2019

Ontario's Deficit Reduction Strategy Mirrors Previous, Unsuccessful Attempts

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Executive Summary

This study analyzes the first budget of the new Progressive Conservative government in Ontario, tabled in early April 2019, to assess the extent to which it reflects either a fundamental shift in fiscal policy from the policies of the Ford government's predecessors, or continuity with the fiscal policies of the McGuinty and Wynne governments.

Although the new budget does represent a policy change from the final years of the Wynne government, its fiscal policy approach is decidedly similar to that which prevailed under the McGuinty and Wynne governments in the period following the 2008/09 recession. Specifically, we compare Budget 2019 to the 2011 budget tabled by the government of Premier Dalton McGuinty and draw attention to key similarities.

Despite large budget deficits, both the 2011 and 2019 budgets called for continued nominal spending growth with the hope that faster revenue growth would lead to gradual deficit reduction over time. Specifically, the 2019 budget forecasts spending growth averaging 1.0 percent annually whereas the 2011 McGuinty budget called for a spending growth rate of 1.4 percent.

Given similar spending trajectories and revenue outlooks, the two budgets also forecasted similar rates of gradual deficit reduction and therefore a lengthy period of deficit spending. The 2011 budget called for annual deficit reduction of $1.78 billion. And in fact, due to stronger than expected revenue growth, the McGuinty government did slightly better than expected and reduced the annual deficit reduction by $2.38 billion annually over a five-year period. By comparison, the Ford government's budget calls for deficit reduction at a nearly identical rate of $2.41 billion per year. As a result of this slow rate of deficit reduction and the large baseline deficit, both governments' fiscal plans called for slow, gradual returns to balance—7 years in the case of the 2011 budget and 5 years in the case of the 2019 budget.

Another point of similarity between the 2019 budget and those of the Ford government's predecessors is its reliance on elevated tax rates to finance government activities. The 2019 budget retained the province's general corporate income tax rate and its top marginal personal income tax rate, which it kept at 20.53 percent (including surtaxes). By follow-

ing a similar gradualist approach to deficit reduction as Budget 2011, the Ford government may forgo an opportunity to increase Ontario's eroding tax competitiveness. Were it to eliminate the "temporary deficit-fighting high-income tax bracket" and follow through on a long-standing Liberal promise to reduce the general corporate income tax rate to 10 percent, those steps would help make Ontario a more attractive place for workers and investment, and would come at a minor cost: 2 percent of government revenue if we assume no "behavioural effects." In other words, it assumes that the improved incentives to invest created by lower tax rates would not cause any additional economic activity. In the likely event that rate changes did lead to some additional economic activity, the budgetary impact of the rate reductions would be less than we estimated.

One important difference between the two budgets is that Budget 2019 projects less debt accumulation than the post-recession McGuinty and Wynn budgets, largely due to lower infrastructure spending. While Budget 2011 called for a 4.9 percentage point increase in the debt-to-GDP ratio over a three-year period, Budget 2019 plans to reduce the debt-to-GDP ratio by 1.6 percentage points by 2023/24. However, these reductions in capital spending are back-loaded, and might conflict with other initiatives, including the potential uploading of some assets and responsibilities of the Toronto Transit Commission and new subway extensions. While lower capital spending might help reduce the debt-to-GDP ratio, it is not yet clear whether that will projection come to pass.

Canadian history is replete with examples of changes in government leading to substantial changes in fiscal policy direction. This analysis of the new Progressive Conservative government's first budget, however, suggests that this has not yet been the case in Ontario. Indeed, when it comes to the province's spending trajectory, approach to deficit reduction, and personal and corporate income tax policy, the new government has embraced strategies similar to those of its predecessors.

Introduction

Changes in government can sometimes bring major changes in public policy. For example, in Ontario during the 1990s, the election of the Progressive Conservative Party under Mike Harris marked the start of a transformative change in policy direction from the predecessor NDP government of Bob Rae. At other times, changes in government don't lead to major changes in policy direction; rather, policy continuity prevails.

This study analyzes the first budget of the new Progressive Conservative government in Ontario, tabled in early April 2019, to assess the extent to which it reflects either a fundamental shift in fiscal policy from the policies of the Ford government's predecessors or continuity with the fiscal policies of the McGuinty and Wynne governments.

We show that although the new budget changes policy from the final years of the Wynne government, its fiscal policy approach is decidedly similar to that which prevailed under the McGuinty and Wynne governments following the 2008/09 recession. The study begins by comparing the 2019 Ford budget to the 2011 Liberal budget under Dalton McGuinty. It then briefly considers the implications of this policy continuity for Ontario's fiscal health before briefly concluding.

Comparing Forecasts for Spending, Deficits, and Debt Accumulation from the 2011 and 2019 Budgets

Prior to the 2019 budget, many analysts asked whether the government's fiscal plan—particularly for public spending, deficit elimination, and tax policy—would fundamentally shift away from the approach embraced by the Ford government's predecessors or would generally continue their policy approach. This section shows that to a great extent, the latter has proven to be the case.

Certainly, the 2019 budget changes direction from the path taken by the Wynne government in its later years. In fiscal years 2017/18 and 2018/19, prior to the 2018 election, the Wynne government substantially ran up public spending. In those years, program spending jumped by 8.3 and 5.4 percent respectively, resulting in the emergence of a substantial budget deficit which reached $11.7 billion in 2018/19.

Compared to those two years of rapid spending growth and growing deficits, the Ford government's first budget does offer a meaningful change in direction. The 2019 budget's fiscal plan calls for a substantial slowdown in the rate of program spending growth—to 1.0 percent nominal growth between 2019/20 and 2023/24. The government's plan depends on revenue growth exceeding spending growth over this time such that the deficit shrinks gradually before finally being eliminated in 2023/24. As a result of this change, the 2019 budget forecasts provincial government program spending at $157.7 billion in 2023/24, compared to $165.9 billion in the 2018 budget. If the 2019 budget plan is implemented, it will result in approximately 5 percent less program spending in 2023/24 than was envisioned in the 2018 budget. The difference between the fiscal plan presented in the 2019 budget and the fiscal plan the Ford government inherited from its predecessors in the 2018 budget is modest but meaningful.

However, the 2019 budget falls well short of what would be required to eliminate Ontario's deficit in a timely manner. Indeed, a recent paper showed that a small nominal spending reduction would eliminate the

deficit over a two-year period, while a larger nominal spending reduction would create the necessary fiscal room for tax reform and relief to help drive economic growth in the province (Eisen and Emes, 2019). As it stands, in its recent budget the Ford government has chosen not to reform and reduce spending to eliminate the deficit quickly and create room for tax relief. Instead, it has opted to try to shrink the deficit slowly by continuing to increase nominal spending, but at a slower rate than revenue is forecast to increase. The government has also opted not to pursue major income tax reform that would necessitate further spending restraint.

In short, the new budget fails to deliver reforms sufficient to quickly address Ontario's fiscal problems or create room for tax relief. In this respect, it is remarkably similar to several budgets tabled by its predecessors in the years immediately following the 2008/09 recession when Premiers Dalton McGuinty and Kathleen Wynne faced substantial budget deficits, and returning to budgetary balance was explicitly identified as a high government priority (Ontario Ministry of Finance, 2011).

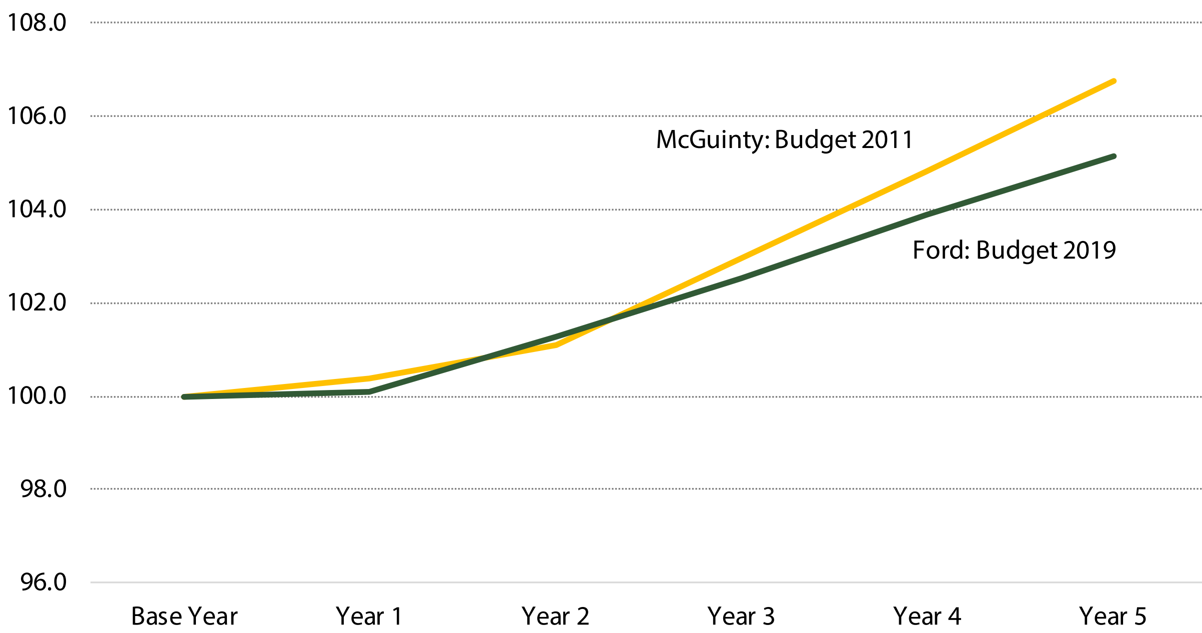
To illustrate the similarities between the Ford government's recent budget and those of its predecessors, this section compares the spending projections and deficit elimination targets set out in the 2019 budget with Premier McGuinty's 2011 budget, when the Liberal government faced an even larger forecasted deficit of $16.3 billion,[1] caused in large measure by rapid spending growth in previous years (Eisen et al., 2016). The selection of 2011/12 as the comparator fiscal year is somewhat arbitrary; however, in the years following the 2008/09 recession, the McGuinty and Wynne governments hewed to a similar strategy of restraining spending growth in an effort to shrink the budget over time, so the central findings of the analysis are robust to the specific year chosen.

As noted, in its 2019 budget, the Ford government laid out a fiscal plan to hold nominal program spending growth to an average of 1.0 percent annually in an effort to eliminate the province's $10.3 billion deficit over a five-year period. In 2011/12, the Liberal government's deficit elimination plan was slightly longer (7 years rather than 5), but it presented a strikingly similar planned spending trajectory. In its 2011 budget, the McGuinty government committed to holding nominal program spending growth to 1.4 percent annually over a seven-year period, just four-tenths of a percentage point more than is projected in the 2019 budget.

Figure 1 illustrates the similarities between the two plans. It shows the program spending trajectory in the two fiscal plans indexed to 100. This means that program spending in the base year (the year prior to the budget in question) is set at 100, with spending growth in subsequent

[1] The deficit for that year wound up being slightly smaller at $15.4 billion.

Figure 1: Ford vs. McGuinty—5-Year Program Budget Spending Plan as an Index (base year = 100)



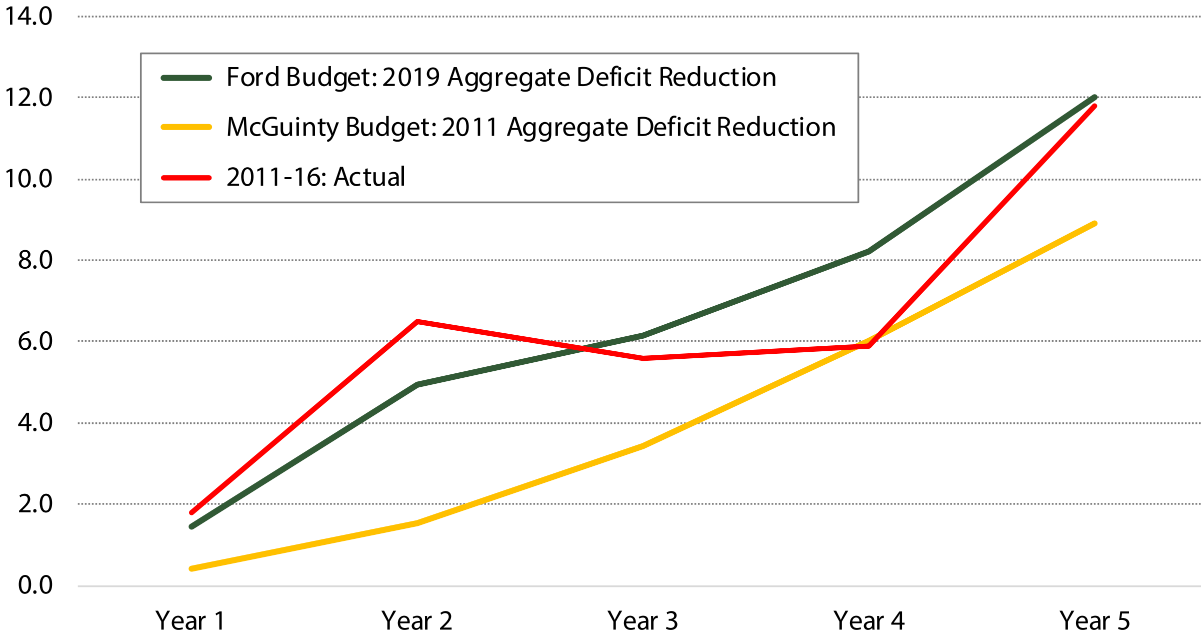
Sources: Ontario, Ministry of Finance (2011 and 2019); calculations by authors.

years shown relative to this baseline. It indicates that over the course of the first five years of its fiscal plan, the 2011 budget under McGuinty called for aggregate program spending growth of 6.8 percent. This is just slightly higher than the Ford budget, which calls for an aggregate increase of 5.1 percent.[2]

Clearly, the two governments, each facing substantial budget deficits, planned to try to address those deficits with strikingly similar spend-

[2] In fact, the Liberal governments of the day slightly overspent in subsequent years relative to their spending targets, while revenue growth generally also exceeded expectations. In fact, the figures presented in the latest budget show that over the five years in question, spending increased by 7.5 percent over the period (2010/11 to 2015/16). However, this study's purpose is to compare the fiscal strategies laid out in the 2011 budget with those laid out in the 2019 budget and identify similarities and differences between the two. Spending in excess of the targets laid out in the 2011 budget were, until 2017, sufficiently small that it is reasonable to say that the provincial government of the day generally adhered to the spending trajectory and fiscal strategy laid out in the 2011 budget—at least until the pre-election spending surge that began in 2017. It remains to be seen whether the Ford government will meet its targets for spending restraint.

Figure 2: Ford vs. McGuinty—Cumulative Deficit Reduction (Budget and Actual) (in $ billions)



Sources: Ontario, Ministry of Finance (2011 and 2019); calculations by authors.

ing trajectories in 2011 and 2019. In each case, the government's strategy was to attempt to restrain spending growth below the anticipated growth in revenue,[3] thus shrinking the deficit gradually over time.

To be sure, both budgets reflected a commitment to a lengthy period of spending restraint—more specifically, to nominal spending growth below the rate of inflation plus population growth. In other words, both the 2011 and 2019 budget called for steady decreases in inflation-adjusted per-person spending over time.

A fundamental problem with this approach—in 2011 and 2019—is that in both instances, the province faced such a large budget deficit that restraining nominal public spending growth while not actually reforming and reducing nominal spending meant that the province's projected progress at reducing its deficit was slow. In fact, given similar program spending trajectories and relatively similar revenue outlooks, the pace of deficit reduction called for in the two budgets is remarkably similar.

[3] The 2019 budget forecasts average annual revenue growth of 3.0 percent from fiscal years 2019 to 2023, whereas Budget 2011 forecast nominal average annual revenue growth of 4.0 percent over five years.

Budget 2011 forecasted that over the five years from 2011/12 to 2015/16, the nominal deficit would shrink at an average annual rate of $1.78 billion. This is only slightly less than the deficit reduction pace forecasted for the upcoming five years in the 2019 budget—$2.41 billion. Thanks primarily to faster than expected revenue growth, the McGuinty and Wynne governments beat their 2011 deficit reduction target over the five-year period; they reduced the deficit by $2.38 billion, almost exactly the amount forecast in the 2019 budget.

Figure 2 illustrates the similarities between the two plans. It shows the change in the size of the deficit projected in the two budgets each year over a five-year period. For reference, this figure also includes the actual reduction in the deficit in the five years between 2011 and 2015.

The 2011 budget called for a longer path to balance than the 2019 budget. However, as we have seen, this is not primarily because of either a different spending trajectory or a slower pace of deficit reduction. Instead, the longer path to balance (7 years instead of 5) is primarily a function of the fact that the baseline deficit to be eliminated was significantly larger in 2011. In fact, as was reflected in their budgets, the proposed deficit reduction trajectories for the two governments were strikingly similar.

The prolonged timeline was problematic in 2011 and is again problematic today. In addition to contributing to further growth in the province's substantial debt burden (an issue that will be discussed more in a subsequent section), this approach is largely inconsistent with historical Canadian evidence that suggests fiscal consolidation efforts based on shorter timelines are more likely to be successful. Specifically, the successful deficit elimination initiatives of the 1990s at the federal level and in several provinces all took place over a 2- to 3-year period.[4] Moreover, a long path to budgetary balance could easily be derailed by economic fluctuations as would be the case, for instance, were another recession to take place.

In short, the Ford government's 2019 budget is similar to Ontario's fiscal recovery plan in 2011 in a number of important respects. Despite large budget deficits, both fiscal plans called for continued nominal spending growth—with the expectation that faster revenue growth over time would shrink the deficit gradually. Another similarity is the pace of deficit reduction: the strategy for both the 2011 and 2019 budgets was to gradually chip away at the deficit at a pace of $1.78 billion and $2.41 billion annually respectively. As a result, both budgets produced long paths back to balance: 7 years in the case of the 2011 budget and 5 years in the case of the 2019 budget.

[4] For a detailed discussion of the history of fiscal policy in the mid- and late-1990s and its implications for policy development today, see Clemens et al., 2017.

An Important Difference: A Slowdown in Debt Accumulation

When it comes to the trajectory of government operating spending and the pace of deficit reduction, the 2019 Ford budget is strikingly similar to the 2011 McGuinty budgets and several others near the same time period. However, there is at least one important difference – the 2019 budget calls for substantially less debt accumulation relative to the size of the economy over the next five years than was the case in the post-recession budgets of Premiers Wynne and McGuinty. This is primarily due to much slower accumulation of capital debt.

The 2011 budget plan called for the province's debt-to-GDP ratio to rise by 4.9 percentage points over a three-year period. In fact, from 2010/11 to 2015/16, provincial net debt climbed by 5.8 percentage points. This climb was due to a combination of large deficits and substantial new capital spending.

The 2019 budget takes a different approach. Specifically, the fiscal plan calls for the provincial debt-to-GDP ratio to hover near its current level of just above 40 percent before falling by 1.6 percentage points to 38.6 percent in 2023/24. As we have seen, neither different program spending trajectories nor revenue outlooks are responsible for this decrease. The reason for this is found in the capital budget. Indeed, budget 2019 calls for a gradual reduction in infrastructure expenditures over time, contributing to the dip in the province's debt-to-GDP ratio forecast in the fiscal plan at the end of the 2019 budget.

The largest reductions in capital expenditures occur at the end of the fiscal plan. Much can change over the course of a government's time in office and it would be a mistake to simply assume that planned reductions in capital spending in, for example, 2023/24 will come to pass. The possibility of funding new subway extensions in Toronto, for instance, continues to be a focus of public discourse in Ontario and could disrupt the plan to reduce infrastructure spending over time.

Further, the lengthy winding down of infrastructure spending in Ontario means that the province will not begin to see meaningful reduc-

tions in its debt-to-GDP ratio—even if the government's plans fully come to pass—until the final years of its mandate. This debt reduction rate is modest and would still leave the provincial debt well above its pre-recession levels. The reduction looks even more modest when compared with Quebec's recent and ongoing progress. That province forecasts a 15.5 percentage point decline in its debt-to-GDP ratio between 2013 and 2023, which is particularly timely given that early 2019 marks the point at which Ontario's net debt-to-GDP ratio exceeds Quebec's for the first time in over 50 years.

These caveats noted, however, the capital account is one area where Budget 2019 does differ markedly from budgets from the 2011-2016 era under Premiers McGuinty and Wynne. Unlike those budgets, the Ford government's first budget calls for meaningful reductions in capital expenditures over time and, if implemented, these reductions will have important implications for Ontario's fiscal sustainability and interest burden.

Back to Similarities—Ontario's 2019 Budget Continues to Rely on Elevated Taxes

As shown in the first section of this study, the spending trajectory and deficit reduction plan in Budget 2019 are largely a continuation of the fiscal policy that prevailed in the years following the 2008/09 recession.

The 2019 budget continues the fiscal policy approach of its predecessors in another way: it continues to rely on elevated taxes to fund government activities—despite adverse consequences for the province's growth prospects and competitiveness. Specifically, the 2019 budget maintains the "temporary" increases to the personal income tax for high earners that were originally to be rescinded in 2017 – the year previous governments set as a target date for a balanced budget.

Between 2012 and 2014, the government of the day introduced and then codified a new top marginal income tax rate in Ontario which, including provincial surtaxes, rose to 20.53 percent over this period – currently the second highest top combined provincial/federal PIT rate of any Canadian province.

Combined with federal tax increases, these measures have left Ontario with the second highest combined top marginal personal income tax rate in both Canada and the United States. That high rate has important negative implications for Ontario's economic incentives and the province's ability to attract individuals and investment.[5] Figure 3 highlights Ontario's competitiveness problem by showing the top personal income tax rate (PIT) in every province and American state.

Further, in 2014, Ontario's provincial government postponed plans to reduce the general corporate income tax (CIT) rate from 11.5 to 10.0 percent. That cut would have made Ontario's CIT the lowest in Canada and thereby boosted the province's growth prospects and competitiveness. Again, the government of the day cited deficit reduction as the rationale for delaying corporate tax relief, suggesting that it would proceed in 2017 once the budget was balanced.

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[5] See Kleven, Landais, and Saez (2013) for a discussion of the impact of top tax rates on migration, and Romer and Romer (2010) for a broader discussion of the macroeconomic impact of taxation.

The 2019 budget maintains continuity on these fronts as well. It takes no action to reduce the general corporate income tax rate, as had been planned earlier in the decade, or rescind the increases to the top personal income tax rate that were imposed by its predecessors. Instead, by leaving its predecessors' policies in place, Budget 2019 has effectively ratified and endorsed the PIT increase and the cancellation of CIT relief as strategies for deficit reduction. Ultimately, this is problematic given strong evidence that tax increases are generally a substantially more economically harmful strategy for deficit reduction than spending reductions (Alesina et al., 2017). In other words, the evidence suggests that the 2019 budget could have helped encourage economic growth in the province without increasing the deficit had it eliminated these tax increases and reduced expenditures commensurately.

Ontario has long-standing and well documented tax competitiveness challenges (see Eisen, Lafleur, and Emes, 2018). Ultimately, more comprehensive and ambitious tax reform would help encourage growth and attract investment.[6] The 2019 budget was an opportunity for the new government to signal to markets and investors that it had a plan for pursuing a tax competitiveness agenda, starting with rescinding the PIT and CIT rate increases introduced by the preceding governments which were billed at the time as temporary but which have, in fact, become permanent policy.

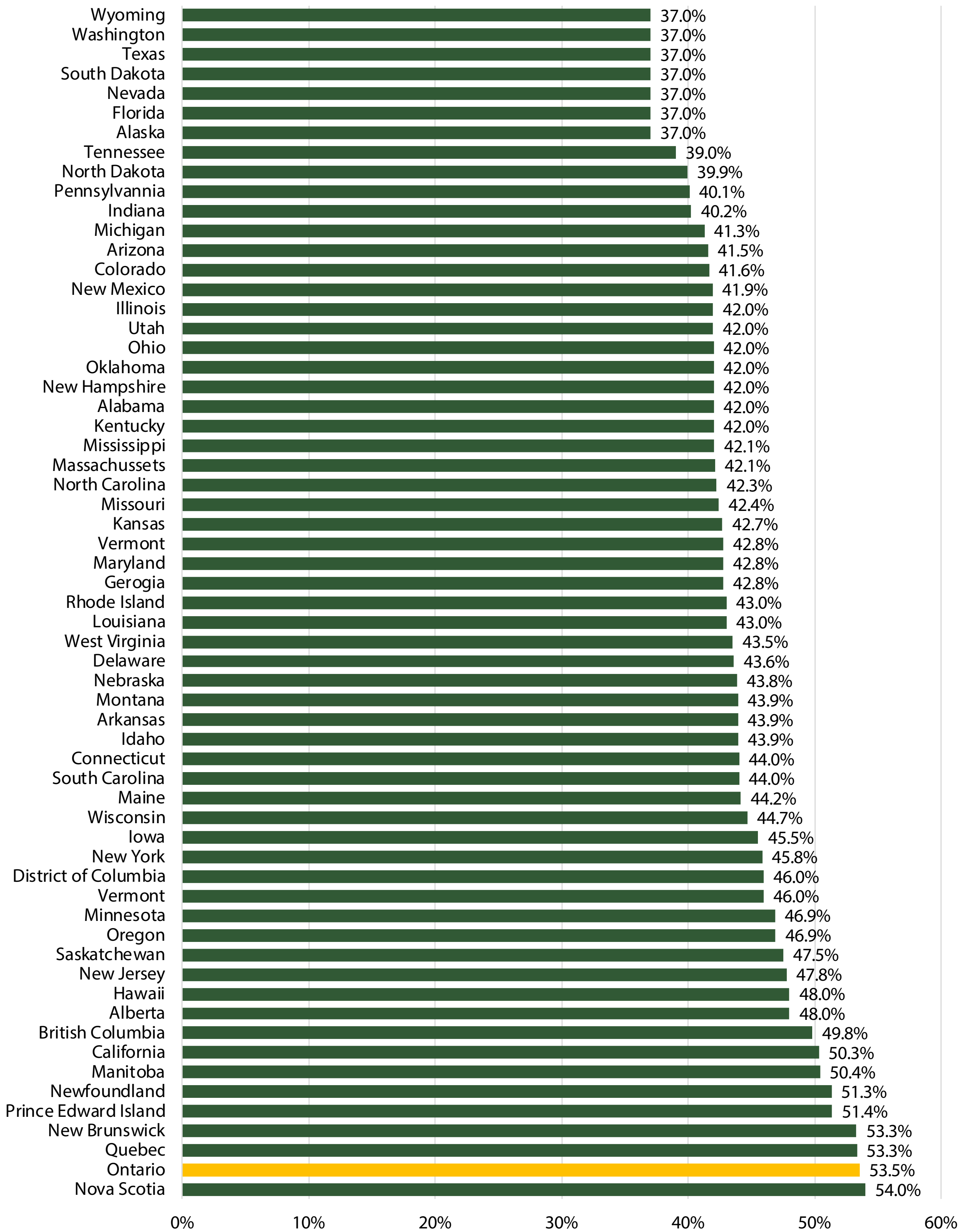
There is historical precedent for a provincial government to introduce tax relief (simultaneously with spending reforms) despite a large budget deficit in an effort to signal a change in policy direction to investors and markets. Gordon Campbell's government did this and substantially reduced personal income rates "across the board" in British Columbia at the outset of its reform agenda. The Campbell government was nevertheless able to return to budget balance quickly and its tax reforms helped drive economic growth in the province in subsequent years (Lammam et al., 2010). Similarly, the newly elected government in Alberta has pledged to proceed with substantial corporate income tax reform immediately upon taking office, recognizing that the economic returns to doing so are potentially substantial while the fiscal costs are small and may in fact be negligible given the possibility of large behavioural effects.[7]

Instead of following this model, however, the 2019 Ontario budget followed in the path of its predecessors. It has made no meaningful steps towards CIT or PIT competitiveness, instead continuing to rely on the

[6] For a description of what such tax reform might look like, see Eisen et al. (2018).

[7] See Ferede and Dahlby (2016) for an estimate of the marginal cost of public funds of corporate income taxes in Alberta, which imply substantial behavioural effects and resulting revenue gains from CIT reductions.

Figure 3: Top Combined Personal Income Tax Rate in Canadian Provinces and US States, 2019



Sources: Tax Foundation (for US data); CRA (for Canadian data).

revenue generated by the elevated tax rates implemented in recent years. At a minimum, the Ford government could have signaled a change in tax policy direction by removing the new top PIT rates and proceeding with the previously planned CIT reductions at a modest fiscal cost.

Assuming no behavioral response whatsoever (an unrealistically conservative assumption), delivering on the long-promised CIT reduction would have reduced revenue by just $1.5 billion. Meanwhile, eliminating the recent "temporary" PIT increases introduced in 2012 and 2013 would have led to a revenue reduction (again, assuming no behavioural response) of 1.4 billion. The cost of these two changes—$2.9 billion—is just 2 percent of all government revenue. And that cost would be smaller still if the rate reductions led to an increase in economic output and, therefore, tax revenue, as economic theory predicts (Romer and Romer, 2010). Indeed, Canadian evidence on both personal and corporate income taxes suggest that in Ontario, CIT and PIT reductions would lead to behavioural changes large enough to substantially mitigate these modest costs.[8] As such, we can reasonably surmise that the actual fiscal cost of modest tax reform such as that described above would have been substantially more modest than a static estimate suggests.

Ultimately, the modest tax reforms discussed above would have fallen far short of what Ontario needs to become a tax-competitive jurisdiction within North America. However, at least they would have signaled a change in policy direction and a recognition that elevated tax rates are an economically harmful strategy for deficit reduction. As such, the reforms would have been a meaningful departure from the previous government's approach to tax policy—an important step toward pro-growth, pro-competitiveness tax policy. Instead, as was also the case with the spending trajectory and deficit reduction, Ontario's 2019 budget largely reflects a strategy of policy continuity on personal and corporate income tax policy. Given that the economic case for tax reform is so strong and the fiscal effects so potentially comparatively small, the absence of any meaningful action on this front in its initial budget is a lost opportunity for the new Ford government; it continues its predecessors' misguided policy of relying on elevated personal income and corporate income taxes as a response to ongoing deficits.

[8] See Miligan and Smart (2016) for a discussion of revenue gains from behavioural changes resulting from reductions in the top PIT rate in Ontario. For the CIT, see Ferede and Dahlby (2016) which finds a high marginal cost of public funds for the CIT in Ontario, suggesting substantial behavioural effects and therefore meaningful partial offsetting revenue gains from PIT reduction.

Discussion

In many respects the 2019 budget, the first from the new Ford government, continues the fiscal policy choices of its predecessors. It simply doesn't shift away from the McGuinty/Wynne approach to spending and deficit reduction that prevailed from 2011 to 2016, nor has it proposed reductions to personal and corporate income taxes. In short, Premier Ford's first budget takes a similar approach to that of the Liberal governments of Premiers Dalton McGuinty and Kathleen Wynne in the years immediately following the 2008/09 recession.

To be sure, the McGuinty/Wynne approach does call for a period of long-term restraint—and the 2019 budget promises to reduce inflation-adjusted per-person spending over time. The notion that in the aggregate the restraint envisioned is in any sense draconian (as some critics claim) is difficult to reconcile with the fact that this budget is broadly consistent with the plans of the Ford government's predecessors from 2011 to 2016.

The reduction in inflation-adjusted per-person spending represents some fiscal progress compared to the policies that prevailed in the final years of the Wynne government. Further, with good economic luck and assuming the government does indeed adhere to its spending forecasts, the 2019 fiscal plan could improve Ontario's fiscal outlook over time. Nevertheless, the policy continuity reflected in the 2019 budget is concerning for several reasons. By rejecting a speedier path to balance based on reforming and reducing provincial spending, it generates risks and lost opportunities for Ontario.

A key risk associated with the budget's long path back to balance is that the province will continue accumulating substantial new debt in the years ahead. Specifically, the new budget forecasts that debt will climb to $391.6 billion by 2023/24—an increase of $48 billion over just five years. As a result, the province's debt-to-GDP ratio (economists' preferred measure of the sustainability of a jurisdiction's debt) is forecast to hover near its historically high current level of 40.7 percent over the next several years before easing slightly to 38.6 percent by 2023/24. As noted previously, this does represent modest progress, and it is a change from Budget

2018, which forecast no such progress. But it nevertheless pales in comparison to the progress that Quebec has made, for example. That province is on track to reduce its debt-to-GDP ratio by 15.5 percentage points in 10 years.

This continued accumulation of debt is worrying for several reasons. Of most immediate importance is that further debt accumulation will contribute to continued growth in debt interest payments in the years ahead. Ontario's debt service charges are forecast to grow from $13.3 billion this year to $15.5 billion in 2023/24. This is an increase of 4.3 percent annually, making debt service payments the fastest growing major expense in the government's budget by far.

The persistence of deficits and continued accumulation of debt creates a related risk: it extends the period during which the province's finances are particularly vulnerable to an economic downturn or recession. Ontario entered the 2008/09 recession with a debt-to-GDP ratio of approximately 26 percent. By the Ford government's own forecast, the debt-to-GDP ratio will still be more than 10 percentage points above this level as late as 2023/24.[9] Were a recession to occur when the province's debt burden was already elevated, the combination of decreased revenue and likely increased spending would threaten to push Ontario's debt-to-GDP level even higher than the levels reached earlier this decade.

Perhaps most concerning about the Ford government's continuation of Wynne and McGuinty government policies comes in the form of a lost opportunity: the new government appears to be foregoing meaningful pro-growth tax reform in Ontario which, had it done so, would have improved the province's growth prospects and competitiveness. As noted earlier, substantial research shows that higher taxes are a more harmful approach to deficit reduction than spending reductions. What's more, the personal income tax (particularly at the high marginal rates applied in Ontario) and the corporate income tax are among the most economically harmful components of the province's tax mix.[10] As such, maintaining these taxes at their elevated levels will discourage work, savings, and investment in Ontario.

Ontario's overall economic performance in recent years has ranged from dismal to middling. Indeed, the province's economic performance

9 The calculation of the change in the debt-to-GDP ratio over time should be treated with some caution given accounting changes in FY 2009/10 and FY 2010/15 that make precise calculations of change over time difficult. However, the key fact remains: the province's debt-to-GDP ratio remains substantially elevated above pre-recession levels.

10 See Ferede and Dahlby (2016) for a thorough discussion of the economic impact of various tax sources.

has been so poor that one recent study has characterized the period from 2007 to 2017 as a "lost decade" for the provincial economy. While the province's economic performance has been weak overall, it has been especially weak outside of Toronto and Ottawa. From 2008 to 2016, there was zero net job creation in the rest of Ontario outside of the provincial and federal capital cities (Eisen and Emes, 2016).

There is also reason to worry about the province's long-run economic prospects. Specifically, recent research shows that over the past decade Ontario has struggled to attract business investment. As an example, investment in Ontario's manufacturing industry was estimated to be slightly lower in 2017 than it was at its pre-recession peak, meaning that there has been close to a decade of lost growth in that crucial sector of Ontario's economy (Cross, 2017).

Of course, many factors have contributed to these developments, and provincial policy choices are not entirely to blame. However, in a number of respects provincial policymaking in recent years has hindered rather than helped Ontario recover from the 2008/09 recession.[11] It is in this context that the new government's decision in its first budget to embrace policy continuity on spending, deficit reduction, and income tax policy should be considered.

[11] For a comprehensive list of recent publications, op-eds, and commentaries documenting various ways that policymaking in Ontario has adversely influenced growth and prosperity, see Eisen and Emes (2019).

Conclusion

During the period immediately following the 2008/09 recession, the McGuinty and Wynne governments pursued a generally consistent fiscal policy. For several years, their governments sought to gradually shrink the deficit slowly over time by restraining the rate of spending growth so it was somewhat lower than revenue growth while also relying on increased revenue from elevated taxes.

Ultimately, this approach created a number of problems for Ontarians. The province accumulated substantial new debt, the deficit was never eliminated, and high, uncompetitive taxes reduced the province's attractiveness as a destination for business investment and economic growth prospects.

Canadian history is replete with examples of changes in government that have led to substantial changes in fiscal policy direction. This analysis of the new Progressive Conservative government's first budget, however, suggests that this has not yet been the case in Ontario. Indeed, it appears that regarding the province's spending trajectory, approach to deficit reduction, and personal and corporate income tax policy, the new government has embraced strategies similar to those of its predecessors.

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