QPBRIEFING

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Dean: Liberals gladly take criticism for not raising taxes

By Tony Dean

Columnist Tony Dean says tax increases should enter the picture as a revenue strategy in the next year or two to make up the difference in what's likely to be a shortfall on the government's path to balance.

I was reading a *Globe and Mail* editorial last week about a "low-tax, low revenue, low-spending province" - and it turned out to be Ontario.

The newspaper was taking the Liberal government to task for its 2015-16 budget, which included a meagre 1.4-per-cent increase in overall program spending this year – lower than inflation and population growth. Spending on health care will increase by just 1.2 per cent this year, while funding for colleges, universities and training will go up 0.9 per cent. In the three following years, increases are currently set at an annual average of 0.3 per cent.

Observers are no longer questioning whether the Liberals are following the approaches set out in **Don Drummond**'s 2012 report and recommendations on reforming public services.

Over all, you had a sense that the budget was considered to be a little bit too austere, except for Ontario's rudderless Conservatives who, in Groundskeeper Willie style, said that "we'll show ya some real spending cuts."

But *The Globe* went a little further, arguing that federal tax cuts over the past few years have created room for the already-lean province to increase revenue. Premier **Kathleen Wynne** and her Finance Minister **Charles Sousa** must have been delighted by this.

Their budget continued to lay out a path to fiscal balance by 2017-18, relying predominantly on constrained spending, which is exactly what the rating agencies wanted to see. It spreads the pain by constraining spending in the Ontario Public Service, closing the tap on fiscal transfers to the considerably larger and more expansive broader public sector, and playing hardball with public sector unions by drawing a line at "net-zero" wage increases. There was some balance there too with further announcements on an evidence-based approach to reviewing programs, as opposed to across the board spending and staff cuts.

The Hydro One IPO was a bit of a lightning rod but it had been well-telegraphed and linked to tangible commitments on major infrastructure projects.

In view of the content, the budget got a relatively easy ride. Most governments would die for criticism that they walked on past the opportunity to raise some taxes. When asked about this, Wynne said it's not the right time for tax increases because Ontarians are still struggling to recover from the impact of the last recession.

The Globe makes a good point on taxes, though: Studies in Britain and Canada (Drummond's report and the Mowat Centre's Shifting Gears study) emphasize the importance of finding the right mix of spending constraints, revenue opportunities and public service transformation. They conclude that multiple strategies used in tandem are more effective than relying on any one strategy.

Wynne and Sousa's budget hits the mark on pursuing constraint through the lens of transformation but, aside from a small beer tax and a further nod to more enforcement against the underground economy, it does fall short on a revenue strategy. Or is this just a matter of timing? It could be that the easily-calibrated revenue dial is being saved for the next year or two to make up the difference in what will almost certainly emerge as a shortfall on the path to balance.

I don't think anyone would tag the Wynne administration as an anti-tax crowd, but in this case, the government might want to move to revenue only when other measures have been exhausted. So taxes might yet enter the picture and they probably should.