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Ottawa Journal: The Nightmare Scenario

By David Tilson, MP

This is the nightmare scenario, as Interim Conservative Leader Rona Ambrose called it on Budget Day last week, and I agree.

The 2016 Budget projects a deficit of $29.4 billion, contains undisciplined spending, has no plan to balance the books, will fail to boost economic growth, and raises taxes on families, individuals and small businesses.

The Conservative Party of Canada can't support the Budget. The bottom line: over the next five years, Canada will borrow $113.2 billion with little to show for it.

The Liberals promised to run ?modest? deficits of $10 billion in their first two years.

They broke that promise and are instead running a deficit of $29.4 billion in 2016/2017 and $29 billion in 2017/2018. They broke two other promises, too: to return to a balanced budget and to reduce debt-to-GDP below current levels?both by 2019/2020.

Debt-to-GDP only falls below current levels in 2020/2021, when the deficit is still projected to be $14.3 billion.

The government is falsely blaming economic conditions for this year's deficit.

Because it takes the $18.4 billion deficit projected in Finance Canada's February update as a starting point, the Budget outlines only $11 billion in new measures, close to the costing of the Liberal election platform. However, February's figure included at least $2.3 billion in decisions made by the new government, and a $6 billion contingency fund ($3 billion larger than past practice).

Added together, the government has given themselves $19.1 billion to play with.

The government has also slipped new spending into the 2015/2016 fiscal year, dropping the projected surplus from a new high of $4.3 billion (for April 2015-January 2016) to a deficit of $5.4 billion at year end. This includes, most notably, the addition of a $3.7 billion spending item for veteran pensions. The bottom line is that this means the deficit is closer to $35 billion in terms of the Liberals' musical math.

The government is overestimating the economic impact of the Budget.

Despite containing no explicit jobs plan, they claim their spending will create 143,000 jobs over the next two years, and boost GDP by 0.5% in 2016 and 1% in 2017.

Most bank economists, in contrast, had estimated the Liberal platform to only deliver a GDP increase of about 0.1-0.3% per year.

The analysis behind the government's figures is flimsy.

They simply take the amounts of money in different categories of spending and apply assumptions about their economic impact. These assumptions appear more or less the same as those used in 2009/2010 federal budget, when the economic conditions were dramatically different.

Little attention is devoted to the content of spending within the categories. This means, in one case, that spending on arts and culture and government overhead is assumed to deliver the same impact as spending on infrastructure.

Most of the government's expected economic boost this year comes from a net $5.6 billion in measures for low income households, mostly the new Canada Child Benefit.

The other key item is $5.4 billion for infrastructure and housing, with another $8.3 billion set for next year. Most of this will be done through the provinces and municipalities, so getting the money out the door on time will be challenging, and some of it is bound to substitute for spending that was already planned.

Even if the infrastructure work creates jobs during the construction phase, it will do little to increase Canada's long-term economic potential.

With the exception of $4.6 billion for public transit over the next two years?which would reduce traffic congestion in urban areas and improve the flow of trade?most of the spending is on ill-defined ?social? and ?green? infrastructure. There are no new funds for roads, highways, rail or ports. Of the $2.1 billion spent on other programs this year, only $137 million is going to support business growth and innovation.

Any economic boost from higher spending will be overshadowed by immediate and looming tax hikes. Personal income taxes are set to go up by $1.3 billion this year and $2.4 billion next year, due to the elimination of income splitting and higher rates on income over $200,000.

Tax credits for textbooks, tuition and children's fitness and arts are gone.

More fallout to come in the weeks ahead. Stay tuned.