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Ontario deficit to hit \$25-billion, as tax revenue takes a plunge

Spending also increases by \$4.8-billion

Lee Greenberg, Canwest News Service

TORONTO - Falling revenues and a burgeoning \$24.7-billion deficit will force Ontario's Liberal government into a new era of fiscal restraint, provincial Finance Minister Dwight Duncan said yesterday.

The province's diminished fiscal health will prompt a strategic spending review of all programs and services, Mr. Duncan said. The review will result in an action plan to be unveiled in the spring 2010 budget, likely to be tabled in March.

"We will change how we do business in this province," he told the legislature. "We are becoming an even leaner and even more efficient provider of quality public services."

According to economic figures released yesterday, Ontario is spending \$4.8-billion more this year than it predicted just seven months ago. The increased spending includes \$4-billion in auto-sector assistance and an additional \$650-million to fund the province's H1N1 response. Program spending has also risen by \$812-million.

Tax revenues, meanwhile, are falling dramatically. They now stand at \$5.8-billion less than the government predicted in last spring's budget. Corporate taxes are \$2.65-billion -- or nearly one-third -- lower than projections, while personal income tax is down \$2.43-billion, or 10%.

Mr. Duncan refused to speculate about what might result from the spending review, including a possible public-sector wage freeze, the possibility of asset sales of Crown corporations like the Liquor Control Board of Ontario, or cuts to smaller government programs.

"We haven't even begun to look at the choices we might make," he said. "What we have said is, when we're through this [program review], we'll have to look at restraint."

Conservatives, who have watched as the Liberals raised spending by nearly 60% over their first six years in office, were skeptical about the new pledge of austerity.

"Dalton McGuinty is hard-wired to increase your taxes and increase spending," Conservative leader Tim Hudak said. "The reality is, the only way to get spending under control is to change government."

Mr. Duncan said he wants to restrain spending "without sacrificing important public services." He said the government would take a "sophisticated" approach to any cuts, adding that spending will continue

to rise in priority areas like health and education.

One analyst said the province's massive deficit is heightened by the growing size of Ontario's health-care sector, expected to account for half the budget by 2015.

"It means everything else has to grow less or even has to be cut," said Pascal Gauthier, economist with TD Economics.

While Mr. Duncan is predicting modest growth this quarter, Mr. Gauthier said recovery should be well under way before the government begins cutting.

"Government and central banks want confirmation the private sector has its legs under it and the recovery is sustainable. Budget time will be an appropriate time to get more specifics about the path back to balanced budgets."

Ontario's \$24.7-billion budget deficit is a sharp increase from the \$14.1-billion forecast in March. At that point the government claimed the province would be back to balanced budgets by 2015. It has subsequently dropped that claim.

Ontario is projecting deficits of \$21.1-billion in 2010-11 and \$19.4-billion the following year.

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