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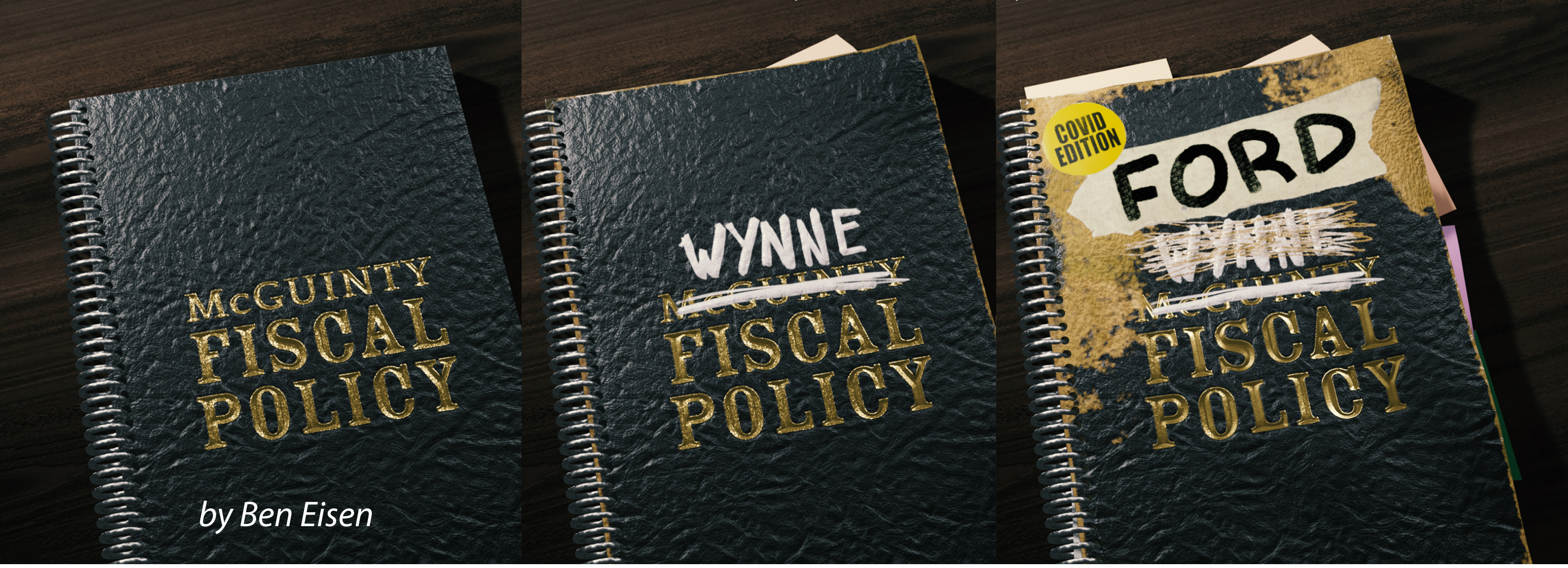
Ford Government Fiscal Policy Approach Mirrors that of McGuinty and Wynne



by Ben Eisen

Summary

- This bulletin analyzes the recent 2021 budget that Doug Ford's Progressive Conservative government tabled in order to assess the extent to which it continues or changes the general fiscal policy approach of the Liberal governments of Premiers McGuinty and Wynne during the 2010s.

- The Ford government plan presented in Budget 2021/22 represents fiscal policy continuity rather than change, particularly with regard to program spending growth, deficit reduction, and debt accumulation.

- Excluding emergency COVID spending, the 2021 budget forecasts that nominal program spending will grow by a cumulative total of 8.5 percent over three years. By comparison, in the three years immediately following the 2008/09 recession, Premier McGuinty's government increased spending by a total of 6.6 percent.

- The rate of nominal spending growth planned in the 2021 budget is therefore slightly higher than that which occurred under Premier McGuinty in the wake of the 2008/09 recession.

- The pace of deficit reduction forecasted in Budget 2021/22 is also similar to the rate of deficit reduction in the early 2010s. After adjusting for COVID spending and federal emergency aid, the Ford government's fiscal plan projects average nominal deficit reduction of $2.41 billion per year over five years. By comparison, from 2010/11 to 2015/16, the McGuinty and Wynne governments achieved a nearly identical annual average deficit reduction of $2.38 billion over the five years.

Introduction

When governments change in Canada, they often bring with them major changes in policy orientation. For example, during the 1990s, the election of the Progressive Conservative Party under Mike Harris marked the start of a major change in policy direction in Ontario from the predecessor NDP government of Bob Rae. At other times, changes in government do not lead to major changes; rather, policy continuity prevails.

This bulletin analyzes the recent 2021 budget that Doug Ford's Progressive Conservative Party tabled (its third budget) to assess the extent to which it reflects continuity or change from the general fiscal policy approach of the Liberal governments of Premiers McGuinty and Wynne during the 2010s. More specifically, we consider how the Ford government's planned approach to spending restraint and deficit reduction compares to that taken by its predecessors in their efforts to manage the substantial deficits that followed the 2008/09 recession. We show that the plan the Ford government presented in its 2021 budget represents fiscal policy continuity rather than change, particularly with regard to program spending growth, deficit reduction, and debt accumulation. Specifically, the bulletin focuses on the immediate post-recession period—2011 to 2016.

Comparing fiscal forecasts in Budget 2021/22 with the 2010s

On the campaign trail and during their time in opposition, Progressive Conservative candidates frequently criticized the McGuinty and Wynne governments for failing to restrain government spending sufficiently to eliminate the large deficit that emerged following the 2008/09 recession. These promises carried over into the Ford government's first year in office. It's 2018 Fall Economic Statement stated, "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" (Parkinson, 2018).

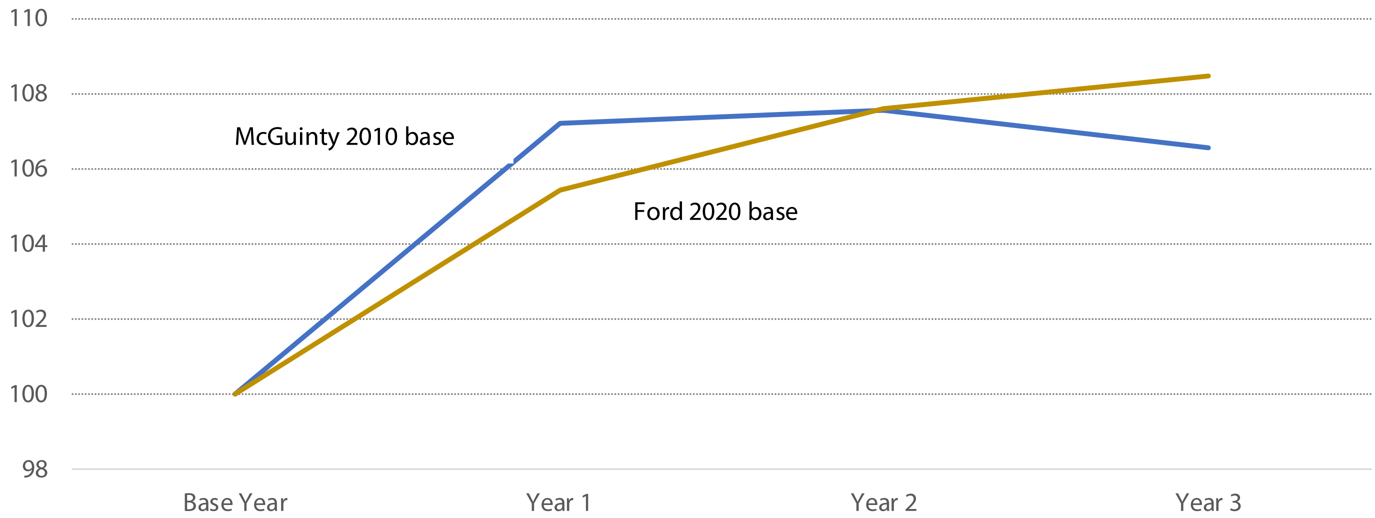
Despite a sharp rhetorical shift from its predecessors and its frequent criticisms of the Wynne and McGuinty governments for their lack of spending restraint and rate of debt accumulation, the Ford government's first budget in the spring of 2019 did not make the promised acute fiscal policy change (Eisen and Lafleur, 2019). As an example, one analysis immediately following the 2019 budget showed that the Ford government forecasted an aggregate nominal five-year deficit reduction nearly identical to that achieved under Premier McGuinty's Liberal government between 2011 and 2016.

The same analysis showed that aside from an uptick in spending in the last two years of Premier Wynne's time in office, the Ford government's fiscal plan was strikingly similar in its forecasts for program spending growth and deficit reduction.

Economic and fiscal circumstances have changed since 2019. Specifically, the COVID-19 pandemic and resulting recession has necessitated emergency public health and income support spending while also adversely affecting tax revenue. These external factors have caused Ontario's deficit to grow dramatically, from \$8.7 billion in 2019/20 to \$38.5 billion in 2020/21. The new budget forecasts a slightly smaller deficit of \$33.1 billion in 2021/22.

The large deficit that has emerged from a steep recession has created challenges and a fiscal environment similar to those that the government of Premier McGuinty faced in the wake of the 2008/09 recession. For instance, the forecasted deficit for 2021/22 is equal to 3.7

Figure 1: Nominal Program Spending Change, Ford vs. McGuinty



Note: Program Spending for Ford has been adjusted to reflect the one-time COVID spending.

Sources: Ministry of Finances (2021) and Department of Finance (2020).

percent of provincial GDP, while the steepest deficit the province faced during the previous recession was 3.2 percent of GDP in 2009/10 (RBC Economics, 2021).

Premier McGuinty's deficit reduction strategy throughout the early 2010s (and Premier Wynne's during the later years of the decade) was to restrain nominal spending growth significantly below the rate that prevailed in the first decade of the century in the hope that revenue gains would gradually erode the deficit over time. More specifically, inflation adjusted per-person spending was held essentially flat throughout most of the decade.

This gradual approach to deficit reduction, one based on restrained nominal spending growth, contrasts sharply with Ontario's last significant deficit reduction effort under Premier Mike Harris in the 1990s during which nominal program spending was reduced at an annual average rate of 1.3 percent from 1996 to 1998 (Department of Finance, 2020).

The recently tabled 2021/22 budget shows that the Ford government's approach to restraining spending will be similar to the McGuinty/Wynne approach of the 2010s rather than the Harris approach of the mid 1990s.

The budget helpfully separates one-time emergency COVID-related spending from the rest of the budget, allowing an analysis of forecasted spending growth that does not include emergency measures.[1] The budget forecasts that program spending will increase 5.4 percent this year, 2.1 percent the following year, and 0.8 percent in the final year of the fiscal plan, 2023/24. This amounts to a nominal average annual program spending increase of 2.8 per-

[1] For more detail, see the footnote to table 3.8 from Ontario's 2021/22 budget.

cent, nearly identical to the forecasted average annual inflation plus population growth over the same period, 3.2 percent. In short, the recent budget replicates the post-recession approach to spending growth of its immediate predecessors by holding nominal spending to the rate of inflation plus population growth.

Figure 1 illustrates the similarity between the Ford government's spending approach in the immediate wake of the COVID recession to the approach of its predecessors in early 2010s. We use spending from 2009/10 as the base year for this example, meaning that spending growth for the first year shown represents program spending growth in 2010/11. The results are generally not sensitive to the base year chosen throughout the 2010s. We index spending growth to 100 in the base year to allow a straightforward comparison across time periods.

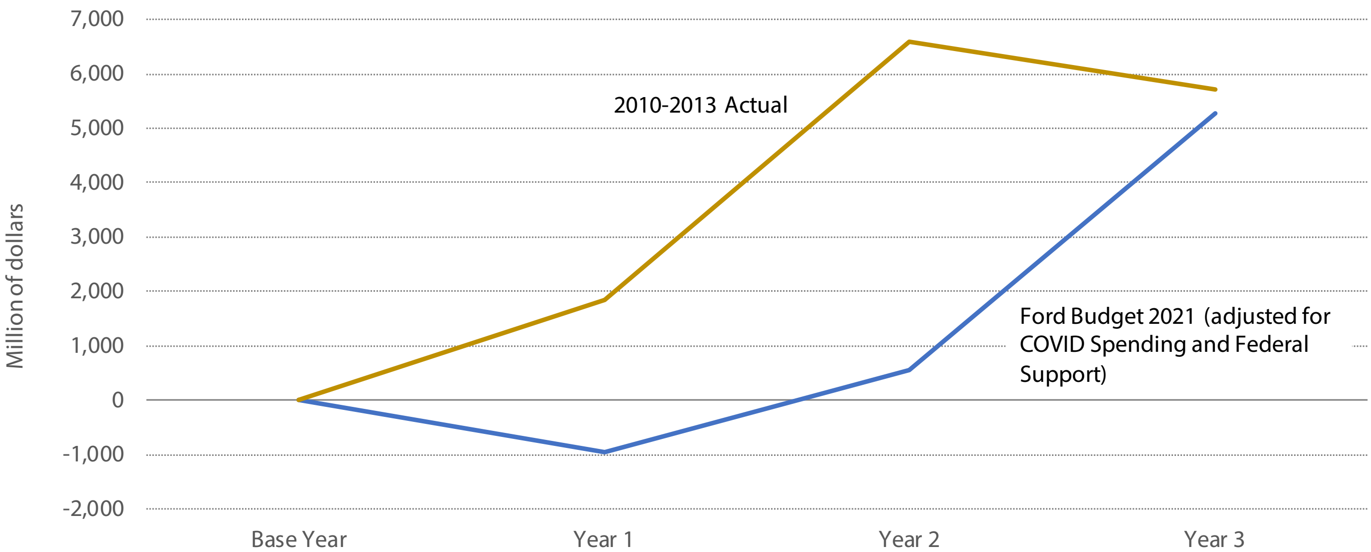
Figure 1 shows that from 2010 to 2012, nominal program spending in Ontario increased by a total of 6.6 percent. The 2021 budget forecasts that over the next three years program spending will grow by a cumulative total of 8.5 percent. The rate of nominal spending growth forecasted by the Ford government in its 2021 budget is slightly higher than that which occurred under Premier McGuinty in the immediate wake of the 2008/09 recession.

Despite strong rhetorical differences between the McGuinty and Ford governments, when each was facing large budget deficits both sought to address those deficits in strikingly similar ways. As a previous analysis has shown (Eisen and Lafleur, 2019), the Ford government's first budget in the spring of 2019 presented a fiscal plan that forecasted a nearly identical pace of deficit reduction to that which occurred in the early years of the decade. It projected an average nominal deficit reduction of $2.41 billion over five years compared to an average annual deficit reduction of $2.38 billion between 2010/11 and 2015/16 (Department of Finance, 2020).

Of course, the COVID-19 pandemic and recession have since caused the deficit to grow much larger. Further, assessing the pace of deficit reduction in the current budget and comparing it to what occurred in the 2010s is not straightforward as there is considerable one-time pandemic relief spending which is driving the exceptionally large deficits in 2020/21 and 2021/22. The wind-down of these emergency expenditures will contribute to a rapid decrease in the size of deficits that is unrelated to revenues and base program expenditures. On the other hand, the government of Canada provided Ontario with special COVID-related transfers in 2020/21, the removal of which makes the pace of deficit reduction in the years following 2020/21 appear slower compared to that base year than would be the case in the absence of these transfers.

To allow for a comparison of the rate of deficit reduction with the early 2010s, we produced an adjusted deficit that accounts for these COVID peculiarities in the current fiscal plan. We did this first by subtracting one-time COVID spending in each year from the overall deficit. Next, we adjusted the 2020 baseline year to account for COVID-related federal transfers by adding to that year's deficit total the difference between the actual level of federal transfers received and the amount that was forecasted in the 2019 budget. Since federal transfers are, in normal years, predictable as they consist almost entirely of the per capita Canada Health Transfer and Canada Social Transfer, this process removes the effect of additional unplanned federal assistance in 2020/21.

Figure 2: Cumulative Deficit Reduction, 2020-23 Projections Versus 2010-13 Actual



Sources: Ministry of Finances (2021) and Department of Finance (2020).

Through this process, we have arrived at an adjusted deficit of $25.5 billion in 2020/21, down from the official deficit estimate of $38.5 billion in the budget.[2] Figure 2 below compares the forecasted adjusted deficit reduction in Budget 2021 over the course of its three-year plan to that which was achieved in the three years following the base year of 2010 under Premier McGuinty.

Figure 2 shows us that once COVID related one-time expenditures and unplanned federal assistance for 2020 are excluded, the Ford government is forecasting cumulative deficit reduction over the course of its fiscal plan that is slightly less than the deficit reduction that was achieved under Premier McGuinty in the three fiscal years following 2010/11. From 2010/11 to 2013/14, Ontario's deficit fell by a total of $5.7 billion. Furthermore, the McGuinty deficit reductions were front-ended, occurring early in the plan, whereas the Ford government's commitments for deficit reduction have been pushed backward and are not expected to occur this year. This means it's entirely possible that by year 3, the Ford government's deficit reduction performance could be worse than anticipated if promised spending restraint in the final years of the fiscal plan is not in fact delivered.

This result, that deficit reduction forecasted in budget 2021 is similar to the pace of deficit reduction during the 2010s (up until the final two years of the Wynne government), is robust to the base year chosen. The Ford government is forecasting average annual deficit reduction of $1.8 billion. Over the period from 2010/11 until

[2] This process produces an adjusted deficit of $26.4 billion in 2021/2022, $24.9 billion in 2022/23, and $20.2 billion in 2023/24. In this final year, the adjusted deficit and official deficit are the same, as there are no one-time COVID expenditures planned for that year.

2017/18, average annual deficit reduction under Premiers McGuinty and Wynne was also $1.9 billion.

A final point of comparison, closely related to the pace of deficit reduction, is the pace of debt accumulation forecasted in Budget 2021 compared to the pace of debt accumulation in the 2010s. Ontario's debt-to-GDP ratio has predictably spiked during the pandemic and recession, climbing from 39.6 percent in 2019/20 to 47.1 percent in 2020/2021. Unsurprisingly, given the persistence of large deficits, Budget 2021 forecasts that the province's debt-to-GDP ratio will continue to grow (much more slowly) in the years ahead, reaching 50.2 percent in 2023/24. This is similar to what occurred in Ontario in the years immediately following the 2008/09 recession. After climbing quickly from 27.8 percent in 2008/09 to 34.5 percent in 2010/11, the increase in Ontario's debt-to-GDP ratio slowed down but did not stop in subsequent years. Between 2010/11 and 2013/14, Ontario's debt to GDP ratio increased by 5.2 percentage points to 39.7 percent, after which it levelled off and remained near 40 percent for the rest of the decade.

The Ford government's fiscal plan is therefore forecasted to produce fiscal outcomes in the wake of the COVID-19 recession that are similar to those that occurred during Ontario's last two major recessions, in the early 1990s and in 2008/09. In both cases, after a rapid increase in the provincial debt-to-GDP ratio during the recession itself, the growth in that ratio slowed and eventually stabilized in the immediately subsequent years (Eisen, 2020). In the longer term, following the 2008/09 recession, the debt-to-GDP ratio never began to fall meaningfully from its post-recession peak, hovering at approximately 40 percent throughout the second half of the 2010s. In the case of the 1990s, the debt-to-GDP ratio did begin to fall from its post-recession peak during and immediately after Mike Harris' aggressive fiscal consolidation, but remained elevated well-above pre-recession levels (Di Matteo, 2020).

Ontario reached its pre-pandemic level of indebtedness primarily as a result of rapid increases during the recessions of the 1990s and 2008/09 followed by a levelling off in subsequent years and, in the former case, a slight decline that fell well short of reaching pre-recession levels. The COVID-19 recession has caused this ratio to spike by another 7.5 percentage points in 2020/21. The Ford government's fiscal plan now forecasts similar outcomes with respect to its debt-to-GDP ratio in the years ahead as occurred in the immediate aftermath of the 2009/10 recession with continued growth in its debt-to-GDP ratio in the years to come.

Conclusion

Following the 2008/09 recession, the McGuinty and Wynne governments pursued a generally consistent approach to spending restraint and deficit reduction throughout most of the 2010s. These Liberal governments sought to gradually shrink the large post-recession deficit by restraining the growth of nominal spending, holding real per-person spending essentially flat, while expecting revenue growth to gradually reduce the deficit over time.

Budget 2021 provides further confirmation that Doug Ford's Progressive Conservative government's approach to spending restraint and deficit reduction is strikingly similar to the approach of its predecessors.

Canadian history has many examples of changes in government that have led to substantial changes in fiscal policy orientation. This analysis of Budget 2021 suggests that despite intense differences in rhetorical style with its prede-

cessors, this has not been the case in Ontario following the most recent election. More specifically, we have seen that the government's approach to reducing the large deficit that has emerged during the COVID pandemic is strikingly similar to that which its immediate predecessors took to reducing the deficit that emerged in the wake of the 2008/09 recession. In these important dimensions of fiscal policy, the recent transition in Ontario's government has to a far greater extent been characterized by continuity than by change.

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