

Doug Ford has vowed to fight deficits – but is doing the exact opposite

By David Parkinson

December 10, 2018 – *The Globe and Mail*

In its five months in office, the Ontario government of Doug Ford has talked a good game about balancing budgets, while setting a course for deepening deficits. If Mr. Ford is going to keep his promise of eliminating the red ink, Ontarians will pay a steep price.

Don't take my word for it: That's the assessment of the government's own official fiscal watchdog. In a report Monday, the Financial Accountability Office of Ontario (FAO) projected that as a result of the tax cuts and spending plans announced by Mr. Ford's Progressive Conservatives since they took power at the end of June, the province is headed for a \$12.3-billion deficit in the current fiscal year ending March 31, 2019. That's more than triple last year's \$3.7-billion shortfall.

The good news is that the estimate is actually slightly better than the \$13.5-billion (excluding a contingency reserve) that the government itself projected last month, in its annual fall economic statement. After that, it all pretty much goes downhill.

You may recall, in that fall update, the government left out any projections on the budget balance beyond the current year – a conspicuous break from usual practice. The FAO helpfully made its own calculations, based on the government's current policies. The result: It projected that the deficit would increase to \$15.1-billion in 2019-20, and reach \$16.4-billion in 2022-23 – the year of the next election.

And that's based on achieving pretty much a steady-as-she-goes Ontario economy. The FAO has assumed nominal GDP growth of 3.9 per cent in each of the next four years, little changed from this year's pace. That's actually

rosier than the government itself forecast in the fall update. Given that the current economic expansion may already be getting a little long in the tooth, the risks to the FAO projections are definitely tilted to the downside.

“In the absence of policy changes from the government, the budget deficit would continue to deteriorate over the outlook,” the report said.

The cause of this deterioration is pretty straightforward. The government has forgone nearly \$4-billion a year of revenues through various tax cuts it has instituted since taking office (the biggest being the cancellation of the cap-and-trade program for carbon taxation), without sufficient offsetting spending reductions. Decidedly not the recipe for eliminating deficits; quite the opposite, in fact.

Yet the government, despite the evidence to the contrary, keeps insisting it is a deeply committed deficit-fighting machine.

“Above all, our government believes that balancing the budget and reducing Ontario's debt burden is not only a fiscal imperative, it is a moral imperative,” it said in the fall economic statement.

The government hasn't said when it will do this, or how, exactly – other than a pledge that it won't raise taxes. So, again, the FAO went with what it had, to assess how deep Mr. Ford would have to cut to eliminate the deficit by the most logical time frame for someone who campaigned on a promise of fiscal responsibility: the next election year.

The FAO calculated that to wipe out those deficits through spending cuts alone, the province would have to limit program spending growth to 1.2 per cent a year over the next four years. That would be the slowest

four-year spending growth since Mike Harris's cost-slashing first term as premier in the mid-1990s.

Indeed, that rate of spending not only trails inflation, it's also less than the province's average annual population growth. Which means that it would result in an actual cut in per capita spending of 8 per cent in inflation-adjusted terms, the FAO said. That works out to \$850 for every person in the province.

Anyone who is old enough to remember the Mike Harris era will tell you that this magnitude of spending constraint is painful. It is not achieved by nibbling around the budgetary edges, but requires that the budget core absorb hits. Anyone who thinks this government can reduce real per capita program spending by 8 per cent without touching

education and health care – which make up more than half of the province's spending – are fooling themselves.

Meanwhile, as the report points out, deep spending cuts “would place a drag on economic and employment growth.” That, in turn, would hurt government tax revenues – making the quest for balance even harder.

“Balancing the budget will require significant policy changes that could have wide-ranging impacts on Ontario households and businesses as well as the overall economy,” the FAO concluded.

The Ford government has, in five short months, made quite a mess for itself, and for its citizens. It might have to break some promises to clean it up.