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LOWER TAXES INSTEAD OF BUSINESS SUBSIDIES IN ONTARIO? LET'S DRINK TO THAT

by Ben Eisen

This morning, the Ontario government announced a $4.9 million program to subsidize the growth of small cideries and distilleries in the province.

Finance Minister Charles Sousa noted that the subsidies would support a thriving small industry, stating "Ontario cider and spirits is growing at an exciting pace" and that the program is therefore "good for business, good for customers and good for Ontario."

Now I've got nothing against cideries—indeed, I like their product as much as the next person. And it would be silly to think that such a small program is going to, by itself, make much of an impact on the health of Ontario's finances considering the province spends about $130 billion annually on programs.

Nevertheless, the recently announced cider subsidy is emblematic of a few problems that have plagued provincial policymaking in Ontario for some time.

While individually these subsidies may be small, the sums add up. A number of different industries have either received new subsidies in recent years or seen existing ones extended or enlarged. For example, several renewable energy companies have been heavily subsidized under the Green Energy Act of 2009.

Or consider a recent government report showing that the province's network of "business support programs" cost the government about $5 billion per year. For context, that's about twice the size of the province's projected budget deficit this year.

The bigger problem, however, is that these subsidies reflect a mistaken understanding about how governments can help economies grow. In the end, corporate subsidies mean that government chooses to financially support favoured firms and industries within the economy. This naturally puts excluded firms at a competitive disadvantage (and adding insult to injury, those

excluded firms remain on the hook for taxes that subsidize their competitors).

On the whole, the political selection of winners and losers generally makes the economy less efficient than if those winners and losers were selected by the market.

Now, there may be some specific instances where a specific business subsidy can be justified, but these subsidies can't be the foundation of an economic growth strategy. Rather than using taxpayer dollars to choose winners and losers, the best thing governments can usually do to promote growth is resist the urge to dole out special favours and use the savings to reduce taxes broadly, making it easier for Ontario firms in all sectors to compete within a competitive global economy.

Instead, a number of policy decisions in recent years have actually made it harder for Ontario businesses to compete, broadly speaking. These decisions include a range of tax increases, energy policy mistakes that have sent electricity prices skywards, and costly labour market regulations (minimum wage hikes, for example) implemented even during times when the economy was weak.

If Queen's Park is truly focused on creating jobs and getting Ontario's economy growing sustainably, it should focus its time and energy on policy fundamentals, not on bestowing business subsidies on favoured firms and industries. Let's drink to that.

Read the full study here ››

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