

## **Jim Flaherty confident books will be balanced by 2015**

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Jim Flaherty says his 2015 target for balanced budgets is not based on “crossed fingers” and will be achieved through planned spending freezes and the end of stimulus funding.

Speaking at the Earth Rangers Centre in Vaughn, Ontario – a riding the Conservatives recently won in a by-election – the Finance Minister released the government’s seventh update report on the impact of Canada’s two year, \$60-billion stimulus program.

According to the report, the “Economic Action Plan” created 222,000 jobs through a mix of tax cuts, unemployment benefits, infrastructure spending and industry support. Of those jobs, 5,000 were in utilities, 53,000 in construction, 37,000 in manufacturing and 127,000 in the service sector.

On several occasions in his speech, Mr. Flaherty described his government’s tax cutting plan as sustainable and said the balanced budget goal is achievable.

“Unlike most advanced economies, our medium-range goal of a balanced budget by 2015 is an achievable goal, supported not by overly optimistic forecasts and crossed fingers, but supported by the prudence we showed in the past and the discipline that is guiding us now,” he said.

The minister’s comments come on the heels of an open letter last week by former Finance officials Scott Clark and Peter DeVries, that argues Mr. Flaherty’s target is not achievable because Ottawa has a permanent, or structural, deficit.

Both sides in the debate point to a December report on Canada by the International Monetary Fund. That report did forecast a small structural deficit for Canada of 0.2 per cent of GDP in 2015-16 – the year Mr. Flaherty says the books will be balanced.

Finance Canada’s October, 2010, update projected a \$45.4-billion deficit in the current fiscal year ending March 31.

The IMF says the government's deficit fighting plan is "credible," but may need to be changed in the short term.

"In the event this adjustment proved difficult to implement, other steps would need to be considered, including steps to restrain growth in transfers to provinces or to enhance revenues including increases in taxes," the IMF says.

Mr. Flaherty's stimulus update comes as Parliament resumes sitting with the economy again expected to dominate debate.

The particular focus will be on corporate tax cuts, which the Conservatives want to continue for one more year with a final reduction on Jan. 1, 2012. The Liberals and the NDP oppose this and are warning they may vote to defeat the government over its March budget unless the planned cut is reversed.

The Finance Minister repeated his support for corporate tax cuts and noted that the 2012 cut is the last in a series that were approved by Parliament in 2007.

At the political level, both sides say the debate is about jobs. Conservatives see tax cuts as the best way to position Canada as an attractive place for investment. The opposition argues there are better ways to create jobs. Still others, including Laval economist Stephen Gordon, argue the debate has nothing to do with jobs even though lower corporate taxes do boost investment and wages.

The government's sixth report – which was released in September 2010 – contains a table that is being used by the government's critics to challenge the Conservative job claims. This table appears again in the seventh report.

It provides an estimate of the impact on real gross domestic product for every dollar invested in seven possible stimulus measures. Corporate tax cuts rank last.

However the table includes a note at the bottom that states: "Business tax measures have a limited impact on aggregate demand over the periods displayed in the table but have among the highest multiplier effects in the long run. This is because they increase the incentive to invest and accumulate capital, which leads to a higher capacity to produce goods and services."