

The Tories court red ink

It is the small print, the cryptic notations amid detailed charts, that may be the federal Conservatives' undoing. Two months ago, emboldened by the prospect of victory, the party put out a blithe fiscal plan that itemized its intended spending, its tax cuts and its sunny predictions for a continuing surplus. Buried amid those five-year tallies and self-aggrandizing comparisons with the Liberals was the rather astounding assertion that they could save \$22.5-billion over five years by "moderating spending on grants and contributions and government departments and agencies." At the time, as figures from all parties flew like feathers, scarcely anyone paid attention.

Now the Conservatives are in the soup. As TD Bank Financial Group warned this week, that colossal pledge of \$22.5-billion in savings represents fully 5 per cent of direct program spending over five years. Worse, there are complications. The Tories also promised to hike the budgets of defence, international assistance, Indian and northern affairs, agriculture and the RCMP, so 25 per cent of spending is effectively off limits. To scrounge such savings from the remaining spending, fully 6.7 per cent must be cut over five years. "Savings of the magnitude identified in the Conservative plan will not be easy to secure," observed TD chief economist Don Drummond. That is an understatement.

The easy cuts, and many of the hard cuts, have already been made. In 1995, to eliminate the deficit, the Liberals outlined schemes to slash direct program spending by 10.9 per cent over three years. Much of the savings came from so-called transformational cuts such as the elimination of transport subsidies. The Liberals simply wiped out large areas of federal activity. Even then, the trumpeted savings were lower than advertised; Ottawa had to pay major restructuring costs to get out of its obligations. And in reality, some cuts never actually occurred. Just last year, the Liberals took another whack at spending, hacking out \$10.9-billion in savings over five years.

It's going to be tough to find another \$22.5-billion. And the Conservatives do not have the luxury of missing their targets. As TD calculated in mid-February, the Tories will likely emerge from 2006-07 with a paltry surplus of \$1.9-billion followed by surpluses of roughly \$5-billion a year for the next few years. They don't have a lot of room for mistakes or mishaps. The bank's estimates do not cover the cost of such wildly ambitious promises as the vow to fix the fiscal imbalance. Nor do they include such previously unanticipated costs as transitional funding to the provinces for the cancellation of child-care transfers. Perhaps worst of all, the Conservatives have apparently underestimated the price tag for cutting the sales tax and deferring the capital gains tax. They are perched on a very keen knife's edge.

The danger is clear. U.S. President George W. Bush was elected as a fiscal conservative. This year, largely because of his defence bills and tax cuts, the United States faces a record deficit of \$477-billion (U.S.). Although the Tories are of course not even close to digging that sort of hole, and insist that they will never, never run a deficit, their fiscal future appears decidedly risky. The moral? Don't promise the world if you can't pay for it.

