



Debt and deficits

Don't believe everything you hear about debt and deficits

Talk about debt and deficits is widespread. There are many who have been claiming that Canadian debt and deficits have become too large again and that public services, spending and government jobs, wages and benefits need to be cut.

Deficits and why they're considered a problem

Deficits occur when the amount of money coming in doesn't equal the amount going out. They occur when incoming tax revenues aren't enough to pay for government expenses.

Deficits are normal during recessions. They occur at the same time workers lose their jobs and pay less or no taxes, governments need to spend more to stimulate the economy and provide income to unemployed workers.

When a deficit occurs it becomes part of the national debt. What matters is not the dollar size of the national debt but its size relative to the size of the economy. And in this regard Canada is in good shape despite the 2009-2010 deficit and the forecast 2010-2011 deficit.

Forecasters estimate that Canada's federal debt to GDP ratio will hover at an average of about 33.9% over the next five years. That's extremely low compared to other nations. For example, the current debt to GDP ratio in the United States – Canada's largest trading partner is about 70% and the threshold that European nations must meet to enter the European Union is 60%.

Public spending isn't the cause of this most recent deficit

The deficits that the Canadian government will rack up in 2009 -2010 and 2010 – 2011 and perhaps beyond are the result of government decisions to stimulate the economy to help chart a course out of the current recession in the face of declining government revenues as well as ill advised and poorly timed reductions in the GST and corporate tax rates. In fact, the corporate tax rate that was 22.12% in 2007 is projected to fall to 15% in 2012, thanks to current cuts.

Conservative government policy has put revenues in 2009-10 at 14.4% of Gross Domestic Product (GDP). That's the lowest percentage of GDP in 50 years.

The part of the current deficit that is not immediately attributable to emergency recession spending will only be 1% of potential spending by 2013-14 compared to 7.5% in the mid eighties and 4.5% in the mid nineties.

It's time to stop hysterical talk about the deficit

Any potential ongoing deficit in Canada is small by historical standards and when compared to many other countries, and is a direct result of the impact of the recession and ill- advised corporate tax breaks and GST cuts. Public spending and public sector workers shouldn't be targeted for Conservative tax initiatives that are really nothing more than a subsidy for rich corporations and individuals.