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Chair

Mr. Massimo Pacetti

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● (0905)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning, everybody. I would like to get started if I can so we can stay on schedule and on time.

I want to thank the witnesses for appearing and taking time out in your day and coming before the committee.

We're here to start our pre-budget consultations for 2005, pursuant to Standing Order 83.1. The way it's going to work is I'll allow the witnesses a ten-minute opening statement, and then we'll allow the members to ask questions. We're going to start with seven-minute rounds and then five-minute rounds.

In the order I have here I have the first witness being the Canadian Federation of Independent Business. Mr. Whyte, I assume you'll be making the presentation.

Mr. Garth Whyte (Executive Vice-President, Canadian Federation of Independent Business): Thank you, Mr. Chair.

I want to thank the finance committee for inviting us here today to talk about the pre-budget, and give our suggestions.

I want to introduce André Piché, our director for national affairs. Many of you have seen him here over several years, and today is his last day with CFIB. It will become apparent where he's going when there's an announcement that will be made later on today, and I can't say it. But we're really going to miss him. He's been a really great advocate for small business and for CFIB. He's been a wonderful colleague. Unfortunately, I can't say where he's going.

You have a few documents before you. One is the *Quarterly Business Barometer*, which we released yesterday. You don't have copies? It's in our report. This was released yesterday. The Bank of Canada uses it. Bloomberg reports it across the world and it's an indicator based on our members' expectations. People have been waiting for it, especially on the heels of fuel price increases. I want to talk about that. Also, there is our presentation called “Capitalizing on Canada's Entrepreneurial Spirit”, which you do have. I'll be referring to that, but I won't be following it page by page. I will be referring to some of the graphs because I want to paint you a story. There are over twenty recommendations, and there's no way we can go through twenty recommendations in five to seven minutes. So definitely we'll be talking during the questions.

I want this committee to focus on what you can do and what this minority government should do to support independent business owners and job creation and economic growth in Canada. I talked to a member earlier this week. His name is Bill. I can't give you the full name because it's intimate information. I talked to Bill earlier this week. He has an energy high-tech-sector firm. He has branches in China. He's had branches in China for many years. He has branches in the United States. He has about 80 employees. He exports around the world. One of his largest markets is in Asia. A large firm approached Bill when he was in Atlantic Canada to buy him out. In Bill's terms, it was a very lucrative offer. Then Bill asked, “What are you going to do when you buy it?” They said, “You're a major competitor, and we're going to actually shut you down.” Then Bill said, “It's not for sale.” He had been in the business for 20 years. He was the founder. He wants it to grow. More than that, he said he had 80 employees and he knows their families. He asked, “What would happen to them”, and he's not going to allow that to happen. Also, he said, “What would this do to my community? I'm not going to allow this to happen.” He wants to retire still. He wants to pass along his business to his employees and he's reaching a bunch of hurdles. I want this committee to think about Bill when I make my presentation.

First off, how can you make Bill's life easier? How can you help the new Bills start up new firms? We think there are three areas, which I want to focus on. First, what measures can you put in place to deal with the uncertain climate that's been created by a whole bunch of things, most recently escalating fuel prices? What measures can you put in place to increase Bill's company's productivity and millions of small independent businesses' productivity? And what measures can you put in place to allow Bill to successfully transfer his business for the next generation?

I'm talking about our business barometer, figure 5 in the presentation. People have been waiting with bated breath. We've been waiting for what small business would say. They're still cautiously optimistic, with only 20% expecting their business to be worse twelve months from now; 38% are saying it will be the same, and another 43% say that their business will be stronger. If you notice, our indicator, which follows very closely to the GDP—it's ahead by two-quarters of StatsCan's reporting—basically has gone down to 2001 levels.

So there's a lot of uncertainty that's hanging out there. The good news is on page 4, in figure 6, which states that still 27% of our members surveyed are saying that they're going to increase employment, and 11% say they're going to decrease it. This has been money in the bank. What they're saying is that job creation will persist, but it's uncertain.

● (0910)

The next graph is on page 5. We asked them, what did you base your expectations for your business upon? If you look at figure 7, the big issue, which really dampened their optimism, shows 88% saying energy prices have worsened, and it's really an issue for them. “Other input costs” have been a big issue; also, insurance premiums still persist as one of the top issues. You can see some of the other areas there.

That's the first issue: there's a climate of uncertainty that we see brewing out there. Adding to that climate of uncertainty is the minority government situation.

I want to move to page eight. Now I want to talk about productivity. I know that's what people want to talk about. We have asked our members, and you can see in figure 10 on page eight that our members say the things they could do to help their productivity are to reduce the overall tax burden, both income tax and payroll taxes—taxes are the number one and two items—pay down the federal debt, and ease burdensome regulations.

As many of you know, I'm co-chairing with Industry Canada a paper burden reduction committee. We really encourage especially Finance, when they develop policies, to think in terms of the paper burden that's involved. We will be coming out with an estimate of the cost to the economy. It's in the billions of dollars. We think this initiative should be targeted government-wide. It's not getting rid of regulations, which we think is important, but it's also, within those regulations, to get rid of those regulatory steps.

The second thing I want to talk about on the paper burden side of things is this. This committee had all-party support for Bill C-212, the cost recovery bill. It passed last year; it has yet to be implemented.

That has to be one of your recommendations. It was put in place with a ten-point plan that we all agreed with around this table. You asked us to come before you three times. Three times there was unanimous support. We got it through—“we” being this minority government.

Implement it. No one's doing it. That's my talk on the productivity side.

As for our concern about dealing with uncertainty, we did a presentation last week, and we can submit to this committee our presentation, on the impact of higher fuel costs.

We're meeting with the finance minister very soon, and one of the things we think you need to do to deal with the uncertainty out there is to reintroduce another five-year tax plan. As you can see in figure 11 on page nine, there's high support. What we have done, and they will be coming to your door very soon, if you haven't got them already, is another fax alert campaign directed at every member of Parliament.

The last time, when we did one on EI, which some of you may not remember, some of you got 600, 700, or 800 of these. You're going to be getting them. They're starting to come in already; in the first week we've had 300, and we'll be redirecting them to your offices.

I've heard from some MPs that the tax burden is not an issue. You'll be hearing from our members that it is. This is very simple. They're just saying: we think you should reduce personal income taxes for all Canadians; we think you should reduce the overall burden on small and medium-sized enterprises to encourage entrepreneurship; and we think you should give the highest priority to paying down the debt and providing tax relief.

We'll give this to your committee, but you'll see a few, I guarantee it. Every one of you will be getting it.

As we walk through it, you can see what the priorities are. I know I only have a few minutes, but on page ten, in figure 13, we list the priorities. This is before the fuel tax issue, but personal income taxes were number one, fuel and other taxes number two, corporate income taxes number three, and EI is in there as well.

In figure 14, we talk about personal income taxes. This is quite interesting; we have business owners saying, cut personal income taxes from my employees and from my customers. Think about that. They're saying reduce PIT rates across the board, increase the basic personal exemption, and reduce tax rates for low-income earners.

In figure 15, on page eleven, on the corporate side we think you should increase the small business deduction threshold to $400,000. We think you should reduce the small business rate. We also are supportive of reducing the corporate rate, but even the surtax.... It was announced; we were very happy about it; but we think it could be accelerated.

There are many more recommendations in there, but I want to move to the third plank of the presentation. That is about Bill and how he can pass along his business.

You're going to hear a lot from people talking about demographics. One of our issues is demographic trends. Among the issues hitting our members, the fastest-growing issue is the shortage of qualified people. Everybody is hearing about that. But do you know what? There's a shortage of entrepreneurs. The demographic trend is hitting our members.

● (0915)

We did a major study on succession, and we'll submit it to your committee; it's been released before.The shocking thing we found when we surveyed our members was that over 40% of our members want to exit their businesses in the next five years. That's four out of ten. Seven out of ten want to exit their businesses in the next ten years. The thing is that Canadians want to buy businesses.

I'm now going to move to the front end of the chart, which is not our information. It was a Leger marketing survey. Figure 1 on that report asks: As Canadians, who do you trust to create jobs? It was higher in Quebec: 66% in Quebec said small and medium-sized enterprises were number one, above government and other stakeholders, in creating jobs.

The next one, which is a real turnaround from a decade ago, when you ask someone about their career.... We asked: Which of the following career paths do you find most rewarding? Well, it used to be to work in government and to work in a large firm. Forty-one percent said—the number one response by far—they would like to create their own businesses or companies or be self-employed. The next 28% said they would like to engage in trades or professions—again, our membership—which is almost 70% in total.

The challenge I want to put forward to this committee is this. There are people who want to buy businesses, who want to own businesses, and there are people who are going to have to sell them, but our system does not accommodate that. Our tax system doesn't allow for that.

We have a few recommendations we think this committee has to look at, because it is another another demographic freight train that's coming at Canada, not just in terms of a shortage of labour, but in terms of a shortage of entrepreneurs. We've put a few recommendations in here that we would like to see. I'll just say that one is to increase the level of the long-term capital gains exemption for small and medium-size enterprises and for farmers. It's been at the same level for almost twenty years. At least increase it up to the level of inflation. You could do it in increments. We're not saying jump right up there, but there's strong support from our membership to do that.

The other thing we say we should do is defer capital gains from the transfer of a business to the owner's children. Our studies are showing that Canada has proportionately three to four times fewer mid-size firms than the United States. What's happening? I know we can have a full discussion on that alone, but part of it is, as our studies have shown, that when there's a successful transfer of a business, that business keeps growing. It keeps employing people. When it isn't, it disappears or it's bought out. I think that's a major challenge that I'd like to see this committee and a minority government address, not just for Bill or his employees, but for the country. I think it's very important.

Thank you very much.

● (0920)

[*Translation*]

The Chair: Now let us continue with Mr. Andrew Sharpe, from the Centre for the Study of Living Standards.

[*English*]

Dr. Andrew Sharpe (Executive Director, Centre for the Study of Living Standards): I would like to thank the committee very much for the invitation to speak here today, and I also commend the committee for the decision to focus the budget consultations on the issue of productivity.

The Centre for the Study of Living Standards is a national, Ottawa-based, independent, non-profit, economic research organization focusing on the analysis of living standards and productivity trends and determinants. So we're very happy to be here today, given our background.

I have been a student of productivity trends in the Canadian economy for over a quarter century, so I potentially have a lot to say today, but only ten minutes in which to say it. So I thought the highest value added per minute in my presentation—

The Chair: Mr. Sharpe, for the members there's no brief. You had previously submitted a book.

Dr. Andrew Sharpe: That's right. I sent in this document earlier, so there's no brief, as such.

I thought the highest value added per minute would be putting the productivity issues in perspective and giving what I think are the key points relevant to the work of the committee.

Before I organize my remarks around ten messages, I wanted to point out that I have distributed this document that gives an analysis of productivity trends in Canada since 2000. Also, my testimony to the hearings on productivity of the Senate Banking, Trade and Commerce Committee last May go into detail on particular policies that would improve productivity. So I'll be focusing on ten messages that I think the committee should consider in its deliberations.

The first message is that there's more to life than productivity. The bottom line for Canadians should be our quality of life, and economic aspects are really only one component of the overall drivers of our overall well-being. Therefore, we should not pursue productivity and wealth creation to the detriment of other aspects of our existence, especially since we are already a very, very rich country.

Fortunately, I believe there are not irreconcilable trade-offs between the pursuit of a higher productivity level and the pursuit of other aspects of well-being. So even though we know productivity is not the be-all and end-all, it still is important. And that's my second point. But productivity is our economic destiny.

Our standard of living, defined as GDP per capita, is largely driven by our productivity growth rate. In fact, in the long run, productivity growth is the only sustainable way to raise our standard of living. Economic growth is determined by employment growth and productivity growth. And with the retirement of the baby-boom cohorts in coming decades we're going to see that net employment growth will turn negative and all our economic growth will be coming from productivity gains. Given the challenges facing the country linked to the increased size of the population 65 and over, in terms of health costs and pensions, strong productivity growth is really the key to meet those challenges, so it's essential for our economic destiny.

My third message is that there are actually two concepts of productivity relevant to this committee. The first is productivity levels, then productivity growth rate. There's often a lot of confusion about these concepts. A productivity level is defined as the current dollar value-added per unit of labour input. For example, if you increase prices, then by this definition, productivity increases. This is the concept that business, in particular, uses. Economists focus more on productivity growth rates, which is changes in output per hour over time, where you basically control prices in constant dollars. You remove changes in prices, and this represents increased physical output per unit of labour input.

It's interesting to note that the industries that have the highest productivity levels are not necessarily those that have had the highest productivity growth rate, and vice versa. I'll give you an example. It's very ironic.The industry that has currently the lowest productivity level is the industry that's had the highest productivity growth rate over the last 50 years. That's agriculture. That's had a very low current dollar output per hour, yet it's had fantastic productivity gains over the last 50 years. All those productivity gains have gone to consumers in the form of lower prices for agricultural goods. So the key focus of this committee, of course, should be productivity growth rates, because that's really behind increases in our material standard of living.

My fourth message is that misconceptions about productivity abound. Productivity is a poorly understood concept in the eyes of the public. I'll give three examples. People identify productivity with working longer hours. It's not productivity if you have to work ten hours instead of eight hours, because we measure productivity in terms of hours worked per unit of output. You're working longer hours, so you produce more, but that's not true productivity gain.

Second, people identify productivity and are afraid of productivity because they say it entails speed-up, increased intensity of work. And it's true that there are potential productivity gains from people working more intensely, but again, what we're talking about here is working smarter, not harder. So that's really not the way for productivity advance.

● (0925)

A third reason, and probably the most important reason, why people are uncomfortable with the concept of productivity is because they think it entails job loss. Actually, that is true at the industry level. Certain industries will lose employment if there are strong productivity gains. However, that's not true at all at the total economy level, because any productivity gains lead to increases in potential income, and those income gains, in turn, translate into demand increases, which employ people in other sectors—so there's reallocation of labour across sectors with productivity gains, but there's no law that says we'll have lower employment growth. It's just the opposite; there will be employment gains.

I hope that one contribution of these budget consultations will be to dislodge some of these misconceptions on the part of the Canadian public.

My fifth message is that I advised the committees to focus on labour productivity, not multi-factor productivity. From the point of view of the Centre for the Study of Living Standards, the key is labour productivity growth; that's output per hour.

Often you'll hear reference, particularly by economists, to total-factor or multi-factor productivity. This is a productivity measure that includes both capital and labour as inputs. It does reflect the efficiency in the use of capital and labour. However, from a public policy point of view, labour productivity is much more relevant. Actually, there's quite a difference in the trends of these two variables. I'll give you an example.

On July 15 of this year, Statistics Canada released its data on multi-factor productivity and pointed out that since 2000, multi-factor productivity in this country was growing at twice the rate recorded in the 1990s. Yet the whole debate about productivity has been focusing on labour productivity, for which Statistics Canada showed that the rate since 2000 is much slower than it was in the 1990s, particularly in the second half of the 1990s.

Luckily, the media didn't pay any attention to this Statistics Canada release on July 15, because if we get the message that we're doing great because of multi-factor productivity, it's less imperative to focus on it. The focus should be labour productivity.

I'll turn now to my sixth message. No one can explain productivity developments in Canada in 2003 and 2004. According to Statistics Canada, in 2003 and 2004 growth in business-sector output per hour essentially vanished. This is really an unprecedented development in a period of economic growth.

In contrast, the United States saw a productivity growth of 4% per year in both those years. Since 2000 we've been growing around 1% a year, while the U.S. has been growing around 4% a year. That's a three-percentage-point gap. It has resulted in an increase in our productivity gap with the United States from about 18 percentage points to 25 percentage points in 2004.

We've done a lot of work on the causes of this trend. Unfortunately, we haven't produced a definitive analysis. No one really has a convincing story. It's a major puzzle to economists; it makes us very humble, I think.

The seventh message basically is that it's important for the committee to separate the self-interest from the general interest in the evaluation of any proposal to increase productivity.

Productivity is determined directly or indirectly by many factors—education, innovation, investment—and this means that many, if not most, policies have some link to productivity. Therefore, interest groups can basically find a policy that particularly serves their narrow interest and promote it as a general-interest policy in terms of productivity gains. I think it's very important that the committee apply the general-interest principle in its assessment of the many briefs you will be receiving on policies to improve productivity.

My eighth message is that basically government has no quick fix to jump-start productivity growth in Canada. It's really the private sector that's responsible for Canada's productivity performance through, again, investment, innovation, and training. Of course the government plays a crucial role in setting the framework for private-sector decisions, but in the short to medium term there's little government can do to increase productivity. In the long term it's essential in terms of getting the framework right for education, investment, and innovation, but, for example, measures in the budget of February 2006 will not have any effect on productivity in 2006, and probably little in 2007. You have to be thinking long term, in terms of policies, to improve productivity.

In fact, I would actually bet that productivity is going to rebound in 2006 and 2007—it's just inevitable, given our weak performance—so it's going to look as though these policies improved productivity, whereas in actual fact their effect is over a much longer term.

I have just two more points. The ninth message is that the adoption of advanced technologies is crucial for productivity advance. Of all the drivers that boost productivity, the use of advanced technologies deserves particular emphasis. I do suggest that in Canada we lag behind the United States in terms of the amount of machinery and equipment per worker, and in the amount of information and communication technology per worker. Therefore, that's a key issue—to increase the investment in machinery, equipment, and ICT.

● (0930)

This is an area for government policy. I won't get into all the reasons behind this, since I'm sure my other colleagues will want to talk at length, but I think a focus on that is crucial.

The final message is that competition is essential for productivity to advance. The most important framework policy that government can pursue to foster productivity growth is one that ensures a competitive marketplace. Competition spurs productivity advance. It's a question of survival for firms, since they have to introduce new technologies to survive in the marketplace. So government policies that can improve competition in terms of changing regulatory frameworks that have not focused on competition is one example.

Again, I would like to thank the members for their attention, and I will conclude.

The Chair: Thank you, Mr. Sharpe.

From the Canadian Council of Chief Executives, Mr. Stewart-Patterson.

Mr. David Stewart-Patterson (Executive Vice-President, Canadian Council of Chief Executives): Thank you, Mr. Chairman.

Thank you for the opportunity to appear before you once again to talk about budget priorities and other things that flow from that.

I guess I want to make three points this morning. First, Canada's business leaders are increasingly worried about some of the things that are happening out there and Canada's ability to sustain its economic performance. Second, we think the government needs to rein in what we see as runaway spending and achieve a better balance between what's spent on social programs and what gets reinvested in future economic growth. Third, we would argue that lower taxes are an essential part—and I want to emphasis both words, essential and part—of a successful strategy for improving Canada's productivity and competitiveness.

Prime Minister Paul Martin recognized this in a speech last week. He talked about two challenges in particular—one at home, of course, the ageing population, and the second one, the transformation of the global economy, particularly the rise of China and India. We've had a lot of good news economic statistics in recent years, and I don't need to repeat them all here. Whether you want to talk about job growth, economic growth, trade and current account surpluses, low inflation, low interest rates, my worry is that they have created a dangerous sense of complacency here. Beneath the surface of those good news statistics we see some pretty worrying trends. In particular, intense global competition, rising energy prices, and the rising dollar are having a very tough impact on Canada's manufacturers. We've seen 108,000 job losses in the past 12 months alone.

Labour productivity growth, as Andrew Sharpe pointed out, has basically been zero for the past couple of years, and relative to the United States, our performance has dropped off a cliff. As our competitors go after investment by cutting corporate taxes aggressively around the world, Canada is being left behind. As I'm sure William Robson will talk about in more detail, Canada now has the second-highest effective marginal tax rate on capital in the world. One result of that is our ability to attract foreign investment has been dropping. Growth last year was marginal, and 2003 marked Canada's worst performance since the Great Depression in attracting inward foreign direct investment.

Of course, all of that is already having an impact on our standard of living. The gap between Canada and the United States, which we succeeded in narrowing considerably through the 1990s, started widening again in the last couple of years.

We're arguing that Canada has to get serious about reinforcing its competitiveness. Fiscal discipline is an essential foundation, and I want to commend the government, frankly, for its bedrock commitment to fiscal discipline, to staying out of deficit and continuing to pay down the debt. I think we need more than fiscal discipline if we're going to ensure Canada's future growth. And that brings me to my next point.

The next step has to be putting a lid on this spending growth. We had spending growth of 15% last year. That's eight times the rate of inflation. That's three times the rate of nominal economic growth. You cannot sustain a rate of spending growth like that, unless you have some kind of a secret plan either to raise taxes again or to go back into deficit. You can't keep growing faster than the economy without doing one or the other.

I think it's perfectly reasonable to take some of the fiscal dividends, some of the dividends that flow from discipline, and reinvest them in improving the lives of Canadians today. That's very legitimate public policy. But you also need to reinvest in the future. In this respect I can't help noting, and Andrew Sharpe pointed this out too, almost any policy can be described as having some link to future productivity growth. I note, for instance, the government puts a lot of emphasis on the productivity benefits of handing more money to the provinces for child care. I don't deny that investing in education along with investing in infrastructure, research, or a wide range of other things can have some impact on productivity, but I think we need to look at how much you do of one thing versus how much you do of other things. And particularly on the tax front, you have to look at where the net benefit is. A lot of that depends on how money gets spent, how well it gets spent, and what results get achieved for that spending.

With so much of the current spending going to transfers to other levels of government, it's particularly hard to tell what kind of a benefit we're getting in terms of future productivity growth from any one of these expenditures. I guess the point I really want to make is no matter how you calculate the net benefit of any particular policy, I can't see any sensible economic strategy for this country being based solely on ramping up public spending.

Now I want to digress for a moment, because there are things that can be done that don't involve either spending or tax cuts, and that's, of course, in the field of regulation. I think there's a lot of valuable work being done.

● (0935)

I think what Garth is doing on the paper burden reduction is really important, but if you think that's impressive, you should see what they've achieved in the Netherlands. They've found a way to calculate the administrative burden of regulation: how many people have to fill out how many forms how often and how much it costs to have each of them do that. They have a standard methodology; it's applied to every regulation across the board, and every department has to measure it when they bring in a new one. They have to account for this, and they have to find ways to offset the cost of that administrative burden they're imposing on people, because it's effectively the same as adding another tax on the system. If the department doesn't offset regulatory burden, it comes out of the department's budget. It's a way of focusing the minds.

They've targeted a 25% reduction in the administrative burden. In their calculation, I've been asked to point out, they estimate it's going to save businesses 4 billion euros—this is by 2007—raise GDP by 1.5%, and increase labour productivity by 1.7%.

So regulatory measures can have a big impact, whether it's by reducing the paper burden or whether it's by looking at how you regulate. The example of the need to consolidate Canada's fragmented system of regulating securities markets is an example on that front.

Anyway, let me get back to taxes, so I don't take too much of your time, and we can get to your questions.

We all know any kind of tax reduces growth. Some taxes reduce growth more than others. The taxes on investment, on capital, and on corporate income do the most damage. As capital flows more freely around the world, other governments have figured out that cutting corporate taxes pays off. It pays off with stronger growth, it pays off with more jobs, and it pays off with higher overall tax revenue.

We've talked before in this committee about Ireland and the amazing way it has used low corporate taxes to drive a stunning growth rate over the past decade. You have to think about that. Realize that from 1993 to 2003, Ireland went from a GDP and standard of living two-thirds of the European Union average to one that was 25% higher than the EU average—that's the “EU 15”.

To talk about standard of living, residents of Ireland now enjoy a standard of living that's 44% higher than that of Canadians. Never mind the Canada-U.S. gap; the Irish are doing way better than the Americans. We're talking here of an extra $13,770 U.S. per person per year. That is how much better off the Irish are today than Canadians are, and it's due, in great measure, to what they've done on the fiscal side and to their national strategy.

But I want to point out that even big-spending activist governments have figured out that penalizing investment doesn't pay. I want you to consider Sweden, where government spending accounts for more than half the economy—that's big government. Swedish taxes on personal income, on payrolls, and on consumption are way higher than here in Canada, but its taxes on corporate income and on capital are lower. In fact, Sweden’s effective tax rate on capital is less than one-third of the rate here, and I don't think it's any coincidence that Sweden’s real per capita growth last year was 50% higher than Canada's.

I want to acknowledge that Canada itself has in fact cut corporate taxes in recent years. I can't help pointing out the result of that, either. In 2003 and 2004 we had cuts in the corporate income tax rate of four percentage points, yet over the past two fiscal years, federal revenue from corporate income tax has grown by $7.7 billion, or 35%. Corporate income tax now brings in more money than the GST.

I think it's therefore unfortunate that the government has decided once again to delay legislation to effect the additional tax cuts it announced in the budget of February 2005. The Minister of Finance has made it very clear to the investment community here in Canada —and globally, I will point out—that these cuts will proceed on schedule, and we take him at his word. However, Canadian manufacturers in particular, the ones who are losing a lot of jobs right now, have decisions to make. They have decisions to make in the near term about whether to invest and where to invest.

I would really urge parties on both sides of the House, especially parties that support the tax measures announced in the budget, to find a way of getting together and agreeing on how to move this stuff through the House without further delay. You both agree—I'm talking to the Conservative Party and the Liberal Party—that it's good policy. It's a minority Parliament. Let's make this minority Parliament work and do a deal here.

I'll say one more thing, Mr. Chairman, on tax policy, because of course the debate recently has focused on the corporate income tax rate and whether we should do this, not do it, or do more of it. I want to emphasize that it's the effective tax that matters, and there are lots of measures that contribute to the effective tax rate and to the rate of return companies earn when they make investments in improving productivity. I don't want to see the debate limited to whether or not we should have more corporate income tax cuts; I think we also need to look at all the things that contribute to it. That includes capital cost allowance rates and the possibility of investment tax credits.

● (0940)

Even if you look at the R and D incentives, which to a great extent are administered through the tax system, I think in the current context we need to take a look at dividend taxes and the dividend tax credit, not only how large the dividend tax credit is but whether it should become refundable to pension plans and RRSPs, because I think that has a major bearing on the whole income trust issue. And we can get into a discussion on that later, if you want.

A final issue I want to raise is withholding taxes. Canada has become a capital exporting country. The big issue isn't only how much money can we bring in and how we can attract investment here. Canadians are investing abroad. In percentage terms, we're one of the highest net exporters of capital in the world. We are investors globally, and withholding taxes is becoming a serious issue in terms of the ability of Canadian companies to compete when they're trying to take over American companies, in particular. And I would urge the committee to look more deeply into that issue.

Mr. Chairman, perhaps I can wrap up here. The point I'm trying to make is that despite all the good news, I think Canada is walking an economic tightrope right now. We have come a long way, but to arrive at the goals I think we share as a society, we must have a strategy for enhancing our competitiveness and our growth, and that strategy has to be balanced. Tax cuts by themselves will not do the job. I want to make that clear. But neither will any strategy that ignores tax policy as a powerful tool for increasing Canada's competitive advantage. If we want Canadians to enjoy the highest quality of life over the next decade and beyond, the next budget, I suggest, Mr. Chairman, has to include significant tax cuts and not just more spending.

Thank you.

The Chair: Thank you.

Mr. Robson, from the C.D. Howe Institute.

Mr. William Robson (Senior Vice-President and Director of Research, C.D. Howe Institute): Thank you. On behalf of my colleagues at the C.D. Howe Institute, I want to thank you for the invitation to appear and express particular satisfaction to be appearing in front of this group with a panel that knows as much about the topic as this one does.

Like my fellow panellists, I have a good news and bad news presentation. On the good side, I am very pleased to see the committee addressing the productivity issue. As has been remarked already, productivity over time is the free lunch that isn't supposed to exist that lets us live better.

The bad news, though, from my perspective is that we've talked a lot, the federal government has and people generally, since the early 1990s about a productivity agenda. For all the time and the energy and the money that has gone into that, we don't really have a whole lot to show for it in terms of concrete policy steps or measurable improvements in productivity. So let me start with a few cautionary notes.

First is the difficulty of measurement. Andrew didn't dwell on this, but his work illustrates, and he's very frank about this, that we're all in favour of productivity.... We see the growth that has occurred in the fact that our living standards are so inconceivably better than those of our forebears four or five generations ago, and we often see it in our individual efforts, but when you compare productivity over short periods of time on a national basis or across jurisdictions, it's often very difficult to be confident that you're measuring the changes or the differences correctly.

Having referred to the stark contrast between our living standards and those of our distant forebears, I want to make a second point about productivity growth. It's a staircase, it's not an elevator. When you look at the long-term graphs, they slope upwards in a way that's most enticing. They illustrate output per hour, output per worker, output per hour adjusted for the quality of the tools the workers are working with. That's a very seductive upward slope. But in the short run some of the changes that allow that growth can be disruptive, and they may even show up in weaker productivity growth.

A very specific example that applies right now I think is that we're now seeing the unemployment rate in Canada at its lowest level in my adult lifetime. What this means is that we're drawing people into the workforce who, at least at first, won't be as productive as those who are already there. This is a good thing. We should be happy if people who are just getting into the workforce for the first time are finding that the situation they're facing is better than was the case when the unemployment rate was high. Over time as they are in the workforce and honing their skills, their productivity levels and their wages are going to rise. But in the short run, if we see weaker productivity growth as a result of this happening, it's nothing we should be concerned about.

One final cautionary note is that productivity can be hard to measure in the short run or in specific instances, because it comes from such a variety of different sources. Andrew referred already to very sophisticated statistical attempts to get at multi-factor productivity. This is the increase in output that we can't account for by looking at the increase in labour inputs, or the increases in the plant and equipment that each worker worked with.

Sometimes when you try to adjust for the quality of human capital and the quality of physical capital, I think if you go far enough down that road you're going to end up that there's nothing left to explain, because productivity arises from smart people figuring out how to do things better, and building new structures and equipping themselves with new tools that embody the latest technology with which to do things better.

So I'm hopeful that as this group thinks about productivity, it's not going to be focusing too much on that elusive last little bit of magic productivity that's out there somewhere that doesn't arise from people working and the tools people are working with.

Andrew's comment about the February 2006 budget not doing too much in the short run might have been a bit of a demotivator. I agree with what was behind that, but in the short run we certainly can do things to improve the environment for people to work. We can do something to improve the environment for people to invest. That's going to raise our living standards over time, and our children and our children's children will thank us for it, regardless of what we see in the short run.

So let me say a word or two about the human capital side of it. We focus very hard on accessibility, upfront cost to post-secondary education. Skills upgrading at that level is very important, but we forget often that those one-time costs are only part of what determines the return to investment in skills and in post-secondary education.

● (0945)

I'll advertise an upcoming study by Kirk Collins and Jim Davies at Western Ontario. They look at the overall impact of the investment decision for an individual of not only the subsidies we provide—the skills upgrading and post-secondary education—but also the tax rates that people will face over their lifetime. An upfront cost happens once. A lifetime of taxes happens over a lifetime, obviously. What they find is that the changes in the personal income taxes that we've already seen and that we could conceivably undertake are very powerful in terms of the lifetime decision that people are facing. You may argue that people don't make the decisions in that cost-benefit way, but whenever we talk about the upfront costs, you have to remember that there is a whole lot more that goes into the decision, and when you tax people more heavily as they earn more, you're discouraging the very thing that we claim to support.

The same thing certainly applies to people who are trying to upgrade from skill levels that would be typical of a high school graduate or people who never completed secondary education. We claw back social assistance at the provincial level. We claw back child benefits and the GST credit at the federal level. That stuff stacks up on top of personal income tax rates, and people at modest income levels run into an enormous head wind as they're trying to get into that entry-level position. We should be doing more about that.

As the population gets older, we need to pay specific attention to the signals that we're providing to seniors and near-seniors about the value of staying active and upgrading their skills. If you're a modest-income senior, the GIS clawback—50 cents on the dollar—on top of the other taxes you pay is sending a very clear signal. It is saying, “Don't bother. Don't do it; it's not worth it.”

Now, of course many people will stay active and upgrade their skills for reasons that have nothing to do with the labour market and paid work, but much of that is outside the scope of this committee's work. How active they'll be and how much human capital investment they'll make as they stay active can be affected, though, by what happens around April 30 of every year when they see what got left over. And that is something this committee can do something about.

So that is the decision, to work and to upgrade your skills. What about the tools people work with? The thing that creates tools for workers is capital investment, and this is an area in which Canada is not doing well. I don't have a brief in front of you. I will refer to some work that I did with my colleague, Danielle Goldfarb, recently, just looking very simply at comparable measures we could devise of capital investment in Canada, in the various provinces and then around the world.

It's not very encouraging to see that in 2005 we estimated that the average Canadian worker would benefit from about $9,100 in capital investment. It's not an inconsiderable sum but it's less than the $10,000 that the average OECD worker is going to get and it's almost one-quarter less than the average worker in the United States is going to get.

Why are we not doing well? Why are our workers every year getting less well equipped to do their jobs than their competitors are? Well, as has been advertised already, we have a tax system that tells potential investors they are not welcome. Our effective tax rates on the next dollar spent on capital investment are, as David said already, the second highest in the 36 countries we looked at.

If you look at the table that ranks countries according to their effective tax rates on capital, you will note actually that there's a remarkable lack of correlation between statutory corporate income tax rates and the effective tax rates on capital investment. There's a lot more happening, but you also go a long way down that list before you see some of the Nordic countries, Ireland, or other countries that have done very well and have very large and thriving public sectors and generous social programs. So there is an important point about tax structure.

Now what about that elusive thing, that extra little bit of productivity growth that's going to raise our living standards even when we work no harder and no smarter and have the same tools as before? There is a lot to say on that subject.

There is an interesting Senate report that came out recently that covers some of that, and I hope we'll get to it in the question-and-answer session. Rick Harris did a good piece on us about our R and D spending. In the interests of time I'm not going to go through that, because I think part of the danger and one of the lessons of where we've been since the early 1990s is that if you start going off in all directions—and you easily can in this area—you do run a risk of not getting very far.

I think one key fact that emerges when you look at economic growth in different countries and over time is that rapid productivity growth tends to coincide with high levels of human capital formation and high investment rates in physical capital. It's a chicken and egg situation. It's very difficult to tease out, but you don't find one very often without the other.

Investments in human capital benefit the people who make them. For themselves, they get higher earnings—obviously that's good for them—but they also spill out into the broader economy and society, because a person with high human capital is better to work with, better to deal with. This room is such a great example of it. You enjoy yourself more and you're more productive.

● (0950)

Investments in physical capital—

The Chair: You may be over your time limit, but you can continue speaking.

Mr. William Robson: Investments in physical capital are the same: they benefit the investors, but they also benefit the people around them. Just south of the border, there's R and D spending happening that is 40% of Canada's economy. We can boost our own R and D, but if you boost your capital investment, you're able to draw in those ideas and put them in place in the best technology available, and all that spills over into benefits for the broader economy and broader society. Again that's where you're going to find a lot of your productivity growth.

If you concentrate on productivity alone—that little, ephemeral thing—without promoting work and investment, I doubt we'll get very far. But if you create an environment that's supportive of people's work, supportive of their human capital investments, supportive of physical capital investment, I think productivity will look after itself.

Thank you.

● (0955)

[*Translation*]

The Chair: Thank you.

I think that we are a bit behind, so let us try to catch up.

Mr. Solberg, you have seven minutes.

[*English*]

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

Thank you to all of you for presenting today. I find this fascinating. As always, you all present very interesting briefs.

I want you to know that our party views this very seriously. We believe—I sincerely believe—that Canada could be the most prosperous nation in the world. I think we should have that as a goal.

Mr. Stewart-Patterson, I hear what you're saying about working with the government on these things, and I'll take that to heart. Just recall that we worked very hard to try to keep the corporate tax relief in the previous budget bill, but were not successful.

There's a lot to talk about. Doing a quick cost-benefit analysis, what it sounds to me most people are saying—Mr. Sharpe might differ on this—is that the highest priority has to be to cut those taxes that impede investment in this country. Is that correct, basically?

Mr. David Stewart-Patterson: I would agree.

Mr. Monte Solberg: Okay. Then specifically—we're talking about a finite set of resources here—we would probably be talking first, if you want to prioritize, about capital cost allowance, or corporate rates? Is it capital cost allowance?

Mr. David Stewart-Patterson: Others may want to comment in more detail. My sense would be that if you're talking dollar for dollar about how much of an impact you have on capital-intensive industries—i.e., manufacturing in particular—that's probably the most focused and short-term way to get at the effective tax rate and to make investments more attractive.

The problem with capital cost allowance rates, of course, is you have to determine them product by product, and it gets more complex to figure out how you want to deploy the resources.

Mr. Monte Solberg: That's right, and I guess that's where you say that out of all the.... For instance, when it comes to software, if you say we're far behind in our ability to write down software quickly, then we have to catch up. So you have to decide where you're—

Mr. David Stewart-Patterson: Yes, if I can generalize the problem, the problem is, particularly if we compare ourselves with the U.S., that capital cost allowance rates here simply aren't as closely tied to real economic life as they are south of the border. If you take that principle—let's make sure our capital cost allowance rates reflect the real economic life of the assets—and apply that rule across the board, I think you could have a significant impact.

Mr. Monte Solberg: I think Mr. Whyte had a question. Mr. Sharpe can jump in too.

Dr. Andrew Sharpe: I agree with that. I think having the CCA reflect the true economic life is a good step. The advantage of that over a change in the statutory corporate tax rate is you're actually rewarding firms that invest. Just cutting statutory corporate tax rates doesn't mean the additional after-tax profits will be invested. I'd much prefer focusing on rewarding investment directly than just on a corporate tax rate cut.

Just to make one point, though, I don't think this is a panacea at all. For example, Bill Robson pointed out how our effective corporate tax rate is very high relative to other countries, and that of course is true. But the benchmark for Canada has really been the United States. We always compare ourselves with them. We're saying we have much lower machinery and equipment per worker than the Americans. That is linked in turn to tax rates and lack of investment in Canada. But actually, the United States has a marginal effective corporate tax rate that is just slightly under that of Canada; it's 37.7%, instead of 39% in Canada. That is a very small difference. So you really cannot explain our poor productivity performance relative to that of the United States by higher marginal effective corporate tax rates in Canada.

Mr. Monte Solberg: Garth, did you have a point?

Mr. Garth Whyte: I just want to identify to the committee that we have two economies. Sometimes when we have one-size-fits-all, some of us say it's a good idea, and some say we like it—but. The reason is that 45% of our economy is from small and medium-sized enterprises; 60% of total jobs now come from small and medium-sized enterprises or independently-owned businesses.

That was highlighted following September 11, when a lot of them were saying—I remember sitting at this committee with a similar group—that the sky was falling. You will remember that in March 2002 we came out and said to this committee we thought there were between 250,000 and 300,000 jobs that needed to be filled. We were wrong. It was 500,000 jobs, and we outperformed the United States that year. It was because of the non-stock-market economy. That same day Nortel was cutting 15,000 jobs.

I'm going to Bill's position. There are two issues. There are individuals and how they think, and you have to enhance their productivity; then there are large—

● (1000)

Mr. Monte Solberg: Garth, I don't want to cut you off, but your members say personal income tax cuts are most important—

Mr. Garth Whyte: Yes. That's what I'm trying to say, but it doesn't mean we don't like capital—

Mr. Monte Solberg: Okay. Sorry. Since we're running out of time here, I want to give Bill a chance to respond. Sorry.

Mr. William Robson: I'll try to be very quick.

Corporate income tax rate cuts have one nice feature, which is that they're neutral. When you lower the rate, a lot of the other distortions begin to matter less, because so many of them are driven by the height of the rates. CCA, I agree, is important. You obviously want to match those things up.

One area worth mentioning is that the provincial sales taxes on business inputs are actually huge contributors to the high effective marginal tax rates. One of the reasons Quebec and the Atlantic provinces stand out better by these measures is that it isn't happening there. If you have a whole lot of extra money to splash around during the course of this year, as happened last year, maybe we can afford to buy off some of the bigger provinces and get them to do something of the same thing.

I have one final point. You can get away with high effective tax rates on capital if you offer something else. China has very high ones, and it's growing like crazy. The U.S. has a very large dynamic market. I don't think it's any mystery why some of the smaller countries that don't have those huge dynamic markets have decided to go the route of the lower effective tax rates on investment—it's to compensate investors for the fact that they're not as attractive for some of those other reasons.

Mr. Monte Solberg: It strikes me that there are two approaches we need to take here. One is the reduction of certain rates. In other areas, it's really a question of reform.

With respect to education, we spend a tremendous amount on education today. We have seen spending grow like crazy—15% one year, 52% since 1999 in program spending—and I see the public service has grown at an even quicker rate, a much quicker rate. Obviously, that's probably not going to contribute to a reduction in regulation and red tape.

If you took a two-pronged approach of reform, on the one hand, with respect to education and regulation, and reduction, on the other hand, with respect to some of these punitive taxes, is it correct to say that those two prongs are roughly what you need to deal with this?

Mr. David Stewart-Patterson: I would agree. The regulatory reform—how do you make government work better in terms of serving citizens? That's across the board, not just in the business sector. Also there is taking away the most punitive aspects of the tax system, in terms of penalizing what you want as opposed to penalizing what you don't want. I think those are two, but you have also touched on the third one, which is the need for the kind of spending review process that took place last year to be, as the Minister of Finance said, an evergreen process—one that's going to continuously review what government does and how government does it, and look at how government is improving its productivity, if I can put it that way.

Mr. Monte Solberg: There's just the sense that people are not getting value for money for that huge increase in spending. It takes longer than ever to get a passport today. Even though the amount of money we spend on the bureaucracy goes up and up, you have a big user fee for it. It takes longer and longer to deal with immigration. It takes longer and longer to get all kinds of things done, even though all this money is being poured into the government. That is obviously not value for money.

Really, when you think about the opportunity costs—where this money could be going otherwise—it's not productive.

Mr. Garth Whyte: The point, too, though, is that you need a long-term plan for both. That's a message you're hearing from all of us. There are uncertain times right now, caused by regulation and paper burden and also caused by the taxes, and we're not sure. The last budget proved that. We're not sure, even when the budget is announced, that it will be the budget. That's why we're advocating a five-year tax plan. Once we had that—I mean, if you want to go back and look at what happened to our economy when there was some certainty in place.... Likewise, what we're pushing.... We're measuring. We restricted the paper burden, but we're measuring it and we're being required to report it. The minister is going to be required to report it to Parliament every year because we want to systematize this. Rather than having one big charge, we want it to happen year after year so we can monitor it and depoliticize these things.

Right now it's a political ping-pong ball, and it's creating a lot of uncertainty.

● (1005)

The Chair: Thank you, Mr. Whyte.

Mr. Loubier.

[*Translation*]

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

I am fascinated by this morning's discussion, just as I have always been fascinated by the debate about productivity measures; in fact, as many doctoral theses might be written now about this topic as there were in the 1970s and 80s and 90s. No perfect measurement of productivity has yet been established.

Sometimes, this raises questions in my mind, because I feel that we are using the most pessimistic measure; for instance, we compare the productivity of labour with that of the United States and Europe, and when new statistics about multifactor productivity come up, which are much more optimistic, we seem to reject them because they are not sufficiently stimulating.

Do we have any measures similar to those used by Statistics Canada for multifactor productivity, let us say on the American and European sides, which would show that the gap between Canada and other countries is more or less the same as when measures of labour productivity are used? In this way, we could perhaps have a bit more certainty about how optimistic or pessimistic we should be.

Dr. Andrew Sharpe: Let me answer this question.

First, we have no international data on the multifactor productivity of labour. There are such data for the United States and Canada, where the measures can be compared, but we do not have any for the OECD countries such as the data we have on labour productivity.

Regarding our performance, it is true that if we use multifactor labour productivity, we certainly have a better performance than that of the United States. This is because in Canada, for the past few years, investment has been rather weak as compared to the United States. Thus, with low investment, multifactor labour productivity is much greater. In fact, does a decrease in capital investment not have a positive effect on multifactor productivity? Therefore, it is good for the efficiency of an economy, but not so good for the economy's productivity level. This is why I said that we must emphasize the productivity of labour, and not multifactor productivity.

Regarding the gap, there are gaps between levels and gaps between growth rates. Regarding levels, Canada certainly has a lower level of labour productivity than the United States and most European countries. But growth rates, on the other hand, depend entirely on cycles. There have been cycles where Canada did well. For instance, during the early 1990s, Canada's average productivity growth was higher than Europe's. Now this is closely linked to cycles. So, it is difficult to generalize, because there are two measures of productivity and two aspects, namely the level and the rate of growth.

I do not know if this answers your question.

Mr. Yvan Loubier: Perfectly. I am very satisfied.

Have you anything else to add, Mr. Robson?

[*English*]

Mr. William Robson: My productivity will be higher if I answer in English, so excuse me.

I agree with what Andrew said. One quick point is that the difficulty in making these comparisons is that we have enormous trouble knowing if the prices that we're measuring across countries are comparable or not. For that reason I think it makes sense to look at the living standards per hour worked, because there's some confidence we're measuring the same thing when we look at the hours going in, and that's what matters to people—how hard they're working and how much they're enjoying what they get from it—and to use the purchasing power parity comparisons for comparing incomes across countries, because those are supposed to be measured at the consumer level; that is, what the household is getting for their work. There are much more sophisticated measures, but if you ask me what is the best one to focus on for just the statistical background, I would say it would be incomes measured at purchasing power parity per hour worked. And you know it's imperfect, but it's the best quick measure we have.

● (1010)

[*Translation*]

Mr. Yvan Loubier: You have spoken at length about capital tax rates. I understand why as I myself believe that having such a high capital tax rate can be considered, in certain regards, as being something of an aberration. It is, clearly, something which compromises what businesses are prepared to invest to improve productivity, the matter at hand.

You did not, however, say much about the Canadian dollar. You said little about its volatility, or the dramatic rise in value that can occur within the space of a few years. The introduction of the single currency in Europe has resulted in productivity gains as well as gains in terms of commercial transactions. However, it is still difficult to measure the extent of these gains because the single currency was first introduced only a few years ago.

Do you not think that one means of improving productivity, not in the short or medium term, but in the long term, would be to first ensure a more stable monetary environment than the one which we currently have in the three Americas, an environment which has resulted in weaker currencies disappearing? Would it not be preferable to avoid subjecting currencies to market fluctuations such as those which led to the monetary crisis a few years ago? Do you not feel that the monetary integration of the three Americas would be a possible means of having more control over Canadian productivity in the future?

[*English*]

Mr. William Robson: That is a topic I've worked on in the past. There would be some productivity gains, I think. They would not be as big as in Europe, where you have a larger number of currencies and more fragmentation of markets as a result. When you compare the costs that were sometimes calculated of converting currencies on a journey across Europe with what happens within North America, certainly the Europeans had much bigger benefits than we would have.

If we look at measures of the cost of converting currency, and foreign exchange trading, and so on in North America—the cost of having a Canadian dollar—there is a measurable cost, but it certainly looks smaller than what the Europeans were able to get rid of.

If we were to go for an arrangement that reduced currency fluctuations in North America, I think the big choice is between fixing the exchange rate knowing that some day it will come unstuck again or adopting a currency union with the United States. When I think about those choices, I don't like fixed exchange rates, because they come unstuck. They're temporary arrangements, and when they collapse, the collapse is very disruptive and damaging.

A currency union with the United States is a very big pill for Canada to swallow. It would involve using the U.S. Federal Reserve, or something very like it, as our central bank. It would involve adopting their system of financial regulation or something very close to it. If we negotiated very effectively, we might get a seat at the table, but I'm not confident, given the current state of Canada-U.S. relations, that this would be possible. So I see the benefits as there, but small relative to the cost, and from where we are today I would not favour a currency union.

Mr. Sam Boutziouvis (Vice-President, Policy and Director of Research, Canadian Council of Chief Executives): I'm totally in agreement with Mr. Robson.

I just have to point out two things. First, Canadian corporates have been saving a lot. In fact, they're in a net savings position, and there are a lot of plans on the table to increase investment in Canada. In particular, there is over $100 billion of planned spending on the books right now for oil and gas, pipeline, and transport infrastructure, and that doesn't even include what may be planned in Ontario and in Quebec to upgrade and put in more electricity infrastructure in the coming years.

However, in manufacturing in particular—we have to be perfectly clear—Canadian dollar appreciation has dampened investment activity and investment planning. In some cases, some companies have put investment plans on hold because of the uncertainty in the environment related to the dollar, related to what's happening on taxes, related to regulation—a whole host of factors. The sentiment is such that with the dollar beginning to stabilize in the 84¢ to 87¢ range—the 85¢ range—it does look as though business planning for big investment is beginning to ramp back up and is coming back on the books.

So to the extent that such investment in manufacturing improves productivity and is capital-intensive—it's in machinery and equipment, land, and other areas—one has to think, especially if we stay with the dollar in the 84¢ to 85¢ range, that you're eventually going to see, over the longer term, because these are huge projects, some pick-up in labour productivity. It's inevitable.

● (1015)

The Chair: Thank you.

Mr. McKay.

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

Why we would want to merge our currency with that of a nation that has a triple-whammy deficit at this point escapes me altogether. That seems to me a non-starter. Anyway, that's not my question.

I want to take on Mr. Stewart-Patterson a bit on this runaway spending business, which I frankly disagree with. Budgetary revenues in the fiscal year 2004-2005 were 15.4% of the gross domestic product of the country. Program expenses, you are right, jumped a point between 2003-2004 and 2004-2005. Some of that, however, was offset by a savings in debt.

If you break out the program spending, you'll see that by far the largest is the transfer to the provinces, up from $29 billion to $41 billion—actually, almost $42 billion—in one year. Increases in national defence spending were a billion and a half dollars. The other program spending and other stuff that the Government of Canada does for its citizens shows around a $6 billion increase. I don't call that runaway spending by any means.

Anyway, that's not the question I want to ask you. I want to ask you a more substantive question having to do with withholding tax.

A voice: I can see why you don't want an answer.

Hon. John McKay: Well, these things have ways of taking on urban legend status, and it ain't true.

First of all, we're wrestling with the issue of income trusts. Income trusts frankly exist for two reasons: one, the provinces decided to set up a liability regime that made them attractive; and two, there was a discrepancy between a dividend tax structure and a trust tax structure. Therein lie the reasons why there has been this stampede, if you will, to income trusts, with arguable leakage of government revenues.

That is layered by another comment of yours with respect to withholding tax. What I can't quite see is why we would withdraw arm's-length withholding tax—in other words, just forget it and not deduct it—and simultaneously leave income trusts in place so that our mythical American investor sitting in New York investing a million dollars in an income trust in Alberta presumably would pay no tax in Canada if we adhered to your suggestion.

Am I missing something in that scenario?

Mr. David Stewart-Patterson: No, you're quite right. There are links between the withholding tax question and the income trust question, and they don't necessarily point in the same direction. There is an issue with income trusts of income basically flowing tax-free out of the country.

On the other hand, as I was pointing out earlier, Canada is becoming on a net basis a capital exporting country; we actually have more investments going abroad than others have coming in. As a result, Canadian investors are getting penalized in terms of their ability to use debt; in other words, to borrow money in order to make direct investments in other countries. That's putting Canadian companies at a disadvantage when you talk about consolidating.

So there are two separate issues, and unfortunately the policy response may point in opposite directions, but there are two separate chunks: one has to do with outward investment, and one has to do—

Hon. John McKay: Are you prepared just to let this mythical New York investor come to Canada and make a bundle of money and not have it taxed here?

Mr. David Stewart-Patterson: No, all I'm saying—and I'm not a tax expert, so I don't want to pretend to have too much expertise on the fine points of this—is that I know there are two distinct tax issues that have been raised in different segments of the business community. One segment is concerned with outward investment and their ability to compete as Canadian champion companies operating on a global scale, in particular, trying to bulk up and compete with investors within the U.S. market. The other comes back to the treatment of investors in Canada and their treatment relative to investors abroad in terms of how well Canada is attracting investment and creating jobs in Canadian communities.

On the income trust issue, I have to say again, we've seen a major expansion of conversions into income trusts, and a lot of it seems to have been tax-driven. A lot of the pressure on operating companies is coming from tax-exempt investors into those pension funds, because if the companies don't have to pay the taxes before the dividends flow out, it's more cashflow for the pension plans. On the other hand, I have to say—and the members of our executive committee said this directly to the Minister of Finance last week—there is real concern about the impact this is having on the way companies are being run. The amount of management time that is being soaked up in responding to investors saying we want bigger cashflows, so you've got to look at converting the structure, has nothing to do with growing the business.

● (1020)

Hon. John McKay: Do you buy the basic argument that if we stay with that structure, productivity will in fact be driven down?

Mr. David Stewart-Patterson: I know there are concerns that conversion to income trusts takes away from some of the incentives to invest in growth. Certainly our members, which are growth companies, do not feel that an income trust structure would be advantageous to them in terms of their growth plans, because they're reinvesting every bit of cashflow that comes in. There are others, in the investment community in particular, who would argue that it's actually healthy for growth companies to have to go back to the market every time they want to raise capital to make a new investment, because it's a tougher discipline. On the other hand, there are transaction costs. If you've got to go back to the market every time you want to make an investment—

Hon. John McKay: All I know is that the lawyers are somewhere in there.

Mr. David Stewart-Patterson: Yes.

I don't want to pretend there are any easy answers, but I can try to get the closest I can to a consensus in terms of what the best policy approach is here, and it has to do with levelling the playing field within the tax system. The kinds of measures I'm talking about are that if you improve the treatment of dividend tax credits and if you look at how those tax credits have treated the tax-exempt investors—people's RRSPs and pension plans—you may take away a lot of the tax reasons for converting to income trusts.

Hon. John McKay: What about the idea of treating trusts a little bit more like corporations?

Mr. David Stewart-Patterson: I think if the objective is to encourage more investment, you want to talk about dealing with the problem in a way that improves the tax treatment of investors, not something that makes it worse.

Hon. John McKay: If you're levelling the playing field—

Mr. David Stewart-Patterson: Yes, but the point is that if you start taking back what's already there, I think you cause a lot more disruption in the marketplace than if you level the playing field by improving the situation of others.

Hon. John McKay: How much time do I have left?

The Chair: That's it.

Hon. John McKay: Oh, really. Come on, that was the most interesting conversation so far.

The Chair: I know. That's why we'd better cut it off before it all falls apart.

Ms. Wasylycia-Leis.

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

Thank you to all our presenters this morning—very interesting discussion. I thought maybe we were back in the spring debating Bill C-48 and the NDP's better-balanced budget. I thought maybe Mr. Stewart-Patterson wanted to reopen this whole discussion, and I think he actually does. Maybe there's a way to do that, because in fact the discussion today follows the one we had yesterday and is really about making choices within relatively limited resources, and getting the best bang for your buck.

It seems that David, Garth, and perhaps William are all suggesting that the tax-cut focus is the magic bullet. I think we heard yesterday that it's far more complex than that. If it were that simple, one would think—and I raise this especially with Garth—there would have been some miraculous change in productivity after the last five-year plan of $100-billion tax cuts, but we didn't see that. We didn't see a sudden change in businesses investing in updating of equipment and technology. We still lag way behind the United States on that front, as the C.D. Howe Institute has indicated. If it were so simple, we would have seen record profits for corporations today—as verified by the Toronto Dominion Bank, not by the NDP—flowing into areas where productivity would have increased, but we haven't.

So it seems to me we've got to look at a much more complex set of solutions. I'm not sure Andrew Sharpe has them all, but he is certainly addressing the fact that there needs to be a look at full employment. Surely that is fundamental to the question of our nation's productivity. If people aren't using their talents to the fullest, how can we ever increase productivity?

I think the question of the workplace and work time is important. I know David made a comment about child care, as if it's important but really not in this big scheme of things. If one looked at the number of hours lost or output reduced in the workplace because people were worrying about their children's safety.... I mean, I know I'm not productive at this table if I've got a sick kid, there's no one to look after him, and I'm trying to call back to Winnipeg. These are important factors. When you look at all of those issues that deal with a person's fulfillment in the workplace, we've got to address investing in areas that take away those barriers and problems so a person can actually be productive, as I think every person wants to be.

So I guess my question to Garth about the last $100-billion tax break is threefold.

To David, wouldn't you recognize the importance of dealing with mental stress and the lack of social policies that help make more productive workers?

Especially to Andrew, how do we counter this simplistic notion of a tax cut being the answer to increasing productivity? What advice can you give us as we're just starting this process? We've got hours and hours and weeks and weeks to go. How can you help us make sure we get the best range of solutions possible for this very complex issue?

Maybe you want to start.

● (1025)

The Chair: We'll have Mr. Whyte, then Mr. Patterson, and then Mr. Sharpe.

Mr. Garth Whyte: Thank you for the question. You weren't here for my presentation; you came in after, and you made some assumptions. Actually we delivered. I don't even know how you can ask the question. Since September 11, Canada's economy did much better than everyone anticipated. Why? It was because small and medium-sized businesses continued to create the jobs. Why did they do that? It was because they had the certainty of a five-year tax plan. They knew they weren't going to be blind-sided like a lot of businesses were last year when you went, “Oh this is the budget—or no, this is not”. I was getting phone calls daily as you guys negotiated the tax plan on the back of an envelope. What's going to happen next year?

I'm going to talk about Winnipeg and Manitoba. Let's talk about a sector you do know about—the egg sector. Let's talk about farmers; you can't be more productive than them. One out of four of our members last week identified that rising fuel costs means they may not survive in their businesses. They need some certainty. A five-year tax plan would give them some certainty. They also need certainty on the regulatory front. That will help their productivity; that will help them stay in business.

My other pitch is that we need something in the system that is going to allow them to pass their businesses on to their families. To me that's a no-brainer. Yes, we did deliver. Maybe the productivity numbers are not showing it, but Canada's economy didn't do too poorly over the last three or four years. I think we can take some of the credit on that on the job creation front, which I agree with you on, and just on our economy doing well. Maybe we're not meeting the productivity set, but I would not like to have been in the States following September 11.

Dr. Andrew Sharpe: Thank you very much for your remarks. I have just a few points.

I agree completely with you on the importance of full employment as a tool for productivity advancement. The key factor there is, if you have a full-employed economy, then business has to use more capital—substitute capital for labour—and an increase in the capital-to-labour ratio is the main driver of labour productivity gains.

The best thing about the Canadian economy right now is our low unemployment rate. We're at around 7%. That's excellent, and we really have to stay there. That should be a key policy goal. In fact, it's really more important than productivity gains. It's very positive. In fact, say since 2000, we've had approximately 3% growth in the economy per year. Employment growth has been about 2% and productivity growth has been 1%. I much prefer stronger employment growth than productivity growth for a given output growth, because employment gains mean there are more people to pay taxes, and they mean unemployment is less, and that has a lot of positive social effects.

In terms of how you counter this notion that tax cuts are the solution to our productivity problem, first off, in certain cases I would not necessarily be opposed to them, but overall we have to have a much more balanced approach.

There are three points here. First, there is cutting personal taxes. Who could be against that? But in terms of having an effect on productivity, it really doesn't have any. Personal taxes affect labour supply. Even there, the effects aren't that great. It just means that you may work more, but if you work more, that's not productivity gains in terms of an hourly measure. So I don't think there's really much of a link between personal taxes and productivity.

On the corporate side, the key point there is that profits are at record levels. If businesses say they need corporate tax cuts to invest more, well, that's not really true, because profits are really high right now. They can invest if they want to. In fact, they are doing a lot of investment. But the point there also is that statutory cuts in tax rates do not directly affect investment decisions. They just result in higher after-tax profits, which may not be invested. I think a better policy would be to change the CCA and have an incremental investment tax credit that rewards firms for actually making investments. That's really key. Everyone wants more investment.

● (1030)

The Chair: Mr. Stewart-Patterson and then Mr. Robson.

Mr. David Stewart-Patterson: Yes. First of all, if I may, I'd reinforce what Garth said about the benefits of a long-term plan. If you look at the fact that in 2000 the government made tax policy a central part of its economic strategy, and if you look at what's happened to the economy since, I mean, we've seen five years of really good growth. We've seen strong employment growth, the lowest unemployment rate we've seen in decades, and record tax revenues for government so they can do more too. So, you know, we've kind of come to the end of that one and we're now sort of floundering around a bit here. I think it's important that we start talking about our strategy, and I want to emphasize this. I said it in my initial remarks and I'll say it again. I see tax policy as an essential part of a comprehensive strategy. It's not a silver bullet that's going to do it by itself, but you can't ignore tax policy and say you're going to have a strategy that works.

Let me address this question about what's happening to all the profits. This comes back to the fact that we don't have a uniform economy in this country. The energy sector out west is making piles of money, and it's investing as fast as it can. The problem it has isn't that it doesn't have the money to invest; it doesn't have the people to carry out the work. The limit on reinvestment in the oil patch these days is a lack of skilled people.

On the other hand, in the manufacturing sector, in communities in Quebec, in communities in Ontario in particular, we have manufacturers that are operating close to capacity. In a normal situation you'd say they ought to be reinvesting and adding capacity as well as getting more efficient, but they're not making any money because they're facing a higher dollar, they're facing more intense competition from all over the world, and they're facing higher energy costs, which for them is an input cost. So they say, “Well, okay, maybe we're at capacity, but we're not making money. Therefore, if we're going to stay competitive we need to invest, but we don't have the cash flows.”

That's where I think you have to look at what it is that's going to enable companies that are not making record profits to make the investments they need to make, because there are really only a couple of options. Right? I mean, if you're going to stay competitive, if you're going to stay in business, you can invest in more machinery and make yourself more competitive where you are in your Canadian community, or you can say that if you're going to stay in business, you're going to have to invest somewhere else. And I think that's where, again, tax cuts aren't the whole answer. But it does come back to what you're asking about. You've got to make sure that governments are providing value for the money they take out of the economy.

With respect to your question about productivity issues like stress in the workplace and so on, again, when we get into a labour-short economy, which is frankly where we're heading, companies will have to compete—and are already—even more intensively to attract and hang on to people. That's going to mean paying attention not just to wage rates, but to all the non-wage benefits. Why does somebody want to work for you instead of for somebody else when they have a lot of options?

But the issue really comes back to the economic framework: why are companies that are already in business here and why are foreign investors going to invest in Canada as opposed to somewhere else? The fact is, we look at who else is out there competing for investment around the world. Well, Canada doesn't have a big market like the U.S. We don't have that attraction. We don't have cheap labour and we don't want to have cheap labour. Right? So we're not going to compete with China or anybody else on wage rates. So what is it that's going to bring the investment to Canada?

● (1035)

The Chair: Thank you.

I just want to allow Mr. Robson to comment. We're way over time.

Mr. Robson.

Mr. William Robson: I didn't come to refight the Bill C-48 battle, so I don't have the numbers in front of me. I will point out that the overrun, relative to what the budget projected last year, was off the scale. I'm not a parliamentarian. If I were, I would see that as a colossal insult. I cannot believe a budget was presented that projected over $4 billion in increased spending, and then an extra $17 billion went out the door throughout the year.

That has not happened within my adult lifetime, and I hope it doesn't happen again. But certainly when it comes to this question of setting priorities and juggling at the margin and emphasis on revenue neutrality, I throw up my hands at this point. I can't believe we would have that discussion after just having seen $17 billion go out the door that wasn't even presented.

If it was such a good idea, why wasn't it in the budget? It was spent because it was there.

I did want to make the point about the labour market, though, and just emphasize again that we've had tremendous employment growth. As Andrew points out, the unemployment rate is now very low. The U.S. was in this position a few years back. They then started to do a lot of the things that Andrew was saying would be likely to happen, and they've had this tremendous labour productivity growth.

I think lower personal income taxes do help the labour market work better. They sure reduce the headwind that a modest-income person encounters moving up. They encourage investment in higher skills, post-secondary education, and so on. We've seen all that. So I think it did work.

The Chair: Thank you.

Mr. Penson, Mr. Bouchard, and then Mr. Bell.

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

I'd like to welcome the group here, as well, today. It's a good, lively discussion, as always.

I'm interested in full employment as well. We certainly have full employment these days in Alberta, where I live, where a number of businesses cannot operate because they cannot get or keep people in spite of high wages. So I'm concerned that we still have some structural problems, such as the EI program, that discourage people from moving to where the work is. It's unfortunate, because the investment climate is very good there.

I know, Mr. Stewart-Patterson, you talked about that. It's one of the major factors in where businesses decide to invest. But low taxes aren't the only thing; the availability of labour is a huge factor here. So when I hear my colleague talk about full employment, I couldn't agree more that we need to continue to work on those kinds of issues. I'd like your comment on how those programs are hurting companies' ability to attract workers.

I also just want to point out, and I think it has already been mentioned, that profits certainly have been high, but investment capital can go wherever the best business environment is. It isn't necessarily in Canada these days, because our tax rates are still pretty high. The effective tax rates are very high.

So there are just two questions: the labour mobility, how that can be improved; and the urgency, Mr. Robson, in moving to a better productive environment in Canada. We've been talking about it pretty much for ten years here, but we haven't much to show for it. I'd like to hear from the panel what your sense of the urgency of closing this gap really is.

Mr. Garth Whyte: I'm looking at a statement we did in June 2001, where we said that it seemed that the federal government wanted to take us all out for another ride on the productivity “scary-go-round”. We said that in 2001 after having done this for a decade —but here we go again.

Anyway, to leave that and to talk about the shortage of labour, it is a huge issue. We have recommendations in our brief on EI and the things that we think should be done. It's ironic, but when we talk about productivity and talk about taking wind out of our sails, when you introduce parental leave.... In your neck of the woods, we have a veterinarian who loses four of his five employees, but they don't have to tell him when they're coming back. So he has to bring in new people and train them, but he can't ask them to stay because they've got to leave because other people may be coming back. How does that enhance productivity? How does that enhance stability? Yet they also have to pay EI premiums for the replacement person.

By the way, we're a family-oriented company and we really do care about parental leave, and we said that, but no one thought about the devastating impact this would have on a new firm, or a mid-sized firm or small firm.

So we've got some recommendations in here on what you can do to offset some of that. You can call it a tax, but I call it a program. Reintroduce the new hires program so that if a firm is increasing its payroll or employment, it shouldn't have to pay EI on the increased payroll. Can we not offset some of these really high productivity hits that were introduced by government, but which didn't even think about them? That happened in-between this committee and the 2001 committee when we discussed it before, so I guess it was a different track that we went on. I don't want to be facetious, but it does bother us and gets us angry.

We won't talk again about the $46 billion EI surplus—but I guess I will mention it. I know it's notional, but I am assuming that EI rates will not go up for the next decade, because we have a notional surplus to offset that. There's another thing that can be enfolded in the plan, a commitment that doesn't cost you any money, but which is going to say here's what we're going to do, because right now we're talking about full employment, but when things do go down on the rocks they're going to want to increase EI premiums, so talk about before-profit tax that hurts employment and productivity.

We could do a full EI presentation, but I'm not going to do that, even though I'd like to.

Some hon. members: Oh, oh!

● (1040)

Mr. William Robson: On EI, it's an intriguing coincidence that the overrun on the budget was equal to the amount that was collected in EI premiums. I wouldn't draw too much of a conclusion from that, but it's a striking illustration of the size of that overrun and also of the missed opportunity. The EI program, as we complain from time to time, is increasingly being diverted into non-insurance uses, many of which involve spending in areas where the provinces would do a much better job. I am convinced that if the provinces ran EI in this country, the unemployment rate nationally would be at least a percentage point lower. That's a gut feeling. I think there'd be much less inter-regional redistribution in support of employers who tend to lay people off a lot.

So I think the EI program is increasingly urgent.... We're in good shape right now because the labour market in the country is working so well that some of the backtracking on the EI reforms has not had the impacts on people's behaviour that they might have had if we had gone into a big slump. But I do think that the need for reform on that front is growing as the diversion of the premiums becomes more serious.

Mr. Charlie Penson: Can I interrupt you here, as we only have a short time?

In my riding we still have an unemployment rate of roughly 6% to 7%, and yet there are.... Anybody who can't get a job there, I can't understand it. How does this work? The divergence that we've seen since Canada moved to more of a social type of EI program back in the seventies means that our rate has effectively been about 2% higher than the U.S. rate for the last 35 years. Something has changed.

Mr. William Robson: I can't speak to the job search that's going on there. I imagine that you have a very high participation rate, and it may be that a lot of people who are.... I'd have to look at the situation, but there's no doubt that the more you subsidize people who create unemployment at the expense of people who create less unemployment, you're gong to have a higher unemployment rate. It's a classic example of rewarding what you don't want, as opposed to punishing what you don't want.

On productivity, I just have a very quick comment and also on the fact that we've been at this for so long. Many of the areas where you could do a lot involve regulatory or interprovincial trade barriers, and some of the international stuff, where the trade-off between the winners and losers is very difficult and there isn't a big sexy political win for doing something about these things. It's very tough to make progress in those areas. One of the reasons that I tend to look at the tax side or prefer to look at it is partly that I think the bang for the buck may be bigger there, but also that I think it's just a little easier to do.

The Chair: Thank you, Mr. Robson.

I want to go to Monsieur Bouchard, and then Mr. Bell.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord): Thank you, Mr. Chairman. Thank you also to our witnesses for your excellent presentations.

I have a question for the Canadian Federation of Independent Business. In your brief, you speak of the importance of quickly following through on the commitment to reduce the regulatory and paperwork burden. You have been asking for improvements to be introduced and reductions to be made to the size of the regulatory burden for several years now. We know that, in the past, actions were taken, and studies were carried out to determine whether the paper burden resulting from government regulations could be reduced.

Your brief also states that reducing the regulatory and paperwork burden has been identified as being the second highest priority of Canadian SMEs, second only to reducing the overall tax burden.

You have been talking about this issue for several years; has true progress really been made in terms of the regulatory burden? Are there less regulations, or has the situation remained unchanged?

● (1045)

[*English*]

Mr. Garth Whyte: I think there will be gains.

If I could spend five minutes, Mr. Chair, there was an announcement made in the 2004 budget, which this committee supported, saying there would be an industry/private sector/public sector joint committee to work on paper burden only. There was funding, and the goal of the committee was to measure the impacts, to come up with strategies, and to report on it every year. I'm co-chairing that committee, and we'll be coming up with a report.

Right now we have a StatsCan survey that's going out to measure the impact. Why did I do this? Because like the productivity discussion, I didn't want to do this 10 years from now. With paper-written regulation, it seemed that we would charge together and work on it, and then the champions would leave and it would collapse. As a remedy, I want to institutionalize the paper burden process like the budget process so we can measure it.

A Stats Canada survey will be going out this year through next year to 300,000 firms. We will be reporting on it, the minister will be reporting on it, and we don't care which party, but it has to come forward every year like a budget and every year they have to talk about it. I'm hoping that five years from now you'll see people shake their heads and say, yes, I remember this day, because then they'll report on it.

I find it outrageous that we do not report on the state of regulation, the impact on the economy, on a regular basis, that we can't list it or find ways to improve it, because it doesn't cost a lot of money. There are a lot of improvements that can be done. I think that's the big step.

In the past it was called weed-whacking. You cut down weeds—you break down some regulation, you do some paperwork reduction—and three others would pop up over here. A great way to have productivity gains is to have a sustained push to bring it down.

David brought up the Dutch example. We think we're going to be better than the Dutch example whereby they can measure by department.

I would like to throw out the B.C. example as the best. B.C. made a commitment to reduce regulatory requirements by a third, and they surpassed it. What they had to do first was measure it, and they report on it, and people were involved. It's not just the department's budget at play there; the minister's budget was impacted by 10% if they did not meet their targets.

Some good advances are happening in Quebec, and there are some good things happening in New Brunswick. Newfoundland has just come out with a procedure to measure paper burden. We're very excited about that, but I know it's going to take some time.

I would make one recommendation to this committee. You could simplify the automobile expense, which hits every self-employed person. If you've ever had to fill out those forms...you have to keep all your gas receipts, you have to do all the different things. Why not make it a formula? It would greatly simplify things for entrepreneurs and be a huge victory.

The Chair: Merci, Monsieur Bouchard.

Monsieur Bell, and then I have Mr. Hubbard.

Mr. Don Bell (North Vancouver, Lib.): Thank you, Mr. Chair, and thank you, gentlemen, for your presentations.

Mr. Sharpe, you commented on competitiveness being one of the key factors—

● (1050)

Dr. Andrew Sharpe: Competition.

Mr. Don Bell: Okay, competition, competitiveness. You mentioned earlier ten points, ten messages, that you wanted us to focus on. Is there an abbreviated version as to what you would recommend in that area?

To Mr. Stewart-Patterson, you started to answer, and ran out of time, what in your opinion is going to attract investment to Canada. Again, I need that in short answer form.

Finally, to Garth Whyte, in terms of independent business, are we doing enough to encourage the Internet business as it's growing? I've had some people in my riding raise concerns about that to me.

Dr. Andrew Sharpe: In terms of competition, that was a general statement, I think. We should be fostering ways to have a more competitive marketplace. I can give you two examples of that.

One example is in the whole area of telecommunications regulation. The CRTC is responsible for that area, and many argue that lighter regulation in that area would foster competition between different types of telecommunication service providers. There is in fact a review going on right now. The telecommunications policy review panel is looking at this issue and they'll be reporting later this year. So a key aspect of that work is to foster competition.

Another example is the whole competition policy in general. We have a Competition Bureau in Canada, and that agency is a very important part. They should be looking at all aspects of competition in the economy, at where there are weaknesses, and acting upon that. Now, they're already doing that to a certain degree, but I'm just saying that there should be more emphasis on this concept of competition.

There will be many other examples of where government policy can foster competition.

Mr. David Stewart-Patterson: What will attract investment? Well....

Mr. Don Bell: You'd started to say it earlier and then got cut off. I thought maybe you had a quick answer.

Mr. David Stewart-Patterson: I think the essential point I was trying to make, and we've made a number of observations here, is that we tend to compare ourselves with the United States. We have to recognize that we're not the United States, we're different, and we have to make the most of our differences. A country like the United States can get away with relatively high tax rates because it has such a big market, and people want to be there. That big market in turn creates a lot more intense competition. That's where Canadian companies as investors there sometimes have come out pretty badly mauled. They've had to learn to take that on.

So as a small country that has a high standard of living and therefore relatively high wage rates, what's our competitive advantage? I think the message we're trying to get to you is that, for one thing, you have to be competitive on taxes. And with respect, competitive does not mean, as the Minister of Finance tends to use the words, simply staying in the same ballpark as the United States. We have to say what it is we're going to do that makes our country a distinctly better place to invest, to overcome the risk of being a small place, of having high wage rates, but that still says, hey, this is a place you can invest with confidence and grow a business.

There are different ways to do this. As I say, you can compete for people. You can persuade skilled people that, hey, Canada is a great place to live, through things like quality of life in your cities and your communities, the diversity of your communities, and with personal tax rates. Or you can compete, as Ireland did—and still does—by saying, hey, this is going to be a great place to set up a plant to make stuff and ship it out to other places, because we're going to have extremely low corporate tax rates. Ireland as a whole is not a low tax environment, but they've said this is the kind of investment we want to attract, and this is how we're going to do it.

I think the point I've been making here is that Canada doesn't seem to have a strategy right now. We're just kind of muddling along. We want to be a little bit of this and a little bit of that, but we haven't really said what our identity is. What kind of brand are we creating out there for people to say, “Here's what Canada is going to do well”?

Again, when you're forming a strategy, there's no silver bullet, no answer to what's going to attract investment. If we talk about investment in the kind of high value-added, head office research-type activities, then obviously the supply of skilled people is important, as is how productive those people are. How much value they can deliver for the wages they charge is important.

Infrastructure is important. If you're moving goods, it's roads, border infrastructure, rails. If you're talking head office activities, it's airports, air connections. How easy is it for people to get to and from wherever they're going to be living and working? A lot of highly skilled people also have highly mobile jobs.

In turn, of course, you have all the soft factors. I don't want to underestimate some of the advantages Canada has on that. You may have read the books that Richard Florida has written, for instance, in terms of the evolution of the creative class within the global economy. Cities like Toronto and Vancouver are highly competitive because of their social environment. They're great places to live and work, and attractive to a large number of people. So you don't want to ignore your social infrastructure either.

That's why I'm saying, taxes ain't the only answer, but you can't ignore tax policy in trying to put a comprehensive strategy together.

● (1055)

Mr. Don Bell: Garth, could you just comment in particular on young entrepreneurs, small entrepreneurs in the Internet area?

Mr. Garth Whyte: I don't have an answer on the small entrepreneurs in the Internet area. I do know that more and more businesses are using the Internet, and not just for e-business, selling business to business; it's more e-marketing, e-information. There is a growing world there, and some things could be done to help those folks.

I do want to talk about new businesses generally. I just met with the advisor to the president of the Canada Border Services Agency, and we were talking about it. People want to do the right thing, so it's got to be on the web. There are things we've got to do there, and they need help to get that.

When you start a new business there are things the government has done, such as Government On-Line. The program called BizPaL tells you all the different steps you need to take to start up a business. On the permits you need, it's kind of funny, but it shows that a bed and breakfast in Halton needs 90 permits at three levels of government. So we're using BizPaL for another reason.

Anyway, there are things that help to simplify the process. It really will help productivity for someone starting up. Their biggest barrier is all the steps and regulations, not taxes. The Internet is an invaluable tool, but I think the government is doing some pretty good things to help.

The Chair: Thank you.

Mr. Hubbard.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair. We've had some very good presentations.

The topic we're covering, of course, is only part of a bigger budget, and with that we've heard a lot on tax cuts. But I think our Minister of Finance has to somehow balance his revenues and expenditures. When we look at both sides of the balance, it's very easy to say to cut back on one, but what do you do with the other? So this is a very serious concern.

We've covered a lot of the topics I'm interested in, but we never seem to get to the topic of dealing with the efficiency of our public service system and our health care system. It always seems to be a problem. When we look, it's the gorilla out there that all politicians have to deal with, in terms of health care. Ten per cent of our GDP is directed to that, and there's an ever-increasing demand. No matter how many billions of dollars you bring forward one year, the next year the demand's out there among the provinces and the health care units for more and more money.

I know we could talk about the service sector, the manufacturing sector, the changing economy in this country, and how primary industry.... I'm glad to hear that agriculture got some really big roses this morning, in terms of what they've done. But there are certain sectors within our economy that we have to make decisions on, in terms of our government. What sectors can be most productive, efficient, and creative in the next decade or the next generation?

Time is limited. I see Garth is ready to talk about health care. But how are we as political people going to deal with the ever-increasing demand and the demand on the other end in terms of benefits? Some companies talk about 30% to 40% of their costs of employing people being in benefits, not only for health care but for the other things that go in there.

Garth, there are just a few minutes left if you want to comment on that.

Mr. Garth Whyte: If you could turn to page 13 of our brief, we did a major study that has been used by Treasury Board. The first one used Treasury Board Secretariat information—main estimates. It doesn't include last year, but it talks about the past five years and changes in federal government spending. You can see that debt servicing went down 23%, total expenditures went up 22%, but personnel spending went up 36%. Our study on page 14 used census data information, and it talks about the wage and benefit gap in the exact same jobs in the exact same communities. It shows that the federal government had a 23% gap in wages and benefits.

So when you brought this up about more and more businesses... the thing that frustrates us when you're talking about health care or anything is that most people think you're spending more money for services, when actually you may be spending more money for salaries and benefits. That's a scary thing. If you want to talk about increasing our productivity, you're going to have to start cleaning up your own act. We're not saying to cut people, but at least stem the increase, because in cities like Winnipeg, there's a 25% wage gap in the exact same jobs, apples to apples.

What does that do to an employer who's trying to employ the exact same person, but that person goes and works for the federal government? Should he be paying higher taxes to subsidize that position? I think that's a really important question that everybody here has to ask themselves, because if that's the case, then we should come out and make that the government's policy.

You are creating two societies here now. I don't know anyone in the private sector who can retire at age 55, but I know a lot of people in the public sector who can retire at age 55. Sooner or later you're going to hit something. There's going to be a real issue here, especially when people are saying taxes aren't the only issue. I really think that's an important point I wanted to bring out here.

● (1100)

Mr. Charles Hubbard: Do you have any comments on sectors?

Mr. David Stewart-Patterson: If I can just say one thing here, I think it's pretty dangerous to get into the game of trying to pick winners and losers. We tried that before and it did not work very well. I don't think it's a strategy you want to go with.

I think what's important is, as I say, creating the right business framework. You have to create a framework that's going to be attractive to investors. You have to create a framework that enables people to develop skills so that the right people are available. You have to develop a framework that's stable and predictable. You ought to know what the rules are going to be over the long term, and again, that's where we come back to the importance of long-term strategy, not just year-by-year measures. Then you leave it to individuals. Trust them to figure out where the best opportunities are. Let people unleash their creativity. Let people build their businesses and see what happens.

Mr. William Robson: I would just comment on two sectors, drawing on something that Rick Harris did. He commented on a paper for us.

If we are uncooperative with the United States on defence issues, there may be good reasons for that. We may think it's a good thing not to collaborate in defending North America from missile attacks. But if we don't collaborate with them on defence issues, we cut ourselves off from one of the most important sources of research and development in the world.

That's not necessarily the decisive factor. We may decide that we don't want to defend ourselves from missile attack, for whatever reason, but as we make those choices, we should be aware of that.

On health care, I assume that everyone here uses the public health care system. If you do—which we can't take for granted—compare your doctor's office to your dentist's office. The dead hand of government is so obvious in that sector, and it's huge and it's so dynamic. Many countries are doing all kinds of innovative work, and we're missing out on a lot of that. So I do think that's another.

Again, we may have good reasons for trying to shore up the Canada Health Act and the public single-payer monopoly for doctors and hospitals. There may be good reasons for that, but one of the things we do by perpetuating that system is we really hamstring an area of the economy where we want a lot of innovation and we want a lot of skilled people. I'm counting on them being there at some point in my life.

So defence and health are difficult areas because of the high politics involved, but they are important for innovation.

The Chair: Quickly, Mr. Sharpe.

Dr. Andrew Sharpe: The sectoral approach to productivity is very important, because productivity growth varies greatly by sector.

You mention the public sector. We really don't have a way of measuring productivity growth in the public sector in the aggregate, because it's non-marketed output. We don't really have a price for it. In fact, we assume it's zero, basically, and that we know is not true.

There are many, many gains in the public sector. If we look at Statistics Canada, for example, they produce more statistical series now by tenfold than they did 20 years ago with less staff. So there are many gains within the public sector.

One interesting sector is the natural resources sector. We've done a lot of research recently for Natural Resources Canada on that. Believe it or not, the productivity in that sector is actually very poor in recent years. Actually, that is not bad for our standard of living. It seems ironic to say that. Why? Because there has been a commodity boom in recent years, particularly energy prices; they are much higher now than they were in the past. What does that do? That drives producers to the less quality resources, to the extents of margin—for example, the oil sands.

Really, the number of hours of labour needed to extract a barrel of oil in the oil sands is much greater than it is in conventional deposits. Even though it's still very profitable to do that activity, in terms of productivity growth it's actually negative. About one quarter of our poor productivity performance since 2000 is due to this increase in commodity prices and the movement of resources to, if you want, less productivity in the narrow sense of physical output per unit, even though it's very profitable because of very high prices. In effect, profitability trumps productivity in driving business behaviour.

● (1105)

The Chair: Thank you, Mr. Hubbard.

We have to wrap it up.

I want to thank the witnesses for appearing. There has been a lot of food for thought. I think we had the same problem yesterday, which is a good problem. I just hope we're going to be able to remember what you told us by the time we've finished our pre-budget consultations. So I hope everybody took good notes.

Thank you again.

We're going to suspend for a few minutes until the next panel comes up.

● (1106)

(Pause)

● (1117)

[*Translation*]

The Chair: Good morning, everybody. We are ready to resume proceedings with our second group of witnesses. We are here today for the second part of our 2005 pre-budget consultations, pursuant to Standing Order 83.1.

As we only have two groups, you will be given between seven and ten minutes to make your presentations. I will be flexible, given that we only have two groups of witnesses. Following your presentations, members of the committee will have the opportunity to ask questions.

We will start with the first group.

[*English*]

From the Canadian Labour Congress, Mr. Jackson or Mr. Yussuff.

Mr.Yussuff, the floor is yours. Thank you.

Mr. Hassan Yussuff (Secretary-Treasurer, Canadian Labour Congress): Thank you, Mr. Chair.

We want to again thank the committee for allowing us to present this morning. Essentially you have a full brief, which we have circulated to the clerk, and I assume everybody will get a copy of it.

What I intend to do this morning, as we have done in the past, is try to summarize some of the key points we would like to make in regard to areas that we hope will be helpful for the committee to ask specific questions on.

On behalf of our three million members in the congress, I want to thank the committee for the opportunity to present, and again let me make some of the key summary points that we would like to bring to the committee.

The CLC, together with our national and international unions, along with our provincial and territorial federations of labour and the 137 labour councils, whose members work in virtually every sector of the Canadian economy, in all occupations and in all parts of Canada, would like to present our views on what constitutes a productive economy.

We believe the link between productivity and living standards is not automatic. It depends on whether or not the government takes an active role in promoting social inclusion, equality, and economic development. We recognize the importance of business investment in the economy, and we have in the past argued for some tax relief for businesses investing in job creation.

We oppose, however, across-the-board cuts in the corporate tax rate. Tax cuts do not automatically increase the rate at which corporations invest. In fact, low corporate taxes have not resulted in increased investment despite the high profits in recent years.

We need the government to step up to the plate. Social investment can be key to creating a productive economy and a healthy society, and a public investment in community and infrastructure, municipal services, and transportation builds communities. At the same time, public investment promotes economic development and environmental sustainability.

If we want a knowledge-based economy, we need to increase spending on worker training, apprenticeship, and post-secondary education. If we want to improve women's labour force participation, we need high-quality public child care. This is the way we can help workers cope with work-life balance and provide a social basis for children's learning and creativity.

We ask the committee not to make the mistake of assuming the new deal for cities has resolved all the issues for cities and communities. It is important to build upon the investment made last year in increasing the support for public transportation, and in doing so, build a more productive economy.

A public health care system represents a benefit to society, and in general, an increasing competitiveness of the Canadian economy. In the United States, for example, the U.S. employer pays premiums for health insurance on the average of $3,008 for an individual worker and $8,051 for family coverage. The U.S. spends more than every other country in the OECD on health care. The U.S. health care spending is 83% higher than Canada, yet more than 40 million people have no health care insurance in the United States.

Without a national drug program, drug prices undermine the provincial medicare system and put a terrible burden on individuals as well as employers. In Canada, one of every six dollars on health care spending goes to cover the cost of prescription drugs.

When the people of Canada have access to public housing, income supports, and generous unemployment insurance benefits, they are more likely to be able to participate in the formal economy.

When the skills and experience of new immigrants are formally recognized, the Canadian economy benefits by their full participation.

In our view, the key goal for our national economic policy must be to create and sustain well-paying, rewarding jobs in a safe workplace. This requires a broad agenda for industrial and regional development.

The Canadian Labour Congress believes that government taxation on social spending policies is needed to equalize the high, unequal distribution of income. We need an economy based on full employment and expansion of the public service and good jobs in the private sector.

Working people in the country want to contribute to a productive, innovative, and environmentally sustained economy. We believe the basis for sustainable high productivity is not just working longer and harder. We need higher levels of investment in public infrastructure as well as education and worker training, modern machinery and equipment, new plants and buildings, innovation in research and development.

On behalf of working people in Canada, we strongly urge Parliament to use this opportunity to make the 2006-07 budget a bold declaration in favour of equality, social inclusion, and economic development. The budget must repay the social debt that has been borne by Canadians for too long.

The CLC urges the government to play an active role in economic development: reinvesting in the public service and encouraging economic activity that builds on workers' capabilities in both the private and the public sector.

It is our sincere hope that all parties will work together for better jobs and a progressive social reinvestment agenda. This is what I think Canadians value and this is what we ask you to work towards.

● (1120)

We thank you for inviting us to present to you this morning. We look forward to any questions from the committee that we can answer.

The Chair: Thank you.

Can you explain why we received so many documents? We have document No. 7 and document No. 8. One is entitled “Good Jobs and Wealth Creation” and the other one is entitled “Public-Private Partnerships (P3s)”. We also have “Labour's Vision of Workplace Training and Life-Long Learning”, and then we have another one entitled “The Dubious Case for More Corporate Tax Cuts”.

Mr. Andrew Jackson (Senior Economist, Social and Economic Policy, Canadian Labour Congress): We provided you with the major policy documents that were passed out by the delegates at our recent convention. The brief was trying to pick up some of the major points that were made in those policy papers. We thought members might be interested in them.

There's a major policy paper there on training around job creation. It was only as background for the members, if they were interested.

The Chair: Good. That's fine. Thank you.

[*Translation*]

Mr. Patry, we will now hand over to you for the presentation on behalf of the Confederation of National Trade Unions.

Mr. Pierre Patry (Treasurer, Confederation of National Trade Unions): Thank you, Mr. Chairman.

First of all, we would like to thank the committee for giving the Confederation of National Trade Unions this opportunity to express its opinion on the social and economic objectives that the next federal budget should strive to promote. The CNTU represents 300,000 members across Quebec and Canada, working in most sectors.

We would like to apologize for not tabling our documents until this morning. However, we did not receive this invitation until late and we were unable to translate our brief, which was completed only recently.

As part of your pre-budget consultations, your committee has invited all interested parties to submit, in particular, their analyses and objections with respect to productivity increases in Canada. You asked several economy-related questions as well as others pertaining to federal public monies. We will first of all examine the issue of productivity and then we will look at other issues related to the federal budget.

The CNTU is pleased to see the attention that the Standing Committee on Finances is paying to the matter of productivity. As far as we are concerned, there's no doubt that increased productivity is an important component required to improve our standard of living. High productivity also enables us to free up resources to improve our quality of life.

That being said, we must not delude ourselves. This does not happen instantaneously, contrary to what the business world, and, in particular, the Canadian Council of Chief Executives, would lead us to think. Gains in productivity do not necessarily result in an enhanced quality of life or better distribution of wealth. There are enough examples pointing to the contrary to make us wary of this type of cause and effect.

Since the 1980s, increased gains in productivity have not been followed by an equivalent increase in real wages, nor has there been a significant reduction in income disparity. This situation is not unique to Canada, it is even more visible in the United States. Moreover, in a recent article, two well-known American economists demonstrated to what extent there has been unequal distribution of the gains in productivity.

At the corporate level — and we are in a good position to know this — the quest for a greater productivity is not always synonymous with increased investment in machinery and equipment or in a reorganization of work based on the participation and know-how of the workforce. On the contrary, gains in productivity are often achieved by increasing the workload, greater controls, extended hours of work and even layoffs. Such strategies have resulted in a deterioration of working conditions and have had a negative impact on the health and security of workers.

The quest for vigorous gains in productivity can also have a negative impact on the environment. We need to make important societal choices with respect to increases in our standard of living and our well-being. We need to take action in order to encourage economic development that is compatible with the principles of sustainable development.

To summarize, if improved productivity is a desirable objective, it also has its limitations. Everything hinges on how these gains in productivity are achieved and distributed. The government has an important responsibility in this area.

Certain analysts are concerned about the level of Canadian productivity and the weakness of the growth rate since 2000. What exactly has happened?

According to the Centre for the Study of Living Standards, in 2004 the corporate productivity in Canada was equal to 74 per cent of American productivity, whereas it was 82 per cent four years earlier. Moreover, as Mr. Sharpe and other researchers pointed out in a recent analysis, our productivity has not dropped only when compared to the United States, but also when compared to other industrial countries.

Whereas the United States recorded a strong growth in labour productivity between 2000 and 2004, Canada dragged its heels, recording only a slim .9 per cent increase. And yet, Canada had shown good performance between 1996 and 2000, even slightly surpassing the American rates in the corporate sector. We must admit that the situation is worrisome.

Moreover, as far as labour productivity is concerned, several countries caught up to or even exceeded Canada over the past 50 years. An analysis of a more recent period conducted by the International Monetary Fund clearly shows that our productivity problems stem from the gap with American productivity. Canadian performance between 1996 and 2006 is comparable to that of Europe, superior to that of Japan, but lower than that of the United States.

While the historic gap between Canada and the United States is becoming increasingly better understood, the reasons behind the recent slowdown in productivity growth appear more nebulous.

However, aside from the discussions regarding Canadian performance, it seems to us that it is important to realize that productivity growth is a complicated phenomenon. As a recent study points out, a wide range of microeconomic and macroeconomic factors have an influence on the growth of labour productivity and their effects are felt in many complex, interactive and dynamic ways. Consequently, it is extremely difficult to paint an accurate picture of the impact of each factor.

Some experts suggest that they be grouped into three broad categories: economic, social and institutional drivers.

● (1125)

We can see that there are many productivity drivers. Some have a direct impact, such as investment, and others have a more indirect impact, such as social policy.

Obviously, the economic productivity drivers that have the most direct impact have been the subject of numerous studies, such as studies on capital investment, manpower training, innovation capacity. These are some of the most important factors. We think, therefore, that the government must pay particular attention to these factors in choosing which policies it favours to increase productivity. However, we wish to point out, in the same breath, as others have already done, that there is no adequation in Canada, there is no cause and effect link between lower corporate taxes and investment. In any case, we will come back to this point a little later on in our presentation.

As for the 2006-2007 budget, at the outset, we would like to underscore certain data pertaining to the Canadian economic situation. Since the mid-1990s, Canada's macroeconomic performance has been rather good. From 1995 to 2003, the average growth in the Canadian economy exceeded that of all other G-7 countries. The real GDP per capita also increased more quickly than it did in other G-7 countries. This rather positive economic picture may come as a surprise, given the unequal productivity performance of Canada.

In 2004, the real GDP grew by 2.9 per cent, a significant improvement compared with 2003, when the real GDP growth was only 2 per cent. This healthy economic growth can be attributed primarily to the strength of final domestic demand, which increased by 3.9 per cent in 2004. Moreover, net exports in 2004 increased despite the strength of the Canadian dollar against the American currency. Real exports rose by 5 per cent after the drop noted in 2003. We should also add that the economic growth outlook for the immediate future is good. The real GDP should grow by 2.9 per cent in 2005 and 3.2 per cent in 2006, according to IMF estimates.

Such macroeconomic results lead us to think that the economy and Canadian society are in rather good shape. And yet it is important that we not overestimate the significance of such macroeconomic indicators, since these good results conceal many challenges and issues. Consequently, it is important to remember that Canada's overall results conceal the fluctuations in economic and social performance from one province to the next and the fact that certain regions in the country are, for all intents and purposes, forgotten. Canadian society still has a lot to do to fight poverty; the issue of how we will achieve our Kyoto protocol targets remains; despite progress, the unemployment rate is still too high; the austerity of fiscal policy over the past few years has resulted in a significant public infrastructure deficit.

Let us now look at the federal government's fiscal framework. It is acknowledged that the Canadian government's fiscal policy is extremely cautious. For the pas few years now, the government has been budgeting for reserves which, if not required for contingencies, are used to pay down the public debt at the end of the fiscal year. Moreover, underestimating revenue and overestimating expenditures add, every year, significant amounts to these reserves, which has enabled the government to pay down the debt by $63 billion since balancing the budget in 1997-1998.

In the opinion of the CNTU, the federal government's favourable fiscal situation was achieved using questionable means: by drastically reducing transfers to the provinces and by slashing the employment insurance program.

All of the preceding points clearly demonstrate the phenomenon of the fiscal imbalance, a phenomenon which is very real despite the federal-provincial agreements reached in the fall of 2004, despite the fact that the budget surplus for 2004-2005 was lower. Indeed, at the end of the fiscal year 2004-2005, there was a surplus of $1.6 billion instead of the $7 billion which had initially been forecast. Essentially, that means a 4.5 billion-dollar charge for non-recurrent expenditures at the end of the 2004-2005 fiscal year, which includes $2.7 billion for offshore resource agreements with Nova Scotia and Newfoundland. In the absence of such a last-minute strategy, the surplus would have been $6.1 billion.

● (1130)

Moreover, for the first four months of the 2005-2006 estimates year, the federal government already has a budget surplus of $7.1 billion, namely 65 per cent more than for the same period last year. Therefore, the fiscal imbalance does indeed exist, as was demonstrated moreover by the Standing Committee on Finance Subcommittee on Fiscal Imbalance in its report “The Existence, Size and Elimination of the Canadian Fiscal Imbalance”.

● (1135)

Mr. Yvan Loubier: An excellent report.

Mr. Pierre Patry: Thank you.

Since it is fair to say that the federal government always has a significant surplus, therefore, the CNTU would like to share with you what it believes should constitute priorities for the federal government when it is drafting its next budget or economic update.

The government has three choices: increase program spending, pay down the debt, or reduce the tax burden. I would now like to share with you the CNTU's opinion on these three options.

We have several recommendations to make on program expenditures, as we believe that this is where the bulk of the federal government surplus should be concentrated. First and foremost, the increase in federal spending ought to be used to up transfers to the provinces and territories. Regardless of what the federal government may say, Canada continues to face a situation of fiscal imbalance. Although we are by no means trying to deny that progress has been made, the following statistics illustrate that a significant divide still remains and must be addressed.

In 2004-2005, total federal transfers to the provinces accounted for 19.9 per cent of federal revenues, whereas in 1993-1994 they accounted for 23 per cent. In order to return to this level of funding, the federal government would have to increase its transfers to the provinces by $6.4 billion.

Since financial year 1995-1996, federal transfers for health have increased, but this increase was partly funded by a reduction in transfers for postsecondary education and social assistance. This has resulted in a $2.2 billion shortfall in provincial funding for 2004-2005, compared to the level of federal funding provided in 1994-1995. In fact, according to the Quebec government's Department of Finance, current federal transfers for postsecondary education, social assistance and social programs only cover 11.5 per cent of the provinces' total expenditure in these areas.

The Chair: Excuse-me, do you intend to read your paper all the way to the end? You have already taken twelve minutes.

Mr. Pierre Patry: All right. I will try to read the rest in three or four minutes.

The Chair: No, in two minutes.

Mr. Pierre Patry: Two minutes? Very well.

The Chair: Thirty seconds.

Mr. Pierre Patry: You said two minutes.

With regard to social assistance, we should mention another element: The formula for sharing federal transfers proportionately among the population is unfair. In Quebec, the federal government contributes $2,846 per beneficiary, whereas it contributes $9,422 in Ontario.

On the other hand, the closed envelope of $10.9 billion for equalization, with an annual indexation of 3.5 per cent, seems to us insufficient to meet the needs of the provinces, especially if we consider the fact that with the changes in the equalization system, Quebec will have to reimburse $2,4 billion for the next ten years, although it needs more and more resources for its social programs.

As for the federal proposal regarding child care services—which is based on the Quebec model of child care services that was implemented in 1997-1998—the CNTU believes that the federal government has only one choice, which is to unconditionally transfer the share of the $5 billion over five years due to Quebec. Quebec should be allowed to opt-out with full financial compensation from any eventual federal program.

The fact that many of the public services and social programs which are the most important for Canadians are run by the provinces lead us to conclude that it is crucial for each level of government to have the revenue it needs to carry out its constitutional obligations with regard to expenditures, and this is for the sake of accountability, transparency and efficiency.

Let me conclude with two other points. First, we note that a sizable part of the improvement in federal public finances is due to the fact that the government has grabbed the surplus of the employment insurance fund to the tune of $43.8 billion and consequently, we say that the government has the latitude it needs to improve the system by substantially increasing the amounts, the replacement rates and the duration of benefits.

And then, we consider that given the increase of the collective wealth in Canada, the objective of a 25 per cent debt to GDP ratio can be easily reached without paying back any more of the debt. This is why we consider that the government should, preferably, use the latitude that it has to increase social transfers and improve the employment insurance system.

With regard to fiscal policy, the CNTU believes that if there are to be any tax cuts for individuals, they should be granted to people with low or medium incomes; this should not be a general tax reduction program.

For companies, this should be done at no cost. If we want to change the fiscal policy vis-a-vis companies, we should do it by ensuring that jobs are created at no cost. By the way, I invite you to read page 22 of our brief. Clearly, there is no connection between lower corporate taxes and the productivity or investment of the companies. These figures show that during the years where corporate taxes were lower, investments did not automatically follow. To the contrary, investment went down during that time, which shows that there is no real connection.

To conclude, the coming federal budget, as always, will include many political choices made by the government, which have been more or less influenced by economic conditions, by pressure from the parliamentary opposition and by public opinion. The CNTU hopes that all these choices are truly motivated by a political will to establish a fairer tax system in Canada, a better sharing of the wealth, a more balanced system for the economic development of the various regions of Canada and a permanent rectification of the fiscal imbalance.

With regard to Quebec the CNTU strongly encourages the Martin government to finally respect the specific nature and sensitivities of Quebec, by showing full respect for its mandate. With this in view, all federal budgets, beginning with the 2006-2007 budget, should recognize that Quebec has a right to opt-out with full compensation and enforce that principle by granting financial transfers or tax points each time that the federal intrudes on a provincial mandate. Enforcing this principle should lead to a balance between the federal power to spend on behalf of the provinces that request it while respecting Quebec's constitutional areas of jurisdiction.

● (1140)

The Chair: Thank you.

Mr. Pierre Patry: Thank you for your attention, and I apologize for taking longer than anticipated.

The Chair: Mr. Solberg, you have seven minutes.

[*English*]

Mr. Monte Solberg: Thank you very much, Mr. Chairman, and thank you to our witnesses for appearing today.

This is a very important issue. Despite the fact that we've been through this many times and we could probably stack productivity reports to the roof in this place—regrettably that haven't been acted upon that much—it's still an intriguing issue and an important one. I think we should follow through on this with great vigour. It's important to note that although there are differences in approach or maybe in emphasis when it comes to some of the fixes for productivity, I think almost everyone agrees that it's complex and will require a number of different things to improve our productivity as a nation.

In fact, while I note both witnesses today have argued that cutting the general corporate tax rate does not necessarily improve productivity, I also note they weren't categorical about that and that obviously it depends on the overall environment in the world. If other countries are cutting their corporate rate or making other changes or there are other factors that cause investment to flow to other jurisdictions, you may not retain some of that capital in your country, so there may be other things that may have to be done.

I note, for instance, other countries have moved very aggressively with capital cost allowances and things like this that may make their countries even more attractive than Canada was for investment. In fact, some people have pointed out places—for example, Sweden—that counterintuitively have been very aggressive in introducing capital cost allowances. And I note in “The Dubious Case for More Corporate Tax Cuts”, a CLC document, that the final paragraph talks about the need to possibly reduce those rates. I appreciate that, and I don't want to unfairly characterize your document, because you have many different things in there, including things like improving training for workers, more money for the NRC, and other different things. It strikes me that everyone agrees that we have to take a broad approach and do a number of different things.

Having said all that, does anyone here wish to talk about the need to reduce or make capital cost allowances more generous? If you had to put this on a ranking—given what we just heard from previous panels—how important is that overall in terms of encouraging investment into the country and making us more productive as a nation?

● (1145)

Mr. Hassan Yussuff: I'll get my colleague Andrew to complement what I have to say.

I think we have said in the past before the committee that we believe the need for us to write down equipment and machinery at a better rate will actually help strengthen some of the arguments regarding productivity. I think that's far more favourable from our perspective, in terms of new investment in a facility, to try to create better jobs. In addition to that, it's training. We've said this in the past and we're going to repeat it here today—as opposed to across-the-board tax cuts. We believe fundamentally, if you look at our investment in machinery and equipment in this country compared to others in manufacturing, it's horrible, and I think we've got to put our heads to how we address this issue.

I'd like my colleagues, Andrew Jackson and Teresa, to maybe add to it.

Mr. Andrew Jackson: I'd just repeat the point from the last time I appeared before this committee. I guess we're destined to repeat this. The studies that have been undertaken within the Department of Finance itself clearly show that the impact on investment levels is more powerful from increasing capital cost allowances than it is from a cut from the general corporate tax rate. If you cut the general corporate tax rate...it applies to the energy sector, for example; with profitability very high, big investments are going to go ahead regardless. Also, if you cut the general corporate tax rate, you're really giving a windfall benefit for investments that have already taken place. So I think it's a more targeted measure and a more effective measure.

I think there is a case that the write-off lives are too short. I would just repeat what Hassan has said; if our members are investing in new capital machinery and equipment, that's exactly what we want them to be doing, and if there are features of the tax system that can be changed to help that, we're in favour of them.

The problem with a general corporate tax cut is the foregone revenues: where is it going to have to be made up from, and is that the most effective way of stimulating investment?

Mr. Monte Solberg: Before Mr. Patry responds, the other thing I wanted to mention—and please feel free to respond to either or both of these questions—is that we've had a huge increase in government spending in the last number of years. I think you'd acknowledge that. It was a pretty large increase. It has also not really been reflected in any kind of increase in productivity. You would think that if government was going to spend on things that actually make a difference in people's lives, you would see that reflected in our productivity. But we're not seeing it reflected I think by any measures. There has been a 52% increase since 1999 I think overall in program spending, but it's not reflected.

Mr. Patry, sorry if I've thrown you another curve, but if you want to reflect on that question as well, you're welcome to. Mr. Jackson, Mr. Yussuff, Ms. Healy—whoever wishes to respond, that is fine.

[*Translation*]

The Chair: I will let you reply to that, Mr. Patry.

[*English*]

Then we'll come back to Mr. Jackson.

[*Translation*]

Mr. Pierre Patry: We are in full agreement with our friends from the CLC. Furthermore, as regards corporate taxation, the corporate tax rate fell from 28 per cent to 21 per cent between 2000 and 2005, while during the same period, corporate profits rose and investments declined. In addition, GDP fell between 1999 and 2004. It is therefore not possible to establish a direct correlation between corporate tax rates and investment in businesses.

That is why we maintain that, were measures to be taken—and we are perfectly open to studying the ones that you mentioned—they would have to be specifically targeted and cost neutral, in order that the overall tax contribution made by businesses to the Canadian economy remains constant. Furthermore, any measures should be tied to generating job growth, as higher employment levels also contribute to higher government revenues and lower expenditures, specifically in terms of employment insurance for the federal government and social assistance for the provinces.

● (1150)

[*English*]

Mr. Hassan Yussuff: Yes, very briefly, I think if you look at the last budget in regard to the investment in child care, and similarly the social investment in city infrastructure, it's going to take some time for us to see the impact of that on the economy. Those things will take some time.

A large part of the transfers in the last number of years has been for restoring the cuts in health care. As you know, the reality is that the system was broken, and again, we need to restore that kind of funding.

So yes, we've increased some social spending in the last little while, and you're saying that we haven't seen the benefit. But I think overall, if you look at a longer-term period, you will probably see the impact of that, and it can be measured immediately in terms of a direct increase. It will take some time for it to come on stream and to have the impact we're looking for.

The Chair: Thank you.

Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier: Thank you for your presentations. While both groups should feel free to answer my question, it is more specifically for the CNTU because it pertains to a matter raised in its brief.

Firstly, thank you for reminding us that a fiscal imbalance does exist in Canada; it is something of a dirty word for the Liberals. I do not understand what they dislike about the notion. It makes perfect sense, but the Liberals fail to understand that there is significant vertical fiscal imbalance between the federal government, Quebec and the provinces.

Furthermore, my colleagues and I travelled across Canada, from coast to coast, in order to determine whether others agreed that the problem does exist. To my great surprise, there was almost unanimous agreement, across Canada, that fiscal imbalance is a genuine problem.

There was not, however, unanimous agreement on the matter of respecting areas of jurisdiction. Once again, thank you for highlighting the importance of this issue. However, since signing Canada's social union, did the provinces have displayed a permissive attitude towards the federal government when it comes to them encroaching upon areas of jurisdiction which are defined in the Constitution. The division of areas of jurisdiction is clearly set out in the Constitution. There are wise voices in Canada advocating that the federal government stick to matters that are of its concern.

We heard this again this morning when, for example, Mr. Robson said that the provinces and Quebec do a better job in their areas of jurisdiction than do the federal government when it encroaches upon these areas. The NDP does not believe in respecting areas of jurisdiction, because it believes in a united Canada. That is problematic. We have been having the same debate for the past 12 years that we have been here.

On another subject, I see that, in your brief, you stress that although there have been reductions both in corporate taxes and corporate revenues, there is no correlation between the two.

Have you carried out a similar analysis on capital taxes? That is a more direct link. I am talking about the relationship between productivity, capital tax and the capacity or inclination of businesses to invest in capital to improve productivity. You are aware that, in relative terms, Canada has a productivity problem when compared to other countries. Have you analyzed the impact of capital tax, compared to corporate tax, on investment?

Mr. Pierre Patry: I am going to first speak about fiscal imbalance and protecting areas of provincial jurisdiction.

The CNTU believes that fiscal imbalance is undoubtedly a genuine problem in Canada. For proof, you just have to turn to the surpluses which the federal government has reaped since returning to fiscal balance. Since financial year 1997-1998, the federal government has garnered $63 billion worth of surplus. Even groups at the other end of the ideological spectrum from us are forecasting that the federal government will have a 90-billion dollar surplus within five or six years.

However, when we turn our attention to areas of provincial jurisdiction, particularly health, education and social assistance, we see that there are growing needs. The needs are being felt in areas of provincial jurisdiction. That is why we are asking that the matter of fiscal imbalance be resolved once and for all.

Finally, as we have said for the 2006-2007 budget, and indeed for all federal budgets, Quebec should be granted the right to opt out with full financial compensation. This would allow you to accommodate all those who are a little less sensitive to matters of provincial jurisdiction and Quebec, where there is social consensus on this matter amongst all political parties and citizens.

This is the way in which we believe the principle ought to be applied. It will allow the federal government to spend money on behalf of those provinces who are happy for it to do so, but would also ensure respect for Quebec's constitutionally defined areas of jurisdiction.

The most glaring example of this problem that we are currently facing is the question of daycare services, which was raised by our friends in the CLC. Quebec has had an exemplary policy on daycare services in place since 1997. Now, the government is introducing a federal daycare program. Quebec has already dealt with this matter, we did not wait for the federal government to do so. We are therefore asking that Quebec be given its share of the money for this program, without any conditions attached.

I will now hand over to Mr. Brouillet who will answer your question on capital tax.

● (1155)

Mr. Normand Brouillet (Assistant, Executive Committee, Confederation of National Trade Unions): So, very briefly, as far as capital tax is concerned—I'm not saying that it doesn't exist—we did not refer in particular to recent studies on the matter. However, clearly this is an issue of great interest, because there are some very specific projects underway in Quebec's budgets as well.

Generally speaking, we can say two things. First of all, we definitely need to make some changes on capital tax. Indeed, this is actually tantamount to taxing investment. However, it is clear that when competition is very strong, particularly in terms of technology, there are definitely some problems in this area.

However, we feel that it is important to maintain an extremely meaningful corporate tax system. Consequently, if tax breaks are to be given for capital tax, compensation will have to be found in another way. We think that it would be pointless to focus solely on the issue of corporate tax competitiveness because anybody else in the world or in any region can come up with a corporate tax measure that will be slightly more advantageous than yours.

To summarize, we do not have any recent studies on the matter, but we are certainly open to the idea of considering providing some relief under these circumstances. What is more, amortization is necessarily much quicker than it was 25 years ago.

Mr. Yvan Loubier: I see in your brief which, by the way, is excellent—you really do look at the problem from all sides—that you would be open to a balanced approach, meaning that instead of going ahead and reducing all corporate taxes, you would be in favour of gradually reducing capital taxation, without touching income tax.

If we were to take a portion of this money and of the surpluses estimated... Moreover, yesterday, the Conference Board mentioned the figure of $10 billion for the next fiscal year. It was nearly $10 billion for the last fiscal year. Indeed, you forgot about the $2.3 billion resulting from an agreement with Atomic Energy of Canada to wipe out the liabilities incurred over the past 75 years, which is equal to $2.3 billion. You factor in another $2 billion in little “thingamajigs”, and you have $10 billion in forecasted expenditures for the next few years. So if we had a balanced approach like that, if we took the $10 billion and we put it towards reducing capital tax, partially resolving the fiscal imbalance and paying down the debt, would you agree with this type of balanced approach?

Mr. Pierre Patry: It is true that we do deal with the three aspects in our brief, but the most important aspect pertains to the federal transfer payments to the provinces, because this is reinvestment in social programs. We did point this out in our brief, but I did not have time to mention it during our presentation. When we talk about the numerous factors involved in productivity, social programs accessible to individuals also have an impact on productivity.

As far as we are concerned, the most important measure pertains to transfers to the provinces. As for corporate taxation, we agree with a prospect of taking targeted action, provided that it comes at no cost, as we do not want to drain the coffers of the state. Indeed, we need to reinvest in our social programs through federal transfer payments to the provinces.

As regards paying down the debt, when we look at the situation in Canada from 1997 to 1998—the brief contains some figures, you may wish to consult it—, by simply achieving a balanced budget, the GDP debt ratio decreased by nearly 20 per cent, if I am not mistaken, whereas the paying down of $63 billion decreased the ratio by approximately 5 per cent. So 80 per cent of the reduction in GDP debt ratio was achieved simply by balancing the budget. So as far as debt reduction is concerned, we think that it is adequate.

Moreover, the $63 billion would have been put to much better use had it been spent on federal transfers to the provinces or improving the employment insurance program. Such measures would have been much more equitable for all Canadians.

● (1200)

The Chair: Thank you, Mr. Patry.

Mr. McKay.

[*English*]

Hon. John McKay: Thank you, Mr. Chair, and thank you, witnesses.

I want to get your opinions on some testimony that Mr. Whyte made just about an hour ago on the gap between public sector wages and private sector wages. He points out in his study, in trying to compare apples to apples, that the difference between what a private sector person makes and what a public sector person working in the federal government makes, when you include benefits plus wages, is almost 25%. In other words, there's a premium on public sector wages to the tune in the federal government of about 25%. In provincial governments it's almost 15% and in local governments it's about 14%.

He raises it in the context of productivity. He says that in economically struggling communities like Winnipeg, the federal wage advantage reaches 25% compared to 15% nationally, thereby distorting greatly the local labour market. Second, the wage gap aggravates for some SME owners the shortage of skilled labour because they can't compete with the federal, provincial, or local government, which is at an all-time high. Third, SME owners can least afford to compete for employees under these conditions and are put at a significant economic disadvantage.

I suppose fourth, but he doesn't have this, is that effectively private sector employers, plus employees, through the EI fund effectively contribute to the revenues of the Government of Canada, so you're in effect paying for your labour competition.

Both organizations represent very significant labour groups; presumably within your labour groups are both the public sector and private sector, and I'd be interested in your comments on whether there is anything that governments could or should do, or that labour unions, for that matter, could or should do, with respect to what is a significant distortion, if you will—maybe that's not the right word, but certainly a difference—in labour rates between the public sector and the private sector. I'm interested in your comments.

Mr. Hassan Yussuff: Very briefly, I don't know if I can look at a study and give you a definitive response, but let me make two very important points. One, we don't make any apologies for the job we do in improving the wages of our members, whether it's in the private or the public sector; that's our responsibility, and fundamentally that's what we're doing.

If you look at some sectors of the federal government right now where they're having tremendous challenges retaining people, especially in the skilled trades area, they have to increase their rates, because they are so low that they're losing people to the private sector.

I think there are some ways of explaining some of this. Pay equity is one of them, of course, dealing with how women's work has been valued, and again, as you know, there have been some significant adjustments in the federal sector to address some of this.

But yes, there may be some differences, and there are ways for us to explain these, but to respond to his study and give you a definitive answer, I'm not able. My colleague may also be able to contribute at least some of our knowledge based on the distortion.

Mr. Andrew Jackson: My impression on this, based on the studies I've seen, is that this 25% figure is way out of whack with anything else. It's very difficult to compare public to private sector jobs just because the structure of occupations on both sides is very different. Where studies do show that there is a significant difference is that women in public sector jobs tend to be paid significantly more than women in private sector jobs, and the pay gap between women and men in the public sector is less than in the private sector. That's partially because pay equity applies, and I think it's probably because unions have negotiated to close that pay gap between women and men. When you pose the question, “Who is better off by working in the public sector, as opposed to the private sector?”, it's primarily women who would be lower paid in the private sector. So there's a really important equality element to that whole calculation. You shouldn't look at this as higher means worse. Higher is by paying much more equitably.

● (1205)

Ms. Teresa Healy (Senior Researcher, Canadian Labour Congress): Maybe I could add that in the process of privatization over recent years, what we've seen is a 50% drop in the wages of the same women doing the same job they used to do. As private employers go looking for ways to cut their costs, it ends up being borne on the backs of immigrant women, for the most part. Certainly, if we look in certain sectors, as in hospitals in the health care sector, we see this as being a very serious problem.

Hon. John McKay: You wouldn't dispute his overall argument that the government, on the face of it, pays a 15% premium for its wage?

Mr. Hassan Yussuff: Again, it's difficult for me to give a definite answer. There might be a variance, there's no question about that, but for the large part, at least in the public sector, the government has to deal with its unions in terms of negotiation. In the private sector, not all the sectors may be unionized. It depends on how you're doing a comparison. If you are comparing union jobs to union jobs in the same job category—

Hon. John McKay: He was comparing apples to apples. That was his argument. He didn't make distinctions gender to gender.

Mr. Hassan Yussuff: We take issue with his study, and again I don't want to speak specifically. I haven't read it in detail to really give you a definitive response. There might be some variance.

Mr. Andrew Jackson: The gender difference is hugely important, because if you take all jobs in the public sector, I think about 70% of those jobs are held by women, compared to about 40% of the jobs in the private sector, or even less. You really have to compare women in the public sector to women in the private sector in similar kinds of jobs, and vice versa.

Morley Gunderson did a major study on this for Canadian Policy Research Networks three or four years ago. He's one of Canada's leading labour economists. I wouldn't agree with everything in his study, but it's a much fairer way of looking at the issue than—

Hon. John McKay: Thank you for your response. I was just curious, because that was a pretty significant point he was trying to make with respect to the productivity issue.

My second question is directed to Mr. Patry. Although I don't recollect him actually talking about it, we had a witness yesterday who, in his briefing materials, talked about the significant productivity gap between Ontario and Quebec. I'm trying to remember the numbers, and unfortunately I don't have the study in front of me. My recollection was that the productivity gap between Ontario and Quebec was something in the order of about 16%, part of which he attributed to demographics, i.e., Quebec's population is slightly older than Ontario's population. I'd again just be curious as to your observations as to whether (a) that's true, and (b), if it's true, what the reasons would be for it being true.

[*Translation*]

Mr. Pierre Patry: There is a productivity gap between Quebec and Ontario, but the main reason for this, in our opinion, is that Quebec does not have the same industrial structure as Ontario. We do not have the same employment structure

Moreover, when you look within Quebec itself, or within Canada, and you compare big businesses with small and medium sized businesses, productivity is much higher in the big business than it is in the SME. Accordingly, when you compare Quebec with Ontario, Quebec has a far greater number of small and medium sized businesses and far fewer large businesses than in Ontario. This aspect alone results in a productivity gap between the two provinces. That in our view is the main reason.

When this variable is isolated, we observe greater productivity in big businesses as compared with small and medium sized businesses. So we are not talking about the same labour market, or the same industrial structure. That would explain the productivity gap between Quebec and Ontario.

[*English*]

Hon. John McKay: To dispute his essential point, your argument is that it's the size of the business, and SMEs are inherently, if you will, less productive than larger businesses. Is that a fair summary?

● (1210)

[*Translation*]

Mr. Normand Brouillet: Yes, there is no doubt about that. There have been some studies, including some reports done by the Quebec finance department, which conclude that there are substantial productivity gaps between small and large businesses.

In addition, I would like to add that this gap is tending to close, however. Indeed, over the past 15 years, for example, between 1987 and 2003, the productivity growth was 1.36 per cent per year in Quebec and 1.37 per cent in Ontario. It is clear, however, that there are significant fundamental problems caused by, among other things, our industrial structure.

It is very clear that the investment rate in Quebec is lower than that in Ontario and the rest of Canada. There are also gaps in education levels. So these are two important factors that have an impact on this whole issue of productivity.

There are, however, certain advantages, particularly in the area of research and development, where there is more intense activity in Quebec than in Ontario, and this has been going on now for several years. Government assistance programs for investment are having an impact on this reality.

The Chair: Thank you, Mr. McKay.

[*English*]

Ms. Wasylycia-Leis, and then I have Mr. Penson and then Mr. Bouchard.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson, and thank you to our representatives here today from both the CLC and the CSN.

I have three questions, three areas, I'd like to focus on. First, in the previous two panels we had quite a strong representation from the corporate sector, the business world, that one of the key solutions to improving productivity is tax breaks. There was a huge emphasis on that issue, despite the fact that as we know today, profits are way up for large corporations and investment is down. My question on that front is, do you see the possibility, if we gave another corporate tax break, that the money would actually get invested in those things that would actually increase productivity?

Related to that is an idea that Andrew Sharpe gave us at the last meeting, that if we do anything on this front it should be to give perhaps a tax credit for results. In other words, if a company actually improved technology or dealt with working conditions in a particular workplace, there would be a tax credit for that.

The second issue has to do with.... And I'm glad to see in the CLC paper the significant emphasis on matters like child care and other supports for people in the workplace. It's an issue that has been given short shrift by many, especially in the corporate sector. It's almost treated as a silly, frivolous idea that doesn't belong on the table when it comes to productivity, which just drives me crazy. I don't think you can address productivity without understanding how parents are juggling work and family responsibilities and the stress on them, and what it does in terms of their output in the workplace if they haven't got some assurance that their children are cared for and that their family can run smoothly.

The answer we got from some of the folks this morning, earlier, was that, well, when businesses want to compete for the shortfall in the labour force, they'll start dealing with this and start attracting workers by doing stuff for them. It seems to me that we've got to address this on a much bigger scale. And this is where government investment comes in and this is where the federal budget comes in. I'd like some comments on that.

Finally, there is this issue of spending going through the roof on programs and social policies. I don't know where these numbers are coming from. It's not anything I've seen. I know, in fact, from the last analysis of the last budget that spending on a per capita basis is flat or lower than it was ten years ago. We're looking at 11% I think. Certainly we've seen huge drops in areas pertaining to productivity. Education and training has dropped by 30% in the last 10 or 20 years. To me, education and training is a central feature of productivity, which I'd like you to comment on.

[*Translation*]

In this respect, I know that the union leaders recognize that increases in training are very important for productivity gains. I recall that Quebec is the only province to have a tax for training. I would like to know the importance of that in conjunction with productivity.

I have therefore asked three questions.

● (1215)

[*English*]

Mr. Hassan Yussuff: Let me try to respond, and both my colleagues will add.

As we emphasized right at the start of our brief, we believe there's a productivity challenge for the country, and we have to find some tools to try to address this in a real way to get the results we're looking for. We don't see that a corporate tax cut across the board will really address the issue in a way that is going to deliver what we're looking at. We've emphasized that it's important that companies that want to reinvest and bring in new equipment ought to be recognized for that. Of course, we ought to give them some recognition for that so they can write down those things much faster than they can now.

There was an article in the paper this morning that looked at countries like Sweden, Finland, and others with high corporate taxes. Their productivity is much higher than Canada's, so the argument doesn't really hold water. I think we need to defend that, because there are some real arguments to be made.

There's no question that if you look at women's participation in the economy, around the whole question of child care there's a significant issue in terms of a gap that only addresses women. Without an adequate national child care program that recognizes women's participation.... You have to have a good child care program for them to put their kids in to ensure we're building the next generation of children with a capacity to be successful. It's significant, and I think the modest investment we've committed to child care needs to be built upon in a future budget. We need to expand that and truly bring about some national standards for how we are going provide the child care program across the country.

On social spending, in the 1990s we went through significant cuts to the social transfer across the country. It's had an impact in a number of areas. We're slowly getting back to where we should be, so the argument that somehow we're going over the top in social spending, and specifically in education and training.... One of the big gaps we have is in training. How do we get back into the training field, as a federal government, when we've lost all the levers because we've transferred the powers to the provincial governments and given them the money that went with them? I think we have been arguing significantly that some of our EI money should be used to target training and assist people who need skills so they can get back to meaningful employment in the workplace. We need to keep promoting that.

On the one point you raised about what's going on in Quebec, they didn't just take the transfer payment; they also brought in a law that the employer has to commit 1% of their payroll toward training. Everybody said at the time this was heresy and it wasn't going to work. The reality is the vast majority of employers in Quebec are now using that 1% to do training, in addition to the support government is providing. So I think we need to be smart about how we are going to give some incentives to the employer. But the employer also has a right and an obligation to invest in training. That's not seen as a legitimate investment, to a large extent. Good employers recognize it as a feature of their success, and others kind of figure they can keep stealing workers from others to meet their needs in the workplace.

We have to figure out how we can really ramp up the commitment of the federal government to get back into the training field, and have some tools that hold employers accountable to their investment in this area. I know there are some good employers who are doing a lot of significant investment in training, and I think they should be compensated and rewarded for that. Those who are doing nothing should be penalized.

The Chair: Ms. Healy.

Ms. Teresa Healy: In recent years we have seen a significant amount of public reinvestment. However, I want to point out that from 1946 on, the average amount of program spending was 15.3% of GDP, and even with the recent reinvestments that have been made, that percentage has only gone up to 12%. So it's a much lower figure than has been historically the case in Canada.

One of the problems with this is that the government can present a program such as the response to the dire need for child care spaces in this country and say there's been reinvestment into a child care program, but we have to realize that the problem has not been solved. In fact, the government has put in money for child care, but we want to make sure the program has enough money to actually be sustained over time to meet the needs of the children and families of this country. We think, along with the child care community, that would mean $5 billion each year, not $5 billion in total for the program.

We're concerned that this increase in program spending means it will become a kind of seed money for privatization. So you start off down the road to investments in cities, but if cities and communities are not given a sufficient amount of money, they're going to turn toward public-private partnerships, and we all know that public-private partnerships are more expensive to the public purse than a publicly funded infrastructure. Public-private partnerships will find financing at costs that are much higher than publicly financed institutions.

● (1220)

[*Translation*]

The Chair: Mr. Patry.

Mr. Pierre Patry: There are two aspects. First, of all, there is manpower training which, and this is clear to us, is essential, and increased productivity.

In Quebec, we passed legislation obligating employers to invest 1 per cent in training their manpower, once a certain payroll has been achieved. During those years, we observed an increase in manpower training expenditures. The current government has reduced this employers' obligation, and in the course of one or two years, as a result, companies have invested less in manpower training than they had done previously when the law was more restrictive. So this is a crucial matter.

Similarly, we have seen that, as far as productivity is concerned, the more educated the workforce is, the more productive it will be, explaining the importance of higher education. That is why we have dealt with this question and tied it to transfers, but also with potential increases in productivity for Quebec and for all of Canada.

As for fiscal policy, we mentioned in our brief that there is no direct adequation between dropping taxes, particularly for corporations and investments. There are a lot of other factors that come into play.

Moreover, we must be careful that we do not deprive the State of revenues. We commissioned some studies which very clearly show that in Quebec, there are good social programs, particularly the daycare services, lower tuition costs than elsewhere and health and social services programs which, as is the case everywhere in Canada, provide universal and free access. The effect of all of this is that, when you compare households of a certain income in American cities and in Quebec, you can see that the Quebec household has a better standard of living. This depends primarily on social programs and, accordingly, high taxation. This gap becomes even more readily apparent when you look at modest incomes.

Having high taxation, and particularly high corporate taxation, is an aspect that redistributes wealth, which makes our society more egalitarian and, in the final analysis, has an impact on productivity.

The Chair: Thank you, Mr. Patry.

Mr. Penson.

[*English*]

Mr. Charlie Penson: Thank you, Mr. Chairman. I'd like to welcome the witnesses here today as well.

I wonder, Mr. Patry, if you could just clear up something for me. I see you're with the Confederation of National Trade Unions. Is it a national organization in Canada, or is it in Quebec only?

[*Translation*]

Mr. Pierre Patry: The CNTU has 300,000 members across Canada, but primarily in Quebec. Let's say that the meaning of national in the Confederation of National Trade Unions should be interpreted in the Quebec sense.

[*English*]

Mr. Charlie Penson: Thank you for that clarification. We've had some good discussion here this morning, both earlier and now I think. My view is that there is a recognition that we need to address this productivity issue. The committee has certainly thought so. While there may be some different points of view on how we get there, I think people understand that our standard of living could be better than it is today versus some of our major trading partners.

Mr. Yussuff, I know you and Mr. Jackson said earlier that the capital cost allowance might be the more targeted and better way of getting investment in machinery and equipment that will benefit all Canadians in jobs. I wonder, have you considered the investment tax credit as a vehicle that could also be used? I know it's been raised a few times. We used to have it in Canada. It's a targeted method of encouraging some investment. I just put it to you that when the Canadian dollar is fairly high and a lot of the equipment that would be needed in plants comes from outside the country, it would seem like a good chance for companies to invest. If we can give them that added incentive with an investment tax credit, I'd welcome your input on whether that wouldn't pay dividends in the future.

● (1225)

Mr. Andrew Jackson: I think you're absolutely right in terms of the context. I think with the high dollar right now, a lot of companies out there—particularly smaller companies in manufacturing—are effectively looking at the situation they're in now and saying, do we invest to survive or do we go out of business? Clearly we want them to do that.

I think in terms of the targeted tax measures, I'd be open to the idea of considering an investment tax credit. It's clearly something that if it's defined as new investment in machinery and equipment, you are rewarding people who are going ahead in doing something. So I think it would be something we'd be prepared to look at. I would offer the caution that we've had some rather disastrous experiences with tax credit programs. In the scientific research and development tax credit, there was the tax credit for Cape Breton of which I have vague memories. There needs to be some quite careful sort of administration going through it. It needs to be carefully thought through, in that if that was the case, then I think we'd be supportive of the idea.

There's a big problem with a general tax cut if you take the situation in Canada right now where there are a lot of big investments going ahead in the energy sector, for example. There's no doubt that with the current energy prices those investments are going to be very profitable. All Canadians benefit from those developments through the corporate income tax, or at least that's one important part. We're not going to get any more investment in that sector by dropping the general worry.

Mr. Charlie Penson: I think the point you made earlier, which I agree with, is that you have to make an investment before you get the reward. It seems to me that by an investment tax credit—that's another carrot—it encourages them to make that investment, which means there are factory upgrades or new factories built in Canada.

The sector that I'm in, that I'm familiar with, is agriculture. That tool has been used before to help upgrade equipment, a major capital cost in agriculture. By being able to write off some taxes against making that investment, it prepares people better in the future to be able to stay in business and compete. So I understand you agree with that concept if we could target it.

Mr. Hassan Yussuff: Briefly again, on the debate, one of the things that needs to be recognized is that if we're truly going to try to solve this problem—I'm just saying this to the committee as a whole—I think we have to have a serious conversation with government, business, and workers, meaning unions. We need to get people into a discussion more broadly: can we agree that there are some real problems, and most importantly, how do we go about addressing them? It's to find some consensus, rather than talking about this at budget time and then everything in between waits for the next budget to come along and we talk about it again.

As a nation, it's troubling the way we're dealing with some of the real challenges, not only in the formal economy but also on the industrial side of the economy. We keep losing jobs consistently on the industrial side in terms of being able to maintain and keep manufacturing here, rather than dealing with this as a bigger issue and recognizing that, yes, we have to deal with productivity, but it's a bigger issue than simply looking at how we get the investment. More importantly, how do we maintain some of those jobs here that we're losing to offshore manufacturers, and more importantly, can we maintain an industrial economy, given the high contribution it makes, not just to the communities but across the country?

I'll give you some examples. Whether it's aerospace or auto, we're talking about a huge amount of jobs. Every time you lose one of those jobs, you lose five or six spinoff jobs in the community. I think there needs to be a bigger debate about how we continue to facilitate and maintain those investments in our country and how we build some consensus around the table as to what we will do. Too often we have these discussions at the committee level like this and wait for the budget to come out and see whether or not we solved the problem, and then we wait another year and come back and have the same debate.

● (1230)

Mr. Charlie Penson: Mr. Yussuff, I agree with you. This can't be some sort of academic process that says we need to increase our productivity. There has to be something in it for the average Canadian. What needs to be in it is that I believe we need to increase our standard of living.

There was an argument made here earlier that although we've seen corporate tax cuts in the past, there hasn't been the corresponding investment that we need. The companies haven't reinvested.

So we have to be in a competitive environment. That's one of the factors, because investment can flow anywhere. There are all kinds of others we've heard about today—skills upgrades and all of that—but I think there's a pretty common theme we've heard for quite a while, that we have slipped pretty badly versus our major trading partner.

I see with Sweden now it's up to about $20,000 per person, that we're earning less than the average citizen of Sweden. That has been a major change in the last 25 years in Canada. So I think it should be a real concern.

Mr. Brouillet, did you have something you wanted to add?

The Chair: Monsieur Brouillet.

[*Translation*]

Mr. Normand Brouillet: I would like to go back to your question regarding investment tax credits. We are quite prepared to take a look at this issue, but it is clear that this could not apply in a general and universal sense; this must be part of an industrial strategy or related to a specific economic situation. For example, certain sectors —aeronautics, the aerospace sector and the textile sector—should already be receiving assistance.

There is no single solution to this problem, because when you talk about improving productivity, and eventually the overall standard of living, several other factors must be taken into account. If the cost of money should jump substantially over the next 12 months as some people are already starting to predict, that would have a very significant impact on investment. At the CNTU, we believe that it is important to not focus on the sole issue of productivity when you are looking at ways to improve the general standard of living in Canada or Quebec. There are other factors that influence the general standard of living: employment levels, reducing the unemployment rate, the size of the population. These are all determinants.

The Chair: Thank you.

Mr. Bouchaird.

Mr. Robert Bouchard: Thank you, Mr. Chairman.

My question is for the people from the CNTU. First of all, like my colleague, I would like to congratulate you on your brief. You have portrayed the problem of the fiscal imbalance in Quebec very well and you have clearly expressed your demands that jurisdictions be respected.

You spoke very briefly about employment insurance where, as we know, there is a surplus of $46 billion. Workers and companies have very little involvement in the management of all of these premiums —it could be said that they participate not at all—, and the government has raided the employment insurance fund on many occasions. This money belongs to the workers who contributed to the fund.

Would you be in favour of establishing an independent employment insurance fund and to regional distribution across Canada?

Mr. Pierre Patry: I would have to say that we have given less thought to the idea of a regional distribution of the EI fund. The situation would vary depending on the unemployment rate in each province, a rate which, for example, is undoubtedly higher in the Maritimes than in Alberta. We are talking about a pan-Canadian program here. The issue of regional distribution should be handled with extreme caution.

What we are talking about here is an insurance system; in other words, the employment insurance fund, formerly known as the unemployment insurance fund. This fund has been built up by workers and employers; the federal government no longer makes financial contributions. We believe that the EI fund ought to be a stand-alone fund administered by employers and employees.

In terms of what we would like to see happen straight away, we believe that, in light of the leeway created by the surplus in the EI fund, the government could introduce measures in the next budget to make the EI program more generous. By that, I mean reducing the qualifying period for all insurable benefits to 360 hours, and substantially increasing the replacement rate, which was cut during the successive reforms implemented in the 1990s. Furthermore, the length of time for which a person receives benefits has also been cut over the past few years.

We are convinced that the government has enough leeway to move forward in this direction straight away.

● (1235)

[*English*]

The Chair: Merci.

Mr. Bell.

Mr. Don Bell: Thank you.

I would like to follow up, Mr. Patry, on that question. A stand-alone EI fund is what you're really talking about, then, for Quebec. Would that be based on the revenues coming in from, say, Quebec, and on the expenses going out? You're saying they should be limited to the province, both revenues and expenses?

[*Translation*]

Mr. Pierre Patry: That is not what we said. We even said that one would have to proceed with caution when handling the matter of regional distribution for the very reason that Canada's industrial structure varies from one province to the next. For example, unemployment rates in the Maritimes are far higher than they are in Alberta. A regional distribution of employment insurance fund could increase these inequities. It is for this reason that, as long as Quebec remains part of Canada, we should have a single employment insurance fund. The idea is similar to having an equalization program to reduce the discrepancy between provinces. That is what this type of program is for, and that is what we said.

We do, however, believe that, at the federal level, there ought to be a stand-alone EI fund. Furthermore, we believe that this fund ought to be separate from the government's general accounts, because it is a fund which was set up to help workers who find themselves out of work. Employers and employees are the ones who contribute to the fund, a fact which boosts the argument for a stand-alone fund.

[*English*]

Mr. Don Bell: So it's national in terms of the income and it stands alone provincially in terms of the benefits paid out.

[*Translation*]

Mr. Normand Brouillet: We can have a look at the question of adopting a regional approach to operating the EI fund. However, in response to the questions which have been raised on this matter, I can tell you that we believe that there should be a national stand-alone EI fund administered by employers and employee organizations. Furthermore, as happens in other major government institutions, the administration of the fund ought to be carried out by its board of directors. We have to remember that the fund is currently financed by employers and employees.

[*English*]

Mr. Don Bell: Okay. Thank you.

I don't know if it was Hassan or Teresa who made reference to the child care program.

You were talking about the general moneys. I noticed in your brief that you indicate that the CLC does support the rapid development of a national early learning and child care system that is of high quality and developmental for children, and you support the quad principles that are involved.

Do I understand, then, that you believe there should be, in effect, some conditions—I won't necessarily call them strings, but there should be some conditions—for the federal funding so that certain goals are achieved under the quad principle? If I understand Mr. Patry, whom I'll come to in a second, he basically believes the money should be given without the accountability to the provinces— in this case, Quebec—to spend within their own priorities. I recognize child care is a program where Quebec certainly has an admirable program, but it's a general principle.

Ms. Teresa Healy: As a general principle, one of the things we're concerned about is that the federal government allocates money to programs without really making clear where that money is going. There needs to be some kind of accountability mechanism so that we know where the money is going for health care, for child care, for other programs.

We're very concerned that this money ends up going to support privatization instead of the development and strengthening of public services in Canada. So, yes, we would like to see some accountability in the agreements that are being signed with the provinces. We would like to see conditions attached to those agreements. We would like to see this in health care agreements as well. We would like to know where the health care money is going. We would like to know how much of the money is being used for the development and strengthening of public services. We want it in legislation.

● (1240)

Mr. Don Bell: In effect, then, you're supportive of the concept that there be some targeting of the benefits of federal funds in areas for which it's been a question of the federal government contributing to what have been traditional provincial areas of major responsibility.

Ms. Teresa Healy: These are always political questions, questions of negotiation. We know that the federal government is very concerned about questions of accountability, and we think its concern over accountability should be in these areas as well to make sure that the moneys go toward the support of public services.

Mr. Hassan Yussuff: Very briefly, the point you raised about Quebec needs to be acknowledged. Quebec had developed a program long before there was federal funding. I think we need to recognize that reality. I think they should be compensated. At the same time, there are some standards. I think we should simply say that there is a commitment from the federal government that you have to at least agree to some basic principles.

But they should be compensated, which the Quebec system already does right now.

[*Translation*]

The Chair: Mr. Patry.

Mr. Pierre Patry: We are trying to strike a balance between the federal government exercising its spending power and the constitutionally assigned areas of provincial jurisdiction. We cannot prevent the federal government from spending in a given area. However, when it is a question of spending in areas of provincial jurisdiction, it is our belief that Quebec ought to have the right to opt out with full compensation.

Let us take the example of child care services. Quebec is clearly ahead of the rest of Canada on this front. Quebec introduced a universal daycare program in 1997, and since then hundreds of thousands of children have been attending daycare centres which, thanks to the program, offer daycare services at a significantly reduced cost.

Quebec took action on this front, and should therefore receive unconditional and fulsome financial compensation.

Were this to happen, the government of Quebec would ensure accountability, as it is an area of Quebec jurisdiction and a service for Quebec constituents. That is how we achieve accountability. This is a matter of provincial jurisdiction, and does not therefore require accountability to the federal government.

Mr. Normand Brouillet: Allow me to add something very briefly. Around 85 to 90 per cent of the Quebec daycare services network is comprised of what we call early childhood centres. These are basically not for profit organizations which are administered by the end-users, in other words the parents. As opposed to being a primarily private sector network, we are talking about a collective, community system. It has worked this way since its inception, 25 years ago, even at the embryonic stages, before the major investments of the late 1990s.

I think that should give you a fairly clear overview of the system. It continues to develop and change, and is still the subject of debate in Quebec.

The Chair: I would like to thank individual witnesses as well as groups of witnesses.

[*English*]

Thank you for appearing. Thank you for taking time out of your day. It was interesting. Merci.

The meeting is adjourned.

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