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PM quickly quashes rumour of GST hike

Money needed to cover health care reform, paper reports

OTTAWA (CP) - Prime Minister Jean Chrétien dismissed reports today that the federal government might boost the GST to 10 per cent from seven per cent to pay for new spending programs.

"It's not a serious proposition at all," Chrétien said today in Montreal amid rumours the finance department was considering raising to 10 per cent the current seven per cent goods and services tax.

Such a move would mean up to \$11 billion more income annually for the cash-strapped federal government.

And right now, Ottawa's money is very tight, says a new report by former Finance Department official Don Drummond.

The federal government will barely be able to keep the books balanced between now and 2005, due to tax cuts and spending promises in earlier budgets.

Compounding the problem is the hit to federal revenues from an economic slowdown.

Yet Chrétien is expected to launch new spending programs before his retirement in 18 months, adds Drummond, now chief economist with Toronto Dominion Bank.

That doesn't mean Ottawa plans to increase the GST, Chrétien said today.

"There's no question. I've never heard about that," Chrétien said in French.

But he didn't entirely rule it out in the next budget, which could come this fall or in early winter.

"I never speculate on the budget. We'll decide then. So far there's been no question about what you're raising."



CP PHOTO/Allen McInnis

Patients line the hallways of Sacre Coeur Hospital in Montreal's Cartierville district on Jan. 9, 2002.

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Media reports have quoted unidentified bureaucrats as saying the government is considering an increase in the GST.

Drummond said it makes sense to shift the tax burden, by lowering income taxes at the same time consumption taxes are increased.

But it's unimaginable to think Chrétien would do that, in part because of his controversial history regarding the GST, he added.

"I'm sure it has been looked at, but not seriously," he said.

When Chrétien was in opposition in the early 1990s, he and other high-profile Liberals said if elected they would eliminate the unpopular GST.

They didn't, and drew enormous criticism for renegeing on their promise.

Criticism flared again today as outraged provincial finance ministers reacted to the rumour.

"You could have knocked me over with a feather," said Ontario Finance Minister Janet Ecker, adding a tax increase would crush consumer confidence.

Added her Quebec counterpart Pauline Marois: "This could signify an increase of \$700 a year in taxes for a family. I don't think that is reasonable."

But spending pressures are building, including new health demands anticipated in the coming report of the Romanow commission and the cost of implementing the Kyoto climate change accord, said Walter Robinson of the Canadian Taxpayers Federation.

"This could be more than a trial balloon."

Not so, said the federal Finance Minister's office.

A spokesperson for John Manley said the government's record has been to lower taxes, not raise them.

"It's all speculation and it's premature," said Jeff Brownlee.

Drummond said Chrétien may try to free up money by trimming federal spending, though he won't want to risk most programs and may come up with only about \$1 billion in savings.

He may also "squeeze" out the \$3-billion contingency reserve and another \$1-billion rainy-day reserve former finance minister Paul Martin had set aside in each budget, said Drummond.

That additional \$4 billion could be used as "seed money" or a down payment in the next two years on new social programs Chrétien is expected to outline in the throne speech Sept. 30.

If those reserves are eliminated, the federal surplus would shrink to a mere \$500,000 in the current fiscal year, and \$100,000 in the next two before recovering to \$2.7 billion in 2005-2006.

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