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Chair

Mr. Massimo Pacetti

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● (1105)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning, everybody.

[*Translation*]

I hope you all enjoyed your vacation.

[*English*]

I hope everybody is doing well.

It's not the first time here for the witnesses except....

[*Translation*]

We have two new witnesses this morning: Mr. Vaillancourt and Mr. Plante. We will begin by hearing presentations from all the groups. Each group will have between five and ten minutes.

[*English*]

How much time do the Conference Board and Global Insight...? It's five to ten minutes, isn't it?

Is that okay?

[*Translation*]

If everyone agrees, we will simply follow the agenda.

[*English*]

Perhaps we can start with the Conference Board of Canada.

Mr. Darby.

Mr. Paul Darby (Deputy Chief Economist, Conference Board of Canada): Thank you very much, Mr. Chair. Good morning, everyone. Again what a pleasure it is to be here.

We have updated our previous fiscal outlook. To begin with, the overall macroeconomic outlook has not changed all that much since the previous forecast, nor frankly is it very different from the numbers that are published in the budget 2005 plan. We have downgraded our forecast slightly from 2.5% to 2.3% growth in 2005. Growth in 2006 is very similar to what we've forecast previously. There's really not much change on the nominal GDP side or on the interest rates. So we're very pleased to announce that our forecast in fact has remained robust, which is not always the case, unfortunately. As a result, we have not had to make substantial changes to the budgetary outlook based upon changes to the macroeconomic outlook.

Clearly, the most recent fiscal forecast for the federal government, however, incorporates all the measures that were published in the 2005 budget plan, as well as clarification on the measures that were announced last November with respect to equalization payments and established program financing.

We have incorporated, as I say, all of those measures into our fiscal forecast. With our new macroeconomic outlook and these new expenditure estimates that have been tabled with the budget plan, we have come up with new budget numbers for the federal government going forward over the next two fiscal years. They are: in fiscal year 2005-06, a surplus of $8 billion; and in fiscal year 2006-07 we're projecting a surplus of roughly $7.2 billion. This is roughly $3 billion to $4 billion more than the surpluses being projected in budget 2005.

The main differences for the higher surpluses we're forecasting, compared with the most recent budget, lie on the corporate income tax side. In fact, we have differences there that achieve $3 billion by the time we get to fiscal year 2006-07. It's not possible for us to judge why that might be the case, because estimates of corporate profits before taxes are not published in the budget plan.

However, I think it's important for the committee to note that we have in our outlook assumed that oil prices stay quite high—in fact, in the $45 U.S. range over the next two years. That is one of the reasons why we're looking at substantial corporate profits and, as a result, at substantial corporate income tax revenues. Similar arguments also hold for some of the other primary commodity prices.

So we have in fact a more robust outlook for corporate income taxes than what was published in the budget. This actually accounts for much of the difference between our surplus forecast and the numbers that were contained in the budget.

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

● (1110)

The Chair: Thank you, Mr. Darby.

Next is Mr. Stanford, for the Canadian Centre for Policy Alternatives.

Mr. Jim Stanford (Research Associate, Canadian Centre for Policy Alternatives; Economist, Canadian Auto Workers): Thank you, Mr. Chair and members, for the opportunity to meet with you again on this worthwhile project.

What we spent the first part of our report covering is a look back at where we were before the budget and then the day after the budget. The interesting thing about these forecasting exercises is that sometimes you just throw out a forecast and leave it at that, but for most of us it's worthwhile to go back and look at the forecast, figure out what happened subsequent to the forecast, and try to reconcile where we were at and where we ended up.

This is an especially interesting exercise in the case of the federal fiscal balance. You may recall that the first session we had to evaluate the independent forecasts was the day before the 2005 budget was brought down by the finance minister. We were evaluating at that point our projections on the basis of the starting point that was outlined in the November economic and fiscal update. You may recall that in the fiscal update the finance minister projected a rather tight fiscal balance in the medium term, in particular in the two budget years of 2005-06 and 2006-07. The economic and fiscal update projected what they called a planning surplus, net of the contingency fund and the prudence factor, of less than $1 billion in each year. Basically, there was nothing to spend in the two years of the budget.

Well, then lo and behold, the day after we met the last time—on the 23rd, and that was 99 days after the economic and fiscal update was released—the finance minister announced an expansive budget that included almost $50 billion in new initiatives on both the spending side and the tax side. I thought it would be interesting to go back and revisit the situation as described at the time of the update, then look at the very different description put forward at the time of the budget 99 days later, and analyze exactly how we went from famine to feast in such a relatively short period of time.

That transition is all the more remarkable since during that period the macroeconomic forecast utilized by Finance Canada in their planning actually deteriorated. The forecast on which the budget was based is somewhat worse than the forecast on which the economic and fiscal update was based, so if anything, the fiscal situation should have gotten tighter, not less tight. Also, the Department of Finance revised its estimates of the cost of existing programs, upgrading those costs by about $2 billion. In a way, the uphill slog from update to budget was made all the worse by macroeconomic developments during the period and revisions in the estimates of costs of existing programs.

There's a table in the report, and this is an excerpt from it that tries to reconcile the economic and fiscal update situation with the expansive announcements that were contained in the budget. This is a calculation by which I try to arrive at how much new resources the government had to locate in order to fund the initiatives that were announced in the budget.

The top line there, “Budget Initiatives”, shows the value of the new spending and tax measures that were announced in the budget, totalling $49 billion over the six-year horizon utilized in the budget. In addition, the government had to locate approximately $3 billion, by my estimate, to offset the impact of the weaker economic forecast on government revenues. The paper explains in detail that, utilizing the Department of Finance's own sensitivity factors, they needed an additional $3.2 billion over the time period to offset the net fiscal impact of the deterioration in the macroeconomic outlook. In addition, they had to locate another $2.2 billion over the same period to cover the extra cost of existing programs.

That meant they had $54 billion of need, if you like, to locate in order to fund the initiatives they announced plus the macroeconomic consequences plus the extra program costs. Now, a big chunk of that, of course, was there. Even though the economic and fiscal update said the situation was very tight in the first two years of the horizon, there was more money later on.

As you see, $29.5 billion of those needs could be met out of the economic and fiscal update's estimated planning surplus, but there's still a substantial margin of new resources that had to be found between November 16 and February 23, $25 billion of new resources, to fund the initiatives that were announced in the budget over and above the surplus that was identified at the time of the economic and fiscal update.

● (1115)

This is how they found those resources. This is how they paid for the initiatives that were announced at the time of the budget. Less than one-third of those resources were mobilized through this expenditure review exercise—which the federal government has announced—which will, after a little bit of upfront spending, save a net $7.1 billion over that horizon. That's a significant chunk, but it is less than a third of the total new resources that had to be located.

They also adjusted the timing of expenditures through this decision to pre-book some of the provincial transfer payments, $3.6 billion of which is taken in the fiscal year that just ended, and that saves an equal amount of money over the next four years.

They revisited their assumptions about interest costs on the federal debt and found $5 billion over the six-year period. Now, part of that $5 billion is a result of their decision that interest rates were likely to trend lower over the forecast period than had been assumed at the time of the economic and fiscal update, but that change in the actual, explicit interest rate assumption only accounts for a portion of those savings. Some of them were determined on a more ad hoc basis.

Finally, they also had to revisit their revenue assumptions to assume that revenues would grow faster than had been assumed at the time of the economic fiscal update, on top of which they had to assume additional revenues underlying that growth to offset the negative impact of the slower macroeconomic environment, which they were now projecting at the time of the budget.

Those measures together—the interest rate assumption and the revenue assumption—mobilized almost $18 billion between those two changes to the macroeconomic outlook. And that makes up the bulk of the new resources that were mobilized to fund the initiatives contained in the budget.

On that basis, you can go back and compare the economic and fiscal updates estimate of the surplus. That's the planning surplus that they estimated for the first three years and what was, in effect, the implicit surplus, that is, what they really believed by the time the budget came out 99 days later. And that is the economic and fiscal updates estimate, adjusted for the new resources that were located by revisiting the debt service cost assumption and the revenue growth assumption.

You can see there's a marked difference between what the government said at the time of the update and what it truly believed when it released the budget 99 days later: the underlying surplus was much larger than was assumed at the time of the budget, not because of the funds that were located through the expenditure review exercise, but simply by revisiting the interest rate projection and the revenue growth projection.

I put on the bottom of this our forecast of the surplus before the budget for those two years. You can see that they came more than halfway towards what our forecast was, but I would still argue that their view is a conservative one.

The point of this exercise is just to show that it's remarkable that the government could locate significantly more resources, twice as many resources, by revisiting their interest cost and revenue projections than they located with this much-vaunted expenditure review exercise. I think it's striking evidence, to my mind, of how arbitrary and ad hoc the budget process has been. Decisions about the projections can be revisited when it is convenient to revisit them, that is, when you need to find resources for the initiatives that are announced.

Now, the second part of my report, of course, is to develop the new forward-looking forecast on the basis of the budget numbers. Here I follow the same methodology as before. We have not completed our own macroeconomic forecast at the CCPA. What we've done is compile a consensus forecast, which is the median of the private sector forecasts that are out there. We then develop our own fiscal projection on the basis of that consensus macroeconomic view. This is consistent with our research, which has indicated that past federal budget errors were not due primarily to errors in the macroeconomic forecast; they were due primarily to errors in the fiscal projections that were based on that macroeconomic forecast.

In terms of the consensus, we looked at ten forecasts that are publicly available from the major banks and from other major forecasting agencies in Canada. We took the median value of the ten—not the mean but the median—for the key variables. This is indicated here and in the report. For comparison purposes for today, this forecast, what we call the consensus, is a little bit more bullish than the current forecasts, which Paul's and Dale's groups have developed. I think that's because the consensus, if you like, is a moving target. There has been a downgrading among economists of expected growth over the last couple of months.

● (1120)

This includes ten forecasts issued since January 1, so if those were deteriorating a bit over time, my consensus would overestimate the current thinking, but not by very much. As Paul just said, there's not much difference between this forecast and the one the federal budget was based on.

On the basis of that forecast, we develop our own fiscal projections. This shows the estimated budget balance and its main components for the fiscal year that just ended and the next two fiscal years. For the fiscal year that just ended, it's our estimate that the measures that were announced in the budget, including the pre-funding of $3.6 billion worth of future program expenditures, have largely soaked up whatever planning surplus was still there. I think the balance for the fiscal year that just ended will be reasonably close to the $3 billion contingency fund.

Although it's discussed in the paper, there is some upside potential there, in the sense that recent data from *The Fiscal Monitor*, a publication of the Department of Finance, indicates that revenue growth over the first ten months of that fiscal year was stronger than we would have expected on the basis of some of the historical fiscal drivers. So I'm very reluctant to base anything on those numbers from *The Fiscal Monitor*, given how unpredictable they are and sensitive to year-end adjustment. For now I'm sticking with the estimate that the surplus for the year that's just ended will not be much above the $3 billion level, but there is some upside risk there.

For the next two fiscal years, however, I think there is significant fiscal room over and above the planning surplus that has been identified by Finance Canada. I'm estimating a true balance on a status quo policy basis of $11 billion in the current year and $12 billion next year. That is roughly $7 billion higher in each of those two years than is implied by the budget in its own projections. Most of that is due to stronger revenue.

I've suggested in the paper that the budget underestimates the true federal revenue path by about 3% in each of the coming two years. This is an improvement over past errors. Over the last several fiscal years, taken as an average since 1996, the budgets have under-estimated revenues by about 5% a year. So I think the budget has become a little bit more accurate, again driven by the need to identify resources to fund those initiatives.

It's my analysis that there's no particular reason to expect federal revenues to decline as a share of GDP over the coming term. The major tax reductions that were announced in the budget do not occur until further out, and there are some factors driving up revenues as a share of GDP. On the historical evidence, since the tax cuts of 2000, federal revenues have been very solid and stable as a share of GDP. That assumption, broken down by each of the categories of revenue that we estimate underlies the projection that we expect continued stability in that revenue share and combined with the program spending numbers and likely debt service charges, drives the fact that we are expecting the budget balance to be significantly stronger than implied in the budget by about $7 billion a year. Most of that is due to stronger revenue. A little bit is due to the fact that we expect debt service charges to be slightly lower than in the budget.

Thank you.

The Chair: Next, from Global Insight, is Mr. Orr. I was practising saying Mr. Szadurski's name, but I guess I won't be able to use it.

Mr. Orr.

● (1125)

Dr. Dale Orr (Managing Director, Canadian Macroeconomic Services, Global Insight Inc.): It saves you the work. You can't get simpler than Orr, can you?

Thank you very much, and thank you for the opportunity to participate in this exercise.

What I'll do is go over the highlights from the paper you have in front of you, and you might want to glance at some of the tables in there to follow along. I'll review the highlights of our economic forecast and how it compares to budget 2005, and then our fiscal forecast.

On the economic forecast for 2005, we're now forecasting 2.6% real growth for this year, which is about the up-to-date consensus of private sector forecasters. That, you'll notice, is reasonably weaker than what was in budget 2005, which unfortunately was based on a December economic forecast, as the others have mentioned. The forecast for this year has been drifting downward in recent months to about the 2.6% level. For next year we're forecasting 2.8% growth. That's a shade below the budget, as well as a little bit below the consensus, which now is about 3% growth for next year. You will recognize the forecast being a shade below 3% means we're sort of muddling along here in Canada. Our potential rate of growth is about 3% per year, so 2.6% this year and 2.8% next year. It's not very good. It's not really bad. It's sort of getting through.

What I've said in other presentations here, and what I really want to emphasize today, is that in terms of getting a handle on federal government revenues, it's equally important to look at what's happening to nominal GDP as it is to real GDP, because certain tax collections—GST is a good example and corporate income tax is another example—depend more heavily on nominal GDP than they do on real GDP. What happened last year was real GDP fell short of the forecast, but the government had even more revenues than what were forecast. Why? It was because nominal GDP held up. Nominal GDP is the general tax base. It held up. The same thing is happening this year. The government forecast 2.9% growth in the budget. That's now drifting down to 2.6%, but nominal GDP is holding up.

What holds up nominal GDP, the tax base, is the high resource prices. The government, of course, is collecting more corporate income tax than otherwise from that. That explains why in fact we think the revenues are going to come in even stronger than what's forecast, because nominal GDP is holding up well, although we do have a slightly weaker forecast for 2006 than what was in the budget. We are a bit concerned, as you'll see, about revenues in 2006.

We also have a slightly weaker forecast for interest rates in 2005 than what was in the budget, as other people do, and that's why we forecast that the debt charges are going to be slightly lower than what the government was forecasting.

Turning to the first way in which we try to go from our economic forecast into our fiscal forecast, our approach to the fiscal forecasting exercise is really twofold. We come at it two ways. First and foremost, and most fundamentally, of course, we take our economic forecast, put that into our model of the Canadian economy, particularly into the fiscal block, and we get estimates of federal revenues from there. When we're doing updates like we are now—we did one in February and now we're doing one in March—in the very short term, it's very important to look at what's happening to the inflow of federal revenues and expenses year to date as reported in *The Fiscal Monitor*. So we look at *The Fiscal Monitor*. We now have year-to-date results through January. That's 10 of the 12 months of the fiscal year. So it's very important to look at that in terms of your forecast, particularly for this fiscal year. In a sense, we look at *The Fiscal Monitor* and we do some fine tuning for this fiscal year. I don't want to overplay or underplay the reliance on *The Fiscal Monitor*. It's very much for a fine tuning of this fiscal year exercise.

● (1130)

But to be brief on this, based on the last couple of years, we would expect to get about 81% of our revenues. Actually, the revenues for the first 10 months are running very close to that. On the expense side, however, we are running way, way light of ever hitting the $158 billion in the fiscal plan. The amount of spending that has to be done in the last quarter, and even in the last two months, would boggle anybody's mind, not only in absolute magnitude but even relative to what has been done in years before. So I think we're going to come in light on spending.

Now, of course, we always look at the explanations in *The Fiscal Monitor* for why there are variances, and of course Finance officials anticipated this perfectly and gave a good explanation for why. Of course, we haven't yet counted in a lot of the expenses. In fact, some of them were in September-October agreements and some of them were in budget 2005. That's fine, but even if we assume that those come in, we're still tracking at a pace to be slightly light on the spending side for this fiscal year.

Going to our final forecast, based on our economic modelling, fine-tuned this year by this monitoring of *The Fiscal Monitor*, we see revenues this year coming in just a shade higher than in the budget— in fact, about a billion and a half higher, but for next year being pretty close to the $200 billion forecast.

On the expenditure side, where $158 billion is in the budget plan, I think they're going to come in light. There's a potential they could come in a lot lighter. A lot of work has to be done in terms of getting contracts out the door, following all the Treasury Board rules, and a lot of federal-provincial negotiations, etc. I'm sure deputy ministers are very, very busy spending money. So we think they'll come in about a billion light, but it could be $2 billion or more than that. It's very much an administrative issue.

What we can pursue in the question period is the enormous incentive for the government to spend right up to the $158 billion, so I think you can be sure that government officials are burning the midnight oil to spend the money. If they don't spend it, it won't be for lack of trying, that's for sure. But there's a huge challenge to spend all of that money.

Next year, though, I think they'll come in pretty close, as well as the year after. There's no really overwhelming reason in the following years, I don't think, at this point, to think they'll be far off their spending plans.

As I mentioned, we do think that on debt charges in 2005-06 they're going to come in about half a billion less than what was allowed for in the budget, because interest rates are lower than forecast.

So putting it all together, we see a budget surplus before allowances for reserves of almost $6 billion for this year, relative to the $3 billion in the budget; about $4 billion for the 2005-06 year, as was in the budget; and we see it closer to $6 billion for the following year, relative to the budget's $5 billion.

I have a comment on some of the risks to the forecast. Actually, unlike most times, I see the risks to the forecast as being on the upside, because oil prices have surprised us. In fact, I can tell you, as we're completing our April forecast, that we will be revising nominal GDP upward, because the prices of oil and natural gas and a few other resources have been higher than what we would have thought a month ago. That's not going to make a whopping difference to the fiscal forecast, but certainly for this fiscal year it could be a couple of hundred million, quite possibly.

So that's our forecast.

The Chair: Monsieur Vaillancourt.

[*Translation*]

Prof. François Vaillancourt (Professor, Economics Sciences Department, University of Montreal, As an Individual): Mr. Chairman, I would like to begin by discussing our approach, the assumptions we used and the results we obtained.

The approach we took is somewhat different from the one used by the two economic consulting firms, Global Insight and the Conference Board of Canada. We took an approach that involved clearly explaining the tools we used for the information of Committee members, even though we were fully aware of the fact that this rather technical. However, because of your interest in the Congressional Budget Office and other such forecasting organizations, Mr. Plante and myself decided to present this information in a way that would give you an idea of what has to be in the black box in order for forecasts to be developed. We do not claim this to be the best black box on the market, because it could surely be fairly easily enhanced, but we do believe this is a different way of approaching the exercise. The relative advantage of academics, as compared to outside consultants, is that they are only involved in training, as opposed to being large forecasting machines.

Having given you that introduction, I want to point out that you will find more technical information in the brief we have tabled. In theory, using the appropriate program, committee analysts could take these forecasts and redo the calculations, making very simple changes to the assumptions.

Now, what specific assumptions did we use to produce this document? On the spending side, we have used the Department of Finance's assumptions. Experience has shown that spending generally comes in pretty close to the budget estimate. Mr. Stanford demonstrated that in the paper he produced during the first round of forecasting a month ago. We have looked at the numbers and determined that they are correct. We thus consider it appropriate to use the spending forecasts as part of this first exercise.

On the macroeconomic data, we also achieved a consensus. We ran an additional simulation, which does not appear here and is slightly more pessimistic. This goes back to what we said earlier. A little more pessimism in relation to economic activity yields lower revenues.

In carrying out our analysis, we therefore focussed on forecasts for four revenue components: personal income tax, corporate tax, GST and employment insurance. Those are the federal government's four main revenue sources, and they are also the areas where forecasting errors have been observed in the past.

In fact, our forecasts suggest that the Department of Finance has underestimated its revenues, as in past years, particularly GST and personal income tax revenues. With regard to corporate taxes, we arrived at similar numbers, but I don't believe our model reflects the rise in oil prices, as mentioned by two of the previous witnesses. Were we to do another estimate, I believe we would probably end up with a more significant increase. This particular aspect was problematic because econometric models rely on the past behaviour of variables. This is a fairly recent change, but I think we could reflect it.

Using those revenue forecasts from the Department of Finance, we end up with a fiscal balance of $4.9 billion for 2004-05, which is actually a little higher than the Department of Finance's forecast. For 2005-06, it is $4.5 billion, and for 2006-07, it $1.8 billion.

Because we are the last ones to be presenting today, we have the advantage of having heard the people who came before us. It is interesting to note that in all the forecasts, except Mr. Stanford's, the fiscal balance drops, either between 2004-05 and 2005-06, or between 2005-06 and 2006-07. So, there is clearly a trend in current forecasts, and in most of the models we're looking at, towards a lower fiscal balance.

The risk of error is probably declining: we have somewhat underestimated the revenues generated from high oil prices and the economic activity associated with the natural resources boom, which give rise to a slightly lower unemployment rate and slightly higher nominal GDP. On the other hand, it's probably preferable to be somewhat conservative here, at least for our first estimate.

Thank you, Mr. Chairman.

● (1135)

The Chair: Thank you.

Mr. Penson, are you ready?

[*English*]

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair.

I would like to welcome the panel here today, with the addition of Mr. Vaillancourt, who I think is going to make an important contribution to this process.

I do want to say from the outset that I believe this process is really starting to take shape and gel and to show some real benefits for this committee and for parliamentarians in order that we can be as up to date as possible on the current fiscal situation Canada faces so that we can make the necessary decisions we have to make every day.

I would only point out to the members, as they've done their hard work in the last two quarters, how important it is to get Parliament's numbers before this committee. Parliament's numbers, Mr. Chair, are different from the finance minister's.

Although it's only six weeks since the budget was brought down, we already see the 2004-05 estimates of your groups that are working here today being about $3 billion higher than was forecast in the budget. Of course, for the current fiscal year it's $4 billion higher.

It seems to me that if we have this information on an ongoing basis, adjustments will be made from time to time up or down, but at least we'll have the current figures.

What I'm concerned about is that with Parliament's numbers showing a considerable difference from the finance minister's numbers, doesn't that really discredit the budget that was just brought down on February 23? That shows a projected surplus for next year of $4 billion, and your group is saying it's $8 billion.

Canadians, when they're asking parliamentarians to make decisions on their behalf, would want us to have the most current information available to us.

Mr. Darby, given that we're at about the same point this year, April 5, as we were last year, with a $1.9 billion forecast, which ended up being $9.1 billion, how confident are you in the projections for the year that just closed, March 31, when you're showing about $6.8 billion? How confident are you in those numbers?

● (1140)

Mr. Paul Darby: At this point I must confess that I feel more confident in my $6.8 billion projection for fiscal year 2004-05 than I do in the budget 2005's number. I think the reason for that mainly comes from when we look at where we are in the fiscal year and given also our track record on being able to get a pretty good handle on the final surplus at this point. My sense is that we generally do a pretty good job, as do my colleagues. I think the fact that *The Fiscal Monitor* and our own modelling suggests a stronger surplus than what is currently in the budget indicates that in fact the number will be higher than what the finance department is currently forecasting.

Mr. Charlie Penson: Would it follow, then, that the further we get out in forecasting, the more difficult it is, and therefore it would be good for our committee to have quarterly results so that we could look at these current trends as they're developing?

Mr. Paul Darby: I think a crucial benefit of this exercise is that as we go forward through the year, we'll be able to track on a much more frequent basis changes in the fiscal outlook. For example, what's happening with energy prices is a good case in point. We know they are volatile, and we know that the underlying fundamentals can change. The implications are often important for the fiscal outlook. So certainly the revenue situation of the government could change rather dramatically through the course of the year, and this is something we would obviously want to keep Parliament informed about.

Mr. Charlie Penson: Mr. Darby, I know you're familiar with the Congressional Budget Office in the United States. We had the lady who heads that up before our committee on a video conference, and she was telling us that they have monthly updates there in order to help out their parliamentarians. She also said that it's a check and balance against the administration's budget. But one thing that is clear is that the administration is struck by law in order to provide the accurate raw numbers to the Congressional Budget Office.

In that context I'd like to ask you, what contact did you have with Finance in regard to your research this time? I would invite others to get involved. Was it before or after your report came out? How much assistance were they to you?

Mr. Paul Darby: It's important to recognize that in this exercise, in some sense, we have an enormous amount of assistance from the publication of the budget; in many ways, the budget document itself updates for us many of the expenditure and revenue numbers.

As others—for example, François and probably Dale—we took our estimates of the direct program spending pretty much intact from the budget. Much of the discussion around how they would be expensing things like the public sector wait times reduction or the health wait times reduction fund, or how they would be handling the special equalization payments to Newfoundland and Nova Scotia... they're clarified within the budget.

We did certainly have contact with the Department of Finance on a number of interesting questions. I must say the sense I have is they are now much more...well, my sense is they are certainly willing to cooperate, perhaps more willing than they were as they were busy preparing budget 2005—

● (1145)

Mr. Charlie Penson: Mr. Darby, I'm sorry to interrupt, but my time is short. The point I want to make is because it was only six weeks ago, the budget numbers—the budget information—would be very relevant to you, but as we get further out, isn't it going to be important that you have cooperation from Finance in order to complete this process, as we go through quarter by quarter?

Mr. Paul Darby: Absolutely. I think that's why this time around, in some sense, it's a bit of an exception, because you do have the budget plan, but as we go forward, certainly we would feel getting the most recent historical information within the Department of Finance would be a crucial element to an accurate projection.

Mr. Charlie Penson: Thank you.

Mr. Orr, in order to develop Parliament's numbers, could you tell us more about—

The Chair: Thank you, Mr. Penson.

You're way over; we'll come back in the next round.

Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman.

I want to begin by thanking our experts, most of whom are appearing before the Committee for the second time. This is an exercise that we find most useful in terms of providing clarification about the federal government's revenue, spending, and surplus forecasts. So, thank you for your contribution.

We were delighted with your first appearance; we are even more delighted with the second, especially since our expert group has been enriched by the addition of one of my former professors at the University of Montreal. I'm very pleased about that. He is an excellent professor, by the way. Indeed, you've been able to see that for yourself, Mr. Chairman.

Mr. Plante, could you briefly explain the model you used? After that, I'll have a question for you about your model.

Mr. Matthieu Plante (Economist, Economics Sciences Department, University of Montreal, As an Individual): Are you more interested in technical information about the statistical model we used, or in general macroeconomic information?

Mr. Yvan Loubier: What type of model did you use?

Mr. Matthieu Plante: This is a model called ARIMA, where macroeconomic modeling errors are corrected for AR1-type autocorrelation. Omitting the AR1 correction would result in poor macroeconomic forecasts.

Mr. Yvan Loubier: I understand. By concentrating your estimates on the four main revenue sources, are you not missing a significant portion of revenues that are not primary revenues, but that were specifically identified by the International Monetary Fund when it criticized the fact that our revenues are underestimated?

Prof. François Vaillancourt: Mr. Loubier, strictly speaking, you are correct. The issue here is one of resources. Because we only had three weeks, I asked Mr. Plante to carry out his analysis revenue type by revenue type.

There are two general approaches: one approach involves explaining revenues, while the other involves forecasting revenues. My colleague was explaining that the approach we took was to forecast revenues. We do not claim to be able to provide a very good explanation of what is going on, but we do claim to be able to retrace the recent past with some accuracy and use that to predict the immediate future. So that is the general approach we took.

That being the case, certain revenue categories—for example, excise taxes—are not of much interest. There is not much to be gained there, unless applicable rates for tobacco and alcohol change. In my opinion, it's really personal income tax—corporate tax revenues are difficult—that is most important, along with the GST. Those are the sources where attention should be focussed.

With respect to the long term, that's where you find a trend, if you look at the graphs from our model, towards higher revenue forecasts than what the government has produced.

● (1150)

Mr. Yvan Loubier: That's already a major improvement over what we've seen in the past.

I would like to ask all our experts one question.

As part of the last budget process, and even prior to that, the government entrusted John McCallum with the mandate of finding $10 billion worth of new savings. In your respective forecasting models, did you consider some of the savings that might be found in the upcoming fiscal year or the one that follows it?

Perhaps Mr. Stanford could answer first.

[*English*]

Mr. Jim Stanford: Yes, sir, we looked at the budget numbers. Again, as Paul mentioned, we used the budget numbers as an update on the current thinking at Finance, including their thinking about when they're going to realize those savings. So in our model, we've used their schedule, which assumed a net cost from that exercise of $300 million in the last fiscal year, and then small but growing savings from that exercise over the next five fiscal years, totalling $7.1 billion net over the six years. So we have worked that into our forecast, and we're assuming that those savings will be realized.

[*Translation*]

Mr. Yvan Loubier: Mr. Darby.

Mr. Paul Darby: The same thing applies to us. We used the direct spending forecasts published in the 2005 budget. So, my answer is exactly the same.

Mr. Yvan Loubier: Is it also the same for you, Mr. Orr?

[*English*]

Dr. Dale Orr: Mr. McCallum's exercises are by definition reallocation exercises. The intention is not to reduce the total amount of spending. It's just to spend things on different areas, although, as was clearly indicated in the budget, the government may if necessary use some of those freed-up moneys to keep them out of deficit. I want to emphasize that it is called a reallocation exercise. Their intention and their desire is not to have McCallum's exercise change the total amount of spending. It's to change what it's spent on.

[*Translation*]

Mr. Yvan Loubier: Yes, but before those savings are reallocated, they will give the government some fiscal room. Therefore, they have to appear somewhere, so that we have an accurate idea of what moneys the government has available to it.

[*English*]

Dr. Dale Orr: They'll use up that surplus pretty quickly, I'm sure. Momentarily!

[*Translation*]

Mr. Yvan Loubier: Which is what happens with all surpluses, I guess.

Prof. François Vaillancourt: My comment would be that the economy produces revenues, and the government determines what its spending will be. The economists here today have a much better understanding of the logic underlying the economy that is producing those revenues than they do of the logic based on which the government sets its spending. That is more of a political activity, which involves the internal bureaucracy. And I believe that's the reason why we are using economic projections of those revenues that rely on the spending set out in the budget.

However, with respect to the question asked earlier, what this means is that the further away we get from the budget, the more important it is to be able to cooperate with the Department of Finance in order to follow up on that spending.

As regards revenues, I think we will probably continue to be able to provide accurate forecasts. With respect to spending, however, if the Department of Finance refuses to cooperate, our work will be more difficult, because of internal adjustments that occur.

Mr. Yvan Loubier: You are right, Professor Vaillancourt: politics has its own logic—one which even escapes us, on occasion.

May I ask one last question, Mr. Chairman?

The Chair: No, that's it.

Mr. Hubbard.

[*English*]

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

I guess we're being televised this morning. I woke up at about 4:30 this morning and I was watching the Standing Committee on Justice on CPAC. For the economists here, I hope that when they put all their erudite impressions on forecasts, somebody doesn't have to get up at three or four o'clock in the morning to see what the talk is all about.

Mr. Chair, in terms of this, it's a very complicated issue. We're talking about economic growth. We're talking about a whole group of factors. I wonder if all our witnesses agree. In terms of this year's budget, there's apparently an increase of about 12% in spending, which is very significant in terms of a budget the size of the one we have. In terms of their presentations that are accommodating that increase in spending and the projections, one question I might have first comes in terms of corporate profits.

Everybody seems to have a general concept that corporations.... I would hope that all the boards of directors across the country aren't trying to find ways to cut back on the money they have to send to us every year in terms of corporate taxes. In terms of our forest sector, however, the projection I saw from them is that their profits this coming year will be cut by about 50%. Maybe they're just trying to look at what's happening to their stock market values, but in that sector, at least, we find there are going to be great difficulties.

In the oil industry, I would think that when you get oil coming in at nearly $60 a barrel U.S., there's going to be a lot of money that's going to be flowing from some provinces, some corporations, toward our central treasurer.

In terms of the idea of corporate profits, are we as a group very much together on the fact that corporate profits are going to be significantly higher in each of the next few successive years? Is there any disagreement amongst our witnesses in terms of that statement?

● (1155)

Mr. Paul Darby: We certainly have the growth in corporate profits slowing as we go forward over the next few years, because we obviously have a sense that energy prices are not going to be able to continue to increase at the rates that we've seen recently. However, I think we have made a bit of a fundamental change to our outlook in the sense that we now are forecasting energy prices to stay high.

In addition, it's important to recognize that in the non-energy sector, if you like—and we can talk about the non-forestry sector as well—we will be looking for stronger economic growth as we get into 2006 and 2007, as the impact of the higher dollar begins to be absorbed and adjusted for within our economy. Growth in our forecast is going from 2.3% in real terms this year to something like 2.8% in the following year, and then closer to 3% by the time we get to 2007.

That higher growth also does have an impact on corporate profits, clearly. In some of the non-energy export sectors, which are hurting currently because they're making this adjustment to the higher dollar, as we get into a stronger export performance in the next two years, that will also help.

So I think it's important to recognize the growth in corporate profit.

Mr. Charles Hubbard: I see, Mr. Chair, that Mr. Vaillancourt is really keen to answer this question too.

Maybe you want to comment.

Prof. François Vaillancourt: I was going to agree with Paul Darby. There are two forces, the energy and non-energy sectors. In energy, I suspect we're probably underestimating what's going to happen in terms of profits. In non-energy, in the short-term, there's the impact of the dollar. Personally, I'm not a macro forecaster, but I have discussed this with another forecaster from the University of Toronto. We're both surprised by the small impact of the dollar. We expect it to fall somewhere in the economy in 2005. I would say that profits will probably remain stable, but the composition may change in the short term from the non-energy to the energy sector.

In the medium term, I think the demand for energy will remain even though the price may go down a bit. I don't expect the $105 forecast by Goldman Sachs, thus I think the profits in the long term will remain high. But I wouldn't count on too much in 2005-06.

The Chair: Can we have Mr. Stanford's response?

Mr. Jim Stanford: On that question, sir, our model actually forecasts a slowdown in corporate profit growth, such that corporate profits begin to decline slightly, moving forward as a share of GDP. Our corporate profits are growing more slowly than GDP, but we think the thing that drives our corporate tax revenue projection, which is much stronger than the budget, is the fact that the budget has not fully taken into account the impact of profit growth that has already occurred on its corporate income tax projections.

For example, last year's corporate profits grew by 19%, yet the budget's estimate of corporate tax revenue for the coming year shows only a 2.8% growth. I think that's very conservative. So we don't expect the corporate profit surge to continue—I don't think it can—but we do expect corporate tax revenues to catch up to the growth in corporate profits that has already occurred.

The Chair: But your revenues are going from $196 billion to $206 billion.

Mr. Jim Stanford: That's the total revenues, but our corporate tax revenues within that are growing by 4.3% in 2006 and less than that in later years.

● (1200)

The Chair: What's the reason for the increase?

Mr. Jim Stanford: Why is our revenue growing stronger? It's partly because of the catch-up in corporate taxes to profit growth that has already occurred. In 2005 we would view corporate tax revenue as growing 15%, versus 2.8%, not because corporate profits are going to continue to grow but...typically your corporate taxes grow with a lag after the growth in profits because companies declare for the year after on the profits they made the previous year.

The Chair: Sorry about that.

Mr. Charles Hubbard: Okay, Mr. Chair. I would like to moving on to personal income taxes.

Some of us had advocated a major change in terms of the level at which personal taxes began.

There has been a slight increase over the last number of years, but this year's budget, in fact, projects, going to the year 2009-10, that we'll start our federal system of personal income taxes at the level of $10,000.

I wonder, Mr. Orr, if you could give us a comment on what that is going to cost the national government in terms of revenues over that period of time. I understand the significant hit because every $100 it's increased costs about $200 million of revenues. In terms of your projections over that period of time, how big a benefit will it be, in terms of the overall program, for the little guy who hasn't a lot of financial resources?

Dr. Dale Orr: I don't have the billion-dollar amount with me, but I can get back to you on it. I would like to confirm a couple of points that I think are important. Yes, it was in the budget, but it's basically not going to happen for quite a few years yet. When it does, it means that some people who would otherwise be paying 16% on the money in that range of about $2,000 won't be, so that's why the benefit is very small per family. But of course it does affect virtually all taxpayers. As I say, the benefit is in the 2008-09 year, the 2009-10 year. It certainly is an expensive tax reduction because it does affect all taxpayers probably in the order of magnitude of a couple of billion dollars.

As a matter of fact, I think I recall that in the budget it was budgeted at $5 billion. I think that amount is right, and all of that would be in the final two years. I think that's a $5 billion item in the budget.

Mr. Charles Hubbard: Finally, Mr. Chair, we asked this question last time. In terms of the value of the Canadian dollar vis-à-vis the American dollar, are we all working in the 80-some-cent range in terms of our projections? Are there concerns now that it may go higher than it is at the present time?

Mr. Darby wants to answer that question. I guess he did last time for us as well.

Mr. Paul Darby: There are certainly concerns that the dollar can go higher, but our forecast is, for the dollar, at least in the two-year horizon we're looking at here, to remain in roughly the 80¢ range, yes. On the concern around it going higher, there are two major concerns. One would be a potentially stronger outlook for energy prices, which seem to be giving support to the dollar. The second would be this ongoing issue with respect to fundamental imbalances in the U.S. economy, which I think currently represent the most serious source of risk planet-wide. The pressures there are clearly on the side of pushing the U.S. dollar down. How much that would translate into a higher Canadian dollar is a matter of debate, but I think there's no doubt that the risks still remain on the upside for the Canadian dollar going forward.

Mr. Charles Hubbard: Thank you, Mr. Chair.

The Chair: Mr. Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much.

Thank you for your presentations.

As you know, this is no theoretical exercise. What we're facing across the country is increasing child poverty, increasing homelessness, and increasing pollution levels. We have a crisis in post-secondary education. We have a crisis in farming communities. The whole question of where federal resources are or whether federal resources exist to deal with some of these issues is not theoretical at all.

I know you're all aware of the IMF report. I'll quote a line from the report that came out last month: "Canada has the largest negative mean error for the overall deficit forecast"—this is for fiscal projections—"even after allowing for economic prudence and contingency factors".

We have the worst record for accuracy among the countries studied.

It seems to me there's a bit of a shell game going on. Mr. Stanford pointed out there were no funds available to deal with some of the issues in November, and then 99 days later, $54 billion had been found.

My question to you is this. How do we end this shell game so that Canadians can feel confident that our fiscal projections are accurate and we know what resources exist to deal with the critical issues that Canadians are facing across the country?

● (1205)

Mr. Paul Darby: I have some thoughts on that issue. Two things come to mind immediately, and I'd like my colleagues to comment because I think it's a crucial question.

First, of course, we need to be coming forward with fiscal projections on at least a quarterly basis, updating the funds that we feel are available as macroeconomic conditions and fiscal conditions change.

Secondly, I think it may be important for the four fiscal forecasters here to, if you like, come to a sense of how the fiscal projection looks. I don't think the numbers are actually, in some sense, that far apart. I don't know if we can come to a consensus, but we could come to at least an outlook that in some ways would be a good reflection of our views.

Thirdly, you'd want to have a feedback mechanism to the Department of Finance. If you're going to have an in-year impact on fiscal policy, I think you're going to want to have some way of feeding back to the Department of Finance what you consider to be reasonable and accurate fiscal projections and what the implications might be for those fiscal projections on the current state of fiscal policy.

Dr. Dale Orr: Mr. Julian, I have a couple of points.

From the IMF report, I remember reading what you read, that the forecasting record was not good. But to go behind it one step, they said it was due to the economic forecasts to a considerable extent. Of course, those were done by private sector forecasters. That's only to make the point that not all of the blame for the inaccuracy can be plopped on the Department of Finance. In some defence of Canadian economic forecasters, for some of the years when we under-forecasted economic growth in Canada, it's because economic growth in the U.S. was under-forecasted as well. That error is a combination of things. I wouldn't want anybody to think it's all because of something that's going on in the Department of Finance, or even in the economic forecasting, that it's within the private sector forecasters in Canada.

To emphasize the importance of updating, the paper I did in January looking at the forecasting process concluded that one of the major difficulties in the way we're doing forecasting now is in the lack of updating. We would only get the economic statement in the fall from the government and then we would get the budget. In between, we generally get nothing officially from the government on updates.

Even in *The Fiscal Monitor*—and I've commented on that in here—the leaning of the Department of Finance officials is that when something's a bit off track, time and time again they will caution you not to move away from the forecast they have out there. That's generally the tenor of their comments.

As a matter of fact, further to that, when the fiscal forecast was updated in the economic statement in the last five years, in two of the last five years they led us in the wrong direction. So not only did they not give us very many updates in two of the last five years, but they downgraded the amount of money that would be in the surplus. Lo and behold, we found out months later. Last year was a good example of where the update they gave us moved in the wrong direction.

I think it's very important to have a good and thorough updating process. As I've said, in spite of all of the difficulties and everything, the Department of Finance would not be suffering the questionable credibility they have today if they had done a better job on updating.

● (1210)

[*Translation*]

Prof. François Vaillancourt: The observation I would make is this: the Department of Finance, looking back over a ten-year period, was entrusted with the task of eliminating Canada's very high deficit. Once that had been accomplished, officials at the Department probably took a conservative approach. Once a problem has been resolved, you don't want it to come back. So, it's in your interest to be conservative and to predict that the situation will not be rosy.

What is needed is a culture change within the Department of Finance, so that officials come to recognize that we are no longer living in 1998, the year immediately following the one where Canada first posted a surplus, and that we're now in 2005-06 and moving into 2006-07. The reflexes that developed at a time when things were not going so well have probably remained in place. But how do you actually achieve that kind of change? The process you have put in place is probably one way of doing it. As Paul Darby was saying, the real key is feedback from and interaction with the Department of Finance, to try and convince officials that this is not entirely a political game, and that there are also other opinions out there. So there could be some merit in their moving from a macro forecast to a revenue and spending forecast, because at the present time, we are using a consensus macro forecast, but no consensus revenue and spending estimate developed by forecasters is published.

The other comment I want to make has to do with regular updates. Yes, that does require feedback, as I was saying earlier, particularly on the spending side, where we need to know the views of the Department of Finance and, implicitly, Treasury Board with respect to how spending is evolving.

The Chair: Thank you.

Mr. Solberg.

[*English*]

Mr. Monte Solberg (Medicine Hat, CPC): Thank you very much, Mr. Chairman.

I want to thank all our experts for being here today. It's a great thing to have people who are independent of the government talking about something that's pretty important to the country, the overall finances of the nation, and giving us their own objective view on where we're headed in terms of revenues, expenditures, and ultimately the size of any surpluses.

I want to point out that since 1997, I think, we're talking about almost $80 billion in unprojected surpluses that the government has run. It's obviously a good thing to be on the plus side, but that said, when you're talking about big numbers like that, you're also talking about $80 billion, for which the public had absolutely no say in how it was spent.

I don't deny for a second that in many cases this money was spent on good things. In other cases, it was spent on pretty questionable things. But certainly I don't think anyone denies that the public should have some say in how this is spent.

I also want to point out that last year we saw the government project a surplus of $1.9 billion. It came in at $9.1 billion, sort of continuing the trend. Even this year, six weeks after the budget, we're finding that our parliamentary experts are projecting surpluses double the size of what the government was projecting in the budget—just six weeks later. It makes the point to me that this is a useful exercise and that we have to continue with this. What you're doing is very valuable.

I just want to follow up on a couple of things that were said. Mr. Orr was making the point a minute ago, as was Mr. Vaillancourt, respecting the importance of updating, and I agree with that. We need frequent updates. But it's a curious fact to me that when we had independent forecasters advising the finance department, they always ended up forecasting on the low side. In other words, they always forecast with a bias to underestimating the size of the surplus.

When we had the expert from the Congressional Budget Office before us, she made the point that when they were trying to forecast where they were going to end up at the end of the year, they were over as often as they were under. The fact that these independent experts always seem to be under, or under-project the size of the surplus, tells me there is a built-in bias.

I wonder, Mr. Orr, if you would answer this. I wonder if the exercise the finance department was undertaking was really more an exercise in planning than it was in forecasting. I understand the tendency for people like economists, and certainly finance officials, to want to end up running a surplus, but would it be correct to say that was more an exercise in planning so that you didn't end up in a deficit than it was in actually forecasting?

● (1215)

Dr. Dale Orr: The private sector forecast that was put in the budget certainly was meant as a forecast. It was not presented as one that would necessarily be on the high or low side, because the contingency reserves and economic prudence were put in there. There was no intention on the part of those who did the private sector forecast that there would be any more prudence put in than that. But of course, every year more money came up in the surplus than what was forecasted.

Let me put a little bit of flesh on that. As to the forecasts of real economic growth, I think that over the last seven years we were sometimes under a bit and other times a little over. The same thing is true of the forecast for nominal GDP. About 20 private sector forecasters supplied the economic forecast. A smaller group, the four with models of the economy, took that economic forecast and did another of the fiscal indicators on a national accounts basis. The Department of Finance then took the national accounts forecast and converted it to a public accounts forecast. So the final stage was in the hands of the Department of Finance. It was a combined effort.

Just another point I might make in clarification, Mr. Solberg. In fairness to the Department of Finance, in comparing what you've got in front of you today with the budget, even though the budget was February 23, you need to understand that Finance had to have all of the analytic material together much before that.

As we've mentioned, their economic forecast dated back to December. It would probably have been difficult to make significant changes in the numbers within the month of February. What you have in front of you, we didn't start until the first of March. We incorporated information up to, let's say, March 27 or 28, and we sent things in on March 30 or 31.

So there might be a little more difference in time than what you're saying.

Mr. Monte Solberg: You said in your report that you questioned the ability of the government to push a whopping $55 billion out the door in the final quarter of the 2004-05 fiscal year—those are your words. What does that say about the government's planning? If we're in a situation where they're trying to shove that much money out the door, how can that money be spent in a reasonable way if that's what they're up against to meet their targets over all?

Dr. Dale Orr: That's right. This reflects what Professor Vaillancourt was saying. From our point of view on the spending side, we provide a forecast of only one component of spending—EI. That's because EI is dependent on the economic cycle. Other than that, all we can do is look at the numbers, throw flags up the pole, and come at it from a straight numbers point of view.

All I can do is say, “Look at that number: $55 billion in one quarter”. I doubt if we've ever tried to spend that much money. As a matter of fact, in January we spent only $13 billion, so we've still got $42 billion to spend in two months. That is a tremendous amount of money.

Go through the budget and you will see that some of that money requires federal-provincial negotiations. A lot of it probably requires the signing of contracts.

As an economist, all I can do is say, “Talk to the Treasury Board. Talk to deputy ministers. They're the ones who really know.” As economists, we don't really know how they can actually spend that almost unprecedented amount of money, keep consistent with all the Treasury Board's rules, and make sure it's all spent the way the taxpayers were promised in the budget. I can only identify it as a big challenge.

● (1220)

The Chair: Thank you.

Mr. Monte Solberg: Mr. Stanford had a word to put in.

Mr. Jim Stanford: Shovelling the money out the door at the end of the fiscal year is a bit of a shell game. Several billions of the money that's going out the door is not actually going out the door. They've just decided retroactively to say that they spent it today, when in fact they plan to spend it in the coming fiscal year.

That's part of the credibility issue, similar to using pre-booked health transfer payments as a way of absorbing the last-minute surplus and giving themselves more fiscal room down the road.

So it's complicated. Not all of the money is actually going out the door. For political reasons, it's convenient to book it at the present time.

The Chair: Thank you.

Monsieur Côté, and after that, Mr. Bell.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much, Mr. Chairman.

I want to thank all of you for your presentations. This session, meetings of the Standing Committee on Finance have been highly instructive for the public. I am naturally thinking of our own work and of the work carried out by the Sub-committee on the Fiscal Imbalance. To a certain extent, the two themes are related. We see the impact of the government's policies and budget forecasts in this phenomenon we call the fiscal imbalance.

It is very interesting to note that the International Monetary Fund itself recognizes that the government is constantly underestimating its revenues. Once again, we have the impression Minister Goodale is following the same recipe as Paul Martin and Jean Chrétien, which was to underestimate revenues in order to plan a surplus, without considering that parliamentarians have the right to ensure that this money is spent appropriately.

My question is for Mr. Darby. A little earlier, you stated that you were pretty confident about your numbers, if I'm not mistaken—indeed, increasingly so.

My question is this: In your opinion, why do the government's budget estimates become obsolete so quickly? We touched on this earlier. I suppose your answer will be that the government has been far too cautious. But how is it that forecasts change significantly so quickly?

[*English*]

Mr. Paul Darby: When I was speaking of confidence in the numbers, I was really speaking more about fiscal year 2004, fiscal year 2005, partly because we are getting actual data now on many of the drivers of the fiscal situation in fiscal year 2004-05. I remain fairly confident in my numbers for 2005-06, and 2006-07, and further on, because in fact we try to do a good job of forecasting at the Conference Board.

I think it's important to recognize that we really haven't changed our forecast very much from the numbers we presented to the committee in February—less than a billion dollars, I believe, at least in the two years that we have presented. This reflects the fact that we haven't changed the macroeconomic outlook either, and that's not surprising, I suppose, given that it really has only been about a month since we last appeared before the committee. I think it's fair to say that we continue to have confidence in our forecast and in our numbers, partly because we really haven't seen major developments that would make us change those forecasts. We feel even more confident as time goes on in the estimates for fiscal year 2004-05 because those numbers are becoming more historical with every month.

I'm not sure if that answers your question.

Mr. Guy Côté: Yes, it does, thanks.

What I was wondering, Mr. Orr....

[*Translation*]

We can see that your figures are a lot closer to the government's estimates than those produced by other forecasters. We have had a lot of discussion about credibility and the natural tendency on the part of the Department of Finance and some economists to produce extremely conservative forecasts. I put the same question to your colleague in February. But I'm not sure I really got an answer.

Do you not think that you're doing basically what the Department of Finance is doing—in other words, producing forecasts that are a little too conservative?

Your figures are very close to those tabled by Minister Goodale, whereas the other forecasters are presenting a much rosier picture.

An hon. member: But we still like you.

Mr. Guy Côté: Yes, we still like you, obviously.

[*English*]

Dr. Dale Orr: I can say it's by coincidence, because certainly if I do think the Department of Finance is off target, I'm pretty quick to say so. I'm not one who is shy in providing my opinions of whether they're on track or not.

In terms of the economic forecast, I've mentioned in terms of real growth that we have a more pessimistic view, as does the consensus of forecasts for this year on real growth, but likewise, the tax base has held up well. Although there are not as many people providing that forecast, I think most of the people would agree with that. We are forecasting actually this year for almost $6 billion in surplus, and I think that's not too far off what Jim is forecasting for this year.

● (1225)

Mr. Jim Stanford: I was lower than you for a change.

Dr. Dale Orr: Yes, so there you go.

[*Translation*]

Mr. Guy Côté: There has been a lot of discussion about the current value of the Canadian dollar, which is rising, and the potential impact of that on the economy. At the same time, it has also been mentioned a couple of times that corporate revenues will also be on the rise in the foreseeable future.

How do your reconcile those two aspects, which at first glance would seem somewhat contradictory?

Prof. François Vaillancourt: There is one very important point to be made here. First of all, there is a lag between corporate revenues and tax revenues. Second, it's very important to understand that corporations have accrued losses.

Over time, the stronger the economy, the smaller the portion of revenues that can be shielded from corporate tax through accrued losses. When you come to the end of a cycle, very often you end up with corporate taxes that seem high in relation to profits, but that is because the losses that will be generated over the course of the economic cycle and used subsequently have not yet begun to accrue.

That's one way of explaining why corporations will possibly pay more in taxes than what was forecast. It's because the taxable portion of their profits has increased.

The Chair: Thank you, Mr. Côté.

Mr. Bell, please.

[*English*]

Mr. Don Bell (North Vancouver, Lib.): Thank you, Mr. Chair. Thank you again, gentlemen, for your contributions.

Picking up on that last point, Mr. Stanford, you made a reference to the corporate tax revenues. You said they'll catch up an expected —what—15% versus the 2.8% that was projected? Is that the lag factor the professor just made reference to, then, that you're using as a reference?

Mr. Jim Stanford: There are two sources of the lag, sir. The first is just the timing issue, where a corporation files its tax payments in a given fiscal year based on its profits in the previous fiscal year. Then there's a kind of economic lag, which occurs if a company has been through a period where it experienced losses, when for the initial years it's back in profitability it can carry forward its losses and thereby reduce its tax liability.

For both of those reasons you tend to see an upsurge in corporate income tax revenue that lasts for one or two or three years longer than the upsurge in pre-tax corporate profits. That's the reason why I'm especially skeptical of the government budget's forecast for very moderate growth in corporate income tax revenue, because the growth of pre-tax profits in the Canadian corporate economy has been stunning in the last three years, with an absolutely record-breaking rate of growth, and corporate profits are now at a record share of GDP. Sooner or later that has to show up in higher corporate tax revenues for the government.

Mr. Don Bell: If I wrote down what you said correctly, you said corporate profits will grow more slowly than the GDP.

Mr. Jim Stanford: Yes, that's why I'm saying that my relatively bullish forecast of corporate income tax revenue moving forward is not rooted in a bullish forecast about continuing profit growth. It's based on profit growth we've already seen.

Mr. Don Bell: Okay. I appreciate that.

I think, Mr. Orr, you made reference to the U.S. economic growth estimates being out as well. Are there any other significant factors that you feel have been overlooked or that we should be paying attention to?

The other economists may want to comment on that, but I'll go to you first.

Dr. Dale Orr: Certainly, the issue on updating is by far the most important one. That's a process as opposed to numbers. In fact, I made a presentation to this committee—I think it was about a month ago—based on the fiscal forecasting.

Some reference has been made to the revenue forecast, and there are really two components to the revenue forecast. One is to estimate how much revenue the government will get per dollar of nominal GDP, and actually, on that revenue-GDP ratio, over the last nine years they were over for four and under for five. That's really the key parameter that is estimated within the Department of Finance. Where they have the biggest impact is on the revenue-GDP ratio, and the errors there were about equally split, even though total revenues came in higher than forecast seven of the last nine years, but that in turn goes back to the fact that the economy was a bit stronger in terms of nominal GDP.

That gives you the flavour of it.

I might just make a comment on corporate profits. We see corporate profits, as a matter of fact, higher in the 2004-05 year than going forward. They're almost level as we go out: $29 billion in 2004-05 and $28 billion in the next couple of years. What happened in 2004 and is still continuing to some extent is that Canadian exporters are not feeling the full brunt of their loss of competitiveness from the Canadian dollar. The reason for that is that in 2004 the U.S. economy was very strong—it grew by almost 4.5%—and the global economy, particularly Japan's economy, was very strong.

A lot of people don't realize this or understand this, but in 2004 Canada's exports grew more rapidly than our economy overall. Exports were a source of strength to our economy last year. That sounds a bit surprising, knowing we were dealing with an 80¢ dollar. The reason is that the strength of the demand from the booming U.S. and Chinese economies kept exports up. But now the U.S. economy is starting to cool and so are the Chinese and other economies, so as we put it, that loss of competitiveness from the high Canadian dollar will now be laid bare and start to show its teeth.

That's why we don't think we're going to get quite the $29 billion in corporate profit growth we had last year as we go forward, because resource prices are going to cool a little bit, hurting those folks, and with the exchange rate, whether it's an 80¢ or 85¢ dollar, there will be less protection without booming U.S. and Chinese economies.

● (1230)

Mr. Don Bell: Professor Vaillancourt, you talked about your model being an auto-corrected model. I would throw the same question back to you: is there something you see missing in that formula other than the updates? Is there some factor we're missing significantly?

Prof. François Vaillancourt: We seem to explain a fair share of the revenue except for employment insurance. The other error appears to be quite small.

What I would say would be useful to get a better projection is this. Take a very specific example, Quebec and the corporate income tax, which was an exchange upon.... People at Finance and in the revenue parts of the government have information not easily made available, for example, on existing tax losses and their rate of depletion and therefore the ratio of possible tax loss to be used next year and the year after. That's something that's not available to forecasters but is available at Finance; they know the stock of existing tax losses. If you were able to get that information and some idea of how it's been in some sense expensed over the last ten years, you'd be able to make a better correction between the corporate income projection and the corporate tax projection because you'd be able to account for that.

That's the kind of stuff that's missing for us to go to a better second round.

Mr. Don Bell: Thank you.

The Chair: Ms. Ambrose.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, and thank you for your presentations.

I have a question for Mr. Darby. Mr. Stanford mentioned in his last comments this notion of a shell game and mentioned booking funds for political reasons for future use. Mr. Darby, you said, understandably, that as an economist you're hesitant to discuss how expenditures should be allocated. But the parallel conversation for us as parliamentarians and for average Canadians is about how that money is actually being spent and whether it's being spent on their priorities.

My question to you is this. I'm wondering if, in order to get Parliament's numbers as accurate as possible, you'd consider it to be helpful for us to call finance officials in to explain exactly how much money was spent, what is booked for future use, and what will be left over for future budget surpluses—in essence, to provide us with a breakdown. I wonder if you could comment on that.

● (1235)

Mr. Paul Darby: Well, obviously, yes. I think it would be helpful with respect to the accuracy of the forecast to have as much information as possible regarding the expected expenditure streams going forward for a number of programs that are set off in trusts or in fact have, I guess, variable expenditure profiles that may not be obvious strictly from the budget plan as we head into the future.

It's important to recognize that often that is more important, especially these days, for the projections of provincial government expenditures. There are currently discussions, I know, with the Auditor General around the practice of taking federal funds and putting them into, if you like, arm's-length trusts. And there are a number of issues with respect to governance that have arisen there, but I won't get into that now. But I think it's important to know there is good information, in some sense, that the federal government has indeed spent that money and that this money is expensed in a certain fiscal year.

When we in fact get into trying to project expenditures and economic activity at the provincial level, it's often very helpful for us to get a sense of how that money is going to be disbursed over time, because often it's not all spent in one shot. So I think from the perspective of the accuracy of the forecast, it may be even more important for a provincial forecast and a provincial expenditure forecast to get a good sense of how those moneys might be disbursed.

Ms. Rona Ambrose: I guess I was thinking more along the lines specifically for us—to make sure Parliament's numbers are accurate—to have some sort of sense of the last quarter of 2004-05 when you refer to the $55 billion from last quarter and the March madness, and to know whether you see the finance officials being able to provide us with more detail, if that will help us have a more accurate idea of what we're looking at.

Mr. Paul Darby: Again, I think that's obviously the case, although in many instances it may not be possible for the finance department either to know exactly the most recent figures on government expenditures within various departments. I must say, I'm not an expert on that process, and it's something we might want to investigate further at some future point.

Dr. Dale Orr: I have just a couple of comments on the money that's put into trust funds or that goes to the provinces. Yes, that's about all the federal government and their officials can tell us—that it's been handed over to the provinces—and only the provinces will know at what pace they will spend it. We do know some of the money sits with the provinces, and they don't spend it for several years after receiving it. That does happen.

But even more serious than that, the federal government in some sense is losing control of how the provinces spend some of that money within health care and child care, etc. But just to get another flag up the pole—I don't have answers—if I were you, I would be looking very carefully at the federal government's ability to determine how the provinces will actually spend that money and to follow up on the relationship between what is said in the budget about how that money's going to be spent and how it's actually spent.

I should mention another one for you to look into, when you look at those equalization payments that were made to Newfoundland and Nova Scotia. The press consistently describes this as an immediate infusion to the provinces, and that's how it's been described by us. That's why, when we were doing our forecasting in February, we included it in our forecast. Out comes budget 2005 and it's spread over the next five years. Now something's missing here. I don't know the answer, but you might want to look into that.

Mr. Charlie Penson: I just want to pick up on something in this conversation we're having here, because I think it's important.

Mr. Orr, you did say earlier that in regard to this $55 billion they're trying to push out the door in the last quarter, you've identified $13 billion already out in January, which leaves $42 billion. I think you suggested, though, that they may not be able to get it all out the door, and there may be $2 billion to $3 billion that doesn't get out. If that's the case, then the budget surplus would be $2 billion to $3 billion higher than you're even projecting now.

I just want to confirm that what you're saying is if that were the case, we could see a budget surplus for the year that just ended at more like $9 billion.

● (1240)

Dr. Dale Orr: Well, it's certainly theoretically possible. In my forecast, I've allowed for them coming short by $1 billion, but as is said in *The Fiscal Monitor*:

> Monthly results to date do not reflect the significant measures announced in the 2005 budget or the cost of the federal-provincial agreements on health care and equalization.... Together, these measures total nearly $11 billion. Their cost will be reflected in the monthly fiscal results once the enabling legislation receives Royal Assent.

So this is an example of what I mean. A lot of work has to be done, actually, by some people to spend this money and make sure you're consistent with Treasury Board guidelines and all the federal-provincial negotiation, and all that stuff. Here's $11 billion, once the enabling legislation receives royal assent. I'm thinking, hey, if it doesn't receive royal assent in this case, then that money isn't spent. That's why it's so important to monitor these things as we go from one update to another.

The Chair: Thank you, Mr. Penson.

Ms. Minna, and then Mr. Julian and Monsieur Loubier.

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

I see that some of my colleagues didn't like the idea of accountability from the provinces in figuring out where the money went and whether in fact they've spent it or not. I think that's a great idea, actually. That's part of what accountability is about and one of the things I've been trying to push.

I want to go back a little bit to the forecasts. I myself have been one of those who has criticized the government for the mistakes in the forecasts in the past, so this part of it really interests me, in the sense of going back to the fact that, as I think Mr. Vaillancourt mentioned earlier, to some degree the finance department became shy or overly conservative in its projections in order not to make the same mistakes they were making in the reverse for the previous number of years, constantly coming in with deficits. Maybe we went the other way.

Just to go back to your numbers, Mr. Stanford, you have in your table here $3.9 billion in 2004-05, but then it goes up to $13.5 billion in 2007-08. Then it starts to come down slightly, but basically it's flatlined to 2010.

I have a couple of questions here. One, 2007 really isn't that far away. It's a fairly short period of time. For the purpose of forecasting and wanting to make sure you don't get into trouble, first, why are we flatlining later? Is that due to the macroeconomics, or are you looking at the expense and expenditure side of it? Secondly, to what extent are the corporate taxes...which you said earlier will be showing an increase for the next couple of years because of previous profits but then will maybe show the reality? Is that what's happening here?

I'm just trying to figure out what the trends are. While forecasting is great for the short term, you have to make sure that you don't find yourself in a pit-hole suddenly a year or two after that. I'm just trying to get a handle on what factors are affecting the flatline the most. Is it a downtrend, or is it...?

Mr. Jim Stanford: Perhaps I could answer that by referring you to table 7, two pages after that, on page 18, which shows the line-by-line comparison between our forecast and the budget forecast.

If you look at the line halfway down the page, in bold, regarding total revenue, that shows the difference between our revenue forecast and the forecast that was in the budget. In the immediate term, in the next two years, we're forecasting substantially higher revenues, about $6 billion a year. That's the main reason we think the government will have a significant surplus in those immediate two years.

The difference between our revenue forecast and the budget's forecast converges over time, primarily because it is in the later years, as was mentioned earlier, that the significant tax cuts, both on the personal side and on the corporate side, begin to be felt. Even for the basic personal exemption, which begins to be phased in during the current fiscal year, you don't really get real action until 2008-09, and that's also when you see the significant corporate tax reductions.

So in our forecast, you don't see any erosion in the overall revenue share for the federal government until 2008-09. That's why the revenue forecast converges at that point, and that's why I think you'll see a stabilization of that base-case surplus in the $13 billion range from 2007 onward.

● (1245)

Hon. Maria Minna: Did you include in your forecast how you treated the McCallum exercise, as additional income, or, as Mr. Orr was suggesting, an in-and-out situation because it's really meant to be reallocation as opposed to additional income?

Mr. Jim Stanford: No, we did not treat it as income; we treated it as a line item to be netted against their overall program spending. We've accepted their forecast on how much they can save, and that's included within our forecast.

Hon. Maria Minna: Okay.

I want to ask Mr. Orr one quick question before I'm taken off the roster here.

Earlier in your presentation, you said something about...referring to your forecast as being accurate, but having to put in the costs the government has booked, having to factor those in. Have you not factored those big expenses into your forecast? I was just curious. Your statement seems to suggest you may not have. You have factored in all the budget long-term expenses that were booked, have you, in your forecast?

Dr. Dale Orr: Yes. Just to clarify, in the February exercise all of us assumed the full amount—there is about $2.8 billion in transfers for equalization to Newfoundland and Nova Scotia—would be booked against the 2004-05 year. They weren't, in fact; when we saw budget 2005, that was not the way they were treated. They were spread out over the next five years. However, we did not anticipate they would put in...I think it was $3.6 billion for the waiting fund, for this year. Those two amounts more or less cancelled things out in terms of the 2004-05 forecast. Of course, going forward, we start with whatever budget 2005 said; we start with that. As I say, my forecast for this year is they'll come up about a billion short on spending, more for administrative reasons than anything else.

Hon. Maria Minna: Mr. Darby, I would like to go back to you for a second with respect to your comments on following the money, if you like, in the provincial level, to be able to see when it's expended and how that flows, in terms of planning and what have you, and the impact it would have. Could you explain to me how that might be possible, and how one would be able to do that?

My main interest has always been the accountability factor, in terms of moneys being expended, let's say, for housing, or health care, or whatever it is, for this year. As you said, if it's transferred, sometimes it's not spent until a year or two later. What does that mean, in terms of the actual economic benefit one was hoping to have if money was actually going into the economy—into building homes, or what have you?

I guess I'm asking you a number of questions. One is how to go about doing that. As well, what ramifications could that have on future budgets, in terms of economic impact and what have you? It reverberates back to the federal as well.

Mr. Paul Darby: In general, obviously it can be rather difficult to pin down general revenues, which now come under the purview of the provincial government, and suggest this dollar, in fact, went to that program. Becoming part of general revenues can make it more difficult, in some sense, to make sure the moneys flow in the direction the federal government might want. I don't have a magic answer, but there are two comments I might make.

First of all, the provincial finance departments themselves, and the provincial governments themselves, generally make statements concerning how they plan to disburse the funds. Over time, in their public documents, they would be forced in some sense to make those disbursements public. We, in fact, have had a number of statements concerning how various provincial governments, for example, would plan to spend the health care wait times reduction fund over time. In general, we would have to take them at their face value. We would have to have trust in the provincial governments' intentions as to how they plan to disburse many of these funds that have been set into off-budget trust funds, if you like.

The rate at which various provinces may decide to draw down on those funds may vary from province to province. The information may not always be immediately available, but it often is. I think that's a good thing. I think so far, at least as we've tracked the disbursement of health care funds, we have generally felt the provinces have kept up their end of the bargain. Other revenues flow just in general transfers to the provinces; obviously they become part of general revenues, and it becomes more difficult to suggest the money is flowing in a particular direction.

● (1250)

The Chair: Thank you, Ms. Minna.

We're going to go to Mr. Julian and then to Monsieur Loubier.

Mr. Peter Julian: Thank you very much, Mr. Chair.

I'd like to come back to the issue—Mr. Stanford and Mr. Orr, you both touched on it—of the ratio of federal revenues to GDP.

In your case, Mr. Stanford, you're basically projecting relative stability in that ratio. In the other cases, if I'm not mistaken, you're actually looking at a decline in the ratio of federal revenues to GDP.

I'd like to know whether, over the last few years, that ratio has remained relatively stable or not, and how you justify the projections you've put forward.

Mr. Jim Stanford: I think you've touched on the crucial issue to compare the differences in our forecasts and also the differences between us and the federal budget.

In our forecast you see a stability in the overall revenue share of GDP at about 15% of GDP, moving forward. We've developed this on a bottom-up basis. We've used each category of revenue. Some of them rise and some of them fall slightly, relative to GDP. By coincidence, you have stability in the overall share. That's a conclusion I'm comfortable with.

If you look back at recent history, there is stability in the federal government's revenues relative to GDP unless major tax policy changes have been announced. The example of that would be the significant tax cuts that were implemented on an accelerated schedule in 2000 and 2001. There you did see a one-time decline in the revenue share; then it stabilized at a lower level.

I don't think there is any particular reason to believe the revenues will erode as a share of GDP until we start to see these significant tax reductions that were announced in the budget, and that's not until 2008-09. Until then, revenues should be stable as a share of GDP.

I could actually give you three reasons why they might increase as a share of GDP. One of them is a process of tax creep or bracket creep that occurs in the personal income tax system. Even though it's indexed to inflation, you still have a situation where people's real incomes are growing, and that will push a certain number of them into higher tax brackets. You'll get a higher average rate of personal taxation as a result.

Second is the lagged response of corporate tax revenues to corporate profits that I mentioned. And then third, we've seen a phenomenon where the relative importance of the GST credit, which is netted against GST revenues, has been eroding. Again I think that reflects rising real incomes among Canadians.

Those are three reasons you might see some upward movement in the revenue share. I certainly am not comfortable assuming any downward movement in the revenue share until you see tax reductions of the sort that are planned for 2008 and beyond. Until then I would expect revenues to be stable as a share of GDP.

In contrast, the budget foresees a substantial erosion in the near term in the revenue share. The budget is seeing a reduction of six-tenths of a percentage point in the revenue share from the latest actuals to the 2006-07 numbers. That six-tenths of a point translates into about $7 billion. That explains the difference, right there, between the budget estimate of the surplus and our estimate of the surplus.

Dr. Dale Orr: I'm just checking some data here. The revenue-to-GDP ratio has fallen quite significantly in the last few years. In 1997-98 it was 17.2%. It was fairly stable, I guess, because it was 17.1% in 2000-01. Then it was 15.7%. In 2004-05 we're forecasting 15.2%. So it has gone from 17.2% to 15.2% between 1997-98 through to 2004-05.

We're forecasting that it will go down from 15.2% to 14.8%. To a considerable extent that is because they had I think about $2.8 billion in revenues from the sale of Petro-Canada in 2004-05. That's one of the main reasons we see the ratio going down to 14.8%. In fact, we have that ratio stable—14.8% in 2005-06 and 14.9% in 2006-07—because there are no significant tax reductions coming in over those years. I think it will be in that 14.8% or 14.9% range up until the 2008-09 year, when some of those tax reductions start to come in.

● (1255)

The Chair: Thank you, Mr. Orr.

I have some more time.

Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier: Thank you, Mr. Chairman.

Two remarks were made a little earlier that I feel I must respond to. We invited forecasters to appear before the Committee to talk about forecasting, and not to make political comments. I don't know why Mr. Orr ventured onto that terrain when he referred to provincial accountability in such areas as health, early childhood education and child care. I am a little tired of hearing those kinds of comments, and I'll tell you why. This is more of a comment than a question.

At the present time, the provinces are paying 80 per cent of health care costs. To talk about their accountability in a context where they are subjected on a daily basis to public pressure and criticism—because people are very touchy when it comes to things like hospitals—is an insult to the Government of Quebec and the governments of the other provinces.

In the area of education, it's easy to talk about accountability. The federal government's contribution amounts to approximately 12 or 13 per cent of total costs, and the post-secondary system in particular is plagued by underfunding. If you have been following what has been happening in Quebec, in particular, then you know that the Government of Quebec suddenly feels very responsible when 14,000 students start marching in the streets.

I am the Chair of the Sub-committee on the Fiscal Imbalance. From Halifax to Victoria, people are saying the same thing: if we were abiding by the Constitution, and if the provinces were not put under federal trusteeship every time the federal government invests peanuts in health care and education, things would be much, much better, both levels of government would be more responsible, and the citizens of this country would be in a better position to assess their accountability.

So, in my opinion, we need to be very careful when we're talking about accountability. That is a political opinion. The Constitution is clear: health care, education, early childhood education and child care are provincial responsibilities. The problem nowadays—and we have been talking about this for several months—is that there is much too much money in Ottawa, compared to the money available to the provinces and to the Government of Quebec. That is the case in Quebec, in Ontario and all across the country. The Ontario government is going to post a $6 billion deficit this year. Try talking about provincial accountability with Mr. Sorbara. His government is also subject to public pressure and criticism, particularly with respect to health care and education, given that education is underfinanced all across the country.

So, we need to be very careful. Let me just say, once again, that I'm very interested in seeing your work, your new models, the ones presented by Mr. Vaillancourt, and your forecasts. However, when you make political comments, that gives ammunition to Ms. Minna who, with all due respect, is not speaking on behalf of the vast majority of witnesses who appeared before the Sub-committee on the Fiscal Imbalance over the last two months, from Halifax all the way to Victoria. Those witnesses told us exactly the opposite: that we should be making tax transfers so that the federal government's surpluses are lower and the provinces can properly fulfill the responsibilities conferred upon them under the Constitution.

The Chair: Thank you.

[*English*]

I just have a quick question. I know that the last time, before we had the numbers for the last quarter, we had met and had assumed that the finance officials were not going to cooperate. What happened this quarter? Did anybody have any conversations with the finance officials?

Mr. Paul Darby: We certainly did at the Conference Board, yes, and they were helpful.

The Chair: Mr. Orr.

Dr. Dale Orr: Yes, I would say it was fairly minor, but I've certainly always found the finance officials to be extremely helpful. I think the lack of cooperation in February had more to do with the fact that they were trying to serve their minister and get the budget out over that period.

● (1300)

The Chair: Mr. Stanford.

Mr. Jim Stanford: I actually made no attempt to contact the Finance Canada folks. In retrospect, I should have. I assumed we were continuing with the same system, so we just used the published numbers from the budget.

The Chair: Mr. Vaillancourt.

[*Translation*]

Prof. François Vaillancourt: I did not attempt to contact the Department of Finance.

[*English*]

The Chair: I want to thank everybody for appearing. Thank you for your time.

Mr. Charlie Penson: On a point of information, Mr. Darby, was the contact with the department officials in response to the reports that you did for us and that we are looking at today, or was it prior to you doing your report?

Mr. Paul Darby: I'm sorry, but could you just repeat the question quickly?

Mr. Charlie Penson: On the discussions you had with finance officials, were those discussions in response to them receiving your report, or were they in advance of you working on your report? Did they help you prepare your report?

Mr. Paul Darby: We mainly sought comments from them after we had finished the report.

The Chair: Thank you for appearing, and thank you for your time.

The meeting is adjourned.

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