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No Sign of Significant Debt Reduction or Tax Relief in Ford's Spring 2023 Budget – It's All Spend, Spend, Spend!

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Summary

- As several analyses from the Fraser Institute have shown, since its election in 2018 Doug Ford's government has maintained higher spending levels than the previous government of Kathleen Wynne. Further, these studies have shown that the rate of spending growth has been faster under Premier Ford than it was under Premier Wynne.
- Budget 2023 confirms that the government plans to continue spending at elevated levels compared with the Wynne era over the course of the rest of its fiscal plan. In the current fiscal year (2023/24), the government forecasts program spending per person will be $12,405. If it had held inflation-adjusted per-person spending to the average over the course of the Wynne era, this figure would be $11,784 as it was under Wynne.
- If the Ford government had held spending to Wynne-era levels, it would have created sufficient fiscal room to deliver on previous key commitments to debt reduction and tax relief.
- If the government had not increased spending from Wynne-era levels, it would be projecting an operating surplus of $8.2 billion this year instead of a deficit of $1.3 billion.
- One option for the Ford government that would have left Ontario with the same operating deficit that it has today would have been to implement substantial tax relief. For example, the government could have reduced the HST rate by more than two percentage points or reduced income taxes by $888 per tax filer.
- Ford's government has prioritized higher spending instead of using the savings from the spending restraint it promised, and it has not delivered on its earlier commitments of debt reduction and tax relief.

Introduction

Past analyses published by the Fraser Institute have shown that despite sharply criticizing the previous Liberal government of Kathleen Wynne while in opposition, in power Doug Ford's Progressive Conservative government has consistently maintained higher spending levels than did the Wynne government (see, for example, Eisen, Lafleur, and Emes, 2022). Further, the rate of spending growth under Ford has been faster.

This paper presents an analysis of the Ford government's recently tabled 2023/24 budget to assess the impact of these spending choices on the government's fiscal outcomes and options. More specifically, I consider the foregone policy options and outcomes that would have been possible if the Ford government had maintained spending at the level that prevailed under its predecessor.

Comparing Spending Under the Ford Government with That of Its Predecessor

Following several of the Ford government's budgets, the Fraser Institute has published analyses showing the extent to which the government has maintained its predecessor's approach to government spending (see Eisen, Lafleur and Emes, 2022). In opposition, on the campaign trail, and even in their early days in office, PC leaders frequently argued that the Wynne government's approach to spending was undisciplined (Fedeli, 2019). However, in office, Ford's government has in fact increased spending, with continued growth over time. Figure 1 shows annual per-person program spending from 2013 to 2023, in 2023 dollars.

In February 2023, the Fraser Institute published a comprehensive analysis of the Ford government's approach to spending in comparison with the Wynne government's approach and those of all other Ontario premiers since 1965 (Eisen, Emes and Hill, 2023). That study showed that the Ford government has spent more on an inflation-adjusted per-person basis in each year it has been in government than the Wynne government did in any year of its tenure. It showed that the Ford government has generally maintained real per person spending at the highest level in provincial history apart from 2010, which was under Dalton McGuinty in the immediate wake of the 2008/09 financial crisis. The study also demonstrated that the rate of increase in spending has been faster under Ford than it was under his predecessor. Program spending under Ford increased at an average annual rate of 2.4 percent from 2018 to 2021, compared with the rate of .4 percent annually under Premier Wynne from 2013 to 2017.

Budget 2023 confirms that the Ford government plans to maintain spending above Wynne-era levels. It forecasts per-person program spending for the current fiscal year to be $12,405. By comparison, over the course of the Wynne government's term in office, per-person spending in inflation-adjusted 2023 dollars averaged $11,784.

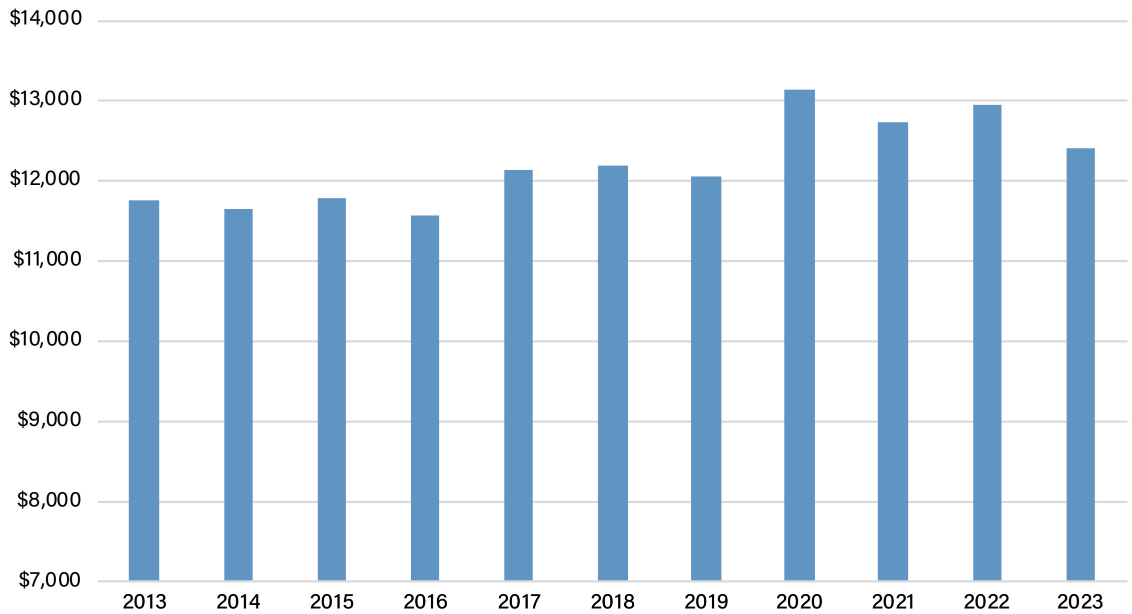
Figure 1 shows annual per-person spending in inflation-adjusted 2023 dollars for every year of Premier Wynne and Premier Ford's time in office, including the Ford government's forecast for 2023.

Policy Options Foregone Due to Elevated Spending

In this section I will consider foregone fiscal outcomes and policy options that could have been achieved or considered with different spending choices. This is not a comprehensive list, nor is it meant to be prescriptive. The purpose is to provide a sense of the scale of additional spending the Ford government has undertaken and the fiscal outcomes or policy options that the government could have chosen if it had maintained spending at Wynne-era levels.

We focus on two options—first, eliminating the deficit while reducing Ontario's debt burden and, second, reducing taxes. We focus on these options because Premier Ford has said, at various times while campaigning and in office, that balancing the budget and lowering tax rates are key objectives of his government (Ontario Progressive Conservative Party, 2018).

Figure 1: Ontario Program Spending Per Capita, 2013/14 to 2023/24, ($2023).



Source: Ontario, Ministry of Finance, 2023

The first step in this process is to calculate the aggregate difference in annual program spending between the actual level planned for 2023 and the counterfactual where provincial program spending is held to the average spending of the Wynne era.

For 2023/24, the Ford government forecasts real per-person program spending will be $12,405. When this is compared with the Wynne-era average of $11,784, in 2023 inflation-adjusted dollars, there is a gap of $621 per person. When we multiply this amount by Ontario's estimated population in 2023 of nearly 15.4 million people, we find that provincial program spending this year would be $9.5 billion lower if it were held to the Wynne-era average compared with what the Ford government plans to spend.

Option 1: Eliminate the Deficit and Reduce Ontario's Debt Burden

The first option would be to eliminate the province's operating deficit and maintain an operating surplus. This course of action would be in line with Premier Ford's repeated commitments on the campaign trail when he first ran for office that he would balance the budget and address the public debt. Indeed, the government committed to balancing the budget in the Fiscal Sustainability, Transparency, and Accountability Act (2019), which states that governments must run deficits only in "extraordinary circumstances" (Ontario, 2019).

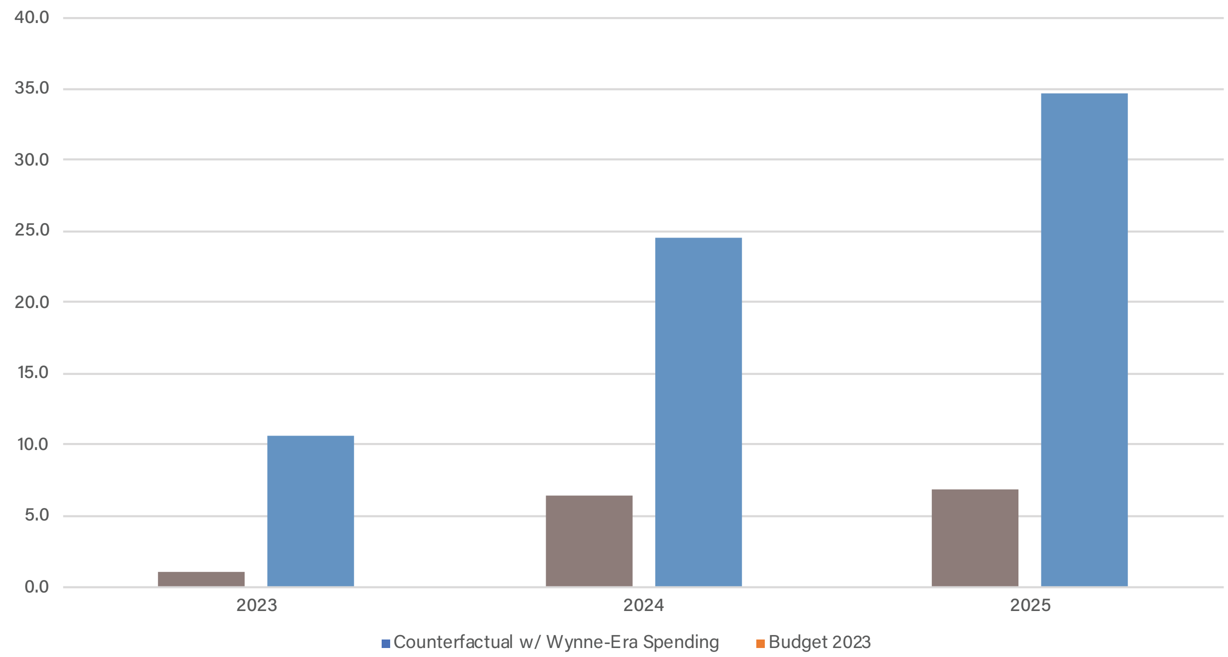
This year Ontario's deficit is forecast to be $1.3 billion. Assuming these revenue projections are accurate, if spending were held at Wynne-era levels the province would instead run an operating surplus of $8.2 billion.[1]

Under this scenario, Ontario's operating surplus would largely offset the debt that is currently being accumulated to finance capital spending. As such, instead of increasing by $10.6 billion as forecast, Ontario's net debt would increase by only $1.1 billion.

Holding program spending at Wynne-era levels would have a similar effect on the pace of debt accumulation over the remainder of the government's fiscal plan

1 The calculations for the government's forecasts include reserves that, if not used, would result in an improved fiscal balance. This year the reserve is $1 billion.

Figure 2: Cumulative New Net Debt, Budget 2023 and Counterfactual with Program Spending Held at Wynne-Era Average, 2003/4-2004/5 ($billion)



compared with current expenditure plans, again assuming revenue projections are accurate. Net debt accumulation would be reduced from previous estimates by $8.7 billion and $9.6 billion, respectively, in the years 2023 to 2025. In aggregate, this means that over the final three years of the government's fiscal plan Ontario's nominal net debt would increase by $6.8 billion instead of the forecast $34.7 billion.[2] This would represent an aggregate of $27.8 billion less debt accumulation over the years 2023 to 2025 than under the current fiscal plan. Figure 2 shows debt accumulation over these three years under the two scenarios.

In summary, if in its fiscal plan the Ford government had maintained Wynne-era spending levels in the next three years of the plan, it would run operating surpluses and have much slower nominal debt accumulation than is currently planned. This would mean a significantly faster reduction in the province's debt-to-GDP ratio and an improvement in the province's long-term fiscal sustainability.

Option 2: Reduce the Tax Burden on Ontarians

A second option that would have been available to the Ford government if it had maintained Wynne-era spending and kept the forecast 2023/24 deficit at its current size of $1.3 billion would have been to provide substantial tax relief for Ontarians. Again, this option would have been closely aligned with the principles and objectives that Premier Ford has repeatedly stated would guide his government. For example, he articulated his preference for a low-tax approach to government bluntly when he stated, "the worst place you can give money to is the government" (Agar, 2022).

More specifically, if the Ford government had held spending to Wynne-era levels and used the savings for tax relief, this substantial tax reduction could have been spread across multiple forms of taxes or focused on specific taxes.

2 The budget does not produce a forecast of the change in net debt, but this is easily calculated by combining forecasts for the provincial debt to GDP ratio and the GDP estimates.

For example, assuming no macroeconomic effects, a one-point reduction in the province's HST rate would reduce revenue by approximately $4.4 billion. Therefore, with the savings from holding spending to Wynne-era levels, the government would have been able to reduce the provincial HST by more than two percentage points in 2023.

Alternatively, the government could have reduced income tax rates. Consider that in 2021 Ontario had 10.8 million tax filers (Statistics Canada, 2023). Although this number will be slightly higher in 2023 due to population growth, it is adequate for the purpose of determining the average reduction per filer that could have been produced if the savings from the spending restraint described above was dedicated to income tax relief. If we divide the extra spending by the number of filers, we see that the government could have reduced income taxes by $888 per tax filer.

Neither of these options are presented here as policy prescriptions, they are presented to illustrate the type and scale of tax relief that would have been possible in Ontario, without increasing the deficit from its current level in 2023/24, if the government had exercised greater spending restraint in recent years.

A third option would be to combine the two approaches described above. If the Ford government had dedicated $1.3 billion to deficit reduction in 2023, it could have kept its campaign promise to maintain a balanced budget in Ontario, while still leaving $8.2 billion available for tax relief. This would have been sufficient to either reduce provincial sales tax by just under two percentage points or, alternatively, to reduce income taxes by $766 per tax filer.

Conclusion

In opposition, the Progressive Conservative Party frequently criticized the Wynne government for its high spending, high taxes, and debt accumulation, and promised to deliver the opposite if given the opportunity to form government. On taking power in 2018, however, the Ford government has maintained the Wynne government's approach to fiscal policy and in fact increased real per-person spending levels from what it inherited to well above the Wynne-era average.

In this paper, we have shown the extent to which the Ford government has foregone the policy objectives that it repeatedly promised to pursue when in opposition and during its first campaign—to lower taxes and reduce debt accumulation—by choosing instead to increase spending.

If the Ford government had maintained real per-person spending at Wynne era levels, it could be running surpluses today instead of deficits. This would mean essentially arresting the accumulation of nominal debt and quickly reducing the province's elevated debt-to-GDP ratio. Without increasing the projected deficit from its current size, the government could have delivered large tax reductions in 2023/24 if it had held spending to the average level maintained by its predecessor.

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