House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 006 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Wednesday, October 27, 2004

Chair

Mr. Massimo Pacetti

Standing Committee on Finance

Wednesday, October 27, 2004

● (1535)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good afternoon. I'd like to call the meeting to order.

Before we begin, there are two items.

First I'd like to welcome the parliamentary delegation from Bangladesh. Thank you for visiting.

Some hon. members: Hear, hear!

The Chair: Second, from what I've been told, I'd like to warn the witnesses and even some of the members not to touch the microphones in front of you. The person in the back will put the microphones on. If you knock them, then we lose the sound.

We're going to try a new system here. This is a sort of test panel, where we'd like to have a little bit of interaction among the groups. We have tried to bring in groups with various or different points of view. What we're going to try to do is allow all the groups five minutes of testimony or air time; then we're going to give it to the members.

What I'd like from the members is a five-minute to seven-minute question period, let's say. If possible, direct your question to two members of the panel so that we get different points of view.

The objective is setting the budget scene, allocating the federal budget surplus with a national view. I'd appreciate cooperation, keeping that in mind.

I'd like to get started. We'll do it in the order I have here in the orders of the day.

For the Conference Board of Canada, who will speak? Is it Mr. Barrett? Thank you.

Mr. Charles Barrett (Senior Vice-President, Program Strategy and Delivery, The Conference Board of Canada): Thank you, Mr. Chairman. I'm Charles Barrett, senior vice-president of the Conference Board. With me is Glen Hodgson, our chief economist. I'm going to ask Glen to speak for the first two and a half of the five minutes; then I will add some things to what he has to say.

Mr. Glen Hodgson (Vice-President and Chief Economist, The Conference Board of Canada): Thank you, Charles and Mr. Chairman. I'll probably only use a minute and a half.

I'll start by saying that we've had the privilege of doing some work for the Department of Finance over the course of the summer—it is on our website—where we've done a medium-term analysis of the fiscal framework to try to determine how much operating room there is for the federal government.

What our analysis showed is that right now we're on a path towards growing surpluses between now and the medium term. Of course, this work was done before the health accord between the Prime Minister and premiers; some of the space has been taken up. But given the recent evidence on the fiscal surplus in fiscal year 2003-04 and our own analysis, we think there is probably some room to talk about action, in terms of either tax reform or targeted spending within the budget, on a going-forward basis. That will be the point of departure.

We continue to think it's important to have strong cornerstones in the fiscal framework. I'm going to leap to the kinds of recommendations we would provide to the committee.

We think it's important to reinforce having a medium-term fiscal target for both debt to GDP and also debt service to revenues. I think it's important to draw the distinction, because the government ultimately will have to pay debt service. It needs to have a forward-looking plan of what it can afford to pay, without being fanatical about having a debt reduction path going forward.

Second, it's important to maintain the built-in shock absorber within the fiscal framework, in the form of a contingency reserve. Our preference would be, rather than have built-in prudence in the fiscal framework, to actually be more transparent about that up front and perhaps increase the size of the contingency reserve, knowing that we actually dodged a bullet during the slowdown of the last three fiscal years.

We've seen the huge fiscal deficit emerge in the United States. Part of that was because of slowing revenues and the fact that the U.S. slipped into recession. Canada, even though we're in a surplus position now, is not that far away, because even a $5 billion or $6 billion surplus on a budget of more than $180 billion does not give you much room to manoeuvre in the event that the economy slows down going forward.

Third, we think it's important to be more transparent. The concept of having some pre-discussion on what would happen if the surplus were larger than expected, or smaller than expected, we think deserves consideration by the committee and by the government.

Last, and this will be the point of departure for Charles, we think there's a false dichotomy often discussed between spending, increased spending, or tax cuts. For us, that isn't the right issue. The real core issue, for our part, is to improve Canada's living standard.

We have done a lot of work recently in our annual report card on Canada that we call “Performance and Potential”, which is on our website, about the great issue facing Canada today. We think it's the gap in productivity versus our American friends and our international competitiveness. For us, the core issue is how to have a combined set of actions that really increase Canada's productivity through investment in public goods and through improvements in economic incentives.

I think at that point, Charles, I'll pass it forward to you.

Mr. Charles Barrett: Yes, indeed.

Mr. Chairman, what we are saying is that there is an opportunity now for targeting new spending toward investment, but it's critical, in our view, that new spending needs to be thought of in the context of what is going to increase the potential of our economy. In other words, it needs to be investment, not consumption.

What are the areas? Public infrastructure is a top priority; that's one we've identified in “Performance and Potential”. It's one where I think there is strong empirical evidence that the business community globally understands that we have some gaps. That's particularly true in terms of the cities agenda, so we see that as important.

We also see social infrastructure and strengthening labour force skills as being important areas of spending.

We think it's important that we focus on Canada's role in the world and look at both National Defence and ODA.

So there are a number of spending areas that have been identified and that need to be the focus of the budget.

On the tax side, for us the central issue is to ensure we have a competitive and sustainable tax system. It's not just a matter of cutting taxes; it's a matter of looking at the overall design of the tax system. We think it is time for the committee, and indeed for the government, to again be looking at overall tax reform.

I think others may touch on this. We think it's important that we reduce the burden of taxation on capital. We need to look at the corporate tax rate and the withholding tax. We also need to recognize the fact that this country has a very high dependence on direct taxation of incomes, so shifting the tax burden away from direct taxation towards indirect taxation is something that needs to be looked at.

We understand that has implications for the progressiveness of the tax system, but we believe that can be dealt with through tax-based rebate programs. We recognize that increasing the GST or other indirect taxes is a tough sell politically, but we think the overall structure of the tax system is something the government needs to address. The way of balancing the need for public investment with the need for having a tax system that is efficient and competitive is through looking at the structure of the tax system.

To conclude, the Conference Board of Canada would offer the following advice on the fiscal framework. The first point, to reiterate, is that the fundamental structural challenge we have in this country is to improve productivity. That is the driver of standards of living and improved quality of life. We feel there is a need to reconfirm the fiscal cornerstones by establishing medium-term targets for both the debt-to-GDP and the debt-servicing-to-federal-revenues ratios. We need to put in place a steady debt reduction path and keep focused on that, maintain and enhance the contingency reserve, ensure that the system is transparent, and understand that spending versus tax cuts per se is a false debate and that there are genuine needs for public investment and improved economic incentives.

Mr. Chairman, I think I'll stop there.

● (1540)

The Chair: If we can, let's try to keep it within five minutes, because there are a lot of groups, and the members want to ask questions.

If anybody has submissions, we prefer to have them in both languages. If you can, later on—or even prior to appearing—submit them to the clerk.

Next on the list is Mr. Veldhuis.

Mr. Niels Veldhuis (Senior Research Economist, The Fraser Institute): Let me first start by saying thank you for having me here today to share my thoughts on how best to allocate the future surpluses. I do so as a representative of the fiscal studies department at the Fraser Institute, but I should mention that the opinions I state here are my own.

I also extend apologies for Michael Walker. He's in Africa at the moment, talking about economic freedom.

Over the past ten years, one of the most pressing issues Canada has faced is our inability to close the productivity gap with our U.S. neighbours. I'll give you a few statistics. In 1993, gross domestic product per worker was 84% of that in the U.S. Since that time the gap has widened, not closed. In 2003, the gap stood at 79%. One of the primary reasons Canada is unable to close this gap is that we're not able to attract the same level of capital as the U.S.

I'll give you another piece of information. From 1991 to 2001, Canada's accumulated net business investment in equipment and machinery has lagged behind that of the U.S. by over $1,200 per person.

We feel that in order to close this productivity gap, the federal government must improve the incentives to work, to save, to invest, and to take risks. If more capital is available, more jobs will be created, labour productivity will rise, Canadian workers will have higher wages, and governments will have higher revenues. To achieve this virtuous circle, we believe the federal government must focus on two tax relief measures: personal income tax cuts and business tax reductions.

I strongly recommend that this committee, in its report to the Department of Finance, insist that the government resist any temptation to allocate future government surpluses to new or existing spending initiatives. Instead, I recommend the surplus be used exclusively for tax cuts. Finally, any future unexpected surpluses should be earmarked solely for debt relief.

Let me now just broaden each of those three points.

On spending restraint, a growing body of research shows that the size of government matters in terms of economic growth. The growth-maximizing size of government for Canada is estimated at around 30% of GDP. Currently the level stands at just over 40%.

In addition, as I'm sure you're well aware, Canada is facing the pressures of an aging population. Some of the key government programs, like the old age security program and medicare, will continue to require a growing portion of the federal budget. It's simply not prudent for the federal government to embark on new spending initiatives, given that we are not certain we'll have enough money for the current programs.

On tax relief, I mentioned two tax cuts: personal income tax cuts and business tax cuts. On the business side, Canada levies a much larger burden on capital than does the U.S. The last estimates—and I'm sure Mr. Mintz will confirm my numbers—show it was 31.7% here versus 25.8% in the U.S. This is the effective tax rate on capital. I strongly recommend that the government aim to eliminate this tax differential by reducing the corporate income tax, by increasing depreciation allowances, and by accelerating and broadening the reductions in the corporate capital tax.

On the personal income tax side, the government must address the disincentives for work and for savings. Our tax rates kick in at much lower thresholds than they do in the U.S. In 2004, our top rate kicks in at just over $113,000, while the U.S. one kicks in at over $300,000 U.S. In other words, top income earners in Canada face the top rate at much lower incomes. Flattening our income tax system will decrease the distortions in the labour market, increase the incentives to work, and increase the incentives to take risks and to save.

Finally, any unexpected future surpluses should be solely earmarked for debt relief. Reducing the debt provides a permanent savings on debt servicing costs. Interest rates are forecasted to increase substantially over the next three years. With the existing level of debt, our interest costs will also increase.

Thanks for your attention.

● (1545)

The Chair: Thank you. That was pretty good. You were within the time limit.

We'll go on to the Canadian Taxpayers Federation, and Mr. Winchester.

Mr. Bruce Winchester (Research Director, Canadian Taxpayers Federation): Nationa Mr. Chair, honourable members, I'd like to thank all of you for this opportunity to bring the Canadian Taxpayers Federation perspective to your pre-budget deliberations.

Once again, the federal government is facing a growing surplus. There are many who are clamouring at the prospects of new spending choices, but before you lawmakers go too far down this road, it's worth remembering that this is not a surplus resulting from reduced spending, but rather one that is the result of structural overtaxation.

The Canadian Taxpayers Federation is urging this committee and all parliamentarians to make the following three priorities central in this year's federal budget: broadly based and fair tax cuts, legislated and planned debt reduction, and meaningful reduction in and elimination of wasteful spending.

That we need and can afford further broadly based tax cuts is axiomatic. Last year, Canadian taxpayers were overtaxed by Ottawa to the tune of $500 apiece. Had there been better forecasts of revenue last year, Canadians could be enjoying the first phase of an $1,100 personal income tax cut. That would come in the form of higher basic personal tax exemptions.

Last year, we called on this committee to recommend that the basic personal and spousal exemptions be raised to $15,000 over a five-year time period. In the context of growing surpluses, we are confident members will see this proposal's merit and affordability.

In terms of forgone revenue, $4.8 billion will bring these exemptions up to about $9,000 a year. But this assessment really discounts any stimulative effect of broadly based tax cuts. This government and Canadians know otherwise. As we saw with the much-hyped $100-billion tax cuts that began in 2000, the actual cost in terms of long-term revenue was far less. In fact, to paraphrase the former prime minister, the proof is the proof.

In the 2000 budget and economic update, then Finance Minister Paul Martin presented a pre-tax forecast of $193 billion in revenue for this fiscal year. If the most recent *Fiscal Monitor* is any indication, that's exactly what revenues are going to be this year. How can this be? The government's $100-billion tax cut was supposed to dramatically reduce expected revenues from that $193 billion that was projected way back in October 2000. Of course, the answer is simple. In the words of Finance Minister Goodale, the revenue growth we are now seeing is of a permanent and structural nature.

Now, this shouldn't come as a surprise. Tax cuts strengthen the economy and lead to more working Canadians paying taxes. So yes, tax cuts actually increase government revenues.

A growing economy and debt repayments have the federal government debt on a downward trajectory. Taxpayers have long advocated for a debt retirement schedule. The Financial Administration Act wisely requires that 100% of any surplus be directed to debt repayment, yet medium-term prospects for the surplus make it clear that we need to move away from debt repayment by accident and toward debt repayment by design.

The CTF applauds the government for embarking on a streamlining of programs with a target of 5% per year, and we applaud the sale of the government's stake in Petro-Canada and the proposal to sell public buildings. These kinds of initiatives will go a long way toward ensuring the government can implement a mandated line item in the budget: “Debt retirement schedule”.

The CTF recommends phasing such a schedule in as a line item every year, beginning this year with a 1% allocation and rising to a maximum of 5% of revenues devoted to debt repayment. If our good fortune and good fiscal management hold, our half-a-trillion-dollar debt could be paid off in a generation, saving billions in annual interest payments.

I think it's worth dwelling on the inherent unfairness of passing on this debt to future generations. As I take time to speak to all of you today, I'm not at home, spending time with my six-month-old daughter. For me, government debt is very real, because it's her generation and your children's and your grandchildren's that will shoulder the burden of government overspending long gone, twenty and thirty years before they were born. We must not pass on this debt legacy to future generations of Canadians. Now is the time to act on this.

When it comes to overspending, taxpayers identify wasteful spending as the driver of government excesses. Some 34% of CTF supporters identified the elimination of wasteful spending as their top priority for Ottawa this year. And if there's anyone here who disputes the fact that the federal government is wasteful in its spending, I would invite you to visit the Gomery inquiry.

● (1550)

Contrary to the assertions of some, June's federal election quite loudly and clearly demonstrated Canadians' concern over waste and mismanagement right here in Ottawa. The billion-dollar advertising and sponsorship scandal, perhaps the most egregious example of government mismanagement in recent memory, is not a unique or an aberrant case. For those more attuned to the games here in Ottawa, for more than 10 years the Auditor General's reports have shown consistent management, planning, and evaluation flaws with all of the government's discretionary grant programs. Just to put this into context, if we just look at 8 out of 22 departments, discretionary grants have been in excess of $15 billion a year. From our perspective, getting rid of Industry Canada's corporate welfare would be a good place to start.

We should also think upon the amount of spending increases we've seen. This year, spending will increase by 3.5% and is scheduled to increase by 4.6%, but if this were kept in line with inflation and population growth, we'd be looking at much more modest spending increases. In fact, spending increases for these two years outstripped population and inflation growth by a magnitude of 70%, which means the spending that we will see next year in government will in fact account for population and inflation growth well into the year 2008.

Ottawa's long-term structural overtaxation needs to be reined in. Raising the basic personal and spousal exemptions to $15,000 by the year 2009 would be a welcome tonic to Canadians and would go a long way to improve our prospects. Similarly, eliminating debt is an important priority. Finally, we must learn from the Gomery inquiry —not simply punish the guilty, but rather do better in eliminating wasteful spending.

Members of this committee, you have an opportunity to make recommendations that will speak to these concerns. I thank you for your time and attention today.

The Chair: So much for that record of one for one.

I really would appreciate it if you would stick to the five minutes. I'm not really into trying to interrupt you, so we're extending it. If you see me waving, it's to indicate 30 seconds, because there are a lot of groups here.

Without further ado, we'll go to the Canadian Centre for Policy Alternatives, and Ms. Russell.

Mrs. Ellen Russell (Senior Research Fellow, Canadian Centre for Policy Alternatives): For years, now we've been appearing before your committee to argue that there is really a large ongoing federal budget surplus. Year after year, we were making budget surplus projections that were much closer to reality than were those of the finance minister, and we still had to fight the myth that Ottawa's budget surpluses were some kind of surprise. We are now finally escaping from the myth of the surprise budget surplus, but let's not get sucked into another myth. Don't believe for a moment that with health care and equalization deals just completed, federal government spending is now back on track to its rightful place.

What has happened with government spending? If you listen to the media, you can get the impression that government spending has just exploded in the last five years. It is possible to take spending numbers, ignore inflation and population growth, and produce this statistic that makes it seem like government spending is going up dramatically, but don't be fooled.

To get some perspective on government spending, look at the performance of government spending relative to the size of the economy. A table that you've been handed, I'm hoping, has been prepared by Armine Yalnizyan for FAFIA, a coalition of women's groups.

● (1555)

The Chair: Excuse me, but we haven't received the hand-out. It's only in English, so we can't hand it out.

Mrs. Ellen Russell: Okay, I'll tell you about it.

The picture goes like this. The historical norm in Canada is really much higher than the program spending to GDP that we're doing at the moment. We reached a low point of 11% program spending to GDP and have gone up a little bit. There's a slight uptake at the bottom of this chart to 11.6% program spending to GDP. We're starting to inch back up, but since we are still at historical lows, does that small increase constitute the government honouring its so-called 50-50 commitment that was made earlier? That commitment was that about half of the so-called fiscal dividend realized since the budget was balanced was to be directed to program spending.

Here, the debate for you is going to get very interesting, because there is no universally agreed-upon way to evaluate whether the federal government has fulfilled this 50-50 promise. I sympathize with your committee, because you're going to hear from a lot of economists who are going to come up with a lot of different ways to calculate this. I would especially caution you away from accepting the government's own claims by adding up their announced spending and tax plans as a way to work this out.

To distinguish between fiscal reality and spin, Armine Yalnizyan has done a detailed forensic audit of the government's spending and taxation over the last ten years. She can speak to you about some of the misleading claims that are made, but I'll give you a sketch out of the big picture.

Jim Stanford, an economist with the Canadian Centre for Policy Alternatives, assessed these 50-50 claims by analyzing the government's spending, taxation, and debt repayment with actual historical data. Stanford found, in 2003, that the fiscal dividend related to the government's surplus position was allocated about 90% to government debt repayment and lower taxes combined, and about 10% to higher spending. It was a little better if you added in child tax benefits.

When I heard about this meeting on Monday, I updated these figures to—

The Chair: Sorry, I don't mean to interrupt, but we're going to distribute them.

[*Translation*]

I realize that the documents are in English only. A translation will be available tomorrow. However, it's easier to follow along on a chart. Otherwise, we could have problems.

[*English*]

Is everybody okay with that? It's prepared by the witnesses, not by us.

I'm sorry about that. We're just going to allow the document to be distributed.

Mrs. Ellen Russell: Yes.

[*Translation*]

I apologize for only having the English version.

[*English*]

I redid these calculations to look at this 50-50 thing. If you include the Canadian child tax benefit as a form of spending to enhance the generosity of this calculation from the government's perspective, the fiscal dividend that has accrued since the budget was balanced goes about 78% to debt reduction and tax cuts combined, and about 22% to enhanced spending. We're getting about a 75-25 split, but nowhere near 50-50. By my calculations, the tax cuts got about 42% of this fiscal dividend, about 36% went to federal debt reduction, and 22% went to higher spending.

So what shall we do with this surplus? From my perspective, we could easily use up foreseeable government surpluses just to make sure we don't have to open our newspaper every week and find out that the OECD has declared that we're an environmental bad guy or that our child care situation is deplorable. Just to tackle the government's explicit election promises, plus begin to repair the years of acknowledged neglect in housing and post-secondary education, the environment, aboriginal issues, infrastructure, and many other things, we could easily use up these surpluses.

My advice is to forget about debt repayment for now. Our debt-to-GDP ratio is already the pride of the G-7. And tax cuts? It would just be irresponsible to start broad-based tax cuts, given these outstanding needs.

The other chart that I have also prepared shows revenue to GDP, which is clearly sinking by historical standards. Any further government tax cuts will deplete the government revenues and basically paralyze the government from having the capacity to deal with its spending needs that Canadians have demanded that it attend to.

The Liberal Party did not get elected on the basis of a tax cut platform. It got elected to deliver a variety of public services. That means you have to step up to the plate to provide enhanced spending.

Thank you.

● (1600)

The Chair: Thank you.

We'll go to the Caledon Institute on Social Policy, and Sherri Torjman.

Ms. Sherri Torjman (Vice-President, Caledon Institute on Social Policy): Thank you very much for the invitation to participate in this discussion, Mr. Chairman. Because I don't have time to go into some of our proposals in detail, I would like to discuss the issue of the surplus from the perspective of some key principles that we believe should apply to the surplus. They are transparency, balance, and purpose.

With respect to transparency, as you know, we've long been concerned about social policy by stealth. In a recent op-ed in the *Globe and Mail*, our colleague Michael Mendelson recommended the importance of transparency with respect to the surplus. He has put forward the idea of a parliamentary budget office, so that we can have some numbers with which we can all deal in a very objective way.

Given the transparency and the fact that we're having this discussion, which is terrific, our second principle is balance. In making decisions among tax reduction, program spending, or reduction of the debt, our view is that in a healthy economy and with strict fiscal discipline, the debt-to-GDP ratio will be on a downward slope. We know it is and will continue to be over the next few years. Our choice is to have a balance between program spending and tax cuts, but not necessarily on a formulaic 50-50 basis. The decision really has to be made on the basis of purpose, and that's our third principle.

In the work that we do, we try to make our recommendations based upon our key objectives, and these are reducing poverty and inequality in the distribution of income, promoting healthy child development, and enhancing self-sufficiency through human capital development and through community development. The specific proposals that we have are made on the basis of our objectives, some of which are better met through program expenditure, some of which are better met, quite frankly, through tax reductions.

In terms of tax reductions, we have two principles that we'd like to put forward, one of which is targeting of tax reductions, and the second of which is direction. With respect to targeting, we recognize that across-the-board tax cuts can actually be quite expensive and probably would not meet the purposes that you would want to achieve, at least based on the objectives that I've outlined here. We would therefore put forward the principle of targeting tax cuts toward modest-income Canadians and lower-income Canadians, primarily in the areas of employment- and education-related purposes. We do not support tax cuts for caregiving purposes, which are more program-related expenditures in our view.

In terms of direction, we feel the tax system can be used as an important instrument for creating certain directions—for example, with respect to the environment. And while I'm here to talk primarily about social and economic issues, I want to suggest that in terms of tax cuts, the federal government consider research and development tax cuts in terms of green technology and tax cuts for consumers to assist in commercialization where there are technologies that already exist.

If I have just a few minutes left, I want to identify some specific areas for spending and tax cuts in terms of the objectives I've identified. We have written about a wide range of possible areas for program spending, but I want to prioritize and talk about three in particular if we have to choose from among a wide range of possibilities.

One would be an enhancement to the Canada child tax benefit, to raise it in order to help modest- and middle-income families. That's the second stage of reform.

The second would be to support early childhood development and child care in particular, as identified in the Speech from the Throne, by working with the provinces and territories around associated principles.

Finally, we would look at supporting services at home for people with disabilities, but also for an aging population. We don't think you can do health care reform unless you have in place a good system of supports and services for people in communities and at home. We've made a number of recommendations over the years with respect to supports at home.

In terms of tax expenditures, one possibility is a low-income tax credit, although we likely would narrow that to an earned income tax credit to ensure that work pays for low-income people in particular.

We would also like to see some additional assistance for education. We've had long debates in our own institute as to whether this should go to post-secondary educational institutions or to families themselves, and perhaps we can have a discussion about that. At the very least, though, post-secondary education is important.

● (1605)

Finally, I just want to make some reference to caregivers. As I said, we do not support enhanced tax reductions for the purposes of caregiving. We think it's far more effective to have a program approach with a wide range of supports for people caring at home, either for seniors or for people with disabilities.

Thank you very much.

The Chair: Thank you.

The next speaker, Mr. Mintz, is from the C.D. Howe Institute.

Mr. Jack Mintz (President and Chief Executive Officer, C.D. Howe Institute): Thank you very much for providing this opportunity today to discuss what to do with the surplus, Mr. Chair.

This past year has marked the conclusion of one of the federal government's most important initiatives of the last decade, a five-year plan for reducing federal personal and business taxes, a plan introduced in the year 2000 by the then Minister of Finance, Paul Martin. Without doubt, this policy helped Canada's relatively good economic performance in the past several years; however, both population aging and mediocre productivity remain as two significant challenges facing the country.

A new five-year plan of tax reform, in part funded by the large share of the remaining federal surplus, is needed. While Canada's productivity has improved, performance is mediocre, at about 2% growth in worker incomes, or almost half of the productivity performance of the U.S. from the period 2001 to 2003. With the rising dollar, productivity will be critical to continuing economic growth.

Despite a relatively good education system and some improvement in research and development, we substantially lag in private investment in machinery and non-residential structures, investment that is less than 10% of GDP. Only in Alberta and British Columbia has the climate improved whereby investment as a share of provincial GDP actually increased since 1999 on average.

Productivity and competitiveness are enhanced when businesses are able to adopt new technologies through the acquisition of capital goods and therefore be in position to pay workers higher incomes. If we continue to have a mediocre productivity growth rate, Canadian living standards will fail to meet the needs of our aging society, compromising our ability to pay for both private and public goods.

The aging problem raises another set of issues. Greater demand for pensions, health care, and age-related public services, net of lower demand for education and child care benefits, will result in an increase in public spending by at least 6% of GDP in the next 35 years. At the same time, taxes as a share of GDP will decline by about a percentage point simply because the elderly have lower post-retirement incomes compared to those incomes earned during their working lives. Without policies to provide opportunities for Canadians to accumulate resources more quickly to fund age-related spending, Canada will face significant pressures as the working population bears high taxes to fund public services for the elderly.

Both productivity and demographic issues clearly point to the need for fundamental tax reform to lower taxes on investments. We need to adopt the Scandinavian approach, which has sharply reduced corporate and personal investment tax rates under the dual income tax structures, to make sure the tax system is not a barrier to growth.

Specifically, three areas of action are required, as the current tax system needs substantial repair. The first is enhancing opportunities for accumulating wealth for retirement and special needs. The current pension and retirement savings system, which was recently improved to some degree, is still too restrictive. Taxpayers, including the poor, faced higher tax rates—over 70%—when receiving retirement income as a result of income-tested old age security and guaranteed income supplement payments. If they invest in bonds instead, they face a punitive tax rate that could be 100% of their interest income, adjusted for inflation.

To help solve this problem, Canada needs to broaden limits further for RRSPs and pension plans, including increasing the age limit to make contributions to qualified tax-assisted savings plans from 69 to 73 years of age, as well as boost the earned income limitation from 18% to 30%. Further, Canada should introduce a new vehicle for retirement savings: tax-prepaid savings plans that are the reverse of RRSPs and would allow taxpayers to avoid spikes in tax rates when withdrawing from savings plans.

Second, we need to clean up the mess in shareholder taxation. The current tax system discriminates against dividend-paying large and medium-sized corporations. Dividends are taxed more highly than capital gains, as well as other sources of income, once you take into account both corporate and personal taxes. This causes tax-induced financial innovations whereby businesses avoid dividends to owners, contrary to the best governance practices. Further, the growth of the income trust market has in part resulted from the tax benefits by shifting away from conventional common and preferred equity financing of corporations. Lastly, Canada's dividend tax rate, much higher than the U.S. federal 15% tax rate, makes Canadian equity markets less competitive, as businesses find it cheaper to issue shares in the United States.

● (1610)

We need to restore neutrality in our tax system so that it does not favour one form of financing capital over another. An increase in the dividend tax credit is warranted for this reason, to a level that recognizes that the corporate tax rate is over about one-third, not 20% as under the existing system. And we also should amend our non-resident withholding tax regime to make sure Canada remains competitive.

Third, we require further business tax reform. While federal and provincial governments have lowered corporate taxes from 43% in 2000, which was the highest amongst all OECD countries, to 35%—the fifth-highest, and five percentage points more than the average OECD rate—we still have an uncompetitive business tax system. Deductions for depreciation in inventory costs are inadequate relative to their economic costs, and provincial capital and retail sales taxes continue to inhibit capital investments.

Even though the U.S. has an uncompetitive tax structure as well, our fiscal burden on capital investments, taking into account both taxes and subsidies, is double that of the United States, never mind compared to less-taxed countries like Hong Kong, Ireland, Sweden, and the Netherlands, which are far more successful in attracting foreign direct investment in relation to the size of their economies.

The Chair: Could you just wrap it up, please?

Mr. Jack Mintz: Two areas of business tax reform are necessary. We need to lower corporate income tax rates further to a level below 30%, the OECD average, not only to encourage investment, but also to increase public revenues so that businesses shift income to Canada from low-taxed countries.

We also need to improve the capital cost allowance system so that assets are depreciated more quickly, to reflect true economic depreciation. Last year, the federal government wisely increased capital cost allowance deductions for computers and broadband technology. It should look at other assets as well.

The fiscal cost of tax reform would be manageable for two reasons. First, remaining federal surpluses that have not already been consumed by new spending commitments should be devoted to tax cuts. Second, opportunities are available to broaden tax bases by eliminating ineffective tax preferences. Alternatively, new revenue sources could be obtained from commodity taxation, including user-pay-related levies.

A five-year tax plan is in order to address lagging productivity and demographic issues. A failure to act on tax reform in the coming years will create significant problems for Canada's ability to grow and create job opportunities for its residents. This budget is important in laying out a new course for action on the tax front. Neglecting the tax system will be costly to Canada in the long run.

The Chair: Thank you. That was a long conclusion.

We have one more speaker left, and then I'm going to go to seven-minute rounds for each party, so you'll just indicate to me who's going to...and then we're going to go to five-minute rounds after that.

Mr. Anderson, from the Canadian Council on Social Development.

Mr. John Anderson (Vice-President, Strategic, Partnership and Alliances, Canadian Council on Social Development): Thank you very much for giving me this opportunity to be here this afternoon to talk about this very important issue.

I first want to say that we've given out to you a copy of a much longer paper called "What Kind of Canada?", which called for a national debate on the Canada social transfer. You should all have copies of that.

I'd also like to give you a copy of this excellent article from *Le Devoir*. It's by Manon Cornellier, and it's called "La rencontre des premiers ministres sur le déséquilibre fiscal - Question de gros sous", which deals with this issue of the social transfer.

Lastly, I would also like to make sure you have a copy of Roy Romanow's speech that he gave at a luncheon organized by us just recently in Ottawa, "The New Canada Social Transfer:Impetus for a Renewed Era of Innovative Social Policy in Canada?", which was the topic of his talk.

First of all, I would like to start out by rephrasing what Bob Dylan said. Bob Dylan said, "The times they are a-changin'". I would submit that times have changed, and I think many of the speakers here this afternoon are still living in the past. We have to approach the new problem of the surplus with what's happening now, not what the situation was ten or twenty years ago.

First of all, Canada is now the country with the lowest debt-to-GDP ratio in the G-7, according to the OECD. This was in an article from the *Globe and Mail* on Friday, October 15. So I think going down the road of trying to reduce the debt or of using the money to reduce the debt is something that is not needed at this point in time. We know the debt-to-GDP ratio, as has already been stated by several people here, is going to reduce itself with growth in the economy. So that's the first point.

The second point is that we've had our tax cuts, as has been stated. We've had $100 billion in cuts in personal income tax. We've also had corporate tax reduction. According to the Department of Finance—and I'm quoting from their website—"The average corporate tax rate in Canada is now below the average U.S. tax rate, and will be more than 6 percentage points lower by 2008." I'm not going to go into that any more, but again, this is not the road we need to go down in terms of spending the money from the surplus on tax cuts. We've done that. Some of us would not have liked to see those tax cuts implemented the way they were, but that's done. We've gone down that road.

Thirdly, as has been pointed out, we are part of the Alternative Federal Budget process, which is led by the CCPA. We support what Ellen Russell was saying in terms of the Alternative Federal Budget's analysis of this surplus, which has been continued and sustained over many years in the past and is predicted even now by the Department of Finance to be something that is going to go on into the future. We have a new environment in which we have the possibility to deal with some of the fundamental problems in our society. The real issue in Canada today is that we have a social deficit of tremendous proportions in a very rich society. We don't have to have that, and we should begin to deal with it.

We would like to submit—and I'm not going to go into all the indicators to show why we have this social deficit—that poverty rates have remained unchanged in the last decade. We have had a very unequal division of both wealth and increases to revenues over the last decade. We have incredible rates of poverty for aboriginal Canadians, visible minorities, and new immigrants, even much higher than the 16% rate for the rest of Canadian society. For many of our senior citizens, particularly those who are single or living alone, the rates of poverty are 40% for women and 30% for men. These are the kinds of issues we should be dealing with, and we should be using the surplus for these issues. What we're saying is that, with the surplus, we have an opportunity now to begin to deal with those.

One of the issues we'd like to turn your attention to today—and we could go into a lot of them in terms of all the different areas, but I'm not going to—is the social transfer. We've spent a lot of time in this country in recent years, and rightly so, looking at the health transfer and at the fact that the amount of money being transferred to the provinces was not enough. We've had a major debate on the health transfer. We've put more money into that. We've had federal-provincial meetings on it, and we've made some very important improvements around the health transfer.

However, there's also a social transfer. As of April 1 of this year, as you know, the Canada health and social transfer was split in two, and we now have a social transfer. Nothing has been done about the social transfer. The social transfer is a little less than $15 billion this year, and it's going to rise in terms of tax points and cash going to the provinces. There's no accountability. There's no transparency around this amount of money and what the provinces can do with it. Apart from vague categories of social programs, social assistance, and post-secondary education, it's not at all clear.

● (1615)

We think this social transfer is not enough. It was cut back in the period from 1995 to 1998 by about $2.8 billion. That's about $3.3 billion in today's money. That money should be put back into the social transfer, and we should have a debate on how that social transfer should be used and what we want to spend the social transfer on. We need to have predictability and stability of funding for the future. We need to have common principles and objectives for the social transfer that are agreed upon by all parties, including the federal and provincial governments, through a broad engagement with Canadians.

Lastly, we think we need a body not necessarily the same as, but something like, the Health Council of Canada. It would measure outcomes, share innovations, and foster citizen involvement in dealing with the social transfer.

So we think this is a major part of what the surplus should be used for. We should be looking at the social deficit, relooking at the social transfer, and having a debate on our social programs around these issues.

Rather than putting the money into reducing the debt, which is not needed, or into further reducing taxes, which is also not needed at the present time, we should be spending this on a real moment in history that doesn't come very often. We have to seize the hour here in terms of being able to deal with our social programs and our social deficit. We think that's where the concentration of the use of the surplus should be.

● (1620)

The Chair: Thank you, Mr. Anderson. That's the purpose of having you here.

Again, I'd like to remind the members that we have to try to change the format a little bit. The questions are going to be short, concise, and directed to more than just one witness or organization.

Mr. Solberg.

Mr. Monte Solberg (Medicine Hat, CPC): Thank you very much, Mr. Chairman, and I want to thank all the witnesses for being here and for presenting today.

I just have to start by saying that of course some of us see some of these things differently from how they've been laid out today. For instance, when we talk about $100 billion in tax cuts, I always point out that really what we saw was the cancellation of future tax increases when this alleged $100-billion tax cut was brought in. We're not counting the impact that CPP hikes had on payroll taxes as a counterpoise to these tax cuts. And the child tax benefit was counted as a tax cut in that $100 billion. I think it's important to point that out.

I also think it's important to point out that real per capita spending in Canada is really on the rise. I take the point that, as a percentage of GDP, it may be staying where it has been for a while, but certainly in terms of how it affects people, I think it's on the rise.

The final point I want to make before I ask my question is that effective tax rates, certainly on the business side, are still much higher in Canada than they are in the United States. I think it's important to state those things so that we are being—how do I say this?—up front about what the story is.

I'm really interested in the issue of productivity. I think this is so important—and many of you have mentioned it—because it leads to living standard increases down the road. I wonder if Mr. Mintz, or whoever, would like to comment on how improving productivity improves our standard of living down the road. Maybe you could reiterate the practical steps we could take.

That's for Mr. Barrett or whoever would like to jump in.

Mr. Jack Mintz: It's a relationship that I sometimes think people don't fully comprehend. It sounds complex, but it really isn't.

Effectively, when businesses invest in new technologies, they have to buy capital goods to invest in those new technologies. For example, if you have new R and D and everything else, capital investment is absolutely required to achieve that. That allows businesses to increase the amount of production per worker. It then allows those businesses to actually improve how much they pay their workers, because they are in a much better competitive position internationally to sell their goods and services.

It all translates into higher incomes for workers in the end, especially in an open economy like that of Canada, where we depend very much on our international trade, as well as on having openness vis-à-vis our capital markets in drawing capital internationally.

Mr. Charles Barrett: May I comment as well?

Mr. Monte Solberg: Please.

Mr. Charles Barrett: Just to add some numbers, there is a—

The Chair: The person who has asked the question can ask the group. I'm not going to intervene unless there are some fisticuffs going on. Please go ahead.

Mr. Charles Barrett: There is a difference in income per capita between Canada and the United States of approximately $6,000 per person. That is, in fact, 100% due to the difference in labour productivity. In fact, it's more than 100% because we make up for the lower labour productivity by more of us working harder. So it's absolutely at the centre of our standard of living and our quality of life in this country. The facts are inescapable. The gap got wider during the 1990s. It started to turned around, but it's now starting to get wider again.

Productivity is about more things than just taxation, for sure. Lots of things influence productivity, including competition, structure of markets, and openness, but there is clearly a strong relationship between the vintage and the amount of capital employed in a business, and labour productivity.

● (1625)

Mr. Monte Solberg: Mr. Barrett, I'm going to have to apologize. I'm being summoned and I have to leave this second, right in the middle of my questions. My leader's calling, actually, so I have to go. I will look at the transcripts, and I am truly sorry for not being able to stay around to hear what you have to say. Pardon me.

An hon. member: How much time does he have left?

The Chair: He has about three minutes.

Go ahead.

Ms. Armine Yalnizyan (Research Fellow, Canadian Centre for Policy Alternatives): Hello, my name is Armine Yalnizyan, and I am a research assistant with the CCPA.

I think the question of productivity does relate to what we invest in our societies. But it isn't just private sector investment, it's also public sector investment. The way we built our productive capacity in the immediate post-war period was to have government also investing in our capacity through soft and hard infrastructure. That means having a healthy, well-educated, and flexible workforce capable of responding to the skills needs required as a labour market changes. It also means having the roads and the infrastructure that businesses, communities, and individual families rely on. We have not been investing at the federal level for a long, long time, which is why you have the cities agenda barking at your heels. This is why you have the provinces coming to the feds.

I would just like to remind you of a historical precedent that was set. We have now had seven years—which is unprecedented historically—of back-to-back federal surpluses. At the same time, almost every province but one has had provincial deficits. I would just remind you that there was a period exactly like this in the post-war period. As soon as we climbed out of the war, we had the provinces in fiscal deficit year after year, with the feds sitting on a federal surplus for six years. The deal at that time was that the feds would help finance the infrastructure that needed to be built in this country in order to put this country on a competitive track globally.

My suggestion to you is that this is a generational call. The infrastructure that we built in that period has been long unattended to, not repaired, not invested in, let alone expanded to meet the population growth that has occurred in the last decade, which has been by roughly 13% from coast to coast, but much faster in certain areas. We need the federal government to indeed step up to the plate to meet that infrastructure need in this nation, perhaps for a ten-year window, since this government is prone to talking about ten-year plans now. We're not talking about something that goes on forever and a day, with unlimited commitments; we're talking about a plan to rebuild this country, with both private and public investments, which are desperately needed.

Thank you.

The Chair: Thank you.

Ms. Torjman, for just about thirty seconds.

Ms. Sherri Torjman: Thank you.

I just wanted to make a brief comment about productivity. Clearly we are in favour of enhanced productivity, but I wanted to make one point with respect to that. Oftentimes, increased productivity is attained through the use of technology and the displacement of jobs. We certainly favour increased productivity, but not at the expense of employment. We think that measure, that outcome indicator, has to be looked at more broadly with respect to increased productivity, the number of jobs, and the quality of jobs, and that there has to be a balance among those areas.

I also want to just make one comment on something Mr. Solberg said with respect to the Canada Pension Plan and the changes that have been made over the past few years, because we support fully the changes to the Canada Pension Plan.

The Chair: Make your one point quickly, please.

Ms. Sherri Torjman: The change from pay-as-you-go to partial funding we support, except for the fact that this change had a disproportionately hard impact on lower-income workers. If you're looking at any kinds of possible tax cuts, one possibility is to look at a redesign of the tax cut in respect of the Canada Pension Plan contributions that may be income tested and would help lower-income workers.

The Chair: Thank you.

Monsieur Côté.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much, Mr. Chairman. I'd like to thank the witnesses for their presentations. Their efforts were greatly appreciated.

You will recall that several years ago, the Conference Board projected the federal government's budget surpluses would total $166 billion over a ten-year period. It's safe to assume today that if these projections were to be revised, the estimated surplus would naturally be much higher.

There has been considerable discussion of what to do with the surpluses, whether anticipated or not, and various suggestions have been put forward: reduce the debt, cut taxes, eliminate useless spending. For the average taxpayer, the correct ratio of debt-to- GDP isn't an easy concept to grasp.

The federal government has set a number of priorities, based on current and projected revenues. Municipalities, education, childcare and health are some of the areas that have been mentioned. However, all come under provincial government jurisdiction, that is under Quebec's jurisdiction. I have to wonder if the taxpayer might not be better served, in the final analysis, if the government with jurisdiction over these areas was able to set its own priorities.

Earlier, the CCPA representative pointed out that a similar situation had occurred after World War II. One of the solutions put forward at the 1964 Conference was to transfer tax points to Quebec. This resulted in a partial resolution of the problem.

Do you not think we could explore a similar course of action, instead of allowing the federal government to impose its agenda and its solutions on Quebec and the other provinces? Would it not be better if these resources and tax fields were transferred to Quebec so that they could be managed effectively?

My question is directed to the Conference Board or to the Canadian Council on Social Development.

● (1630)

The Chair: You would be better off putting your question directly to two individuals.

Mr. Guy Côté: My question is directed more to the Conference Board.

The Chair: Take 30 seconds to put your question to one of the witnesses. Later you can ask the same question of the other witness.

Mr. Guy Côté: Fine, then I'll ask the Conference Board representative to respond first.

[*English*]

Mr. Glen Hodgson: Mr. Chairman, perhaps I'll start by saying a few words about our fiscal projections, because we did work actually both for the provincial governments and for the federal government this last summer in preparation for the health accord negotiations.

On both counts we were able to show that there is some fiscal capacity going forward. There are forecasted surpluses based upon the existing spend plan, demographics, expected rates of growth and the like. The numbers we did for the federal government in the summer do show surpluses, but they also show that the health accord has actually eaten into much of the surplus that was there.

In my opening comments I did make the remark that a $9 million surplus in fiscal year 2003-04 does show a degree of robustness in terms of revenues and gives us the belief that surpluses probably will exist going forward. There will be some capacity. So that's a point of departure.

Charles, do you want to take up the issue about jurisdiction and the impact of federalism?

Mr. Charles Barrett: Interestingly, in the Conference Board's annual report, “Performance and Potential 2004-05”, we had a chapter on the cities agenda. We looked at a number of scenarios—and this relates specifically to investment in public infrastructure. What that shows is that in fact the way to address the problem is for all three levels of government to work together, and the numbers do work. So I think that solutions are possible, but I guess this committee, and others in government, and others in other governments may want to consider how the orders of government work together.

The Chair: This is a new process, so it's best to point out who wants to speak.

I have Mr. Anderson and Mr. Mintz.

Mr. Anderson.

[*Translation*]

Mr. John Anderson: In my opinion, it's important that the provinces be involved in any negotiations on how the surplus should be used, for example, on the social transfer. However, the federal and provincial governments have a responsibility to set common goals when it comes to formulating social policy for the entire nation. We must avoid the fallout that occurred partly as a result of the cuts and the policies implemented by provincial governments. In 1995, for example, social assistance in Ontario was slashed by over 20 per cent. Recently, the social assistance entitlement period in British Columbia was capped at two years. Disparities of this kind are completely unacceptable in a country like ours. As we speak, Quebecers can draw social assistance for an almost unlimited period of time, whereas in another provinces, the maximum entitlement period is two years. I think it's important to set common goals for the nation as a whole.

● (1635)

[*English*]

The Chair: Thank you.

Mr. Mintz.

Mr. Jack Mintz: Yes, I must admit I actually take some sympathy for your question, and in fact I would disagree with some of the panellists here with respect to the message that they're giving.

I think it's very important for governments to make sure they're taking care of their core responsibilities, and I think one of the beauties of federalism as we have it in Canada is that the provinces do have certain responsibilities and they do a lot of innovation. As a result of the flexibility we have here in Canada, I think we actually have a better country for it. I'm actually very sympathetic to a tax point transfer, or at least the federal government cutting taxes. Then if the provinces want to take up the room through higher taxes, that of course is a decision they can make with the voting public.

I believe right now that we really have a federal government that is overreaching in several areas, in cities for example. I think it's best for cities, as an agenda issue, to be left with the provinces. They have to be politically accountable to their electorates. I do not believe that people in Halifax really care that much about transit in Toronto. I also believe that while we all say that public infrastructure is good and it's important for productivity—and I certainly don't disagree with that—we also know there's a lot of public infrastructure spending that isn't necessarily done in the most efficient way or really with the best results, and that happens when we don't have enough political accountability. For example, having more rural roads isn't necessarily going to be the best way of achieving a more productive society.

I really think that it's very important for the federal government to focus on its core responsibilities. For example, take the aboriginal area. I think this is something shameful, what we are doing in this country. It's a federal responsibility. We have foreign affairs, we have defence, all those are major responsibilities at the federal level. They should take care of those things and make sure they are doing them very well. And I think we should, for political accountability reasons, let the provinces do their jobs. For that reason I have supported either a tax point transfer or, certainly, the federal government cutting taxes and letting room for the provinces and local governments to do what they need to do and be answerable to their electorates.

The Chair: Thank you, Mr. Mintz.

Ms. Wasylycia-Leis, it's your turn.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

First, I want to thank everyone for doing this. This is an experiment at our committee, bringing together quite different views and trying to have an exchange, so we hope in the next hour we can actually get some debate going.

I want to start off by saying to Sherri Torjman and the Caledon Institute that in fact it was the article by Michael Mendelson about surpluses and accurate forecasting that got something going. The Conservatives took the idea we brought to the throne speech process. That became an order directed to our committee to look at, so we will be studying independent forecasting thanks to you. Thanks also to CCPA for the accurate budget forecasting, which I would suggest as a reference for John McKay as perhaps the way we should solve this problem, since they've been accurate for seven years and we might not even have to resort to another whole process.

Let me start off my questions by saying, look, we all bring our biases to this table. I'm a New Democrat. I come from a social democratic point of view. I have links with the Alternative Federal Budget process. So at the outset I have some real difficulties with the solutions being proposed by the Fraser Institute, the C.D. Howe Institute, and the Taxpayers Federation, because what I hear you saying is something we've tried and failed; it hasn't really worked.

What you're suggesting is more emphasis on tax cuts and debt reduction, which we've done for the last seven years, by and large, to the tune of either 90-10 or 75-25. Yet we have higher child poverty than ever, the gap between the rich and the poor is growing, unemployment among certain sectors is higher than ever, and we have some real human issues to deal with.

First, I want to ask someone from CCPA, or Sherri or John, to just counter what they've said. Then I want the rest of you guys to explain why you think we should go back and do the same old thing.

● (1640)

Ms. Armine Yalnizyan: I just want to say one thing, which is perhaps highly controversial given the position of the Bloc Québécois.

I think what we're talking about here with further tax cuts and with some of the positions that are on the table is that this government, including the opposition parties, has to decide what the role of the federal government is, because the track we're on right now is about decentralizing the federation deeply, profoundly, and permanently. The track we have been on in the past few years will facilitate that, and if we're talking about further tax points and basically saying it doesn't matter that there is a balkanization of the directions in which we go, then what does the federal government of Canada stand for? Is there such a thing as a citizen of Canada that is protected within our own borders, not through foreign policy, not represented to the world through foreign policy or defended at the borders by defence, or dealt with in the justice system, but that there are some rights of citizenship that we hold in common from coast to coast to coast?

With the route we're going down, ladies and gentlemen, I contend that unless you take the bull by the horns and decide where the federal government should insert itself, you are basically writing yourselves out of a job description. That might be what you want to do, but I think you should do it with your eyes open, because there are people across this country who voted for you, who expected you to represent their interests as Canadians—not as Albertans, not as Québécois, not as Nova Scotians, not as Inuit, but as Canadians. So what are you standing for on our behalf?

Mr. Jack Mintz: Let me try to take up your point.

The Chair: I'll just interrupt because, again, we're on time. I don't mind if everybody speaks to it, but I think I see Mr. Veldhuis, Mr. Winchester, and Mr. Anderson. We have about three minutes and four people, so please keep it to 45 seconds or a minute. Is that okay?

Mr. Mintz.

Mr. Jack Mintz: First of all, I disagree with your view of history in the past several years. I would argue that the tax cuts we did have were necessitated mainly because total government revenues had risen quite substantially over 30 years. In fact, they peaked in the year 2000-01 at almost 44% of GDP. I think we have to ask the question how much money governments need in order to fund their responsibilities.

I think the tax cuts, especially, for example, business tax cuts, were absolutely necessary. In fact, they were good for governments because the corporate rate cuts allowed for the expansion of the corporate tax base in Canada as businesses shifted income into Canada rather than shifting it out of Canada. So for revenue reasons, we actually didn't lose as much on the corporate tax as one thinks because of the statutory rate reductions.

Ms. Judy Wasylycia-Leis: In your opening remarks, you actually said we should be spending some money on new retirement savings programs through the tax system.

Mr. Jack Mintz: Yes.

Ms. Judy Wasylycia-Leis: Isn't that kind of program the same as spending, and doesn't it benefit a select population? Therefore, isn't that contrary to benefiting the whole country?

Mr. Jack Mintz: I actually don't look at it as the same as spending, because I believe the personal tax system should be based on what people consume and not on what people get in terms of total income, and that taxation of capital income actually leads to double taxation, higher taxes on savers compared to consumers, and an unfairness in that way.

I also worry a lot for low- and middle-income individuals who have difficulty trying to accumulate savings for their retirement purposes. I think it's very important that we make sure we have a tax system that is available to them.

As Richard Shillington has shown in work he's done for the C.D. Howe Institute and for other people, actually if you're a very low-income person, you'd be crazy to put any money into RRSPs, because you end up getting clawed back. Not only do you get taxed on your withdrawals, but you also get clawed back on the guaranteed income supplement.

For that reason, we've recommended the tax-prepaid savings plan as an alternative in which people don't get a deduction up front when they put money into the plan, but they don't pay tax on the withdrawal. That would actually eliminate and be very good for low-income people for that reason. That's one of the proposals we suggested.

I'm taking way too much time, so I'll stop here, but at one point I'm going to come back to decentralization.

● (1645)

The Chair: Mr. Veldhuis, Mr. Anderson, and then Mr. Winchester.

Mr. Niels Veldhuis: Thank you.

Let me speak to your notion that poverty is on the increase. In the last few years, it has been clearly on the decrease, if we can even measure poverty at all. Canada does not have a good way of measuring poverty.

Ms. Judy Wasylycia-Leis: Excuse me, we do have statistics on poverty. We have indications on child poverty. I'm sure Sherri Torjman can give you those statistics. So let's not argue the facts.

Mr. Niels Veldhuis: Okay, ignoring that those statistics do not measure poverty, but instead, low income, which is not the same thing as poverty, on that notion, if you talk to constitutional experts, child care, health care, education, and welfare fall squarely under the jurisdiction of provinces. If you look at the reforms that have been made post-1997 in welfare, when you have competition amongst the provinces, you get better systems in all of those areas.

If you want to use Alberta as an example, with the lowest welfare rates across the country, if that's a bad thing, then I don't know what a bad or a good thing is. Clearly if you let the provinces compete with one another, that will lead us to the best system for all people.

The Chair: Thank you.

Mr. Anderson.

Ms. Judy Wasylycia-Leis: As an editorial comment, have you studied the number of people using food banks in Alberta?

The Chair: Mr. Anderson, and then Mr. Winchester.

Mr. John Anderson: There's a lot there to answer. Clearly over the past 20 years we've gotten into a situation where we have downplayed the role of government at all levels, not just at the federal level but also at the provincial level, in terms of the role of government and what role it should play as a regulator of the market economy that we have.

I think the governments have to get back on track here. We can't allow ourselves simply to be engaged in a continental race to the bottom with Mexico and the United States in terms of wages and in terms of how we attract industries through tax breaks and low salaries, and so on. We have to be looking at how we can attract industries through having the high end in terms of investments in education and investments in public infrastructure that Armine has talked about.

We have to be looking at how we can raise wages. We have a shameful situation in this country where the minimum wage is very, very low right across this country. In Alberta, in the richest province of this country, it's $5.90. Statistics Canada just came out with a study on low wages. There are something like 1.6 million people working full time in this country and earning less than $10 an hour.

We should be looking at those issues in terms of how we can make a much more equitable society, and government has a role to play in this, government at the federal level and government at the provincial level. In our federal system, that means we're not going to change the Constitution around those points. The federal government has to work with the provinces and vice versa in terms of dealing with those issues. I think that's the key way of going about it.

The Chair: Try to stick to just one point, which is really tough, but I ask that only because there are other members who want to ask questions and we have to be fair to everybody.

Mr. Winchester.

Mr. Bruce Winchester: I'd certainly like to take up Ms. Wasylycia-Leis' challenge. I'm just astounded by what I've been hearing from my friends on the more spendthrifty side of the spectrum.

Here we are at the Canadian Taxpayers Federation advocating a tax cut for all Canadians, yet a number of the people here have said it's perfectly all right for folks who are earning a minimum wage in this country, be it a $5 or a $7 minimum wage, to actually pay taxes.

What we're suggesting is a proposal that would remove approximately 1.8 million of those poor people that you've been talking about from the tax rolls, yet you choose to characterize that as somehow irresponsible or as outlandish tax cuts.

Ms. Judy Wasylycia-Leis: I have a point of order. It's just to say none of us were arguing with your—

The Chair: Ms. Wasylycia-Leis, we asked him to. Let him.

Ms. Judy Wasylycia-Leis: I know. I just want to clarify, Mr. Chairperson, that none of us are arguing with your proposal to in fact eliminate taxes being paid by people earning under $15,000. We're concerned about the other proposals around corporate tax cuts and personal taxes; that's the general dichotomy we're dealing with and that's what we'd like to have some debate around.

Mr. Charlie Penson (Peace River, CPC): I have a point of order, Mr. Chair. As you have already noted, there are a number of members who want to ask questions. We agreed to a formula and I suggest we try to stick to it. It would be easy to enter into debate back and forth, but I don't think that's productive. We've invited these people to be our guests here today and express their views, but we do want to get as many questions out as possible.

● (1650)

The Chair: Thank you.

Mr. Bruce Winchester: If I could just finish my remarks, I will be quick, I promise.

The Chair: Mr. Hubbard, you're going to be next.

Okay, go ahead.

Mr. Bruce Winchester: What we're talking about is a broadly based tax cut for everyone, and I think this is perhaps where we depart from some of the folks here. But by the same token, let's not talk about $100 billion tax cuts either, because if you look at the numbers so far—and the government members ought to be really pleased about this—you'll see their $100 billion tax cut only cost them $18 billion, and I think it shows there's ample room for more tax cuts, frankly.

The Chair: I don't mind the format, but if we can just keep insults.... I don't mind insults—

Some hon. members: Oh, oh!

The Chair: —and you can address them to me, but I prefer that you not address them to members because it will just take up more time. Save them, and then you guys can knock me. I have no problem with it.

Mr. Hubbard.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair.

I know there are problems and I can't help but think this. We are sitting and we hear a lot of complaints about a so-called surplus, and around the table today, Mr. Chair, we have all different points of view in terms of what our government should do about changing taxation policies to improve the lots and lives of all Canadians. But I wonder, if I was sitting here 15 years ago—which I wasn't—and we were looking at an annual deficit of about $40 billion.... We have very diverse groups, and in my own mind—I won't get around to that question—I think all of us have to put this into perspective. We have a very significant national debt, and why should we worry about having a surplus? Yesterday we heard from the governor of the bank about a tiny little bit of a change that may put that surplus up or create a deficit on the other side.

But certainly it's good to see, and I wonder, Mr. Chair, if all of us members left the room and we asked this group to get together and write a short, one-page report on what we should recommend to the Minister of Finance, what the outcome might be. One consistent aspect I've heard today is, with respect to low-income Canadians, that right now our opening platform for paying federal income tax is about $7,900. Without a verbal reply, how many would agree that should be increased? Can we have a show of hands that their sum would not increase.

Ms. Sherri Torjman: With a caveat, and I'll explain.

Mr. Charles Hubbard: Second, we heard concerns about another aspect of what we might recommend, and that would deal with investment. We hear that in terms of productivity, in terms of the available investment to improve our infrastructure and to improve our technology and our factory output and that, we should pay some attention to somehow recommending to the Minister of Finance that there should be greater opportunities, either through depreciation, through investment tax credits, or through other fiscal measures, to improve the ability of our Canadian nation and its industries and business to invest. How many would agree with that?

We find that some don't, but most are agreeing to that.

Ms. Sherri Torjman: With a caveat.

Mr. Charles Hubbard: Third, we find that—my sitting on the Liberal side of the House—there is a promise of a significant amount of money over a five-year period towards child care expenses, and that a great number of working Canadians and all Canadians who have young children should have access to good child care facilities. How many would agree with that?

Gosh, we're getting great agreement here. I hope our clerk is taking good notes there, because there seems to be some consensus on those very important points.

Another aspect we hear about is in terms of the availability of money for investment. Yesterday I asked a question about consumer debt, which I think is a major factor in terms of whether or not Canadians are really saving enough money to enable our business groups to have access to capital to invest. Now, do we have to look at that aspect of the budget in terms of encouraging savings, encouraging the development of a pool of capital, whether it be venture or otherwise, to encourage the type of investment some of you talk about?

Mr. Veldhuis, would you like to comment on that? I'd like to hear your position.

Mr. Niels Veldhuis: I'd like to comment on a few points if I may. Let me just start with the basic personal exemption. I for one am not for increasing the basic personal exemption.

The Chair: Let me just interrupt for a second. I'm going to have Mr. Hubbard select who he wants to be the intervener.

Mr. Charles Hubbard: I asked Mr. Veldhuis to comment on what I just mentioned—

● (1655)

The Chair: But just again, keep them brief, please.

Mr. Charles Hubbard: —not in terms of something else I asked but on the particular question I just had for you.

Mr. Niels Veldhuis: Sorry, can you repeat the question?

Mr. Charles Hubbard: To repeat the question, I said in terms of investment.

Mr. Niels Veldhuis: Oh, absolutely. The way you go about increasing the rate at which people save is not by penalizing them for saving. If you tax interest income and if you tax dividend income at the rates we do now, that is what discourages those Canadians from saving. I think we need to reduce personal income taxes, reduce the taxation on dividends, and reduce the taxation on interest.

Mr. Charles Hubbard: I'll go back to you again with a corollary of that. How many Canadians do you think have investments in corporate activities? What percentage of Canadians are you talking about when you talk about the thirteen and one-third percent credit you get in terms of a dividend?

Mr. Niels Veldhuis: Every Canadian has shares in corporations by fact, because if you're working, part of your money gets invested with the Canada Pension Plan Investment Board. Therefore, we all invest in corporations and we're all—

Mr. Charles Hubbard: No, I didn't ask that question. In terms of the individual Canadian who is completing his income tax return during the year, there is a section there they call “dividend tax credit” and you get a credit of one-third of what's.... I'm saying, what percentage of Canadians are you talking for?

Mr. Niels Veldhuis: If you look at the number of people who invest in RRSPs, that's a great indication: almost 85% of the people.

Mr. Charles Hubbard: Thank you.

Madame, do you want to answer that one? Mrs. Russell, is it?

Mrs. Ellen Russell: Yes. I wanted to speak to something maybe four or five points ago, the issue of tax cuts and the possibility of raising the basic personal exemption. This is getting talked about as though it's a tax cut to benefit low-income people. The problem is that it applies to everybody who makes above that basic personal exemption. If you really wanted to design a tax cut because you wanted to help low-income people, you'd give the money to those people rather than to every Canadian. You could also call it a left-handed people's tax cut because it's going to some people who are left-handed, but it's going to people who are right-handed as well. It's just going to every Canadian who is above that minimum line. We could design better if what we wanted to do was help low-income Canadians.

Mr. Charles Hubbard: Here's a question designed for you to just reflect upon. We talk about provinces, we talk about municipalities, and we talk about our federal government. I would think that federally, when we watch the provinces, we sometimes have difficulty feeling terribly sorry for their positions. We have watched certain provinces—in fact the one we're sitting in right now—make great tax cuts in the last decade. Yet the sense is that they should come to Ottawa to look for special consideration for the problems they created, whether it be my own province of New Brunswick or whether it be Ontario or whether it be because of what happened in some of the other provinces. So maybe someone could answer a question: how can we decide who should bear responsibility for the situation vis-à-vis certain provinces and our federal government?

Mr. Barrett, maybe, is looking at that.

The Chair: You were doing well on timeframe.

I'll have one person answer, and 30 seconds, please.

Mr. Charles Barrett: I think, with respect, I'm not sure that is the correct question. We are where we are—

The Chair: But it is the question.

Mr. Charles Barrett: —and we can debate how we got here, but surely the success of our federal system is in the flexibility of being able to resolve those issues going forward.

Mr. Charles Hubbard: The point, Mr. Chairman, I was trying to make is that I didn't bring that issue to this table, but several of you did, and I just want to make sure we reflect that. Perhaps in another round of questioning we can come back to it.

The Chair: Thank you, Mr. Hubbard, but it's not likely.

We have half an hour left and we have five members who haven't spoken. They're five-minute rounds, and we're going to go to Mr. Penson.

Mr. Charlie Penson: Thank you, Mr. Chair.

First of all, I want to apologize to our guests here today for the limited timeframe we have to discuss these important issues. It seems to me that we're really doing a disservice to the whole process by having such a limited timeframe.

However, what I think I'm hearing today is essentially that people are wanting to get to the same objective. The question is, how do we achieve the kind of Canada we want down the road?

Mr. Mintz, I think you've captured it. You know, this is not some academic exercise on why we want to improve our productivity. We want to have Canadians benefit from that improved productivity with a higher living standard.

I was on the industry committee for a number of years and trade critic and so on. We've heard these arguments about our competitive position deteriorating, and we've seen the little blip where we've come up a little bit, but we have slipped back again. I suggest to you, Mr. Mintz, you're losing the argument, as government is not buying into the kind of policies you're suggesting we need in order to enhance our productivity. We're static. I think I heard you suggest that if we don't seize this window of opportunity, we're going to pay a price. We have an aging population, a high....

Can you just tell me whether you agree with that analysis or not?

● (1700)

Mr. Jack Mintz: The answer, first of all, is yes. I do agree with that analysis. I do think we are on a track right now of increased spending in a number of areas. Frankly, governments will always figure out a new way to spend more money on a new program. In fact, what I find very sad is that some of the core responsibilities of governments are not being well looked after, and those are things that really need to be done by governments. They play a very important role in our lives, and we want to make sure those services are provided.

But to get back to the productivity question, most of the economic studies have shown that the one area where Canada particularly sticks out is the lack of private sector investment. Yes, we have some issues with our infrastructure, and I think we can improve it, but actually our public infrastructure is pretty good compared to those of many countries. It's not bad. In fact, the studies that have been done on the infrastructure deficit are only based on two particular studies. We don't really have very good evidence, actually, on the state of our public infrastructure capital, and I can go on at some length about that.

But I do think our private sector investment is most important, and frankly, we don't want to admit it, but many people forget about the things that affect private sector investment. Frankly, taxes play a huge role in that. That's why I've been arguing quite strenuously.

Chair, there's just one quick point I want to add.

The Department of Finance provided very misleading information on this website vis-à-vis competitiveness of the corporate tax system. They only look at the statutory corporate tax rate, and they do adjustment for capital taxes. They do not take into account depreciation, inventory deductions, sales taxes on capital inputs, and a whole host of other taxes that impact on capital investment. When you do the study properly and you include all these other things, Canada actually has one of the highest effective tax rates on capital in the world, and we still have that problem even though we've made good progress over the past five years.

Mr. Charlie Penson: Mr. Mintz, my understanding is that the reason that's important is that we're not an island here; we export 80% of what we produce in general, and we have to be competitive in markets where we are trying to sell our product.

Is that right?

Mr. Jack Mintz: Exactly. We need to be competitive, and that's the key point.

The Chair: Ms. Torjman.

Ms. Sherri Torjman: I just have a point with respect to enhanced productivity. We have been discussing it here as though it were a function only of tax cuts, but I think it's important to point out that increases in skills development and training and literacy are all very important aspects of competitiveness and productivity. A fulsome discussion of that issue would have to include investments in skills training as well.

Mr. Charlie Penson: I certainly agree, but to my mind they're also a function of being able to afford the investments in those areas. We have to keep the horse ahead of the cart to some extent. If we don't make the kinds of investments, we are not going to be able to reinvest in the type of education and all of that we need as well.

Ms. Sherri Torjman: I hear what you're saying, but I'm just saying that it's difficult to talk about one component of that without really looking at a broader picture.

Mr. Charlie Penson: Yes.

Mr. Jack Mintz: We also have one of the best education systems in the world. That's not our problem.

Ms. Sherri Torjman: But not employment training.... We don't have very good employment training and ongoing employment training for skills development. We don't do very well, actually, in relative terms with respect to ongoing skills training and upgrading.

The Chair: Ms. Minna.

Hon. Maria Minna (Beaches—East York, Lib.): Thank you, Mr. Chairman.

The Chair: We're down to five minutes.

Hon. Maria Minna: This is a great discussion. I could go on for a couple of hours. There's a lot of stuff to say, but I have only five minutes.

What I hear is cut, cut, cut. Cut debt, cut taxes, cut corporate taxes. Raise old age to 73. I'm not sure about construction workers, whose bodies give out at 55 or 50, but that's different; we will forget that sector and many others. I'm not being sarcastic, but that's reality. I've worked a lot with injured workers.

Just to pick up on what my colleague Mr. Penson has said, we have to decide on whom we spend, following up on the issue of training and human development. The problem is that's what we always do. We keep saying we don't have the money, that tax cuts or something else is first because that's productivity, and then we worry about the spending. In this country, the reality is that there is very little investment in the private sector when it comes to apprenticeship and human training. With the exception of the construction industry, very little of this is done. I don't think that's acceptable. We can talk about cuts.

I would suggest to the companies that maybe they should start investing in their employees a little bit more if they want some sympathy in that area. So that goes to the productivity.

We talk about education and say we have the best education system in the world, but we also have eight million people with literacy problems. They cannot function and are not producing at their optimal level because they didn't get the proper education somewhere down the line. We're discussing early education and child care, yet that's spending, and should we be spending? We're talking about $1 billion a year—that's $5 billion, but really it's only $1 billion at the end of the day.

I think it was Mr. Mintz who was talking about productivity. Can you please tell me why you align productivity only with tax cuts? What about talking to the industries about training—human upgrading? What is your position on early education and care, literacy issues, and a whole pile of things that I'll get to in a minute—but as a start, that one?

A more direct question is, would you invest $10 billion over the next 10 years—$1 billion a year—on early education? Think about what David Dodge said not too long ago with respect to that.

● (1705)

Mr. Jack Mintz: Yes, I think the provinces should be investing $10 billion over the next five years on that.

Hon. Maria Minna: Not the Government of Canada?

Mr. Jack Mintz: Let me just go back to your points.

The only reason I argue tax cuts is from an historical perspective—where we're at today as opposed to where we were at, let's say, 20 years ago. That's what people keep forgetting about.

Canada had tremendous productivity and growth all through the fifties and sixties, and governments were less than 30% of GDP. Today governments are 40% of GDP. We haven't really done all that well. When you talk about total government revenues, they're still well above 40% of GDP. I say total revenues because I'm including not just taxes, but also non-taxed revenue sources. So the only reason I argue for tax cuts is where we are today.

If we were like Australia, or if we were like Finland, which has a corporate tax rate of 26% that they just announced this year, then I would have a different view if we had a lower one. The only reason I argue this position isn't that I want smaller government, necessarily; it's that I want more effective government.

Getting to literacy, I totally agree with you. We need to do more on literacy, and we need to do more about high-school dropouts. Let me just take the literacy thing. A lot of that is related to immigration.

The federal government has been responsible for immigration and integration of immigrants in society. The federal government has failed on its file in dealing with immigrants and making sure that immigrants get the proper integration that's required. It hasn't given sufficient funding to the provinces for that. That is what I mean by core responsibilities.

The federal government plays a very important role in a number of social areas, and immigration is certainly one of them. I'd like to see the federal government concentrate on that. What I don't want to see is the federal government getting involved in new areas that are specifically provincial or local government responsibilities.

Hon. Maria Minna: I won't argue with you with respect to our responsibility to immigrants, but I can tell you, having done work in that field for nearly 30 years now, that immigrants are not the only reason we have literacy problems in this country. Children who were born here are dropping out of high school all over the country. So let's not use a scapegoat on that issue with respect to—

Mr. Jack Mintz: I agree on high school, and I picked the provinces that need to pick that issue up.

Hon. Maria Minna: The problem is that we have a collective responsibility, federal-provincial, on these files. We can't just point fingers and we cannot just say cut it in that way, because it works both ways.

As far as spending goes, when we talk about spending we seem to think of it only as if somebody is stealing something as opposed to.... To me, it's an investment; it's not spending. We haven't invested in children. We haven't invested in high schools. We haven't invested properly and enough in human development, in infrastructure. We just haven't invested. If you don't invest, you don't get returns.

What do your shareholders do with companies, the ones for which earlier you wouldn't tell us what percentage you were talking about in your comment about the dividends? What percentage? What do they invest in? Why do they invest? If the investment didn't return anything, they wouldn't invest.

As a nation, we have to make different kinds of investments. Those investments have to do with infrastructure, with environment, and with human beings. If we don't invest in those things, we cannot get returns down the road. Right now, broad tax cuts don't do it for me. I'd like you to tell me exactly why you believe broad tax cuts are going to make a difference to these issues we are talking about, because I don't think they will.

● (1710)

The Chair: Ms. Minna, you're over. Unless somebody can answer that in three words....

Hon. Maria Minna: Tell me why that works. If that was our recommendation, I want to know why that is so.

The Chair: One person. Maria, pick your person, three words.

Mr. Bruce Winchester: I'll do that.

With $1,100 in everybody's pocket, there's lots of money to invest, lots of money to do whatever you want.

The Chair: Thank you.

Mr. Lapierre.

[*Translation*]

Mr. Réal Lapierre (Lévis—Bellechasse, BQ): A number of surveys, particularly surveys done in Quebec, have shown that taxpayers are opposed to tax cuts if it means having to sacrifice existing social programs. I maintain that in the coming years, the federal and provincial governments should concentrate on investing in families, children and education, because therein lies our hope for the future. Children will become the driving force behind our economy.

If my own family is any indication, it's rare today to see families with three or four children. Unfortunately, instead of offering them incentives, the government often seems to find ways of almost punishing them from a financial standpoint. I firmly believe the government needs to invest substantially more money in the future to help young families.

Am I wrong to think so?

The Chair: To whom are you directing that question?

Mr. Réal Lapierre: I'm asking Mr. Barrett.

[*English*]

The Chair: Mr. Barrett, and then Mr. Anderson.

Mr. Charles Barrett: Let me begin by saying that as far as productivity is concerned, while I agree with much of what my colleague Jack has said, I do think it is far more complicated than simply taxation alone. It is a combination of having the right incentives and making appropriate investments.

I think investment in human capital is absolutely critical. I also believe that in fact we are in a situation in this country where there is a real danger of health care spending crowding out spending on education. It is a fact now that for the first time in our history we are spending more on health care than we are spending on education. Our education system is good, to be sure, in terms of outcomes, but there are weaknesses. There are certainly weaknesses if one looks at the cycle of lifelong learning. We've talked about that this afternoon.

In terms of post-secondary education, while we have a high participation rate in post-secondary education, if you really drill down and ask where that is, there are some weaknesses there as well. I agree completely with the general proposition that investment in human capital and human development has to be part of the solution.

The Chair: Mr. Anderson.

Mr. John Anderson: I very much agree with that. That is one of the major areas for investment. This is going to bring dividends economically, not just in terms of people's lives in the short term—that would be reason enough to do it—but it's also going to bring us to a situation where many people who are excluded from real participation in the economy.... If we have the investments in early age and child care, if we raise the child tax benefit, which has been raised but is still far too low, if we make the investments in terms of post-secondary education, apprenticeship training where we are far behind many other countries, literacy, and all those things that we mentioned—that's where we should be putting the bulk of the surplus, and that will pay off in the long run, not just in terms of a more just society but in terms of a much better economy.

● (1715)

The Chair: Okay, I have a minute left, if Mr. Veldhuis...30 seconds each.

Mr. Veldhuis.

Mr. Niels Veldhuis: Thank you.

While I agree that education, health care, and child care are important for young families, I myself being a young individual, the problems in these programs have absolutely nothing—and let me repeat that—absolutely nothing to do with the amount of money we spend. It has everything to do with the way these programs are structured. We don't need more money for health care. We don't need more money for education. We have to look at the way they are structured. If we do that, that's how we'll get real reform in those areas.

Ms. Armine Yalnizyan: I apologize that I'm saying this in English.

If we lift our heads up in this country and we look around the world, there's no other developed nation that has the track record we have at the federal level—seven back-to-back fiscal surpluses, fiscal surpluses as far as the eye can see. There's no other nation that can say that. That's point number one.

Point number two, it's an unparalleled opportunity to do something. If we did not put one more penny down on the debt, we would see our debt-to-GDP ratio fall to 25% of the economy just on the sheer buoyancy of the economy. Just the economy growing drops that ratio down in 11 years, instead of the 10-year target that this government has put in front of itself as of the last budget. So there's a real opportunity to invest it.

Vis-à-vis your comment about investing in the next generation, let us not confuse passing the legacy of a $500-billion debt load, which is an abstraction of the highest order, with the fact that we may be passing onto our children, literally, homes that are crumbling. This is the moment to invest for those children, and the way to do it is to use the surplus. No other nation has that option.

The Chair: Thank you.

Mr. McKay, five minutes, and then Mr. Bell for five minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

Thank you, panel. I'd certainly be happy to have this panel back again, possibly with the format restructured a bit. But still this is an interesting panel, and I thank you for your contribution.

I have two questions. The first is to Professor Mintz, and I'd ask Ms. Russell to comment upon it; and my second is to the Fraser Institute, and I'd ask Mr. Anderson to comment on it.

Dr. Mintz, I take your point on productivity, that we don't invest in machinery and equipment, etc. Sometimes it's due to tax. If you will, we've bought into the generalized point over the past 10 years that we have the fiscal house in order; we've paid down the debt; we have a good debt-to-GDP ratio and all that sort of stuff; $100 billion worth of tax cuts; interest rates are falling; a strengthening dollar. All of those things look pretty good. Yet we still get no productivity bounce. So what's the issue here?

I'm getting a little tired of the business people of this world coming in and saying, "We need to do this" and "They need to do that", and yet I'm starting to think that maybe it's really the business leaders of our country who don't make those investments that need to be made for the purposes of enhancing our productivity.

That's the question. I'll ask you to think about that while I ask my second question, and the second question is to the Fraser Institute.

I recollect some time ago reading material from your institute to the effect that almost paralleling the seven-year surplus, if you will, the seven fat years, that low income has in fact declined significantly—somewhere in the order of 25% to 31% is my recollection—and yet four categories of low-income people, some with children, some without, some with single parent, some with two parents.... I'd like you to comment on that, because it seems to be counterdistinct to Mr. Anderson's position, which is that poverty is rampant in this country.

So first Professor Mintz, and after that, Ms. Russell.

Mr. Jack Mintz: Thank you very much for your question.

First of all, I've done a lot of work for the World Bank and the IMF in various countries around the world. I always tell my colleagues I've never seen a first-class health care system or a first-class education system in a poor country. The reason you worry about productivity is to make sure you have the resources to pay for a lot of the things we want. I certainly support that notion very strongly.

We have to remember that from the period 1988 to 1997, Canada actually had the fourth-lowest growth in per capita incomes out of all OECD countries. We had a very bad track record at that point. We have done much better since then, and that, I think, is to be attributed to the very good macro-economic policies that were taken on by the Liberal government since 1993, dealing with the huge deficit we had and then starting to cut back some of those very high taxes that were levied for 20 years in order to try to maintain the deficit.

We still have some issues involved in the tax system that I've been trying to articulate are very important. The reason I think we need to have something on the agenda for taxes, and that's why I'm emphasizing it today, is that we are spending a lot of money on other things: we are putting money into education; we are putting money into health care. Your government just settled on an equalization program for the next ten years. To be very honest, I don't understand it: you just decided to spend more money in this area.

So we are already spending on lots of things. We can have 50% tax-to-GDP ratios, if you want them, in this country and spend more and more money. But I have to agree with my colleague to the left—I can hardly believe I said that, but anyway, “to the left”—that it is also effectiveness of programs. It's not just a matter of investment; it's a matter of making sure our programs work well.

● (1720)

Hon. John McKay: My question is, what is the Canadian business man or business woman doing ? They don't seem to be able to measure up to their American counterparts.

Mr. Jack Mintz: The reason for that is—

Hon. John McKay: You can't blame it all on taxes.

Mr. Jack Mintz: When I did the business tax report and I chaired the technical committee on business taxation, we made a very important observation: that we had wonderful incentives for research and development.

Hon. John McKay: We do.

Mr. Jack Mintz: Our record is still not the greatest in R and D, but we have had an increase in R and D expenditures.

Hon. John McKay: If you take Nortel out of it, it's meaningless.

Mr. Jack Mintz: It's grown faster than in many other countries in the past several years. The problem, though, and I've seen this so many times, is that we create the ideas, but the real production is taking place elsewhere.

Hon. John McKay: We agree.

Mr. Jack Mintz: What we had argued in that technical committee report.... One of the reasons we argued for cuts in the corporate income tax rate, and scaling back some of the incentives, and doing some base-broadening—which meant not a loss in revenue necessarily, but just a much better-structured tax system—is that we believed this would actually help create more incentives for investment in Canada. Certainly when you look at some of the things we've been doing, we are seeing some improvements.

For example, B.C. and Alberta have had the biggest corporate tax cuts in the country when it comes to the business side. Actually, they're the two provinces that have had an increase in investment as a share of GDP since 1999. They're the only two we can say that about.

The Chair: Thank you, Mr. Mintz.

Ms. Russell.

Mrs. Ellen Russell: Productivity is output per unit of input, isn't it? You gave us a good list at the beginning: we got this right, or we get that right—or closer to right than we may have been in the past. You are trying to create the conditions where productivity is going to grow. You go down your list and say you wanted a bigger bang than you got.

But the thing about this output per unit of input is you have to quantify the inputs that are going in. If you look at the mainstream literature about it, it will say the kinds of obvious things that all of our panellists know.

Our position is that there are a lot of things about what we put in to get productivity that are really difficult to quantify. If you're not sleeping indoors at night, you're not a really productive worker. There are all kinds of things about society that can create conditions that enhance productivity but are really difficult to put your hands on—including that we have a society that is not as radically divided in terms of incomes as the society we seem to be on the road to producing. We are suggesting that the government has a unique opportunity to invest in the sorts of things that will create a broader kind of context for productivity growth.

As a final point on this productivity thing, we want to grow the pie so tomorrow we can do more; then tomorrow we say we want to grow the pie so the day after we can do more. Part of being a government is that you get the opportunity now to say let's deliver on some of that “more” everybody seems to want to have, instead of always deferring it to preconditions for something away down the road.

The Chair: Thank you, Ms. Russell.

Mr. Bell.

[*Translation*]

Mr. Guy Côté: Mr. Chairman, I was under the impression that we had agreed to allocate five minutes per party, not five minutes per member. If you give the floor to Mr. Bell, the situation will be such that three of the last four questions likely to be asked today will come from Liberal members. It was my understanding that we had agreed to allocate five minutes per party, not five minutes per member.

● (1725)

The Chair: I'm doing this to speed things up. If you look at the motions, you'll see that in the first round, we agreed to five minutes per party, but that for subsequent rounds, each member has x number of minutes.

Mr. Guy Côté: Fine then, Mr. Chairman.

[*English*]

The Chair: Okay?

Mr. Bell.

Hon. John McKay: I had a second question there, on low incomes.

The Chair: Okay.

Hon. John McKay: These guys are all excited about missing out their time.

Can you do me a 30-second bout on whether we're actually making inroads into low incomes?

Mr. Niels Veldhuis: I'm glad you asked the question. It's a very important question. It's one I wrote the article about in January. I don't have it with me. I will forward it to Richard Dupuis for all of you to see.

From 1996 to 2001, if you look at the low-income figures in Canada, they have improved markedly—not only for all Canadians but for Canadians who are the worst off. The Canadians who are the worst off are single-parent families that are headed by females. Those parents and those families have made marked strides in just five short years.

If you look for the provinces that did the best in terms of improving the conditions of low income, they were Alberta and Ontario. It wasn't Quebec, Saskatchewan, and the typical tax-and-spend-your-money economies. It was the ones that focused on productivity, that focused on investment, and that focused on getting jobs, reducing the unemployment rates.

I will forward that article. Thank you.

The Chair: Thank you.

Mr. Bell.

Mr. John Anderson: On that issue, if you look at the low-income rates over the period 1991 to 2001, they have remained unchanged. In fact, actually child poverty has gone up slightly. It really depends on what you are looking at. If you're looking at.... Of course, we were in a recession, and coming out of that we did better. But in fact over the last decade we haven't gone anywhere.

We just did a major study looking at poverty in Toronto, *Poverty by Postal Code*, which showed a tremendous increase over the last two decades in low income in Toronto. This is a study I worked on. If we look at what's happening in our major cities across the country, whether we measure it through the census figures I'm using there for low income or even use the market basket measure, which was introduced in 2000..... There's only been one year of the market basket measure. It showed also very similar rates of low income right across the country, except in Quebec.

In other words, I think we have a long way to go when we're looking at low income, for a rich country. If we look at where the United Nations classifies us, we're twelfth in terms of the UN poverty index—not the human development index but the poverty index. Amongst industrialized societies we're way down there. We're ahead of the United States, but we're behind a whole series of countries in Europe.

The Chair: Thank you, Mr. Anderson.

Mr. Bell.

I know we're supposed to end in three minutes, but if I may, I'll ask some of the witnesses to stay an extra five minutes. I would appreciate it.

Mr. Don Bell (North Vancouver, Lib.): This is a very quick question for Mr. Barrett from the Conference Board. I heard your comment. You talked about our needing to shift from direct to indirect taxation. You made the reference “such as the GST”, if I made my notes correctly. I heard a parallel comment—not exactly the same, but a reference—from Mr. Mintz of the C.D. Howe Institute, thinking cities should be left to the provinces. “Cut the taxes and let the provinces and the local governments do what they do,” I think you said.

I come from a background of municipal government and I can tell you that cities—I've been in the U.S.—in both the U.S. and Canada are in financial crisis, having done what they've done in responding to the needs of the communities.

The indirect taxation method in the U.S. experience, where municipalities have had to rely on sales tax, has created some real problems for them as they've had what I'll call regional economic moves, where major retail sources such as a Wal-Mart or somebody else have moved across a municipal line and created catastrophe for one city or one jurisdiction over another.

The question is this. There are issues for cities that come as a result of federal policies, be they immigration policies or others, in relation to which I can tell you as a municipal person—and if you talk to the Federation of Canadian Municipalities and to your own mayor where you live and then come back to tell me what he or she thinks, I think you will find—there is a need for the federal government to have a relationship or to support the provinces in their efforts to support the challenges in the cities, as we see the urban cores in particular grow.

● (1730)

Mr. Charles Barrett: I shall start. My reference to shifting the burden to indirect taxes was related to the fact that we have a tax system in Canada that puts an atypically large burden on direct taxation of personal income. Mr. Mintz actually made a somewhat related point when he suggested that reforming the personal direct taxation system was based on consumption, which I would agree with, but that was the context.

As far as the municipalities are concerned, just to come back to a point that I did mention in connection with another question, we have done a series of simulations related to municipal financing, and in fact, our conclusion is that a scenario in which there is a cooperative approach involving sharing gas tax and transfer of GST is quite consistent with what was debated in part of the last election. In fact, the numbers do work, so we've in fact worked quite closely with the Federation of Canadian Municipalities on that—

Mr. Don Bell: Did you talk to them?

Mr. Charles Barrett: Yes, absolutely.

Mr. Jack Mintz: On the role of cities, what I particularly object to, I think, is really the federal government trying to get involved in very specific issues in cities where they don't have a responsibility, but this doesn't mean that the federal government does not have some responsibilities that affect cities in very significant ways. I've already talked about immigration. That's a very good example of where the federal government has a responsibility, and of course we know it would have a very significant impact on cities if the federal government properly funded the immigration integration services that are required.

I've also been the one who proposed a long time ago, several years ago, the elimination of the GST on purchases not just made by municipalities, but also other sectors like hospitals, and universities, and schools. In fact, I think that would be quite appropriate for the federal government to do, because the only reason that tax was ever put on inputs in the first place was simply a revenue measure, in fact, of 1991 when we moved to the GST, and I didn't see why we, in principle, wanted to tax those inputs used by the MUSH sector.

I also believe the federal government has a very important role in universities. Of course, universities play a very important role in many cities. So I can go on the list in that way. What I didn't feel was appropriate is for the federal government to be involved in transit decisions. That I think is best left to the provinces and the cities to decide on how best to allocate resources, because it has very important impacts on urban issues and urban sprawl and a host of other things that I think the cities and the provinces are most responsible to take care of.

As far as the revenue issues facing the cities are concerned, I can perhaps have another discussion with you later. I'll be happy to, because I have a lot to say about property taxation and the way we assess property taxes. I have a lot to say about some of the user fees that could be used in things such as garbage collection at the municipal level.

The Chair: But we're not there.

Ms. Torjman.

If you don't mind, Mr. Bell.

Ms. Sherri Torjman: I simply have a small comment. The federal government does have jurisdiction in the area of transportation and the environment, and while it may not make the decisions for cities, and certainly it shouldn't, it can play a role with respect to the fiscal capacity of municipalities to be able to do something constructive, particularly with respect to environmental issues, sewage, physical infrastructure, and their local transit.

The Chair: Thank you.

I have maybe 12 questions, if you don't mind.... I had a few questions, but I want to thank the witnesses for appearing, for their patience. I would like to thank the members. It would have worked fine for me if we had respected some time delays, but I think we're going to try this one more time.

Thank you for your time. I appreciate it. I hope it was informative for the rest of the members; I know it was for me.

Thank you again. The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l’adresse suivante :
http://www.parl.gc.ca
