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Editorial

[Home](#) [News](#) [Editorial](#) Down the deficit rabbit hole



Down the deficit rabbit hole

Posted By **GREG WESTON**

Posted 1 day ago

A recent public opinion poll likely didn't have to plumb deep into the national psyche to discover most Canadians are all for eliminating the current record federal deficits -- at someone else's expense.

Fully 57% of those surveyed by Nanos Research said the "most effective" way for the federal government to balance its books would be taking an axe to itself.

Freezing government wages was by far the most popular deficit-cutting measure cited, followed by slashing spending on federal programs.

Scarce are the Canadians proposing to take one for the team through increased taxes.

All of which helps to explain the fiscal Wonderland depicted in the recent Conservative budget, a world in which the government freezes MPs' pay and departmental spending, and the rest of the deficit magically disappears through "economic growth."

No tax increases. No cuts to pensions, education or health. The Conservatives are masters at telling voters what they want to hear.

Unfortunately, the road to economic salvation paved in public-service pink slips and slashed federal programs doesn't go far.

According to the Conservatives' rosy projections, the government will have a deficit of about \$28 billion next year, after the massive stimulus spending spree is ended.

The problem with trying to climb out of that hole on the backs of public servants is the entire federal payroll is only about \$26 billion, or roughly 10% of total government spending.

The effect of a pay freeze would be a relative drop in a sea of red ink, not to mention endless strikes.

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Ditto for cutting government programs -- other than personnel costs, the feds only spend about \$28 billion on operations, and big cuts aren't easily made.



The Conservatives spent two years reviewing the budgets of more than 200 federal agencies and didn't come up with \$1 billion in lasting savings. Fact is, almost 80% of spending is in areas the Tories have promised not to cut (or can't) -- pensions, child supplements, education, health care, defence, EI and so on.

Truth is, for all the Tory budget hype about slashing this and freezing that, the latest federal plan to eliminate the deficit isn't about cutting at all, but relies almost entirely on revenues climbing a whopping 39% over the next five years.

Since Finance Minister Jim Flaherty has declared "the government will not raise taxes," the obvious question is where is the government hoping to find this windfall of loot?

First, the Conservative government is banking on employment insurance premiums being hiked by 34% over the next four years.

That alone will put another \$9 billion a year in the federal coffers. But it's not a tax increase.

The Conservatives recently hiked the airport security taxes -- sorry, fees -- that get added to the price of every airline ticket.

The biggest fed heist of all, of course, will continue to be what it has always been -- personal income taxes. Flaherty's budget predicts a 40% increase in the government's annual rake off our paycheques over the next five years, adding \$42 billion more to the treasury annually by 2014.

Exactly how that might happen through natural causes is not entirely clear, even if all the Canadians tossed out of work during the recession were rehired tomorrow.

The government is also predicting corporate tax revenues will soar by almost 50% to \$33 billion a year by 2014, with an almost identical amount coming from the GST.

Bottom line, if all goes according to plan over the next five years, the Conservatives will get rid of the deficit and have a staggering \$82 billion more in annual revenue.

And if it all turns to dust, the Conservatives will be safely past the next election.

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