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Dalton McGuinty's Fiscal Problems: *Made in Ontario*

By Hugh Mackenzie

Ever since Ontario Premier Dalton McGuinty had his no more mister nice guy moment and declared his province fed up with being short-changed by the Federal Government, it has been hard to find any statement by any member of the McGuinty Cabinet that deals in any way with money that doesn't pick up the theme.

The Premier's complaint that Ontario pays out \$23 billion more in taxes to the Federal Government than is spent by the Federal Government has become the signature line of the government's pre-budget spin exercise. Ontario isn't getting its fair share of Federal Government spending, so it goes, and that's why it has a persistent deficit, that's why Ontario's infrastructure is in such terrible shape, that's why Ontario can't make needed investments in rebuilding its public services.

But is really true? Can Ontario really legitimately claim that it ought to be getting \$23 billion a year more in federal government funding? At the risk of raining on the Premier's well-organized parade, the answer is no. When you drill into the numbers, it turns out that the size of the gap is actually \$1.8 billion.

Let's start with the \$23 billion number. The most recent Statistics Canada data show total Federal Government revenue from Ontario of \$81.1 billion, compared with expenditures of \$59.9 billion – a gap of \$21.2 billion in 2002, \$25.3 billion in 2001 and \$27.4 billion in 2000. That's the source of the \$23 billion claim.

Now let's look more closely at the number, using 2002 as the example. According to Statistics Canada the Federal Government had a \$6.9 billion

surplus in 2002. Ontario's per capita share of that surplus would have been \$2.7 billion. While one might argue that all provinces collectively are "short-changed" when the Federal Government runs a surplus, that's not the same as the issue that McGuinty has been raising.

That leaves an \$18.5 billion apparent imbalance between Federal Government revenue from Ontario and spending in Ontario.

But that's not the end of the story. Part of the apparent imbalance results from the fact that the Federal Government raises more revenue, per capita, from Ontario than it does from the rest of Canada. That doesn't happen because Ontario has been singled out for fiscal attack by the Government of Canada. It happens because Ontario has a larger than proportionate share of the tax bases from which the Federal Government raises its revenue. In short, Ontario is relatively wealthier than the rest of Canada. And because Federal Government revenue is roughly proportional to income, on average, Ontario pays more taxes.

In fact, if Ontarians paid the same per capita amount of tax as the rest of Canada, the amount of tax it paid to the Federal Government would be lower by \$9.5 billion. That's an interesting fact, reflecting Ontario's relatively strong economic position in Canada, but unless the McGuinty Government is suggesting that the Federal Government should base its tax system on population, it is not an imbalance about which Ontario has a legitimate complaint.

That leaves \$9 billion that is attributable to the fact that per capita Federal Government spending in

Ontario is lower than per capita spending in the country as a whole.

Of that \$9 billion, \$3.7 billion results from the fact that Federal Government transfers to people are lower in Ontario, on a per capita basis, than they are in the rest of Canada. Again, that discrepancy does not reflect discrimination against Ontario specifically. It results from the fact that Ontarians receive proportionally less from programs such as Old Age Security, the Guaranteed Income Supplement and Employment Insurance than the average for the country.

That in turn reflects a combination of demographic and economic factors and the designs of the individual programs. There may well be an argument on its own merits for changes in Employment Insurance, for example, that would increase net benefits to residents of Ontario, but such an argument is not relevant to McGuinty's claim of discrimination against the province.

Now we're left with \$5.3 billion to be explained. Part of that difference is attributable to the formal provincial equalization program. If the \$9 billion in equalization payments to provinces in 2002 had been allocated instead on a per-capita basis, Ontario would have received approximately \$3.5 billion. There's no mystery to equalization. It is explicitly designed to benefit provinces other than Ontario. And in point of fact, Premier McGuinty has never indicated that he is opposed to the program.

That leaves an unexplained gap of \$1.8 billion.

Once we take into account the federal surplus, higher revenue as a result of Ontario's greater wealth, lower transfers to people resulting from demographic and program design factors and the explicit provincial equalization program, we're left with a gap of \$1.8 billion, not \$21.2 billion.

The Premier's assertion that Ontario is markedly worse off now than it was in 1995 doesn't fare any better when you look in detail at the numbers.

It is true that the excess of Federal Government revenue over expenditure in Ontario was only about \$2 billion in 1995. But the difference between that

figure and the figure for 2002 is almost entirely attributable to the change in the Federal Government's overall fiscal position over the period. In 1995, the Federal Government had a \$32 billion deficit. In 2002, it had a \$7 billion surplus. Ontario's revenue and expenditure position was better in 1995; but so was that of every other province, because of the difference in overall fiscal positions.

Allowing for the change in fiscal position, Ontario's net position in 1995 works out to \$14 billion. Of that amount, \$6.2 billion is attributable to differences in revenue per capita; \$2.9 billion is attributable to differences in per capita transfers to persons; and \$3.25 billion is attributable to equalization. That leaves a net difference of \$1.6 billion – not appreciably different from \$1.8 billion, when you take inflation into account.

Now \$1.8 billion is still a respectably large number, and Ontario certainly has an argument over the way funding for programs like immigrant settlement and infrastructure renewal has been allocated between Ontario and other provinces.

But the fact that it falls so far short of Ontario's current fiscal deficit exposes the game of political misdirection that the \$23 billion claim represents.

Anyone looking for the real explanation for Ontario's fiscal problems need look no further than the \$14 billion a year Ontario is losing this year as a result of the tax cuts implemented by its predecessors in office.

It is easy to understand the politics of the McGuinty Government trying to avoid the obvious conclusion that Ontario's problems are the result of a revenue shortfall – after all, the government's handling of tax issues hasn't exactly been a spectacular success – but the numbers speak for themselves.

Dalton McGuinty's fiscal problems were made right here in Ontario.

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