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Platform costing and the politics of fiscal policy in Ontario

By Hugh Mackenzie

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Platform Costing and the Politics of Fiscal Policy in Ontario

Executive Summary

The fiscal stances of the election platforms of the three major parties in the current Ontario election reflect a curious consensus regarding the overall timetable for deficit reduction in the province. Each party has based its fiscal projections, and the costing of its various campaign promises, on the forecast of revenue and expenditure in the 2011–12 Ontario budget. All parties — most surprisingly the Conservative Party — have set aside their budget doomsday rhetoric for what amounts to a deficit "truce," accepting a common timetable for eliminating the deficit (by 2017–18).

While the underlying politics may be odd, there is nothing inherently wrong with the timetable itself. Experience tells us that, over time, a return to trendline growth will bring the budget into balance without any drastic action at all. Indeed, an attempt to eliminate the deficit faster would risk precisely the kind of contractionary spiral that is currently undermining economic recovery in much of Europe and North America; spending cuts would risk a substantial weakening of economic growth and job-creation, which in turn would further undermine the government's fiscal health.

However, Ontario's budgetary consensus is also based on a rather austere baseline for program expenditures (which grow by less than 2% per year in the budget forecast) — a baseline which the Provincial Auditor considers to be "aggressive". This baseline suggests reductions in real per capita program spending that none of the major parties has highlighted in its campaign. To do a better job of protecting real service delivery, in light of current economic forecasts, would require either increases in taxes or a further deferral of the timetable for eliminating the deficit.

In other words, the claim that services can be protected as the deficit is reduced is at risk, even without considering the impact of the parties' campaign promises. Those promises then heighten that risk.

The Conservative platform is by far the most aggressive, with commitments to tax cuts and new spending that they value at close to the combined value of the NDP and Liberal platforms. Moreover, the Conservative promises are to be financed almost solely through cutbacks in spending on

programs other than health and education that are both substantial (worth over $4 billion per year by 2015, and some $10 billion cumulatively over the next four years) and unspecified. Since this large unstated reduction in program spending would be experienced relative to a base-line budget scenario that is already austere, it implies several years of substantial downsizing in public services. The Liberal and NDP promises are more modest in terms of their overall cost, and paid for through a combination of revenue measures, revised revenue and expenditure forecasts, and offsetting program spending cuts.

The risk faced by Ontarians is only partly captured by an analysis of the campaign promises made by the parties, although the Conservative platform in particular cannot work without substantial, undisclosed cuts to services. That risk extends to the possibility that, if the baseline projections on which all three platforms are based do not prevail, a government may subsequently take actions which are at the same time damaging to public services, unnecessary from a budgetary perspective, and counterproductive wrong economically. The risk is mitigated somewhat by the fact that in recent history budget projections have generally turned out (once the public accounts are in) to have been on the conservative side, giving a post-election government some room to move.

However, for evidence that the concern that convenient campaign fictions can lead to a destructive attack on public services, Ontarians need only look to the example of Rob Ford's post-election Toronto.

The real danger facing Ontarians is not that the economic forecasts built into the parties' common fiscal projections may not turn out to be true. Economic forecasts are always wrong; and even an adverse shift in economic projections will only delay the improvement in fiscal health that always depends first and foremost on economic recovery. The deeper risk is how the next government responds to the evolving fiscal outlook. Unjustified panic about the size of future deficits would do more harm than good — to both the economy, and to Ontario's social well-being.

Introduction

Fiscal policy issues — issues related to the balance between government revenue and expenditure — have come to play a curious role in the electoral cycle in Ontario.

In advance of an election, debates over fiscal issues play prominently in the political discourse. The opposition (particularly the Conservative Party) tends to highlight concerns over deficits and debt, trying to portray the government as fiscally irresponsible. The government, meanwhile, aims to manage both the economics and the politics of deficit reduction.

The official beginning of the election, however, serves as a signal for a truce in this political battle over the deficit. The opposition parties not only accept the assumptions adopted by the government in their fiscal projections, they also adopt the same schedule for deficit reduction as the government. Indeed, all parties have an interest in adopting spending and revenue forecasts that are as optimistic as is reasonably possible, because the more optimistic the projections, the greater the fiscal room available to pay for campaign promises. As a result, despite the heat that tends to accompany budget balance issues in advance of an election, in the actual election campaign these issues are taken off the table, and the costing of every party's platform is carefully designed to produce the same deficit path as the government's last budget forecast.

Indeed, in this election, the five-year forecasts for the deficit are essentially identical among the three main parties in the campaign.

Once the campaign is over, however, so is the truce.

The party that forms the government then has to confront the reality that public services cannot be paid for with projections.

A new government has the benefit of an option not open to a re-elected government — namely, declaring with shock that the cupboard is bare, and using that as a smokescreen for abandoning campaign assurances about holding the line on taxes and/or protecting public services. But every government (newly elected or re-elected) is confronted with the same fundamental problem: squaring up projections and estimated costs of campaign promises with fiscal reality.

In other words, the essence of fiscal politics is not what the parties said during the election campaign; it is what the parties didn't say during the election campaign, and the relationship between what they said and fiscal reality.

This commentary addresses four issues:

How the McGuinty government made strategic use of budget forecasts to support its political message in the lead-up to the election campaign;

How the parties' projections of revenue, expenditure and fiscal balance used in the campaign compare;

The reasonableness (or lack thereof) of the parties' estimates of the fiscal impacts of their campaign promises; and

The implications of the quality of those estimates for the post-election fiscal reality check. In other words, in light of the parties' fiscal commitments and platform cost estimates, what do their platforms actually imply for revenue, spending, and deficits in the post-election period? And what do they imply for the risk to Ontarians of a re-run at the provincial level of Toronto's current budget-cutting debacle?

Between-Election Fiscal Strategy

While governments have always taken great pains to present their budgets in the most favourable political light, the modern era of "strategic" budgeting was introduced by Federal Finance Minister Paul Martin in the first term of the Chretien Government.

Martin recognized a basic but important fact about budgetary politics: it is always better to deliver good news than bad news. And in the world of fiscal politics, good news is doing better than you said you were going to do; bad news is doing worse than you said you were going to do. Thus, in the late 1990s, in budget after budget, Martin forecast budget deficits that were significantly higher than the eventual actual results.

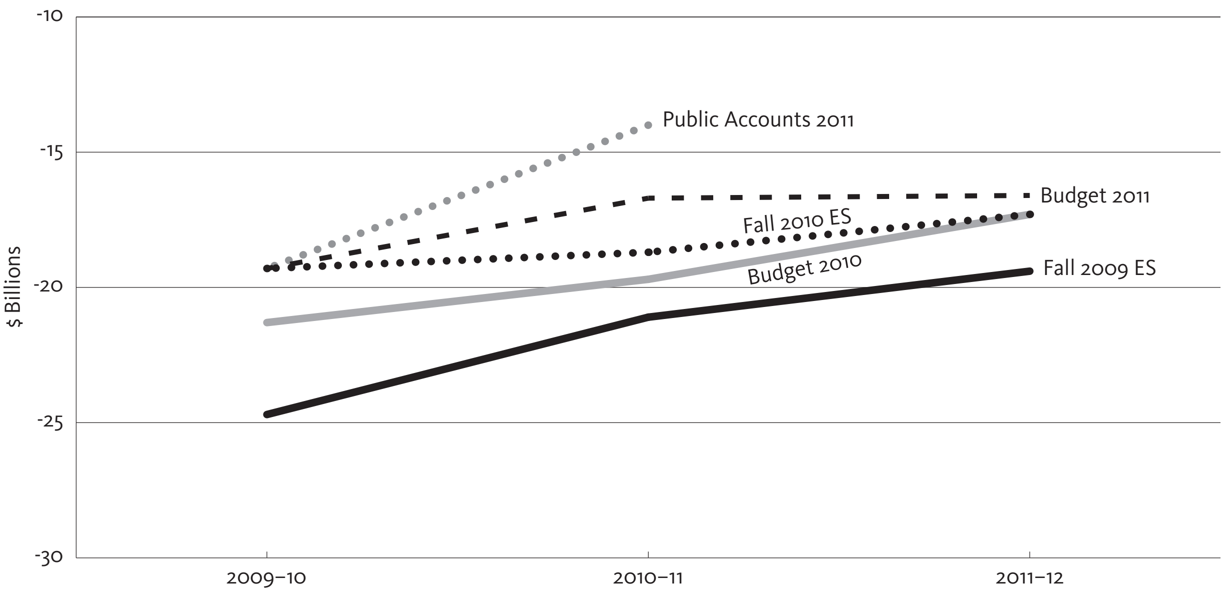
That had two benefits. It helped the government manage expectations. And it set the government up to deliver positive news every time it revisited its budget projections.

In Ontario, the Harris Government employed a similar strategy, striving to achieve a steady downward trend in its budget deficit (at least until the end of its second term, when the deficit ballooned) and to put itself in a position to declare routinely that it had 'overachieved' its deficit reduction targets.

In 2008, as the Great Recession began to unfold, the McGuinty Government had a similar need. Thanks to a combination of reduced revenue and higher basic expenditures driven by the deepening recession and the need (and political support) for substantial stimulus spending, Ontario's budget balance deteriorated very quickly from a small surplus in 2007–08 to a deficit for 2009–10 that was initially projected at nearly $25 billion.

The effort to strategically manage the political fallout from this substantial deficit kicked into gear almost immediately, as was evident in the repeatedly revised fiscal numbers for 2009–10. As illustrated in Figure 1, from a forecast of $24.7 billion in the government's Fall 2009 economic statement, the deficit was revised downward to $21.3 billion by budget time in March 2010, and finally came in at $19.3 billion in Ontario's economic accounts for 2009–10. Even that figure would have been $1.2 billion lower had the government not decided to book $500 million in

FIGURE 1 **Ontario's Changing Deficit Forecasts**



SOURCE Author's compilation from Ontario Ministry of Finance documents

one-time-only funding for the Ontario Pension Benefits Guarantee Fund announced in Budget 2010–11 at the end of fiscal year 2009–10, and delay recognizing $700 million in federal infrastructure funding until 2010–11. In the absence of such end of year decisions, the deficit would have been $18.1 billion — almost $7 billion (or more than 25%) below the Fall 2009 Economic Statement forecast.

The same thing happened in 2010–11. The forecast deficit for 2010–11 has also been revised downward repeatedly, from $21.1 billion in Fall 2009; to $19.7 billion in Budget 2010; to $18.7 billion in Fall 2010; to $16.7 billion at budget time in March 2011; and finally to the $14 billion actual deficit reported in the Public Accounts for 2010–11.

Ontario's deficit problem is thus much smaller than the government initially projected. The fact is that, just as the main driver of the Federal Government's elimination of the deficit in the 1990s was the recovery of the revenue base as the economy recovered, Ontario's budget deficit began shrinking as soon as the 2008–09 recession officially ended. It will be eliminated within the next 3–5 years for the same reasons (assuming continued economic growth), regardless of the 'deficit-fighting' policies adopted by whatever government is in power. Moreover, measured appropriately as a share of provincial GDP, Ontario's debt load will start falling even sooner. Interest rates on provincial debt remain low (both in absolute terms, and in relation to other benchmark interest rates), so debt service charges will remain manageable, and then begin to shrink (as a share of GDP). In short, concerns about Ontario's fiscal "crisis" are vastly overstated.

Recent global economic turbulence has raised the prospect of another economic downturn, which would obviously undermine this projected fiscal progress. However, in the event of such a downturn, the most economically (and socially) appropriate fiscal response is to tolerate the inevitable cyclical widening of deficits, since any effort to "swim against the tide" of a deteriorating macro-economy (through tax increases or, more likely, spending cuts) serves only to worsen the downturn. The self-defeating experience of extreme austerity in Greece and other hard-hit European countries (where dramatic spending cuts have deepened the recession and hence aggravated debt) serves as a warning to those who would cut their way to a balanced budget, even in a recession.

Deficit Forecasts and the Campaign

While the deficit as a real economic problem is largely a red herring, politically it is anything but. Conventional political wisdom holds that promising to raise taxes is the most dangerous political position to take in a campaign.

The parties attempt to neutralize the tax issue by making solemn pledges that, come what may, they will never, never ever even think about raising taxes. While the parties face varying degrees of credibility in making those pledges, they tend to make them anyway in the hope that the tax issue can be neutralized.

When it comes to the deficit, the conventional wisdom seems to be that while some voters may worry about the deficit, there is little to be gained politically by claiming to be able to reduce it more quickly than anyone else. Consequently, the parties have all adopted a "don't tease the bears" approach to the deficit. In other words, they are content to put the issue to the side for the duration of the campaign.

On the assumption — undoubtedly correct — that no political leader can win a "dueling economists" debate that would be provoked by using different economic forecasts to generate their budget projections, all of the parties adopt the same underlying economic projections. Those projections are critical to budgeting since both revenues and spending depend centrally on the state of the broader economy. Even the government itself, with all of its advantages in professional resources and information, has chosen to adopt a forecast that is a composite of private sector forecasts.

Having all accepted a convenient 'independent' source for the underlying economic forecasts, the two opposition parties have gone further and accepted (either in whole or with minor variations) the medium-to-long-term forecasts of key budgetary variables published by the government in its 2011–12 budget documents.

This means that, in addition to accepting essentially the same third-party private forecasts as the basis of the parties' revenue projections, the platforms also implicitly accept the forecasts of base line expenditures presented in the budget. Both of these assumptions were considered critically in the mandated review of Ontario's pre-election finances conducted by the Provincial Auditor.[1]

The Auditor found that while the economic forecasts underlying the revenue projections met the requirement in the Fiscal Transparency and Accountability Act, 2004 (namely, that they be based on cautious assumptions), the government's expenditure projections did not. With respect to the expenditure projections, the Auditor concluded "that the assumptions underlying [the government's] expense estimates reflected an optimistic or aggressive perspective. It is noteworthy that the budget's expenditure growth forecast is below its own projections for inflation, and implies a reduction at a rate in excess of 1% per year in per-capita expenditures."

Since all of the parties decided to work from the same set of projections as a base, and to aim for the same deficit reduction targets, the Auditor's finding applies equally to all the parties' campaign forecasts (not just the government's). This also highlights the concern regarding what the parties might actually do, post-election, should these "optimistic" expenditure projections not be realized.

Although the Liberals' platform costing document includes both the "Ontario Liberal Plan",

TABLE 1 **Revenue and Deficit Projections**

	2011–12	2012–13	2013–14	2014–15	2015–16
Baseline Revenue Projection					
Budget 2011–12	108.5	111.8	117.0	122.8	129.0
Liberal Base Revenue	109.1	112.0	117.4	123.3	129.6
Change from budget	*+0.6*	*+0.2*	*+0.4*	*+0.5*	*+0.6*
Conservative Base Revenue	108.7	112.0	117.4	123.3	129.5
Change from budget	*+0.2*	*+0.2*	*+0.4*	*+0.5*	*+0.5*
NDP Base Revenue	108.5	111.8	117.0	122.8	129.0
Change from budget	*0*	*0*	*0*	*0*	*0*
Deficit Projection (after incorporating campaign promises)					
Budget 2011–12	16.3	15.2	13.3	10.7	7.8
Liberal Deficit	15.0	14.9	13.3	10.7	7.8
Change from budget	*-1.3*	*-0.3*	*0*	*0*	*0*
Conservative Deficit	16.1	14.8	12.2	10.1	7.2
Change from budget	*-0.2*	*-0.4*	*-1.1*	*-0.6*	*-0.6*
NDP Deficit	16.3	14.7	13.0	10.4	7.8
Change from budget1	*0*	*-0.5*	*-0.3*	*-0.3*	*0*

SOURCE Author's compilation from party platform and platform costing documents

which runs from 2012–13 to 2015–16, and an "Extended Plan" to 2017–18 to support the claim that the deficit will be eliminated in that year, neither the Liberals nor the opposition parties present detailed platform proposals costed beyond 2015–16. This comparison of the fiscal impacts of the platforms therefore covers the period 2011–12 to 2015–16.[2]

Table 1 presents the revenue and deficit projections of the three parties.

Of the three parties, only the NDP sticks strictly to the base revenue forecasts presented in the March 2011 Budget. On the spending side, like the other parties, the NDP credits its platform costing with a slight reduction in estimated debt servicing costs. The NDP's final year deficit numbers are identical to those in the March 2011 budget forecast.

The Liberal platform costing document includes a slight upward revision of revenue from the Budget 2011 projection. Its 2011–12 revenue and deficit numbers have been adjusted to reflect the higher-than-budgeted actuals reported in the Public Accounts in August. Its revenue projection is thus increased accordingly (by $0.6 billion for 2015–16) from the March Budget.

With the exception of 2012–13, the Liberals' deficit projections are identical to those presented in the Budget; in other words, the gains credited in revenue projections and in reduced debt servicing costs are used to fund campaign initiatives. The exception is 2012–13 where it is apparent that the timing of campaign expenditure initiatives was adjusted to ensure that the forecast deficit for 2012–13 maintains a downward trajectory.

Similar to the Liberals, compared with budget forecasts the Conservatives' base revenue projection increases by $0.2 billion in fiscal year 2011–12 (presumably reflecting an interim figure reported between the budget and the publication of Public Accounts) and $0.5 billion by 2015–16.

The Conservatives are projecting a deficit for 2015–16 that is $0.6 billion lower ($7.2 billion vs. $7.8 billion) than the budget forecast, all of which can be attributed to the combined effect of their higher revenue forecast and lower projected debt servicing costs.

Two conclusions can be drawn from these numbers. First, the fact that all three parties closely track the figures in the budget reflects the campaign-period "truce" on budgetary issues referred to above. Second, to the modest extent that the baseline projections are modified from the budget (on revenue, debt service costs, and other expenses) those revisions clearly indicate that the original budget projections included some padding (or as Paul Martin used to say, "prudence"). Otherwise, it would be difficult to justify an improvement in 4-year projections based on economic events since March 2011.

Platform Initiatives and the Measures Needed To Pay For Them[3]

The Liberal platform presents cost projections for 68 specific program initiatives and two small general items entitled "Northern Platform" ($40 million per year) and "Rural Platform ($25 million per year). Of these 70 items, 36 are reported as included in various previously-announced fiscal plans and are essentially recycled from the budget.

The largest single expenditure initiative in the Liberals' platform is the promised 30% undergraduate tuition grant. At an estimated $486 million in 2015–16, it accounts for nearly one third of the total platform as measured on a cost basis.

Tax cuts, together, amount to the second largest platform item. Five tax cut or credit announcements are estimated to cost the treasury $327 million by fiscal year 2015–16.

Revenue sources cited to cover the $1,520 million 4th year cost of the Liberal program include: increased revenue resulting from a revised economic forecast ($400 million is claimed in the detailed table; the actual change in revenue used in the summary table is $600 million); increased revenue from tobacco and alcohol tax enforcement ($175 million); lower interest on debt servicing costs (worth another $175 million); and what is called "ongoing savings from Public Accounts" for $785 million.[4]

Of the $1,535 million in revenue increases referred to in the Liberal document, only the $175 million from enhanced enforcement of contraband represents a specific new revenue initiative, and the revenue forecast associated with that initiative would have to be considered to be speculative.

The Conservatives' platform costing is substantially less detailed. Also, it only reports costs of its promises for two fiscal years: the current fiscal year 2011–12; and fiscal year 2015–16 (the fourth year of the next government). The document presents specific costs for seven campaign promises totaling $430 million "outside of health and education." $105 million of that amount represents the cost of three crime and justice initiatives. A number of items included in the formal platform are not itemized explicitly in the costing document. By far the largest single item in the Conservatives' costing is for four specific tax cuts, totaling $3.5 billion in foregone revenue by 2015–16.

Beyond the $430 million for the 7 itemized promises and the $3.5 billion in tax cuts, it becomes difficult to separate the cost of other program spending promises from the underlying spending cuts that will be needed to cover the costs of the Conservative platform.[5]

The platform promises to protect currently-projected expenditures on health care. The costing document does that by reporting exactly the same figure for health care spending in 2015–16 as was reported in the budget.

The other protected category of spending in the Conservative platform is education. The costing shows an increase in spending on elementary and secondary education of $1.9 billion over the five-year projection period, slightly slower than the increase in spending projected in the budget. For postsecondary education, the Conservative platform costing document claims an increase of $600 million, compared with the government's baseline projection of $400 million (for a net increase of $200 million). Two other fac-

TABLE 2 Reconciliation of Conservative Budget Plan

	2011–12	2015–16	Change	Change in baseline	Increment due to PC platform
Revenue	108.7	126.0	17.3	20.8	-3.5
Total expenditure	124.1	132.2	8.1	11.9	-3.8
Health care	47.6	53.7	6.1	6.1	0.0
K-12 education	23.2	25.1	1.9	2.1	-0.2
Postsecondary education	7.0	7.6	0.6	0.4	0.2
Other specific initiatives (excl. health & educ.)	0.0	0.4	0.4	0.0	0.4
Debt service	10.3	14.7	4.4	4.5	-0.1
Other expenditure	**36.1**	**30.7**	**-5.4**	**-1.3**	**-4.1**
Deficit	16.1	7.2			

SOURCE Author's compilation from party platform and costing documents

tors must be taken into account, however. The Conservatives' $600 million projected increase includes a promise to increase investment in apprenticeship training by 50,000 spaces per year. According to government data cited in a Liberal campaign document,[6] the current program level of 26,000 spaces costs approximately $200 million per year; adding double that amount would cost an additional $400 million. Although it is not stated in the document explicitly, it would appear that this additional cost must come out of the $600 million forecast increase in total postsecondary education spending.

A similar approach would logically apply to the Conservative promise to raise Ontario Student Assistance Plan eligibility thresholds, estimated by the government to cost $40 million per year (and which also must be funded out of the $600 million increment). So on an apples-to-apples basis, the Conservative's proposed boost in spending on postsecondary education (by $600 million per year, $200 million more than the government baseline) must imply a $240 million cut in support for existing programs relative to the government's baseline forecast expenditure — and will represent $740 million less than the Liberal projections including the promised tuition grant.

Several items that would logically fall in the "other expenditures" category are not explicitly accounted for. The most significant of these is the cost of eliminating the Debt Retirement Charge from electricity bills. It would appear that the Conservative costing accounts for the elimination of the DRC as part of its "tax relief for home energy bills" item on the tax cut side of the ledger, rather than as an expenditure item.[7]

The net effect of the platform on other areas of program spending will be severe, since the promise to increase health and education spending must be reconciled with the promise to reduce taxes and the commitment to meet the same deficit reduction timetable. This implies major reductions in "other" program spending. The scale of this implied reduction in other program spending can only be determined by reconciling the total expenditure numbers cited in the platform, with the specific expenditure items that have been identified. This reconciliation is summarized in Table 2.

We can "back out" the required cutbacks in "other" program spending necessary to balance the Conservative plan as follows. From the projected increase of $8.1 billion in total expenditures in the Conservative plan ($3.8 billion less than the corresponding increase in the 2011–12 budget forecast), we deduct the promised increases in health care, education, and the four other specified initiatives. Other than the $500 million increase in revenue derived from making the change in economic projections and an estimated $100 million saving in debt servicing costs, spending cuts to "other" programs are the sole source of funds remaining to pay for the Conservatives' campaign platform. After accounting for those new initiatives (that would have to be funded from the "other" expenditure category), all expenditures other than health and education would have to be cut by $5.4 billion. That represents a reduction of 15% in nominal terms, or 23% relative to the baseline assumption of an inflation-matching annual increase of 2%. Even in the baseline budget forecast, those other expenditures are expected to decline (by just over $1 billion), but in the Conservative program the cuts would have to be much worse.

It is thus evident that the Conservative platform relies on incremental cutbacks in other program spending of $4.1 billion in 2015–16. While the Conservative costing document does not provide spending detail for the intervening years, on the assumption of a linear trajectory toward that 2015–16 end-point, the Conservative platform implies some $10 billion in unspecified cumulative program spending reductions — all required to pay for its simultaneous promises to cut taxes, increase health and education spending, and meet the same deficit reduction timetable as the other parties.

The NDP platform sets out annual costs over a four-year period for 37 itemized platform commitments.

The commitments and unallocated amounts total $3.352 billion. However, $540 million of that amount is actually attributable to three measures proposed as offsets to corporate tax increases proposed by the NDP, and so should properly be accounted for against the revenue gain from the proposal to reinstate a 14% general corporate tax rate.[8] Measured on a consistent basis, then, the total size of the platform would be approximately $2.8 billion. Within that total, the largest single category of campaign commitments covers $1.05 billion in cuts to the Harmonized Sales Tax. These cuts account for 37.5% of the NDP platform, measured in fiscal impact.

The other major platform expenditure items are $418 million for a series of health care initiatives, $375 million for restoring 50% funding for transit operating costs, $365 million for a post-secondary tuition freeze and forgiving interest on student loans, and $265 million for a housing benefit and affordable housing development.

Because the whole program is evaluated relative to budget projections as the baseline, the sources of revenue available to fund the platform are largely limited to specific platform initiatives.[9] In common with the other parties, the NDP credits its savings in debt servicing costs relative to the budget projections against their program costs. A net increase in business taxation of $1.5 billion (equal to $1.85 billion from increasing the corporate tax rate to previous levels, plus $215 million from making HST input tax credit restrictions permanent, minus offsetting tax cuts to selected companies of $540 million) funds over half of the platform's net cost. In addition, the NDP's platform (like the Liberals') calls for a revenue increase of $175 million from tighter contraband enforcement (tobacco and alcohol tax enforcement).

The remaining $940 million comes from a variety of expenditure savings: recognizing specific savings revealed in the 2010–11 public accounts as permanent ($695 million); cutting expenditures on consultants; capping executive salaries and severances; and reducing the home care administrative budget. As with the other parties, no judgment is made here regarding the reasonableness of these cost-saving estimates.

Comparing the Platforms

Table 3 provides a summary comparison of the three parties' platforms.

TABLE 3 Summary Comparison of Platform Costs and Funding

	Liberal	PC	NDP
Cost of Platform Initiatives			
Tax cuts	0.3	3.5	1.1
Expenditure increases	1.5	0.9	1.8
TOTAL Cost of Initiatives	1.8	4.4	2.9
Funding for Initiatives			
Economic forecast changes	0.9	0.6	0.2
Revenue measures	0.2	-	1.7
Expenditure cuts	0.8	4.4	0.9
TOTAL Funding for Initiatives	1.8	5.0	2.8
Impact on Budget Balance			
Net impact on deficit	0.0	0.5	-0.1
Projected deficit	7.8	7.2	7.8
Net change in revenues*	-0.2	-3.5	0.7
Net change in spending	0.7	-3.5	0.9

NOTE Totals may not add due to rounding
SOURCE Author's compilation from party platforms and costing documents
* Excluding impact of changes in economic forecasts

Measured by fiscal impact, the Conservatives' platform of spending and tax cut initiatives is worth $4.4 billion per year in total by 2015–16. That is almost as much as the combined size of the NDP and Liberal initiatives ($4.7 billion). The Conservative platform is thus by far the most aggressive of the three in terms of the cost of the promises it makes.

The Conservatives' promises are dominated by tax cuts; the Liberal promises are dominated by expenditure initiatives; the NDP promises are divided between tax cuts and expenditure initiatives.

The fiscal room to pay for these proposals is created through a combination of more optimistic base revenue and expenditure forecasts, revenue initiatives or tax increases, and expenditure cuts.

The NDP's framework incorporates only a small reduction in forecast debt service costs to help fund program initiatives and tax cuts. Its promises are funded 6% from forecast changes, 33% from expenditure savings, 55% from corporate tax increases and another 6% from tighter tax enforcement

The Liberals' framework depends on its improved revenue forecast for roughly half the cost of its program; 10% of the cost is covered by revenue increases; and the remaining 40% is financed through expenditure cuts to other programs.

The Conservatives' framework relies on its improved economic forecast to cover approximately 12% of the cost of its program. The remainder (88%, or $4.4 billion) is entirely financed through unspecified expenditure cuts to provincial programs other than health, education and debt servicing costs.

As noted above, all three parties use revisions to forecast debt servicing charges as sources of funding for their platforms: the Liberal and NDP platforms reduce these charges relative to the budget forecast by $175 million by 2015–16; the Conservatives by $100 million. Based on recent experience, all of these adjustments are likely on the conservative side. The pre-election report of the Provincial Auditor reported that the 2009–10 and 2010–11 budgets overestimated debt servicing costs by $582 million and $434 million, respectively.[10] So lower-than-expected debt servicing costs could be one source of fiscal "upside" for whatever party finds itself in power after October 6.

With respect to the deficit, the Liberal platform relies on forecast changes to keep its deficit projection in line with its 2011 budget medium-term projection. Excluding forecast changes, the NDP and Liberal platforms match almost exactly the 2011 budget forecast for the 2015–16 deficit. Without forecast changes, the Liberals' projected platform deficit would be $8.7 billion, $0.9 billion higher than the budget forecast of $7.8 billion.

The last two lines of Table 3 sum the incremental effect on government revenues and expenditures of the specific policy measures announced in the respective party platforms (not counting the effect of adjustments to the underlying economic projections that slightly alter the Liberal and Conservative projections). The Conservative platform reduces both spending and taxes by a net total of $3.5 billion per year in 2015–16.[11] The NDP platform increases spending by $0.9 billion and revenues by a net $0.7 billion.[12] The net effect of the Liberal measures is a combined small reduction in revenue (of $0.2 billion) and a net increase in spending of $0.7 billion.[13]

Findings and Conclusions

Four conclusions emerge from this analysis, two of which relate to the Conservative platform specifically.

First, measured by the size of the initiatives proposed in the platforms, the Conservatives' platform is by far the most ambitious of the three major parties' platforms. The combined cost of promises made in the Conservative platform amounts to almost the combined net impact of the promises made by the two other parties.

Second, if Conservative Leader Tim Hudak is in charge after election day, Ontarians should expect expenditure cuts worth roughly $4.4 billion per year by 2015–16 (and a cumulative total of $10 billion between now and then) compared with baseline projections. Given that those baseline projections themselves hold expenditures to less than the rate of inflation — making no allowance for population growth or the impact of population ageing — budget restraint under a Tim Hudak government would be significant and painful. A clear analogy can be drawn to the controversial spending cuts currently proposed by the Ford Administration for the City of Toronto; that administration, too, refused to be clear during last year's election about the scale of the spending cuts that were implied by its program of tax cuts and deficit reduction. Toronto residents are now beginning to understand what that program requires,

Third and more important, because all three parties' platform budgets are largely based on the same baseline forecasts of revenue and expenditure — those set out in the 2010–11 provincial budget — the question is left unanswered as to what the parties would do if those forecasts are not realized.

The fact that the baseline expenditure forecast limits expenditure growth to less than the rate of inflation (and implies a reduction in per capita spending on public services at a rate of more than 1% per year) highlights the risk that Ontarians face of an unpleasant post-election surprise — a budget panic leading to cuts in public services.

The reluctance of political leaders to answer what they consider to be hypothetical questions makes it difficult to assess the risk faced by Ontarians to the public services on which they depend, should economic forecasts worsen. It is clear, however, that of the three parties, the Conservatives have painted themselves most firmly and most enthusiastically into a corner, declaring that there will be no tax increases and that their deficit targets are firm. That leaves Ontarians at even greater risk of substantial service cuts under a PC government, even above and beyond the already-substantial but unspecified spending cuts that are implied in the Conservative platform.

The risk faced by Ontarians is not the possibility that the precise budget forecasts will not be realized. From a budgetary perspective, an adverse shift in the economis forecast would delay the balancing of the budget by no more than one or two years — hardly cause for panic. The real risk is that, either out of opportunism or political weakness, a government will overreact and embark on an unnecessary and destructive attack on public services. Unnecessary, because over time revenue recovery will bring the budget back into balance; destructive because a cut in services would further weaken our already fragile and uncertain economic recovery.

Notes

1 The Auditor General's Review of the 2011 Pre-Election Report on Ontario's Finances, Office of the Auditor General of Ontario, June 2011.

2 The analysis presented here compiles information presented in the three major parties' platform documents ("Forward Together" for the Liberals, the "changebook" for the Conservatives, and "Putting People First: The Ontario New Democrat Fiscal Framework Document 2011" for the NDP), and from more detailed costing documents also available on their websites.

3 This analysis takes as given the parties' own estimates of the costs of the individual items in their platforms, as well as the assumptions that underlie their forecasts and projections. We are thus not questioning the costing of specific promises, but rather are only analyzing how those estimates "add up."

4 The Liberal and NDP platforms credit expenditure savings identified from Ontario's Public Accounts ($785 million and $695 million, respectively). These savings arise from an analysis of expenditure reductions below budget plan reflected in Ontario's 2010–11 Public Accounts; both parties have claimed to distinguish permanent, on-going cost reductions (captured in these numbers) from one-time-only cost reductions.

5 The analysis that follows estimates the effects of the Conservative platform by comparing the Conservative forecast to base-case status-quo spending by department, which in turn was estimated by comparing the Liberal party's more detailed line-by-line spending forecast to the promises made in each department (thus estimating the implied departmental breakdown consistent with the 2011–12 budget).

6 "PC Platform Costing," June 2011, available at http://vimeo.com/25468011.

7 The Conservatives' platform document cites the cost of its home energy bill relief program at $1.4 billion in 2015–16, presumably covering both the debt reduction charge and other measures like the cost of eliminating Ontario's share of the HST on home energy..

8 As part of its tax package, the NDP proposes to restore the preferential tax rate for manufacturing and processing profits and to reduce further the small business tax rate.

9 The NDP platform thus does not rely at all on any changes in underlying economic forecasts or revenue projections to fund its promises.

10 The Auditor General's Review of the 2011 Pre-Election Report on Ontario's Finances, Office of the Auditor General of Ontario, June 2011, p. 36.

11 The Conservatives project a modest increase in revenues over and above the 2011–12 budget baseline; those revenues are channeled into a slight reduction in the expected deficit in 2015–16.

12 The difference is funded from reduced forecast debt service costs of $175 million, for a net impact of zero.

13 The Liberals are still able to meet the original budget deficit target for 2015–16 because of their expectation, similar to the Conservatives, that revenues will modestly exceed the baseline projected in the 2011–12 budget.

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