House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 097 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Monday, October 17, 2005

Chair

Mr. Massimo Pacetti

Standing Committee on Finance

Monday, October 17, 2005

● (1610)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Okay, you're the last panel before we end the day, so it's either thank you, or good luck. I'm not sure which one; we'll decide at the end of the session.

Anyway, we're here pursuant to Standing Order 83(1) for the pre-budget consultations for 2005. We'll allow you seven or eight minutes for your opening statements to go over your briefs. If you could respect the time allotted to you, I would appreciate it, because then the members are going to want to ask questions.

I have a list here of the groups, so we'll go to the B.C. Road Builders and Heavy Construction Association, Mr. Davidson.

Thank you.

Mr. Jack Davidson (President, B.C. Road Builders and Heavy Construction Association): Thank you.

The B.C. Road Builders and Heavy Construction Association was founded in 1966. It's comprised of the hard-driven, competitive free spirits who built the province and Canada and who continue to make it possible for goods and services and tourists to move. Ladies and gentlemen, thank you very much for giving us this opportunity to give you our views.

We think you will agree that in British Columbia and indeed in all of Canada the strength of our economy has always been tied to good transportation. I think you will agree that to provide health care, education, and the social benefits that Canada is envied for, we must have a strong and growing economy.

Here's what the B.C. Road Builders think.

The federal-provincial gas tax agreement will be good for Canada. Canada cannot be passive in an increasingly competitive world trade environment. Investing in Canada's future by investing in local infrastructure supports business risk capital investment in new ventures and investment in research and innovation and will help attract, support, and retain the human capital that we need today. However, the agreement has placed restrictions on what our municipalities can spend the money on. The restrictions prevent the building and upgrading of roads and bridges, preventing municipalities from investing the funds where they will give the greatest value. Spending the funds on projects that will make commerce in their communities more competitive should be the priority, not prevented.

The Road Builders recommend that the federal-provincial gas tax agreement with British Columbia be amended to allow municipalities to spend the money and invest it in the kinds of core municipal infrastructure that meets their needs. Core municipal infrastructure must include roads and bridges.

Also, the agreement signed has no assurances to the public that their returned fuel tax money will be spent in an efficient and fair manner. The B.C. Road Builders and Heavy Construction Association believes that government and taxpayers receive the best value for their tax dollars when the work is publicly tendered in an open, transparent, and non-preferential manner. The Canadian government's own experience with untendered work has, for example, in the case of Gomery and HRSDC and others, cost Canadian taxpayers millions, if not billions, of dollars.

Our second recommendation is for the federal-provincial gas tax agreement to be amended so as to require all funded projects to be publicly tendered in an open, transparent, non-preferential manner.

The B.C. Road Builders and Heavy Construction Association applauds the government's 2005 budget commitment to renew and extend into the future existing infrastructure programs as they expire. These strategic investment programs strengthen the transportation infrastructure that links Canada's provinces and links us to continental and global markets. Transportation infrastructure is the key to Canada's future. Transportation and highway infrastructure are essential components of a strong economy.

Regional productivity depends heavily if not entirely on effective local transportation systems. One in three jobs is dependent on trade. Trade corridors in B.C. and Canada are inefficient because of excessive levels of traffic congestion. The poor condition of the Trans-Canada Highway is driving container traffic and business south to use improved U.S. highways and ports.

Tourism opportunities will never maximize as long as our most supernatural assets are hard to reach. Residents and visitors alike need safe, comfortable, and affordable transportation systems to access Canada's natural splendour.

The strategic investment funds, including the strategic infrastructure fund, the border infrastructure fund, the municipal rural infrastructure fund, and importantly, the strategic highway infrastructure fund, have helped B.C. invest in improving our competitive links to our North American markets. There is much more that can be done, and our recommendation is that the federal government renew and extend into the future all of these strategic funding programs, including the SHIP.

● (1615)

My final point is that Canada must support and exploit the advantages and global competitiveness of all its regions. British Columbia is Canada's gateway to India and China and all of Asia. Pacific trade is growing faster than trade in any other area of the country and has the potential to someday outstrip trade using our Atlantic and St. Lawrence ports. Lack of capacity in our western ports, highways, and railways is already starting to choke off this important trade, driving it south to the U.S. That's why British Columbia's gateway projects are so important to all of Canada, not just B.C.

The gateway projects include a number of highways and bridges that will help commercial vehicles bypass the very congested commuter routes and give container trucks effective access directly to the ports. Without federal help these projects won't be built, and transportation gridlock will defeat any geographic advantage Canada may have in trading with Asia.

Our final recommendation is that the federal government take every advantage of increasing trade opportunities with India and China by investing in expanding and opening up Canada's Pacific gateway. Please consider that before we can have the health care, education, environmental, and social programs Canadians need and deserve, we must first have in place a strong economy. To build such an economy we need to continue to expand our global trade opportunities, and to be competitive we need a viable transportation system. Funds spent on transportation will return dividends in economic activity at a ratio of five to one while creating jobs and more tax revenues. Efficient highways are the road to prosperity.

Thank you for your kind attention.

The Chair: Thank you.

From the British Columbia Real Estate Association, Mr. Barclay.

● (1620)

Mr. Dave Barclay (President, British Columbia Real Estate Association): Thank you, Mr. Chairman and distinguished members of the committee, for this opportunity to submit the British Columbia Real Estate Association's 2006 budget recommendations. My name is Dave Barclay. I'm the president of BCREA and a full-time realtor based in Smithers, B.C.

BCREA represents the twelve real estate boards across B.C. and their nearly 15,000 member realtors. We are also a member of the Canadian Real Estate Association. BCREA is committed to improving the quality of life in B.C. communities by promoting economic vitality, providing housing opportunities, preserving our environment, protecting property owners, and building better communities across the province. On behalf of the real estate profession in B.C., I commend the Government of Canada for recent actions to help improve the quality of life across B.C., including assistance in helping remediate the mountain pine beetle on public land and the new deal for cities, which includes sharing of federal gasoline tax revenues and funding for infrastructure.

The real estate sector continues to be a pillar of both our provincial and national economies. More people bought homes last year in B.C. than in any other year on record. More than 96,300 homes sold on the multiple listing service last year, eclipsing the previous record set in 1992. Consumers invested a record $27.8 billion in residential real estate across B.C. in 2004, shattering the 2003 record by more $3.6 billion, or 15%. The economic planning group found that homes sales generated approximately $9.4 billion in related spending and created nearly 78,000 jobs since 2001. It estimates that every home sold on MLS generates at least $28,000 in related spending.

BCREA commends the Government of Canada for taking action to address the worst natural disaster ever to hit B.C. forests: the mountain pine beetle infestation. Remediation of this issue presents a huge challenge. Millions of dollars have been designated to help attack and remediate beetle-infested municipal properties and crown land, creatively market affected wood, and help impacted communities plan for their future. Unfortunately, measures to address the infestation on private property have not been introduced. It concerns us that private property owners are on the outside of this problem looking in. The direction and spread of the beetle infestation is impossible to predict. Pine beetle outbreaks develop regardless of property lines and are developing in residential backyards and subdivisions in the same way as they strike in wilderness areas and on crown land.

The Insurance Bureau of Canada advises that property owners are obliged to do their best to mitigate hazardous situations on their property. This includes cutting and removal of the affected trees. Whereas insurance providers may consider beetle-damaged trees when they underwrite insurance policies, private property owners are on the hook for the full cost to cut and safely dispose of affected trees and the related debris. This cost represents a hardship for property owners.

For example, one property owner in Prince George received an estimate from a private operator for cutting of four infested trees. The initial cost assessment was beyond the owner's ability to pay. However, he collaborated with several neighbours who also required cutting service and was able to achieve some economies of scale by contracting a larger job. It cost this one owner $460 for the cutting of four trees. Unfortunately, the cost to take the trees away and properly dispose of them was not included in the cost. The fallen trees and the still-living beetles that inhabit them remain on the owner's property. The infestation has not been fully addressed.

The provincial government estimates that the infestation will seriously impact thousands of families. The full cost to remediate the infestation is exceptionally large. Some predict it to exceed $1 billion. Therefore, we recommend that the Government of Canada first work with other levels of government and private sector organizations to determine private property owners' needs, and designate a portion of all financial resources designed to mitigate the effects of the infestation to remediate infested trees on their properties; and second, act on the recommendation found in resolution A5, “Pine Beetle Infestation”, which was endorsed by the Union of British Columbia Municipalities at its 2005 convention:

> ...declare the Pine Beetle infestation...a natural disaster and provide the needed financial assistance to municipalities...and...property owners to help eliminate the hazards associated with the Pine Beetle infestation.

● (1625)

Over the last year and a half, realtors have repeated their warnings to the Prime Minister, the Minister of Finance, and all members of Parliament regarding Finance Canada's proposed changes to the federal Income Tax Act that would limit the deductibility of interest and other expenses. In short, the proposals would move the current test of deductibility, which says owners must have a “possibility” of profit, to a “probability” of profit, which is a more exacting standard. As well, profit would be redefined to exclude potential capital gains. Therefore, an investor who expected to realize a profit on the sale of property, but not on a regular income stream such as rental revenues, would be unable to deduct losses from other income sources. Clearly, this would have a severely negative impact on small investors who choose to invest in real estate.

A few months ago, the federal Minister of Finance acknowledged opposition to the proposed changes and asked federal government staff to redraft the proposal. As expected, a new proposal is emerging. Under the new proposal, which has yet to be formally tabled by the federal government staff, deductibility of interest and expenses will be limited to situations where it can be shown they were incurred for the purpose of earning net income from a business or property. In this context, deductibility will depend on whether the taxpayer's purpose was to have a positive income stream from the particular investment, and it will be made clear that an intention to receive a capital gain will no longer count in the determination.

The impact of this revised proposal will have the same impact as the original. It will devastate real estate investments made in good faith and depress real estate markets in B.C. Therefore, we recommend that the Government of Canada urgently recommend to the Minister of Finance that the proposed amendments to the Income Tax Act not be tabled and that amendments that reflect the minister's directions to staff be drafted.

The home buyers' plan enables individuals to borrow up to $20,000 from their RRSP to purchase a first home. As you know, this withdrawal limit was established when the plan was created in 1992. Since that time, home prices have escalated across the country, and dramatically in B.C. Unfortunately, the withdrawal limit has not been adjusted to reflect the increase or the rate of inflation. As a result, the plan accounts for a shrinking portion of the down payment required to purchase a home. It forces plan users to finance larger mortgages, causing their debt burden to rise even while interest rates remain low.

In its submission to this committee, CREA demonstrated that the maximum loan available under the plan has been losing ground as a percentage of rising average sale home prices for more than a decade. The average home price rose 51% nationally between 1992 and 2004. During the same period, the consumer price index climbed by 25%. If the maximum loan available under the plan were adjusted to account for inflation, it would stand at $25,000 today. Therefore, we recommend that the Government of Canada update the home buyers' plan by raising the maximum loan available to $25,000 and adjust the amount every five years to account for consumer price inflation.

With this recommendation, I conclude my comments. Thank you for the opportunity to bring our recommendations forward.

The Chair: Thank you, Mr. Barclay.

From the Business Council of British Columbia, Mr. Peacock.

Mr. Ken Peacock (Senior Policy Analyst, Business Council of British Columbia): Thank you.

Good afternoon. My name is Ken Peacock, and I am a senior economist and policy analyst with the Business Council of British Columbia. My colleague Jock Finlayson unfortunately is unable to be here today due to commitments related to the current teachers' labour dispute going on in the province.

We are pleased to share with the Standing Committee on Finance these brief comments on the upcoming federal budget. A more detailed written submission will be provided to the committee shortly.

By way of background, the Business Council is an association established in 1966 representing more than 200 large and medium-sized enterprises engaged in business in British Columbia. Our members are drawn from all major sectors of the provincial economy and, together, are responsible for one quarter of all jobs in the province.

Turning briefly to the economic setting, after growing by more than 5% last year, the world's economy has lost some momentum as higher interest rates, rising energy costs, and significant structural imbalances are beginning to take their toll on consumer spending and business confidence. The United States economy is also downshifting after a strong year in 2004. On the other hand, economic activity in China and some other Asian countries remains brisk.

As a mid-sized, trade-dependent economy, Canada cannot escape the effects of external forces. Less robust global and U.S. economic conditions mean our own economy will enjoy only modest growth in 2005-06, likely in the range of 2.8% to 3%, on the heels of a similarly mediocre year in 2004. However, with an industrial structure tilted more toward natural resource industries, compared to most other industrial nations Canada is reaping some benefits from higher prices of energy, metals, and other raw materials. This is especially true in western Canada and Newfoundland and Labrador, where growth is stronger than in other provinces or the country as a whole.

An important factor influencing Canada's economic outlook is the unprecedented 30%-plus rise in the value of our currency vis-à-vis the U.S. dollar since late 2002. Exports of goods and services to the U.S. add up to more than one-third of Canadian GDP, so it is not surprising at all that the soaring loonie has dampened output and employment in a number of sectors. Among other things, it has shaved profit margins and hurt competitiveness in a host of export-oriented industries, including several with substantial presence in British Columbia, notably pulp and paper, tourism, film production, and various segments of secondary manufacturing.

In setting monetary policy, the Bank of Canada needs to give appropriate consideration to the impact of the higher dollar on overall monetary conditions, Canada's international competitiveness, and the nation's growth prospects going forward.

The federal government has made important strides in addressing serious fiscal challenges it inherited back in 1993. Driven by several years of consecutive surplus budgets, there has been a steady decline in the ratio of federal debt to GDP from almost 70% back in 1995 to 38% today. Finance Minister Goodale has set a goal to further reduce the debt-to-GDP ratio to 25% or lower by the next decade. The Business Council sees this as a sound policy objective, but it should be possible to get to the 25% mark sooner as long as our economy continues to grow and the government keeps the balanced budget or surplus in every year.

While the government has done much to put its fiscal house in order, we are concerned about the rapid run-up in federal spending. Federal program spending has soared from $109 billion in the 1999-2000 fiscal year to a projected $161 billion this year, with an especially dramatic rise of 15% recorded in 2004-05. Overall this amounts to a 48% jump in spending in the space of six short years. We recognize, of course, that some of this took the form of higher transfers to the provinces for health care and other purposes; nonetheless, the spending trajectory established since 1999 is unsustainable.

Looking ahead, the government needs to commit to a more measured pace of expenditure growth. It should also continue to pursue initiatives to reallocate spending from poorly performing programs to areas where wise public investments can help to improve the outlook for long-term growth, notably research, post-secondary education, and infrastructure.

There has been a reduction in personal and business income taxes, and some improvement in the competitiveness of the Canadian tax structure over the past few years. The Business Council applauds these changes. However, based on OECD statistics, the aggregate tax gap with the United States, revenues collected by all levels of government measured as a share of GDP, remains near a record high. Although it is neither necessary nor desirable for Canada to adopt American tax rates or tax policies across the board, Canada's tax system must be reasonably competitive with that of the United States, given the large and ever-growing flows of goods, services, and capital between the two countries and the tendency of many businesses to treat North America as a single economic space in making investment decisions.

● (1630)

Canada should seek to establish a clear competitive advantage vis-à-vis the U.S. in at least some features of a tax structure and mix or recognize that the total tax burden will remain higher here, because Canadians have made a social choice to provide more services than the United States through the public sector.

In this regard, while it is true that average statutory, corporate, and small business tax rates in Canada are now below those in the U.S., effective tax rates on capital investments by medium-sized and large enterprises are significantly higher, and in fact are among the highest in the world. Unlike statutory tax rates, effective tax rates take into account capital taxes, sales taxes on business inputs, capital cost allowances, and a host of other provisions that affect the after-tax returns on investment projects. Effective tax rates significantly influence firms' capital investment and location decisions.

For the 2006 budget, we believe the federal government should give priority to accelerating the pace of corporate income and capital tax reductions in order to mitigate the existing competitive disadvantage vis-à-vis the other OECD countries in the effective tax rate on new capital investments. Moving in this direction is particularly important given the evidence collected by the Conference Board and the C.D. Howe Institute in the past year or so documenting that Canada is attracting a dwindling share of total inward foreign direct investment in North America.

We also recommend that, beginning in 2006, with the 2006 budget and over the following three years, the federal government make additional tax policy changes in several areas. Lower the current punitive marginal tax rates imposed on modest-income families, particularly one-earner families with incomes in the range of $25,000 to $40,000 and with children. For many families in this position, the clawing back of various public benefits—for example, child tax credits and the GST credit—as incomes rise causes alarmingly high marginal tax rates, discourages work effort and skill upgrading, and makes it difficult to improve living standards.

Continue to gradually expand contribution limits to registered retirement savings and pension plans.

Also, increase the floor for the top federal income tax bracket to $150,000. At present, the top marginal tax rate applies at a much lower level—about $115,000—than it does in the U.S., which results in a much heavier tax burden on most skilled and mobile knowledge workers.

Review capital cost allowances to ensure that they are properly aligned with the actual economic life of relevant assets.

Finally, improve shareholder dividend taxation so that investors choosing to put their capital...are neutral among different forms of business organizations. In practice, this means better integrating the personal and corporate tax systems by changing the current dividend gross-up dividend tax credit rules to reduce current double taxation of dividends issues by companies subject to the general corporate income tax rate. In our view, this is the only sensible way to address issues surrounding the rapid development of the income trust market identified in the Department of Finance's recent consultation paper.

Our final comment concerns productivity. This is an area where Canada's economic record continues to disappoint, particularly when measured against the United States. Today Canada's standard of living, as approximated by real GDP per person, is about 20% below that in the United States. This amounts to a per capita income differential of more than $9,000 per year.

The biggest contributor to this gap is Canada's subpar productivity growth. Labour productivity in the Canadian business sector has essentially stagnated over the past two years, while in the U.S. business sector, output per worker has advanced an impressive 8%. In fact, for many years now, productivity growth has been weaker in Canada than south of the border. If this trend continues, Canada will fall progressively further behind the United States in productivity levels.

The Business Council views the widening cross-border productivity gap and its implications for future living standards as the central public policy challenge facing Canadian governments today.

Apart from the tax policy reforms identified above, a multi-year federal policy agenda to boost Canada's productivity should include several elements. The first is a high-level commitment to more efficient regulation and much greater federal-provincial regulatory coordination, based on the recommendations and philosophy outlined in the 2004 report of the External Advisory Committee on Smart Regulation.

Second is a stepped-up pace of investment in key transportation infrastructure, especially highways, ports, and the Canada-U.S. border, in order to improve connectivity with external markets. In this regard we acknowledge and applaud the federal government's stated commitment to work with British Columbia to develop and implement a forward-looking Pacific gateway strategy.

Third is reforms to immigration policy to put a higher priority on recruiting immigrants with the skills Canada needs and to speed up the processing of applicants. In addition, recent government initiatives to permit more foreign students graduating from Canadian post-secondary institutions to work in the country post-graduation should be expanded.

● (1635)

Fourth is continued federal investment in post-secondary education, research, commercialization, and infrastructure development.

The Business Council appreciates the opportunity to share our views with the House of Commons finance committee.

Thank you.

The Chair: Thank you, Mr. Peacock.

Mr. Laleggia, from the Canadian Finance and Leasing Association.

Mr. Joe Laleggia (Chairman, Canadian Finance and Leasing Association): Thank you, Mr. Chairman.

My name is Joe Laleggia. I'm chairman of the Canadian Finance and Leasing Association. I'm here with the president of the association, Mr. David Powell. We appreciate the opportunity to appear before you today representing the asset-based financing, equipment, and vehicle leasing industry.

Like all of you, I'm a proud Canadian. I grew up in Saint-Léonard. Later I moved to Vancouver, then to Toronto, and six years ago, back to Vancouver—quite the road trip.

In my day job, I'm president of Irwin Commercial Finance. From our headquarters here in Vancouver we provide equipment financing across North America, with 188 people in 28 different locations in both Canada and the United States.

We'd like to commend the committee on its choice of theme, enhancing productivity and prosperity. We believe this is a central economic challenge for Canadians. We've entitled our submission to you “Reinforcing the foundations for growth and prosperity”. For us, the formula is clear: more investment in people and assets leads to economic growth, and economic growth raises living standards for all Canadians.

First, let me briefly describe our industry and the role it plays in Canada's prosperity agenda. At the core of what we do is asset-based financing. After the banks and credit unions, our members are the largest providers of debt financing to Canadian businesses and consumers. Our focus is financing specific assets, essentially equipment and vehicles. Our industry has over $100 billion of financing in place, which has doubled in the last seven years. The security of our customers' lease obligations is the asset that our members finance. This allows the customer to qualify on the cashflows generated by the equipment, rather than the net worth formula typically applied by traditional lenders.

Our message is this. At the very nature of what we target is productive assets. The growth in the leasing industry is not tax driven, but an efficiency-driven phenomenon. So how does our industry specifically fit into the national prosperity agenda? How about the fact that our industry contributed 8% of the total increase in living standards of Canadians over a researched 10-year period?

Last year we asked a respected firm of independent economists that is regularly asked by the Department of Finance to carry out complex economic research to conduct a groundbreaking study on the contribution of our industry to the Canadian economy. The first-of-its-kind research demonstrated that our industry has a significant impact on raising the standard of living of all Canadians.

Specifically, the study found that “The rise in asset-based financing from 1992 to 2002 improved living standards in Canada by 2.3% (or about 8% of the 26.8% increase in Canada’s living standards over that period).” That's 8% of the total.

We asked two noted economists to review the research: Dr. Jack Mintz, president of the C.D. Howe Institute; and Jim Stanford, chief economist with the Canadian Auto Workers union. Both reviewed the research and supported its conclusions. Dr. Mintz said, “The industry contributes a disproportionate share to higher living standards”.

So we're here today because we believe our industry is an important part of Canada's productivity, economic growth, and national prosperity. We'd like to share with you three specific messages on the prosperity agenda.

Message one is that the public and private sectors must concentrate their efforts on growing the economy. The demographics are clear. Canada is getting older. Over the next decades there will be fewer people in the workforce. How can fewer people generate the wealth necessary to support more people and services? We believe the key to raising the standard of living of Canadians is to improve productivity. We recommend a strategy for economic growth founded on a highly educated workforce, efficient public infrastructure, and productive capital assets located in Canada. A highly educated workforce is mobile; it will go where the jobs are. To keep the jobs here, we need efficient infrastructure in capital assets here in Canada.

Our second message is that investment in equipment is key to greater efficiency and enhanced productivity in today's more competitive marketplace. TD Economics published an interesting study in June with the title *Who's to Blame for Canada's Productivity Woes?* It noted that the appreciation of the Canadian dollar has forced some sectors of the Canadian economy, notably those that depend on export markets, to invest more heavily in machinery and equipment to raise their productivity. The study reported that productivity in the manufacturing sector has seen a cumulative increase of nearly 11% since 2001. New equipment has allowed manufacturers to boost their real output by an average annualized rate of about 2%, while at the same time reducing factory hours by 1.3%.

● (1640)

TD Economics reports that “While trade-oriented sectors of Canada’s economy have been forced to work smarter because of a higher Canadian dollar, the data reveals that domestically focused sectors have not”.

Our third message is that Canada is not encouraging investment in machinery and equipment to the degree that is needed. Investment is key. More investment leads to economic growth, which raises the living standards of all Canadians. Tax policy is critical to capital investment decisions. Policies should be designed to encourage capital investment, not inhibit it.

This point takes me to some of our specific recommendations on what government can do. Specifically we have three main points. First, accelerate the abolition of capital taxes. Capital taxes is a uniquely Canadian phenomenon at both the federal and provincial levels, taxing businesses more when they invest in capital assets, totally contradicting the imperatives of an enhanced productivity policy. Capital taxes inhibit capital investment.

Secondly, stop undermining our industry by unfairly taking its assets. The so-called super-priority rules under the Income Tax Act and the recent proposals to amend the bankruptcy laws are cases in point. Ignoring the larger consequences, the federal government is, in our view, arbitrarily legislating to itself the right to seize our industry's core assets in the hands of customers. It's not normal to take someone's property to pay another person's debts. Our industry is extremely vulnerable to tax policies that undermine the legal fundamentals that allow it to operate. These types of actions will inevitably cause our industry to cut back its expansion as a leading alternative provider of capital and credit to the Canadian economy.

And thirdly, focus tax policies on investments in productive assets. We again urge the government to advance a strategy for economic growth founded on a highly educated workforce, efficient public infrastructure, and productive capital assets located in Canada. A highly educated workforce is mobile. It will go where the jobs are. To keep the jobs here, we need the efficient infrastructure and capital assets here in Canada. We can't afford to fail. Our industry has demonstrated its ability to contribute to the nation's prosperity by facilitating the acquisition of productive assets by Canadian businesses and consumers. We see ourselves as productivity partners with our customers, enabling them and their employees to work smarter.

Thank you for the opportunity of addressing you today.

● (1645)

The Chair: Thank you.

The next group is Fuel Cells Canada, Mr. Curtis.

Mr. Christopher Curtis (Vice-President, Fuel Cells Canada): Thank you.

I'd like to thank the members for their patience during what is obviously a long day for them. I appreciate your time and the ability for us to present what we think is a really positive story from a leading new global industry here in Canada.

Hydrogen and fuel cell technologies are well positioned to enable a clean and sustainable global energy future. In Canada we have globally recognized leadership in this sector. We provide a clear path for the government to pursue its environmental and economic initiatives by providing for greenhouse gas and climate change mitigation, pollution reduction, energy security, energy reliability, improved energy efficiency, and probably most of all, innovation-based job creation.

Hydrogen and fuel cell technologies offer significant benefits over incumbent power technologies. They can offer stand-alone solutions or provide integrated solutions that minimize the environmental impact of other existing technologies, including the internal combustion engine and batteries. They complement emerging renewable technologies, such as wind and solar, by providing a means to store power generated during off-peak periods and reconstituting it as electricity when these inherently intermittent sources are not available. In addition, this power can be used to power hydrogen vehicles, essentially providing the ultimate sustainable mobility solution.

The Canadian hydrogen and fuel cell industry offers significant benefits to Canadians. In 2003, while still a small industry, it employed 2,700 people. Particularly, it's an industry that is intensive in knowledge and research and in innovation. Expenditures in 2003 were $290 million in research and innovation. This compares well to the total energy industry innovation of approximately $670 million. Over the last five years, the industry has continued to invest $100,000 per employee per year in innovation. We believe this is in line to continue into the future.

In 2003 Canadian stakeholders in the industry had parts or systems in over 262 demonstration activities around the world, including 50% of the transportation activities. According to the 2004 worldwide fuel cell industry survey by PricewaterhouseCoopers, Canada has 32% of the world's fuel cell company headquarters, 21% of the world's fuel cell manufacturing and R and D activities, and 37% of the world's fuel cell employees. We are recognized internationally as significant leaders in this technology.

In 2003 the government announced an investment of over $215 million in hydrogen and fuel cell activities. That's government and private sector activities. Fuel Cells Canada and its members were appreciative of this leadership and the commitment to ensure that value for money is delivered to a variety of these integrated projects.

However, further investments are required if we are to maintain our leadership and overcome the challenges that remain. These challenges to the industry include a reductions in product costs, improvements in product durability and reliability, and competition from aggressive policies and programs in the United States, Japan, and Europe that support technology development and market access for their own fuel cell and hydrogen producers. Immediate action is required if Canada is to face these challenges and maintain our world leadership.

Fuel Cells Canada and its members recommend a number of immediate and long-term activities that should be developed through a national strategy in the next federal budget. Intermediate activities are research and development solicitation to accelerate technology developments and breakthroughs; support for hydrogen and fuel cells initiatives to link with the sustainability theme of the 2010 Olympics, including a fuel cell bus commercialization project; and policy changes, including support for revision of stacking rules and the implementation of flow-through shares.

● (1650)

Long-term development and funding of a 10-year national strategy is requested in the next federal budget. This would address the long-term issues faced by the industry and the challenges with government programming. It would also ensure long-term competitiveness with other jurisdictions. As you may know, the United States provided just over $5 billion this year for its hydrogen and fuel cell industry, and those are U.S. dollars over a five-year period.

In line with the continued investment and spending by our industry, a national strategy should immediately provide research and development support equal to industry commitments of $130 million per year; provide support for technology demonstration activities equal to industry commitments of $50 million per year over the next 10 years; invest $60 million per year for the purchase of hydrogen and fuel cell products that can replace products utilized in incumbent technologies in the government sector; invest $30 million a year to support not-for-profit organizations, such as utilities, hospitals, school boards and others, with the incremental purchasing cost of hydrogen and fuel cell products over the cost of incumbent technologies; and provide tax credits equal to $30 million per year for the purchase of hydrogen and fuel cell products. In addition, we request the streamlining of present government programs—at the present time there are 32 programs, delivered by 13 agencies—available for fuel cell and private sector hydrogen providers; improvements to the scientific research and experimental development taxes, which many other sectors are requesting; and flow-through share deductions for Canadian renewable and conservation expenses.

Implementing such a national policy, we believe, will lead to Canada meeting its broader policy objectives, including enhanced innovation capacity, reduced pollution and greenhouse gas emissions and thus reduced health care costs, continued leadership in sustainable development and climate change solutions, enhanced energy efficiency and energy diversity, increased knowledge-based employment, and significant growth in value-added exports.

Thank you.

The Chair: Thank you, Mr. Curtis.

Next is the Recreation Vehicle Dealers Association, and Mrs. Hamm.

Mrs. Eleonore Hamm (Executive Vice-President, Recreational Vehicle Dealers Association): Good afternoon, everyone. I'd like to thank you for giving the Recreation Vehicle Dealers Association of Canada the opportunity to present to you today. My name is Eleonore Hamm, and I'm the executive vice-president at the RVDA of Canada.

The committee has asked us to contribute our ideas on how the government can build a more prosperous Canada. For us, this answer is quite simple: invest in those areas that bring the highest return on investment. We see that as investing in tourism.

In 2004, tourism spending by business and leisure travellers in Canada was more than $57.5 billion, according to Statistics Canada. The same report goes on to say that of this amount, $17.4 billion—approximately one-third—went directly to government. Last year, the tourism industry employed over 615,000 people directly, and over a million more depended on the sector indirectly for their livelihoods.

Welcoming RVers is quickly becoming a cornerstone of this country's tourism industry. We are seeing more and more tourists explore the natural beauty of Canada in this invigorating way. These are some of the facts that frame our presentation. Simply put, we urge the committee to recommend to the government that investments in tourism, especially RV-related tourism, will result in a more prosperous Canada.

We would like to applaud the government for its investment in Parks Canada, as announced in budget 2005. We are currently working with Parks Canada to make sure some of these funds go towards increasing the number of RV-friendly campsites and their own infrastructure. However, we urge this committee to do more to expand tourism.

On this point, we support the ideas put forth by the Tourism Industry Association of Canada. Like many of our colleagues in the tourism industry, we'd like to see further funding in the Canadian Tourism Commission that would allow it to market Canada successfully both internationally and domestically.

Federal government funding for marketing in Canada was reduced to $65 million in 2004, and further reductions are planned. Limited funding has forced the CTC to be selective in targeting its markets, reducing the opportunity to reach other potentially valuable markets.

The Canadian tourism industry, as one, seeks to see an increase of federal funding for the CTC from $80 million to $180 million in order to allow the commission to protect and increase Canada's global tourism competitiveness. The incremental funds would be allocated to raise the awareness of Canada as a travel destination, generating significant return on investment. This move can lead to only good things for Canada's economy. It could create an incremental tourism demand of up to $4.2 billion. Up to 45,000 new direct jobs will be created in the tourism industry, in communities both large and small. Incremental federal tax revenues could go up to $620 million.

Funding would be used for marketing, research, programming, and administration. As an association, we're very excited about this possibility because it also means the CTC will be able to diversify its marketing strategy to include a marketing strategy focused specifically on RVing.

To sum up this portion of our presentation, the RVDA urges you to recommend further investments in the tourism industry as a means of making Canada more prosperous and a truly international destination.

We also feel the government must enhance the tourist's Canadian experience by investing in the highway system connecting the communities across the country. This is important for everyone, and especially for RVers. Under ideal conditions, highways have a design life of about 25 years. The Trans-Canada Highway, for one, was completed in 1970, so it's time to update that highway.

Federal reports indicate 38% of Canada's national highway system is substandard, requiring a variety of repairs and upgrades. The estimated cost of correcting current deficiencies is approximately $22.2 billion.

Finally, we're asking you to look at one more measure that would really enhance the RV industry in particular. The GST, as presently legislated, does not require tax to be levied on the private sale of used goods, including automobiles and RVs. This has resulted in a serious market imbalance between legitimate RV dealers, who must apply the GST to the sale of used RVs, and individuals who sell used RVs privately or in the underground economy, who are not required to apply the GST.

As a result of this unbalanced approach to taxing used vehicles, there is a widespread consumer bias against buying used RVs from legitimate, registered dealerships. To make matters worse, the federal government removed the notional input tax credit in 1996. The notional input tax credit had acted as a counterbalance, allowing dealers to compete with private sellers of RVs. By not applying the GST to the sale of used vehicles, the government, it is estimated, is forgoing over $1 billion in tax revenue per year.

● (1655)

To minimize a retailer's competitive disadvantage and to restore some level of tax fairness in provinces where the GST has not been replaced by the HST, the RVDA of Canada recommends the following. First, apply the GST to all used RV sales, whether through a dealership or a private sale. This can be accomplished via harmonization of provincial sales tax, or agreements with provinces on joint taxation at provincial vehicle registration outlets. Secondly, make sure the Canada Revenue Agency cracks down on the underground sale of used RVs by organized curbers and brokers.

In conclusion, Canada can become the RV destination in North America, but we will need to have adequate and up-to-date facilities. We feel that by investing in tourism and by investing in the RV industry, this government has at its disposal the tools necessary to boost Canadian prosperity significantly.

I'd like to thank the committee for allowing the RVDA of Canada the opportunity to present. We are available for questions.

The Chair: Thank you, Ms. Hamm.

Ms. Pantry, from the Vancouver Board of Trade.

Ms. Janette Pantry (Vice-Chair, Vancouver Board of Trade): Thank you, and good afternoon.

My name is Janette Pantry. I'm vice-chair of the Vancouver Board of Trade and chair of the Vancouver Board of Trades' government budget and finance committee. I'm also a chartered accountant and a partner in the law firm of Borden Ladner Gervais.

With me today is Don Matthew, vice-chair of the Vancouver Board of Trade's government budget and finance committee, also a chartered accountant and a partner with KPMG.

We thank you for making the trip to Vancouver this year for the consultations on the upcoming federal budget. We are here today representing the approximately 5,200 members of the Vancouver Board of Trade, 80% of which are small businesses with less than 50 employees.

We've handed out for you today some PowerPoint graphs that we're going to refer to throughout our presentation.

As you may know, the Vancouver Board of Trade is an active participant in the budget process and has been making recommendations to this committee for several years. We appreciate the work of your committee, especially the comprehensive reports that are prepared, and find it somewhat unfortunate that some of your recommendations haven't been followed over the years.

For this year's pre-budget consultations, you've asked us to focus on the topic of productivity. We are glad the committee has focused on this issue, because we agree that productivity is a significant issue for Canada.

In the package of charts we've handed out, on page 2 you'll see a chart that compares Canada's productivity to that of other nations. You can see from the chart that Canada compares fairly well to Australia. When we look at the chart, Canada is 96.9% as productive as Australia; however, we fall well short of the productivity of other nations. We are 78.3% as productive as the United States and only 62.1% as productive as Norway.

Canada's international productivity comparisons might not be a significant source of concern if Canada had never compared well to other nations. However, if you turn to page 3 of the package, you will see that in 1970 Canada was the fifth most productive nation of 24 OECD nations, but by 1990 Canada was sixteenth, and in 2004 Canada was seventeenth. So not only are Canada's productivity levels not internationally competitive, Canada's relative standing has worsened.

Some might ask, well, why does the Board of Trade care and why should Canadians care about productivity? We care, and Canadians should care, because declining productivity impacts our standard of living. If we're not as productive as other nations, our standard of living, at least as measured by income per capita, will worsen.

We've already seen Canada's standard of living fall significantly as compared to the United States. Approximately 20 years ago our relative standard of living was similar to that of an average American, but today our after-tax incomes are only approximately two-thirds of the average American's income. Even on a before-tax basis, our incomes are only about 78% of U.S. incomes, and that's down from almost 97% twenty years ago. As a result, we fully support this committee's focus on productivity, as it is the key to improving standards of living. To improve productivity, we need to implement policies that will encourage investing and working in Canada.

Turning to page 4 of our slides, one of the significant concerns of the Board of Trade has been the sustained increase in the level of government spending. As shown in the slide, over 10 years program spending will increase from $110 billion annually to a projected amount of $195 billion annually, a 77% increase. These spending increases are a concern because they have not been leading to increased productivity or increased incomes for Canadians.

In addition, turning to page 5, we are concerned about the level of spending that has not been subject to the rigours of the budget process. As you can see in slide 5, $14.8 billion—$14.8 billion—of spending was announced in 2004-05 completely outside of the budget process.

We believe that government spending increases should be scrutinized and prioritized. The benefit of any increased spending should be compared with the benefit of tax reductions. Spending decisions that are made on an ad hoc basis throughout the year are not subject to an appropriate level of scrutiny and are not compared to other priorities. We are especially concerned about the government's new legislation that would have one-third of unanticipated surpluses allocated to new spending. An attitude of “we have money, therefore we'll spend” is not an appropriate criterion for spending and it won't be one that leads to increased productivity and should not be enshrined in legislation.

● (1700)

We strongly recommend that the standing committee take a stand against this new legislation and recommend that the government, when considering any new spending, carefully review the new spending to determine whether it will improve Canada's productivity.

We believe the focus of the government's activities for improving productivity should be to encourage the private sector to take action. In this regard, tax reductions are the single most important factor in encouraging the private sector to take action. We acknowledge that government spending has a role to play, and we believe two areas that will significantly affect productivity, infrastructure and security, were addressed in last year's budget. Funds were allocated over the next five years and haven't been spent yet, but there is funding in those areas.

Another area relevant to productivity is education. In this area the proportion of Canada's working-age population with post-secondary education is very competitive with the level in other OECD nations. As a result Canada is not lagging behind in this area. One area to focus on is addressing skills shortages and ensuring that skills of immigrants to Canada are fully utilized.

In the area of spending, it is our view that any new funding for productivity initiatives should be targeted and that the focus should be on reducing taxes in areas harmful to productivity.

As recently reported by Jack Mintz, Canada's effective marginal tax rates on capital investment are the second highest of developed nations. In addition, if you turn to page 6 of the package, you will see a graph that uses OECD data and shows that Canada's governments collect more taxes on income and profits than other G-7 nation.

This is a concern because Canada has very high taxation levels in the areas that discourage working and investing and therefore hurt productivity. Canada should reduce taxes to encourage working and investing. On the corporate side this means reducing the corporate income tax rate, starting immediately, and improving capital cost allowance rates to ensure that they are competitive with other nations. On the personal side this means decreasing taxes on dividends so there's no double taxation where people are investing in larger companies. It also means decreasing marginal tax rates at the lower income levels, where they can exceed more than 50%; for example, when child tax credits, GST credits, or old age security benefits are clawed back. It also means increasing the level of income where the highest marginal tax rates start to apply. In addition, the government should be encouraging saving by implementing tax pre-paid savings plans.

In summary, you can see that the board recognizes that productivity is an issue and is glad that the standing committee is focused on this issue. We hope you will use this opportunity to recommend that the significant increases in government spending cease and that new spending be targeted so that the government can afford to immediately implement tax reductions to encourage private sector investing and working.

Thank you for giving us the opportunity to present our views on behalf of our 5,200 members.

● (1705)

The Chair: Thank you, Ms. Pantry.

I want to remind the witnesses that the members have five minutes, and that includes questions and answers. So please keep your replies concise.

Mr. Penson, and then Monsieur Bouchard.

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

This may be the last panel of the day, but I've been waiting for you all day because we have been getting inundated by others who are asking for more federal government spending in every way you can possibly imagine. After about a 13% to 14% increase last year, when we have GDP growth of about 2.5%, somebody has to bring some sanity to this thing before we incur another round of deficit financing down the road of another $500 billion that is still remaining on the national debt.

I have noticed that a number of you have identified a number of ways to control spending but also reduce taxes in order to get the kind of investment we need to create jobs in Canada that will give us an increase in the standard of living.

I noticed also that our productivity gap with the United States is increasing—$6,000 per capita in 2002, $7,200 per capita in 2003, and now $9,000 per capita in 2005. And $9,000 times an average family of four is $36,000. That's $3,000 per month that the average family in Canada could make in extra payments on their mortgage if we were just competitive with the United States alone.

What I'm trying to find out from the panel here today, because you've identified this correctly, is the urgency of addressing this issue, because as you see, we have pressures on the other side. The Liberal government, along with the NDP, responded to those pressures last year. We were supposed to have a corporate tax cut, and of course it was gone. It was in the budget but then it was gone. Now the finance minister has talked about it again, and now it's gone again.

So I'm trying to get a sense from the groups that identified this as to how urgent it is that we act on this productivity gap.

Ms. Pantry, maybe I could start with you.

● (1710)

Ms. Janette Pantry: We think it's very urgent that you start to act on it. As we set out in our presentation, we've had several years where we've had dramatically increased federal government spending and we need the private sector to start playing a role in improving Canada's productivity. The government can't spend its way to productivity, so we need to start focusing on what the private sector can do.

Certainly one of the areas that will improve private sector investment is if tax burdens go down, so that the returns from new investment don't need to be as high to cover the taxes that will be payable.

Mr. Charlie Penson: Can I just ask you this, then? Could you follow that up with this: if you had only one thing that could be done this year on that side, what would it be; would it be to reduce the capital tax, the capital cost allowance, reduce corporate taxes? I know you don't like to do that, but we have to make choices here.

Ms. Janette Pantry: I think it would be to reduce the corporate income taxes, starting right away. The other area to focus on with corporate taxes is capital cost allowance rates, because then you could make some really fast targeted changes to investment. But overall we would rather see corporate income taxes generally be reduced for all corporations.

Mr. Charlie Penson: Maybe I could ask you, Mr. Laleggia, for your comments on this.

Mr. Joe Laleggia: I think I would echo the same sentiments. To do income tax more broadly is one thing, but I think returning a focus to capital cost allowance can focus on those specific assets that specifically target productivity in the economy.

Mr. Charlie Penson: And what about Mr. Peacock?

Mr. Ken Peacock: Yes, I would put productivity at the top of the agenda. I say that because from productivity flows everything else—wealth creation in terms of income the family takes home, more productive countries, higher income levels. And it's not just personal income; it extends to all other sectors. It provides government with more resources to finance health care, education, other social programs. In that sense it has to be a top priority.

And the other dimension of that is that it's a top priority because of our dismal performance vis-à-vis the U.S. as well as the other OECD countries.

Mr. Charlie Penson: I'm sorry to interject, Mr. Peacock, but time is short here.

Yes, I agree with that, but I'm trying to go a little bit further and find out if we've agreed that we're not getting the kind of investment we need in plants and equipment. What is the best method to get the hit to encourage those people, those factories, those companies, to make investments?

Mr. Ken Peacock: I would look at narrowing the gap on the difference—

Mr. Charlie Penson: The corporate...?

Mr. Ken Peacock: Not necessarily just the corporate tax, but the effective marginal tax rate on investment, the one that includes corporate income tax rates as well as capital taxes.

Mr. Charlie Penson: Capital tax?

Mr. Ken Peacock: Exactly. A lot of the work coming out of the C.D. Howe Institute—

Mr. Charlie Penson: The surcharge on the corporate—

Mr. Ken Peacock: Exactly, the whole package, because we're competitive in terms of just the corporate tax rate, but it's the effective marginal tax rate on investment I would target.

The Chair: Thank you, Mr. Penson.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman.

I also wish to thank you for your presentations.

My question is for the Business Council of British Columbia. You talked a great deal about productivity and the need to improve tax measures. You recommend income tax reductions and you say we should pass more productive regulations in Canada. That is precisely what my question is about.

Do our current regulations cause business to incur significant productivity costs? Have there been improvements in this area during the last few years?

● (1715)

[*English*]

Mr. Ken Peacock: Sorry, I missed the first part of the question, but I think in essence you're asking about regulations and whether they're impacting productivity and if there's been any improvement in recent years.

To be frank, I'm more focused on the provincial level, so perhaps I'll start there. In the provincial context, I think it's definitely fair to say we have had significant improvement in the province's regulatory environment. I believe that is a key reason we've seen B.C. turn the corner in terms of its economic performance over the past three or four or five years, so yes, I do think the regulatory environment does impact productivity and economic growth.

At the national level, I'm not as familiar with some of the regulatory environment improvements that may have been made, but I would expect similar things to take place nationally. More streamlined regulations are certainly appropriate if you're going to target improving productivity over time. I say that simply because businesses are deterred—there's no doubt about it, there's a lot of evidence—by slow decision-making processes and a cumbersome regulatory environment where they have to remit to multiple levels of government and these types of things.

So yes, I think the short answer is it is important to improving productivity.

The Chair: Mr. Powell.

[*Translation*]

Mr. David Powell (President and Chief Executive Officer, Canadian Finance and Leasing Association): For ten years now, the Canadian Finance and Leasing Association has made attempts to have certain regulations harmonized, regulations concerning the disclosure of the cost of credit to consumers. After all this time, the provinces and the federal government have not even managed to agree on a common definition of the term “consumer”. There are at this time eight definitions of that word in Canada. They vary from province to province and the federal government has its own as well. What this means is that six different contracts are needed to do the same thing from one end of Canada to the other.

We find that generally speaking, the Agreement on Internal Trade has not been successful in reducing barriers, be it among provinces or between the federal and provincial governments. We have been asking the federal government for a long time to really take into consideration the enormous administrative costs created by the barriers among the provinces in the area of trade.

Mr. Robert Bouchard: My second question is also addressed to the Business Council of British Columbia. My party advocates a separate employment insurance fund. Since you spoke very little about this matter and made recommendations aimed at increasing productivity, I would like to know your opinion. Since you are very close to the business world, I would like to know what you think of an employment insurance fund that would be managed by contributors, workers, and businesses.

Does that seem like a good idea? Would you support such an initiative?

[*English*]

Mr. Ken Peacock: Yes. Generally speaking, we would support making the employment insurance system run more like an insurance program; I think that's what you mean by a stand-alone insurance program. The premiums collected would go to cover that rather than what happens with the situation today, where far more premiums are collected than are spent and the EI premiums go into general revenue.

One of the key reasons for that is simply that a tax on labour ultimately discourages labour; it discourages participation in the labour market. It discourages businesses from hiring people if they have to pay that much more than they otherwise would have had to, because of that higher EI premium.

● (1720)

The Chair: Merci, Monsieur Bouchard.

Ms. Crowder.

Ms. Jean Crowder (Nanaimo—Cowichan, NDP): Thank you, Mr. Chair, and I'd like to thank the panel for their presentations today.

Ms. Pantry talked about the need for scrutiny and priority; I think I would agree on the language but possibly not the outcomes. I also would agree with the requirement around accountability and transparency in how government funding is spent and allocated and with regard to the recent bill that was introduced, with unanticipated surpluses being allocated at one-third, one-third, one-third.

I have two comments. One is that I would expect we would get to a place where we managed our funds better so we didn't have such large unanticipated surpluses. Any of us who run organizations would be held to account by our boards if we consistently ran unanticipated surpluses. In terms of one-third of the program spending, I have no qualms talking about putting money into program spending, but I would suggest that it should actually come before Parliament, which would determine what the priorities would be.

It's troubling for me that in a time that has been supposed, except for a couple of years when we had some recessionary implications.... In our country we still have people living on the streets, we still have over one million children and families living in poverty, we still have students with huge student loan debts, and we still have workers who cannot qualify for employment insurance.

In preparation for this meeting I pulled a document called *A primer on Canadian productivity*, put out by the Canadian Centre for Policy Alternatives, which probably has a point of view differing from what many of you here have. I just wanted to read a quote from the Bank of Montreal, a notoriously left-wing organization. It says that in review of productivity data, the Bank of Montreal concludes:

> ...very far from being afflicted by widespread, endemic productivity deficiencies, the possible problems Canada may have are, at most, confined to two specific industry sectors where statistics are difficult to compute. This is thus a very flimsy basis for concern about a serious slippage in Canadian productivity...

The sky is not falling, says the bank.

I'm neither an economist nor an accountant, so I rely quite heavily on other experts and tend to look at a range. When I look at things around the productivity and standard of living, what I understand is that many of the statistics that are gathered are from fairly narrow sources. For example, it says here that service industries, which comprise three-quarters of Canadian GDP, are similarly diverse and complicated from a measurement point of view; defining output is not clear-cut for a variety of industries and professions.

The only reason I'm raising these points is that it seems to me we often get into somewhat simplistic although complex... They're simplistic in terms of their narrow definitions of what we're talking about when we're talking about productivity and GDP. For example, oil spills are good for GDP because they create some extra activity in the economy, yet I would suggest most of us would not want oil spills.

Ms. Pantry, I'm going to ask you to answer this question. How do you reconcile the fact that we actually are seeing a growing gap in Canada between those who have access and those who do not? In two minutes, could you suggest ways we could actually broaden this conversation so we don't have the kind of presentations we had today, where on one hand we have people saying we need more spending and on the other hand we have people saying to clamp down on spending?

Ms. Janette Pantry: I think you've raised some difficult issues for Canada to deal with as a country. One of our concerns is that you have to give people the opportunity to improve their own standards of living. When you look at the level of federal government spending over the last several years and where it's projected to go, the government is spending more and more each year, but it doesn't seem to be trickling down to Canadian families. The government spending will go from $110 billion per year to $195 billion per year, a 77% increase. If you look at the report put out by the TD Bank, you'll see that over the last 15 years, after-tax incomes of Canadians have grown, on a cumulative basis and after adjustments for inflation, 3.6%. So government spending doesn't seem to be trickling down to average Canadians, and I think we do need to focus on average Canadians.

The Board of Trade has long recommended that, for example, the personal tax exemption be increased so that people aren't subject to tax when they make $10,000 a year. I mean, we finally got to $10,000, and it would be nice in this country if people who made $12,000 a year didn't have to pay tax.

I'll turn it over to my colleague to see if he has any points to add.

● (1725)

Mr. Don Matthew (Vice-Chair, Vancouver Board of Trade): Thanks, Janette.

I think the key point here is that spending has to be subject to scrutiny. We're seeing these large increases in spending, we're seeing significant and unapproved spending, spending over and above what's in the budget each year, and yet the gap that you make reference to continues to grow. It continues to widen. There needs to be the control and the scrutiny so that it's spent properly and we can curtail this increase in the gap.

Thank you.

The Chair: Thank you, Ms. Crowder.

Mr. Bell and then Ms. Ambrose.

Mr. Don Bell (North Vancouver, Lib.): Thank you.

First of all, Mr. Davidson, with reference to the priorities that your organization sees in terms of the needs—the issue of the gas tax, the new deal for the municipalities, the restrictions with respect to roads and bridges—there are other infrastructure programs available to municipalities. And I say this obviously as a former municipal politician. The intention of the gas tax was to try to come up with sustainable expenditures, if you want to use that term, with reference to transportation. One issue that has to come up is the recognition that the roads aren't just used for commuters, they're used for the movement of goods and services, which is integral to what you're talking about. Obviously, in the Pacific gateway concept, some of those roads, the perimeter roads, are extremely important. That's an issue we have discussed as government and will continue to evaluate, so I share your concern with respect to that.

I have a question for Ms. Pantry or Mr. Matthew. In your presentation, I notice you talked about the recommendation that the government carry on with debt reduction as a goal, to get down to the 25% of GDP. The issue that came up in previous years was whether tax relief or debt reduction was the higher priority. We've heard two different points of view from two other parties, the NDP for increased spending on programs and the Conservatives suggesting tax reduction and the role given in the past, which was a high priority in terms of debt reduction by this government. And now the proposal is that future surpluses would be in fact divided up between three priorities, I guess, to recognize the divergence.

I just wondered if you wanted to comment on your recommendation further.

Ms. Janette Pantry: The Board of Trade fully supports the objective of reaching a debt-to-GDP ratio of 25% by 2013-14. I think as long as the economy continues to grow at a rate similar to the rate it has been growing, we'll meet that target. So on that basis, I would say that at this point tax reductions would be a priority over debt reduction.

When it comes to unanticipated surpluses at the end of the year, we think those should go to debt reduction. Tax reductions, to be the most effective, should be announced in advance so that people can change their decisions. They can decide to work more because they know they'll pay less taxes, or they can decide to make more investments. A rebate at the end of the year is nice, but it doesn't change a person's decisions.

We would look for the government to put a priority on tax reductions in the budget process, and then, if the surplus is underestimated and there's too much, or there's an unanticipated surplus, it would go to debt reduction.

Mr. Don Bell: I note that you acknowledged that one of the advantages of the debt reduction we've achieved so far is that we're saving, what, about $3 billion a year, which reduces overall the cost of government, the potential.

The other issue you raised in your presentation was the Canada-United States relationship. We had a couple of other presenters talk about that indirectly or directly in their presentations, and you say you're calling on the government to work more closely with the United States to cooperate on security, trade, and social issues. Obviously, softwood lumber is one that has created some real problems for us and a feeling that we need to take a very firm position. I just wondered if you had any further comment on that.

● (1730)

Ms. Janette Pantry: Well, I think generally we're calling on the government to cooperate with the United States and recognize the importance of our trading relationship with the United States. Softwood lumber is a key issue for that.

But another thing we sometimes laugh about at the Board of Trade is that the largest undefended border in the world is quickly becoming defended. We have helicopters and ships at the B.C. border looking for drugs, and it's quickly becoming defended. If that happens, it means it will be harder to get product into and out of the U.S., and that's really going to hurt our businesses with so much trade to the U.S. So definitely, security and making sure we're moving forward on security measures is a key issue for the Board of Trade.

Mr. Don Bell: As part of the Pacific gateway plans that the federal government has, a huge chunk of the money is going into security—port security, airport security, and transport security—but you're aware of that.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Bell.

Ms. Ambrose.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chair.

I had a question. You, Ms. Pantry, referred briefly to the correlation between the growth of government and the decline of productivity. I know that 30 years ago here in Canada governments made up about 30% of our total GDP, and now we're at 42% compared to the U.S., which over the last 30 years has remained at about 29% to 30%, for all levels of government, of GDP.

I know, Ms. Pantry, you recommended, I believe, a cease in government spending. I just want to make the comment...and I guess I'll direct it to my Liberal and NDP colleagues. It's something we've seen throughout our pre-budgetary hearings—and I'll call it misplaced good intentions—in the sense that more spending equals more compassion and more spending equals more results, and we're not necessarily seeing those results either on the social front or on the economic front.

So I wanted to know—and we'll start with Ms. Pantry—if you could talk about this correlation between an increase in government spending and a decline in productivity.

Ms. Janette Pantry: Well, I think one of our concerns is that we don't see the government focusing on its own productivity as much as it should be, and we've been calling for years and years for a comprehensive program review. I think the last time a really comprehensive program review was done was in 1994 to reduce spending, but it should be done on a regular basis.

I know there has been some of that done, and we support it. But the results of the program review announced as part of the last budget identified $11 billion of savings, I think it was, over a three- to five-year period, while the total budget increase in that same year was over $15 billion outside of the budget process.

So we're just not seeing the government focus on its own spending and making sure that it is productive. That's one of the things we would definitely like to see—more value for tax dollars.

Ms. Rona Ambrose: Would anyone else like to comment on that on the panel?

Mr. Laleggia.

Mr. Joe Laleggia: Well, in terms of the spending, we talked a little bit before about prioritizing, and I think the comment was made earlier that spending ought to go through the scrutiny it needs to go through so we can understand what the priorities are. It sounds as though there's spending going on and we can't account for the results. I can tell you that in the private sector that's unacceptable, so it shouldn't be acceptable in the public sector either.

The Chair: Thank you.

I just want to correct a few facts. I think, at least from what I understand, there's been a lot of front-end loading on some of the spending. We saw some additional spending for health and for equalization. There was BSE, where we made an adjustment. There was the Newfoundland and Labrador and Nova Scotia agreement; there was a lot of front-end there. So we have to put that in context. I'm not so sure those were appropriately accounted for in your figures. Your projections are quite high, so I'm just wondering if those were accounted for.

I have to apologize to some of the witnesses, because we're limited in terms of time, so some of you have been left out. And this is a typical example of the complexities that Canada faces, because we have all kinds.... Actually, this panel is very similar...we've had bigger problems in other panels today.

I have a couple of questions, though. I have one for Mr. Curtis.

In your brief, were you recommending that we provide more money for R and D—$130 million? Isn't that already built into the tax system? Are we going to put more money into R and D specifically? I don't understand the recommendation.

● (1735)

Mr. Christopher Curtis: Yes. The idea is to match industry investments, which have been a billion dollars over the last five years in the fuel cell and hydrogen industry. The recommendation of the industry is that over the next 10 years the federal government match industry investments to the tune of $130 million a year, which would be approximately 40% of equal investments being made in the United States in their fuel cell and hydrogen industries.

The Chair: But we already do that through the tax system, through the R and D—

Mr. Christopher Curtis: No, the fuel cell industry does not pay any taxes. It's unprofitable worldwide. Through grants and contributions and through present programming that can be expanded for the 10-year period—

The Chair: So then, in addition to the $130 million, the $50 million, the $60 million and the $30 million, where would we give the additional moneys, through what ministries? How would we be giving it, in terms of subsidies? How would we increase this type of spending? Where would we allocate this type of—

Mr. Christopher Curtis: We've worked in partnership with the government over the last five years and we expect the government itself to recommend where it chooses to find the funds to do this.

The Chair: But our job is to listen to you and to extend your message out to the government, so we need to know from you. If you're expecting us to decide, well, we're partisan, so I think some of the suggestions may not be in the right place.

Mr. Christopher Curtis: Right. After working in the government myself for 20 years, I know there are many programs the government has to dispense funds for research and development. I think increased support for research and development is one that all high-technology—in fact all industry—has to achieve government aims of more knowledge-intensive industry. Certainly, research and development funds can be found through the National Research Council to the granting agencies for the academic and core research industry, for industry itself, the private sector, Technology Partnerships Canada, Sustainable Development Canada. Natural Resources has a number of programs that support research and development throughout the energy sector, and certainly the infrastructure programs and others can do this as well. And many of these activities are in core infrastructure for improvements in transportation systems.

The Chair: Thank you.

I have a question for Mr. Laleggia. Quickly, how do we increase this investment towards machinery? The manufacturing industry is not necessarily reinvesting, even though the Canadian dollar seems to be higher and it's a good opportunity. Is it only through a tax policy? Some of these companies have made money and they haven't reinvested, and now all of a sudden—

Mr. Joe Laleggia: David seems anxious, so I'm going to allow David to respond.

The Chair: Just a quick answer.

Mr. David Powell: Okay, a very quick answer. In our submission we led by saying the federal government has a role as a catalyst and champion. Catalyst involves tax policy, but champion is going out—and I have to say I'm very pleased to see that both the Minister of Industry and the Minister of Finance have in the last few months been much more vocal and articulate about it—and talking about productivity. I know it's a scary subject for some people at the political level, because a lot of Canadians still don't understand what productivity is all about and it scares them. As you've alluded to, people think it's doing more for less. The reality is that you're getting more with less.

We would say the federal government has a major role of going out and talking up the need for business to do this.

The Chair: I understand that, but in your industry, are you not seeing more investments towards machinery because the dollar is doing well? Or are they all telling you, well, we can't write it off, so we're not investing in machinery, in equipment?

Mr. Joe Laleggia: I think the simple answer is that the investment is still there, but we need to continually encourage that investment. We did note that in the manufacturing sector, where they're competing with the United States with the higher dollar, they've been forced to invest in machinery, in equipment, where the rest of the economy has not.

Mr. David Powell: We would argue that the competitive nature of the marketplace is an important issue here. In the United States what you see happening is that the competitiveness in the marketplace is built in. Entrepreneurs are out there looking for new machinery and equipment because of the competitive pressures. We don't seem to be having those same kinds of pressures in Canada, except in certain areas—

● (1740)

The Chair: Because they were making money on the exchange. Most of the manufacturing companies were making money on the exchange and they were sitting on their laurels. Now it's come time to invest and they're looking to the government.

Mr. David Powell: Well, they're looking to the government. The government should be talking it up and convincing people. That's what they've got to do.

The Chair: Ms. Pantry, I have just one final comment, since you're an accountant. On the tax credit, because we're hearing about the dividend tax credit versus the trust, what should a dividend rate be on the dividends received from public companies?

Ms. Janette Pantry: I think we should—

The Chair: I don't need an answer right now, but everybody's saying we should reduce it. I'm just not sure what the integrated amount should be. Is it 25%? Right now the high rate is 33%, if I'm not mistaken.

Ms. Janette Pantry: The high rate on dividends is about 33%, yes. It works out that if you invest in a public company, by the time the public company pays tax and then you pay tax on the dividend, 55% is the total tax rate that has been paid. There's double taxation there, whereas if you invest in an income trust, in B.C. you pay 44%.

So the combination of the corporate rate and the dividend rate should eliminate the double tax.

The Chair: So a reduction by 10% would be... Even if we recommend going to 25% from 33%, it's a decent reduction.

Ms. Janette Pantry: Yes, that's at least some reduction. But it's also relevant to look at the U.K., the U.S., and Australia, because they've made great strides in the last few years in reducing their double taxation of corporate profits.

The Chair: On a final note on your presentation, from my recollection—and I didn't see it anywhere, but I'm getting old—on debt reduction, I don't think the government has restated their position. I think they're still at 25%, and I still think the $3-billion contingency reserve is there, but I could be wrong.

Ms. Janette Pantry: It wasn't there this year.

The Chair: Mr. Bell, can you ask Mr. Curtis the question after the meeting? Thank you.

Thanks again for your time. I appreciate it. We're running a little bit late, but I appreciate the input.

Thank you, members. We meet tomorrow morning at nine o'clock. Merci beaucoup.

The meeting is adjourned.

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

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

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