

## **Ontario's Politicians Fail Voters with Pie-in-the-Sky Economic Policies**

Christopher Ragan  
The Globe and Mail, May 20, 2014

It is three weeks away from the Ontario election and voters have a real choice. The Liberals and Progressive Conservatives offer starkly different visions of economic policy (while the New Democrats struggle to define their position). Unfortunately, neither vision offers a balanced view of the economic role of government.

Back in the mid 1990s, Paul Martin was the federal finance minister tasked with reducing the federal government's massive budget deficit. At the time, I heard him express his guiding principle: "government should only do what only government can do". Think carefully about this statement because it reveals quite a sophisticated view of the appropriate role for government in a market economy.

This principle recognizes that many things can't be done well by the private sector and are best handled by governments. "Market failures", such as pollution control and the provision of crucial public infrastructure, are examples where government action is necessary to improve the efficiency of markets. In addition, some market outcomes, though perhaps efficient, may be deemed socially unacceptable and thus worthy of government intervention. Examples include the provision of basic health-care services and transfers aimed at reducing poverty.

The principle equally recognizes that many – perhaps most – economic activities are best left to the private sector. As compared with an economy with active government intervention, relatively free markets more quickly adapt to changing circumstances, provide greater incentives for innovation, and lead to greater personal freedom by decentralizing decision-making power. These are elements of an age-old defence of the market economy.

In other words, Mr. Martin's guiding principle suggests a balanced and pragmatic approach to determining where and how governments should intervene in the economy. The costs and benefits of any specific government policy or program should be examined within the relevant context. Analysis should play a larger role than ideology.

As finance minister, Paul Martin did not just pay lip service to this sensible principle: it was the basis of his re-design of the federal government's fiscal framework. "Program review" involved a thorough examination of the entire range of government programs, including their initial motivation, operational effectiveness, fiscal cost, and continuing need.

From 1995 to 1998, federal spending fell by three percentage points of gross domestic product (GDP). More impressive was the enormous range of absolute cuts across departments, revealing the thinking that went into the setting of priorities. Spending on regional agencies fell 65 percent, transport 50 percent, foreign assistance 20 percent,

defence 15 percent and justice 6 percent. The only department to see an increase over this period was aboriginal affairs (12 percent). The central point is not that Mr. Martin made the “right” choices – this can always be debated – but that he faced up to the need to make difficult choices, and he made them in a careful and thoughtful manner.

No current political leader in Ontario appears willing to engage in the same difficult but necessary process. Ontario’s budget deficit will be \$12.5 billion this year, up from last year and roughly 1.7 percent of provincial GDP; its debt-to-GDP ratio is now 41 percent. Ontario’s fiscal situation is not as dire as Canada’s was in 1995, but it is in the same ballpark. And what fiscal vision is offered from the leaders?

The Liberals plan to continue increasing spending, especially on much-needed public infrastructure. Their budget plan eliminates the deficit by 2018, but this will not happen unless they are successful at slowing their spending and economic growth recovers enough to generate the necessary revenue. They could have decided to finance their new favoured projects by eliminating many low-priority items, thus returning to balance even sooner, but instead they took the easier route of putting the new spending on the credit card. Not many tough decisions here.

As for the Tories, their fiscal plan is based on large cuts in the number of public servants and reductions in corporate tax rates, all with the fingers-crossed hope that the government’s downsizing will make room for a private sector just waiting to step into the breach and spur on economic recovery. Their guiding principle appears to be nothing more sophisticated than “less government is always good”.

The choice to be made on June 12<sup>th</sup> couldn’t be more important, but unfortunately neither of the leading parties offers a fiscal vision that inspires much confidence. Don’t Ontario’s voters deserve better?

\*\*\*\*\*

*Christopher Ragan is an associate professor of economics at McGill University and a Research Fellow at the C.D. Howe Institute.*