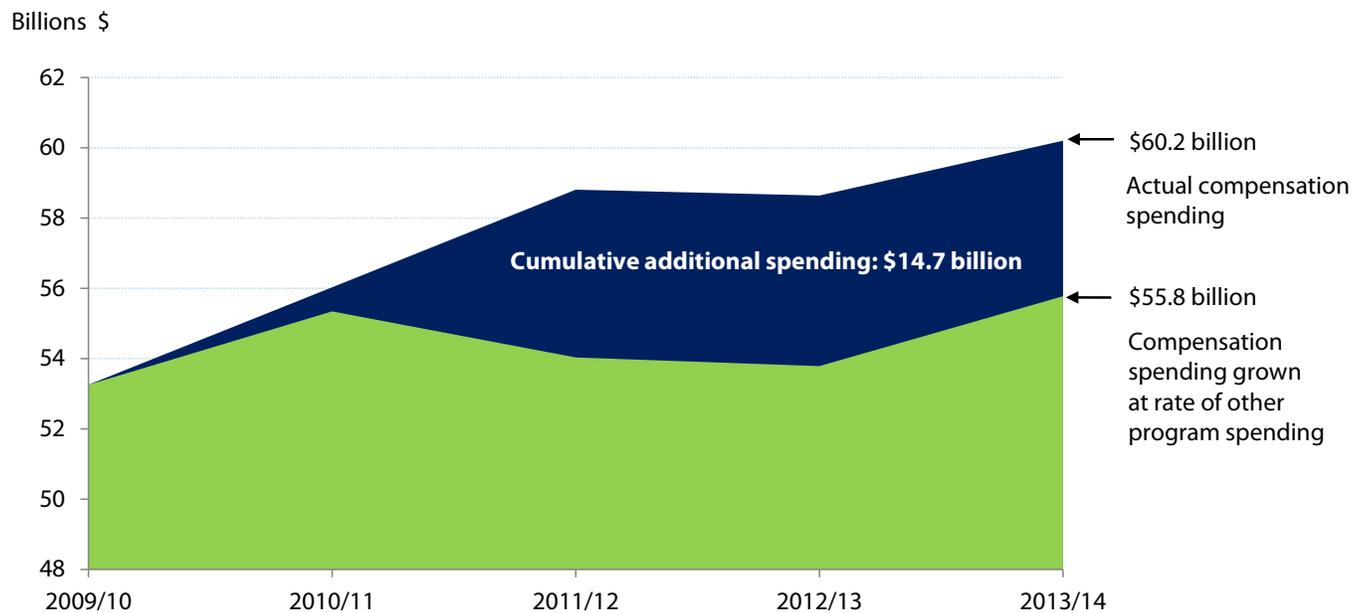
Interestingly, \$6.0 billion is very close to the government's 2009 budget projection of a \$5.8 billion deficit in 2013/14 (Ontario, Ministry of Finance, 2009b). In the 2009 budget, the government intended to return to a balanced budget in 2015/16 but this goal was abandoned in the 2010 budget and replaced with the current balanced budget target of 2017/18. If the government had restrained compensation spending to the same extent as other program spending, the budget would have been 42.4% closer to being balanced in 2013/14.

Conclusion

The compensation of government employees in Ontario currently consumes more than half of all program spending. Specifically, the share in 2013/14 was 52.0% which is 1.5 percentage points higher than the share in 2005/06 (50.5%). From 2005/06 to 2013/14, compensation spending grew by 47.1%, compared to 15.1% for inflation and 10.9% for growth in provincial government jobs. As a result, compensation spending per Ontario government job increased over the period by 11.9% (after adjusting for inflation).

Ontario's finances have become increasingly precarious due to the government consistently spending more than the revenue it collects. The growth in compensation spending has played a role in adding to the strain in the government finances. This is important because increases in

Figure 8: Compensation spending had the 2009/10 level grown at the same rate as other program spending, 2009/10 – 2013/14



Sources: Ontario, Ministry of Finance (2010a, 2011, 2012, 2013, 2014a); calculations by authors.

Note: Other program spending includes all program spending that is not compensation spending such as transfer payments and the cost of supplies and equipment.

compensation spending may not translate into more or better quality services for Ontarians.

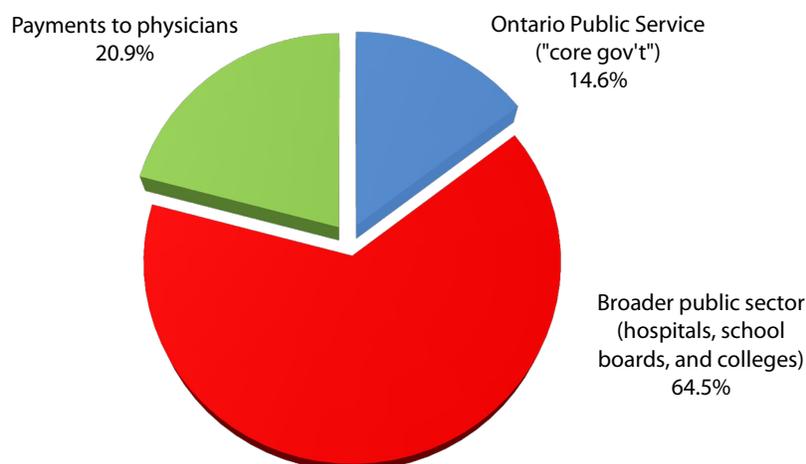
While the government has restrained the growth in compensation spending since the unprecedented increase in program spending in 2009/10,²¹ compensation spending has not been restrained to the same extent as other program spending. In fact, from 2009/10 to 2013/14, the growth in total program spending has largely been driven by increased compensation spend-

ing, with nearly three-quarters of new program spending going to the compensation of provincial government workers.

Had the government kept the ratio of compensation spending to total program spending in 2009/10 constant at 50.1%, it would have spent a cumulative \$14.7 billion less on compensation spending from 2009/10 to 2013/14 and acquired less debt. In 2013/14 alone, the deficit would have been \$4.4 billion or 42.4% smaller than the actual deficit (\$10.5 billion). The growth in compensation spending has added strain to the Ontario government's financial position and it's not clear that Ontarians have seen a benefit in terms of more or better quality services.

²¹ In 2009/10, program spending increased by 12.2%, compared to an average growth of 5.4% in the previous three years (from 2006/07 to 2008/09) (Ontario, Ministry of Finance (2007-2010b); calculations by authors).

Appendix figure 1: Average distribution of compensation spending by area, 2005/06 – 2013/14



Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); calculations by authors.

Note: Compensation spending for the Ontario Public Service is drawn from schedule 3 of the Public Accounts (Tim Cook, Manager, Fiscal Framework Unit, Ontario Ministry of Finance, personal communication, March 10, 2015). That schedule includes pension costs of teachers, who are not part of the Ontario Public Service. The pension costs of teachers (\$873 million in 2013/14) is part of the broader public sector category which includes school board compensation costs.

Appendix table 1: Compensation spending (billions \$) by area, 2005/06 – 2013/14

	2005/ 06	2006/ 07	2007 /08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	Growth 2005/06- 2013/14 (%)
Ontario Public Ser- vice ("core gov't")	6.0	6.2	6.6	7.4	7.8	8.4	8.8	9.0	8.5	42.2
Broader public sec- tor (hospitals, school boards, and colleges)	26.9	28.7	31.1	32.5	34.2	35.8	37.5	36.9	38.7	44.0
Payments to physicians	8.0	8.8	9.5	10.5	11.3	11.9	12.5	12.8	12.9	60.8
Total compensation	40.9	43.6	47.2	50.4	53.3	56.0	58.8	58.6	60.2	47.1

Sources: Ontario, Ministry of Finance (2006, 2007, 2008, 2009a, 2010a, 2011, 2012, 2013, 2014a); calculations by authors.

Note: Compensation spending for the Ontario Public Service is drawn from schedule 3 of the Public Accounts (Tim Cook, Manager, Fiscal Framework Unit, Ontario Ministry of Finance, personal communication, March 10, 2015). That schedule includes pension costs of teachers, who are not part of the Ontario Public Service. The pension costs of teachers (\$873 million in 2013/14) is part of the broader public sector category which includes school board compensation costs.

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