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Chair

Mr. Massimo Pacetti

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● (0945)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning. We'll get started because we're on a tight schedule. I don't know what this group has done, but they've not engaged the members at all or they've already engaged them much too much.

Without further ado, pursuant to Standing Order 83.1, we're here for the pre-budget consultations for 2005. I'm going to allow the groups seven to eight minutes for opening remarks or an opening intervention, and then the members are going to want to ask questions.

I have a list of the groups. We'll start with the Business Tax Reform Coalition, Mr. Lacombe.

Mr. Barry Lacombe (President, Canadian Steel Producers Association, Business Tax Reform Coalition): Thank you very much, Mr. Chair.

My name is Barry Lacombe, president of the Canadian Steel Producers Association. With me is David Podruzny, vice-president of economics at the Canadian Chemical Producers' Association.

The coalition represents 12 large trade associations, including resource extraction, upgrading, conversion, and high-tech associations. We compete directly and globally from a small open economy. Our members have production of over $320 billion a year, exports of $237 billion a year, and direct employment of 1.7 million jobs. Our jobs are high-paying jobs that Canada will need in the 21st century to sustain its living standard.

The coalition wishes to thank the finance committee for an excellent report this past year. We believe the recommendations of the committee were the proper and correct ones. We also want to thank the committee for its foresight in developing this year's theme: productivity. Enhanced productivity is crucial to enhancing Canada's standard of living in light of the growing productivity differences between Canada, the U.S., and Canada's other trading partners and the demographic profile that Canada faces.

Our membership collectively represents the productivity dilemma. The Canada-U.S. productivity gap is significant and it is growing. Canada has invested in skills upgrading and in education. Canada is exploring immigration opportunities for addressing skill shortages. Canada is investing in infrastructure to facilitate goods movement into global supply chains. Yet 40% to 60% of the productivity equation is attributable to lower investment in machinery and equipment.

What is missing is investment in new machinery and equipment. We are not putting the best tools in the hands of the best trained workforce. Other economies are more attractive for investors. Canada is now in a net negative position with respect to foreign direct investment. This is a recent development, occurring over the past two years.

Canada is losing jobs in the manufacturing sector. We need to be concerned. Over the past year, 113,000 permanent manufacturing jobs were lost. We need to restore Canada as a place to invest in new manufacturing equipment and technologies.

Canada's marginal effective tax rate is currently the second highest in the world, significantly higher than the very locations where we compete for investments. So what we propose is that we need to tackle productivity head on.

First, introduce a two-year accelerated capital cost allowance for machinery and equipment to immediately improve our marginal effective tax rate and bring it closer to that of the United States.

Second, eliminate the federal capital tax and eliminate the federal corporate surtax. Finish the job that was started in the last budget.

Third, reduce the federal corporate tax rate to 19%, as promised in Budget 2005, and set a schedule to go to 17% for all manufacturing to open up a clear Canadian advantage.

Let me conclude by stressing once again the importance of the manufacturing sector and the challenges it faces. The manufacturing sector represents 22% of economic activity in Canada; 60% of that activity is directly related to resource upgrading activities. The sector is a heavy user of technology, but it faces energy challenges; strong competition, much of it unfair from emerging economies, China and India; costs of raw materials; a higher Canadian dollar; and climate change challenges.

It's important that more attention be focused on manufacturing. Therefore, we believe the recommendations we have made on the tax side will indeed work to enhance productivity and improve the standard of living of Canadians.

Thank you.

The Chair: Thank you, Mr. Lacombe.

From the Canadian Bankers Association, Mr. Rowse or Mr. Shaughnessy.

Mr. Kelly Shaughnessy (Vice-President, Banking Operations, Canadian Bankers Association): Thank you, Mr. Chair and members of the committee, for providing the Canadian Bankers Association with the opportunity to participate again in your pre-budget consultation process. My name is Kelly Shaughnessy, and I'm vice-president of banking operations of the Canadian Bankers Association. With me today is Brad Rowse, senior vice-president of taxation with the Bank of Nova Scotia and chair of the CBA taxation specialists group.

The CBA welcomes the opportunity to provide our input into the committee's pre-budget deliberations. My comments here today underscore the themes that are outlined in our written submission and that we believe will increase the economic prosperity and productivity in Canada and ensure a superior quality of life for all Canadians.

The Canadian economy is thriving. The government is in the enviable position of advancing legislation on the allocation of budget surpluses. The government has the opportunity now to address its longer-term fiscal priorities, and high on that list is increasing productivity growth in Canada. We fully agree that improving Canada's productivity growth, and with it Canadians' prosperity, should be a top public policy priority.

The government also has before it many important challenges. It is critical to invest in important public services like health care and infrastructure renewal. It is vital to continue to pay down the national debt, so as not to burden future generations with it. And it remains a paramount concern of all Canadian businesses and households to have their tax burden relieved.

Lower taxes will create the incentives for businesses and households to innovate and invest in ways that improve their productivity and their prosperity. We believe one of the best ways to improve productivity and increase prosperity is to reduce effective corporate tax rates and focus government expenditures on debt reduction, investment, and growth. It is our general mantra that these two things—paying down debt and making taxes competitive—will provide the necessary foundation for a strong and prosperous economy and in turn the necessary revenue to fund important government programs.

I would now like to talk about corporate income tax rates. Since Budget 2000, the government has substantially reduced the nation's general income tax rate, from 28% to 21%. As these rates have come down, the tax base has increased, government revenues have climbed higher, the economy has thrived, and Canada has ranked among the most competitive countries on this front. In short, the reductions have worked, and the government should be commended for its progress since 2000.

In Budget 2005, the government promised to further reduce the corporate tax rate to 19% and eliminate the corporate surtax. While these proposed reductions were scheduled for 2008-2010, the government subsequently withdrew these reductions. The government's abrupt change on corporate income tax has damaged the credibility of the Canadian markets and negatively affected investment. Given what we know about Canada's productivity challenges, the interdependent nature of the North American economy, the need for strong and credible capital markets, the ongoing budgetary surpluses, and the success of past corporate tax reductions, we recommend that the government reinstate these reductions immediately.

The second tax I wish to address is the large corporations or capital tax. Like the importance of productivity growth, the negative effects of capital taxes are accepted by governments across the political spectrum. In short, capital taxes are problematic because they are payable regardless of whether or not a company is profitable, and they tax investment—including jobs and information technology—which inhibits growth. From the standpoint of financial institutions, capital taxes are particularly punitive, since our members are compelled by regulation to hold high levels of capital to support the safety and soundness of the financial system, and then they're taxed for doing so. Annual capital taxes are almost a uniquely Canadian phenomenon that undermines innovation, productivity, and investment.

● (0950)

We commend the government for its commitment to eliminate the federal LCT capital tax by 2008. We do recommend, however, that the government accelerate the schedule to eliminate this harmful tax now. This would make Canada a more attractive investment destination for businesses and investors, and it would set an example for provincial governments, which collect the majority of capital taxes paid in Canada. We believe the resulting stimulus to Canada's productivity will more than offset the relatively modest revenues generated by this tax.

The third tax I will address is the part VI capital tax. In addition to the corporate income tax, or part I tax, and the large corporations or capital tax that I've just addressed, financial institutions are also subject to the part VI tax on capital, to the extent that it cannot be credited against part I tax on general corporate income. The part VI tax was originally introduced as a temporary measure in a very different economic climate. At the time of its introduction, the government had a significant federal deficit, our financial institutions weren't as profitable, and the government wanted to ensure that financial institutions would pay a minimum amount of tax, notwithstanding loss carry-forwards or other deductions. This tax impairs the ability of institutions of varying sizes, profitability, and capital structures to compete effectively, and it negatively impacts institutions during the economic downturns, contrary to sound monetary policy. Therefore, consistent with the government's strategy to reduce capital taxes and maintain a competitive tax system in Canada, we recommend the elimination of the part VI capital tax.

I will briefly address the proposals to amend the existing Canada–U.S. Income Tax Convention by eliminating withholding tax on cross-border interest payments. Withholding taxes are a significant impediment to direct foreign investment in Canada. In order to remain competitive, Canada needs to eliminate withholding taxes on dividends, interest, and royalties, and particularly the withholding tax that is applied between Canada and the United States because of the scale of capital flows between these economies. In particular, for our member banks, the elimination of withholding taxes will remove a significant impediment to creating a more robust secondary loan market in Canada. We commend the government's efforts to eliminate the withholding taxes and encourage the government to expedite negotiations to achieve the bilateral elimination of these taxes between Canada and the United States.

In conclusion, as I noted earlier, the economy is thriving. The government has the opportunity now to address longer-term fiscal priorities, such as productivity and the opportunity to be innovative and a leader. We believe one of the best ways to improve productivity and increase prosperity is to reduce corporate taxes and eliminate capital and withholding taxes in order to create a competitive tax regime in Canada. The economic benefits of moving in this direction, particularly strengthening the Canadian tax base, will provide the necessary foundation for a prosperous and productive Canada for years to come.

Thank you, Mr. Chairman.

● (0955)

The Chair: Thank you, Mr. Shaughnessy.

From the Canadian Taxpayers Federation, we have Mr. Williamson.

Mr. John Williamson (Federal Director, Canadian Taxpayers Federation): Thank you, Mr. Chairman. It's good to be back.

I'd like to thank all members of this committee for the opportunity to bring the Canadian Taxpayers Federation's perspective to your pre-budget deliberations again this year.

Once again the federal government is facing a growing surplus. That isn't a big surprise. High taxes have Ottawa swimming in excess tax revenues. Once again there are many who are clamouring at the prospect of even more spending. Before lawmakers go too far down this road, it is worth remembering that this is not a surplus resulting from spending restraint but rather one that is the result of a structural over-taxation.

The Canadian Taxpayers Federation is urging this committee and all parliamentarians to make the following four priorities central in this year's federal budget: broadly-based and fair tax cuts; legislated and planned debt reduction; meaningful reduction in elimination of wasteful spending; and eliminating expenditure growth in priority areas to a maximum amount of inflation plus population growth.

It's obvious that we need and can afford tax cuts. Without exercising any expenditure restraint, Ottawa is set to record another multi-billion-dollar surplus. This year it will be in the neighbourhood of $10 billion. Had the government adopted a balanced approach when it tabled its 2005 budget, Canadians could now be enjoying the first phase of a multi-year plan for tax relief.

Last year our organization recommended that both the basic personal and spousal exemption be raised to $15,000 over a five-year period. In fact, the 2005 budget outlined a timetable for increasing the BPE to $10,000 and the spousal exemption to $8,500, but this increase is so slow that an individual's income tax bill would be cut by a measly $16 in 2006, rising to $192 in 2009. This year we are pressing members to peg the two exemptions at $15,000 within four years. This will save all taxpayers $1,100 a year. In the context of growing surpluses, we are confident that members will see the merit of this proposal.

It is not sufficient or responsible for parliamentarians to only discuss cutting taxes for low- and modest-income Canadians. According to the OECD, our personal income tax burden remains the highest of the G-7 nations. In fact, this standing has not changed in almost a decade. Broadly-based tax relief is necessary to ensure all income earners benefit from lower taxes. The Canadian Taxpayers Federation is therefore advancing a three-in-three plan, whereby the top two personal income tax rates are reduced by 3%, phased in over three years, from 29% to 26% and from 26% to 23%. This reform will begin to address the government's so-called productivity agenda by lowering marginal tax rates and improving our competitive position vis-à-vis our major trading partners.

The 2005 budget pegged $5 billion for a national day care program, although very little in the way of long-term cost has been provided. To embark on such an ambitious program, without knowing the cost, is bad planning. We know that the federal government's day care is biased towards warehousing kids rather than providing families with other child-rearing options. This is unfair to all Canadian families, who deserve to have a real choice.

Rather than a one-size-fits-all government-run system, a more flexible plan would better meet the needs of today's diverse families. A better approach to enhancing day care and all child raising for all Canadian families is to offer a child tax credit. The CTF recommends that the federal government replace the Canada child tax benefit with a $10,000 tax credit per child. Such a change will mean annual tax savings or payments of $1,600 per child and would be available to all parents with children aged 18 and under. This plan is universal. This plan will provide families with real choices because it will allow parents to choose the day care that best suits their priorities and lifestyle. By replacing the child tax benefit with a universal tax credit, the annual net cost of this change is $2 billion.

The next point is on debt relief. A growing economy and debt repayments have put federal government debt on a downward trajectory. Taxpayers have long advocated for a debt retirement schedule. We recommend moving from debt repayment by accident to debt repayment by design. Canada will spend $35 billion to service the federal debt this year, which amounts to a daily interest payment of $95 million. We recommend an annual budget line devoted to debt repayment, beginning with 1% of revenues and rising to 5% of annual revenues in five years. With good fortune and good fiscal management, our debt of half a trillion dollars could be paid off in a generation, saving billions in annual interest payments.

Another new point for us this year is on looking at the Canada Mortgage and Housing Corporation. This is a federal crown agency that provides mortgage insurance to homebuyers. It has been dubbed "Ottawa's tax bonanza" in the *Canadian Business* magazine because of its excessive mortgage insurance rates.

● (1000)

In 2004, $1.1 billion was collected by CMHC in premiums and only $51 million was paid out in default claims, a disbursement of less than 5%. In contrast, auto, life, and health insurance firms have a payout ratio of 76%. Excessive mortgage insurance rates charged to Canadian homeowners by the CMHC should be reduced for new buyers and rebated to existing owners to offset the $4.5 billion surplus this crown corporation is projected to accumulate by 2009.

For more information on this point or on day care, I'd ask you to pick up our pre-budget recommendation, which is on the table in the back of the room.

I will conclude, unfortunately, on a sour note. Ottawa, again, has a serious spending problem. Last year, in fiscal 2004-05, federal spending increased by more than $21 billion, an astounding 15% increase over the previous year. In contrast, program spending increased by just under $23 billion, or 19%, over the previous three years. The surplus was squandered.

In the upcoming budget the government must rein in its spending and lower taxes.

Should you have any questions concerning my budget recommendations, I'm happy to answer them.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Williamson.

[*Translation*]

We will now hear from the Conseil canadien de la coopération.

Mr. Rouleau.

Mr. Michel Rouleau (President, Conseil canadien de la coopération): Thank you, Mr. Chairman.

I would like to begin by thanking the members of the Standing Committee on Finance for inviting us to present our comments and requests as part of the 2005 pre-budget consultation process.

The Conseil canadien de la coopération is an organization that represents Francophone cooperatives across Canada. There are approximately 3,400 of them, with $177 billion in assets. I would also point out that there are some 9,500 francophone and anglophone cooperatives across the country. Through its action, the Conseil canadien de la coopération hopes to become a more active partner with the federal government in areas like economic and social development. This morning, I am here to present our concerns and requests, which are focussed in four separate areas.

As you may recall, we appeared before the Committee a year ago to introduce the Cooperative Investment Plan and a tax deferral scheme for people who decide to invest in their cooperatives. As regards the deferral, I want to thank the Standing Committee on Finance for expressing its support for that proposal. I also want to commend Mr. Goodale, the Minister of Finance for his openness in that regard. He did in fact refer to continuing discussions on the Cooperative Investment Plan in his 2005 budget. It is with that in mind that I would now like to address the first of the four areas.

As regards the Cooperative Investment Plan, it is important to state that cooperatives do not have the same capitalization capacity as corporations that can call upon public savings. It is only through surpluses that cooperatives are able to build their capital base. The Cooperative Investment Plan has been in place in Quebec for about 20 years. We are asking the Canadian government to provide the equivalent of what is now offered in Quebec, so that workers, employees and producers can invest capital in cooperatives, thereby facilitating their development and ensuring their survival. This capital is extremely important because it allows Canadian cooperatives to survive, to develop and to contribute to the economy, including by creating jobs and providing comprehensive services to Canadians. So, this is a fundamental plan for Canadians.

We are asking the Minister of Finance, through you, to recognize the significant contribution made by the cooperative movement to society and the Canadian economy as a whole. We are thus asking that a cooperative investment plan, similar to the one that now operates in Quebec, be put in place all across Canada. In addition to relying on cooperative members and employees to invest capital, this plan has yielded significant results, both in terms of investment and job creation. We believe this initiative would require an investment on the part of the Canadian government of some $30 million in the form of tax credits for investors. We are thus asking the Minister of Finance and your committee to include that initiative in the 2006 budget. I want to stress the importance of such an initiative.

The second area has to do with the Cooperative Development Initiative. Launched in 2002, it is a five-year program with some $15 million in funding. The funding is distributed as follows: $10 million for research and innovation projects, and $5 million for advisory services. As you can see, $5 million over five years for Canada as a whole amounts to $1 million a year. That is inadequate to maintain provincial structures that would support significant economic development. We are hoping that additional funding can be provided. Members of the General Assembly of the Conseil canadien de la coopération would like to see funding for advisory services increased to $32 million over five years.

We are aware of the fact that we are only now at the midpoint as regards implementation of the 2002 project. This project will be completed in 2007. We're hoping that at the end of the program, the budget set aside for advisory services, which is now $1 million, will rise to $6 million a year. As well, we are hoping that when the program does come to the end of its term, it will be renewed and receive $32 million in funding over a five-year period.

● (1005)

As regards the social economy, we appreciate the openness demonstrated by the federal government in last year's budget, where it recognized the importance of the social economy in Canada. In that budget, it provided funding for pilot projects and social economy organizations, as well as $15 million for the Social Sciences and Humanities Research Council of Canada.

We have noted that not only have those monies not been fully used, they have not been used effectively. Of the four regional agencies in Canada, only two have availed themselves of the program. We would like the program to become better known and for the four agencies to be made aware of its potential, so that cooperatives and social economy organizations can take advantage of available funding. We would therefore like to see the government provide more and better information to these organizations.

We are also asking that the ministers responsible for regional agencies support funding requests from provincial cooperative councils and auxiliary members of the Conseil canadien de la coopération, and that the important role of cooperatives within the social economy be more formally recognized. The social economy includes non-profit organizations, as well as a great many cooperatives. We are hoping to raise awareness within the federal government of the significance of the cooperative model for the social economy and of the need to ensure that cooperatives benefit.

In closing, Mr. Chairman, our small team at the Conseil canadien de la coopération is actively supporting the development of francophone cooperatives across Canada. For many years now, the CCC has benefited from funding made available by the Department of the Canadian Heritage. But that funding has dropped to the point where it is now practically non-existent. At this time, our organization is struggling to fulfill its mission. Canadian Heritage has suggested that we ask other departments for funding, but the fact is that doors were shut before others started opening. We are therefore asking for the cooperation of the federal government, and particularly Industry Canada, in this regard. We are asking for greater openness on the part of the government and for additional support. That support is absolutely crucial if the Conseil canadien de la coopération is to ensure that the cooperative model can really develop to its full potential.

As I said at the beginning of my presentation, our hope is that the federal government will come to see the Canadian cooperative movement as a full partner in the economic and social development of Canada.

Mr. Chairman, members of the Committee, thank you for your attention.

● (1010)

[*English*]

The Chair: Merci, Monsieur Rouleau.

From the Certified General Accountants Association of Canada, Mr. Colby.

Mr. Everett Colby (Chair, Tax and Fiscal Policy Committee, Certified General Accountants Association of Canada): Thank you, Mr. Chair.

Thank you for your welcome this morning and for the opportunity to appear once again before this committee. We're honoured that the Standing Committee on Finance is interested in the views of the Certified General Accountants Association of Canada.

By way of background, my name is Everett Colby. I'm chairman of CGA Canada's tax and fiscal policy committee. I'm also an owner of a public accounting firm. My client base is made up principally of small and medium-sized businesses, as well as individuals across Canada and internationally.

With me is Carole Presseault, vice-president, government and regulatory affairs for CGA Canada.

CGA Canada represents 62,000 members and students. We are the second largest and fastest growing accounting designation in the country. With a focus on integrity and ethics and one of the highest educational requirements in the profession, CGAs have become Canada's accounting and business leaders.

Mr. Chair, I'd like to start with some very brief remarks about what role we think the federal government should play in enhancing Canada's productivity. You've received copies of our brief as well as my remarks. They're available in both official languages.

CGA Canada believes that the federal government's primary role in governing the financial affairs of Canada and improving our productivity is best realized by getting the fundamentals right: by ensuring spending, tax, and regulatory structures do not diminish our ability to compete; by promoting economic policies that maintain low inflation and stabilize interest rates; by removing tax and trade barriers to innovation and commercialization; by providing a world-class infrastructure; and by dismantling barriers to allow Canadian goods and services to reach across provincial and foreign markets.

We consider the federal government to have made considerable progress in these areas in recent years. We're particularly pleased with your continued commitment to sound financial management. In the 2005 federal budget, Minister Goodale reaffirmed the government's commitment to reducing our debt-to-GDP ratio and maintaining a minimum $3 billion contingency fund. He renewed the commitment to review government spending and accountability. However, we are concerned with this continued growth in spending. Last year it grew at 12%, adding to a five-year increase of 44%. Indeed, in 2004-05, the increase in program spending was eight times the rate of inflation and three times the rate of nominal economic growth.

With a federal election in the offing, we caution the government to resist the temptation to increase program spending and to focus its attention on long-term economic growth. Spending growth cannot be sustained unless revenue sources are increased or budget deficits contemplated. This is hardly prudent or responsible.

Mr. Chair, our brief contains detailed recommendations in a number of areas covering five essential economic and fiscal fundamentals: 1) spend responsibly; 2) redefine fair, competitive taxation; 3) assure Canadians' income security; 4) achieve transparency through a third-party sustainability audit; and 5), meet tomorrow's workforce demands—you must.

Our brief contains a number of recommendations under each of these specific topics. My comments today will focus specifically on investment in Canada's entrepreneurial capital and our human capital. Canada is sliding in global stature, partly because of sagging productivity and a lack of investment. The time has come to introduce a multi-year, fair, and comprehensive tax strategy aimed at lowering the tax burden on both individuals and businesses. We would like to make the following proposals. We belive that, if implemented, these proposals will contribute to conferring a competitive edge on all classes of Canadian taxpayers relative to their international counterparts.

We propose that consideration be given to reducing personal income taxes. Currently, Canadians are saddled with an effective income tax rate of 60% for low- to middle-income tax earners and 80% on their investment income. Adjusting personal income tax rates and brackets would increase efficiency and enhance incentives, compliance, and other economically consequential factors.

● (1015)

Our second proposal addresses the growing consensus that to increase productivity and for Canada to remain globally competitive, we must reduce corporate taxes. Business taxes, among all other types of tax, produce disproportionate economic effects relative to the revenue raised. Low corporate tax rates will encourage robust investment in corporate Canada that will drive a significant increase in productivity. Indeed, even at reduced values, our corporate tax rates will exceed EU and OECD averages, unfavourably impacting Canada's ability to compete on transfer pricing, debt shifting, and choice of business location. High effective tax rates on capital, moreover, impede capital investment and job-creating foreign direct investment.

As part of the government's productivity agenda, Canada ought to investigate exploiting corporate tax advantages to become a preferred gateway for business and international expansion in the North American markets. Gains in investment, innovation, output, productivity, diversification, and jobs are highly probable, while fiscal costs and risk to the government remain relatively low.

Now I would like to turn your attention to the issue of investing in Canada's human capital. With an aging population and our economic growth potential slowing, Canada will need to address the broad fiscal, financial, and labour market implications of an aging population, as well as the repercussion for pensions, social benefits, and our system of health and long-term care. Canada needs to take steps now to meet our future labour and skill requirements. Practically speaking, CGA Canada believes the federal government must eliminate mandatory retirement at age 65 and diminish public pension incentives for early retirement.

In addition, governments must combine forces with employers to recruit young immigrants with those skills most highly sought by Canadian businesses. We must collectively recognize the inherent value that immigrants' training and qualifications can bring to Canada's marketplace.

As Canada's largest employer, the federal government should demonstrate leadership in workplace innovation that will lead to increased productivity and address skill shortages. These measures may include phased or extended retirement, workplace re-entry positions, flextime, job sharing, revamped pension rules, workplace child care, ensuring workers have up-to-date labour skills, and perhaps commitments to skills or knowledge transfer for people entering the workforce.

In conclusion, CGA Canada urges this committee to consider the following: spend responsibly; introduce multi-year tax reforms; and introduce measures to meet tomorrow's workforce demands.

We thank you very much for your time. As always, we appreciate the opportunity to participate in this process. We welcome any questions the committee might have on these or other recommendations contained in our brief.

Thank you.

The Chair: Thank you, Mr. Colby.

As a CGA, I want to thank you personally for making that presentation.

From the Road and Infrastructure Program Canada, Mr. Morrison.

Mr. Jeff Morrison (Executive Director, Road and Infrastructure Program Canada): Good morning, Mr. Chair, and thank you very much.

My name is Jeff Morrison. I'm the executive director of the Road and Infrastructure Program of Canada, or TRIP Canada. TRIP Canada represents the 11 provincial road-building and heavy construction associations across Canada, with a membership of over 2,000 companies. Our members quite literally build Canada.

[*Translation*]

The Committee has asked presenters to answer a specific question: how can the federal government enhance Canada's productivity?

In fact, in recent months, Minister Goodale has made a number of speeches in which he focussed on three key areas where the federal government must take action to improve productivity: innovation, human capital, and investments in physical capital and infrastructure — the last point being the one I will address today.

There is no doubt that we fully agree with the minister that investment in our physical capital is an essential condition for enhancing our national productivity.

In recent years, many reports have come to the same conclusion. The Conference Board of Canada, the TD Bank Financial Group, the Institute for Comparativeness and Prosperity, the House of Commons, and Statistics Canada are only some of the many groups that have drawn the same conclusion.

I will not dwell on this, given the amount of time available to me, except to say that it is a well-known fact that there is a clear correlation between solid infrastructure and improved productivity.

● (1020)

[*English*]

But the question before us is, how can Ottawa enhance our national physical capital? First, we need to give credit where credit is due. The last federal budget, in 2005, took two positive actions in this regard. It introduced the gas tax sharing policy to invest in municipal infrastructure, and it committed Ottawa to renewing and extending existing infrastructure programs once their funding expired. However, now that nine provincial and territorial gas tax agreements have been signed, we do believe there is room for improvement in the existing agreements.

As detailed in our brief, we do believe a number of the agreements are overly prescriptive with respect to the kinds of infrastructure that municipalities, particularly the larger ones, can invest in. We believe all municipalities, regardless of size, should be given the flexibility to invest in whichever kinds of municipal infrastructure meet their particular needs, instead of being told by Ottawa where their needs lie. As perhaps Mr. Pallister and Madame Wasylycia-Leis know, we understand that this is one of the reasons an agreement with Manitoba is being held up.

That said, we do see the forest through the trees, and we again want to recognize the great strides the federal government has taken with regard to making the gas tax policy a reality.

I do wish to discuss for a few moments what we are calling the forgotten infrastructure, the infrastructure that has been paid lip service by the federal government for far too long—that is, our national highway system. The national highway system is by far the most widely used mode of transportation in Canada. Last year, over $344 billion worth of trade was moved by highways; over 26 million Americans arrived in Canada via our highways; and almost 11 million Canadians travelled to and from work every day in part on our national highways. No other mode of transport even comes close in terms of its importance to maintaining Canada's standard of living and economic growth, but it's a system that's breaking down. We've calculated that the shortfall in investment needed to bring our national highway system up to an acceptable engineering standard is in the neighbourhood of $22.3 billion.

Let me be clear, this is not just some figure whose impact will materialize in years to come. We already see on a daily basis the impacts of that underfunding of our highways. In major urban centres, congestion has become just a way of life, which has a highly negative impact on greenhouse gas emissions. Border tie-ups are common. Smaller communities in regions throughout Canada are losing out because of traffic that's taking American routes and because of an inability to attract new investment as a result of insufficient transportation. Accident and fatality rates are unacceptably high, and the number of stretches of highways in Canada with the moniker "killer highway" seems to grow all the time.

I should add on a personal note, like Mr. Boshcoff, I hail originally from northern Ontario, and I can tell you that killer highways are as much a way of life up there as cold beer and moose burgers.

[*Translation*]

I also want to say that although roads and highways may be a provincial responsibility, the federal government itself has stated that it plays a role, in that there is joint funding of the national highway system.

From the passage of the Trans-Canada Highway Act in 1949 up until the creation of the Strategic Highway Infrastructure Program in 2001, under which Ottawa will provide 50 per cent of the needed funding to provinces so that they can invest in projects to improve the national highway system, the federal government itself has said that it has a role to play when it comes to the funding of our national highways. In this area, therefore, provincial jurisdiction is no excuse for inaction.

[*English*]

It's for these reasons that a coalition of organizations last week launched a campaign called Fix Our Highways. The main message of our Fix Our Highways campaign is clear: federal investment in highways is an essential step to increasing national productivity.

It's not just the organizations that form our coalition that are saying this. As part of our campaign launch, we released the results of a survey of members of Parliament on the issue of support for long-term sustained investment in Canada's national highway system. Of 112 responses, 109 MPs from all parties, all provinces, supported long-term highway investment.

I hope you all saw yesterday's edition of the *Hill Times*, where we publicly recognized and thanked those MPs—and, I should add, a few of you are sitting around this table.

That number, 109 MPs, is low. Many MPs, including, I might add, some senior cabinet ministers, indicated in private that although they do want to see more federal money for highways, they are not prepared to go public.

In conclusion, our request to this committee is very simple. In your report to the minister, we are asking that you include a recommendation that in the next federal budget the government include an announcement for long-term sustained investment in Canada's national highway system. Canadians are asking for it, provincial and territorial leaders are unanimously asking for it, we're asking for it, 109 or more of your colleagues are asking for it, and now we're just looking for you and the government to do it.

Thank you, and I'll be pleased to answer any questions.

● (1025)

The Chair: Thank you, Mr. Morrison.

[*Translation*]

Mr. Vieweg, from the Society of Management Accountants of Canada.

[*English*]

Mr. Steve Vieweg (President and Chief Executive Officer, Society of Management Accountants of Canada): Good morning Mr. Chair, distinguished committee members, and fellow presenters. My name is Steve Vieweg, and I'm the president and CEO of CMA Canada. My colleague, Michael Tinkler, the vice-chair of the CMA Canada national board of directors. I welcome this opportunity to appear before you today.

This morning I will briefly summarize the recommendations for improving productivity that we make in our submission. We believe Canada is an economic sweet spot. Canada compares extremely well with other G-7 nations when you examine the country's track record on balancing budgets, reducing debt, managing inflation, and creating full-time jobs. Unfortunately, however, Canada also has a serious soft spot: our recent record on productivity growth or, more appropriately, lack of growth.

This is troubling, because to us, boosting productivity is really about prosperity and improving the standard of living enjoyed by Canadians.

[*Translation*]

CMA Canada believes there are essentially two ways of putting Canada's productivity back on the right track. One is to make our tax system more attractive, and the other is to improve public sector management.

Let's begin with the tax system. Small- and medium-size enterprises represent a considerable segment of the business community and play a critical role in ensuring Canada's economic vitality. In order to stimulate productivity, we believe small- and medium-sized enterprises would benefit from the following measures.

We are recommending five improvements to the tax system which we think will improve productivity, particularly in these target groups.

[*English*]

First, we recommend increasing the threshold at which the small business tax rate of 12% applies, from $300,000 to $500,000. Incremental progress has been made to reach the $300,000 level over the last three years. However, we believe it is time to take a more dramatic step to encourage, and better enable, small business owners to reinvest in their businesses.

Second, we suggest using capital cost allowance rates in the United States as a basis for comparison, because machinery and equipment investment has been consistently higher in the U.S. for over 20 years. Where CCA rates for machinery and equipment are higher in the U.S. than Canada, let us adopt U.S. rates. Where the method of calculating the capital cost allowance differs between Canada and the U.S., let us move to harmonize the methodology.

Our third recommendation is to raise the lifetime capital gains exemption from $500,000 to $1 million. We believe that doing so would leave small business owners with more money to reinvest in the economy after they sell their business, be it in the form of angel money for existing businesses or venture capital to help finance start-ups.

Fourth, further steps are required to encourage research and development in Canada. Part of the problem is that the scientific research and experimental development tax credit has become too unpredictable for business owners and managers. Businesses need to be confident that anticipated R and D tax benefits will be realized and not ruled out down the road by government auditors. Accordingly, greater use of sectoral guidelines and advance rulings is needed.

In addition, steps should be taken to give researchers some form of preferred taxation status on personal income taxes.

Our fifth proposed change to the tax system would encourage the commercialization of R and D. Royalty revenues earned from licensing intellectual property are subject to tax at regular corporate rates. CMA Canada believes a royalty tax credit would encourage SMEs to undertake R and D and exploit the intellectual property arising from it by licensing technology as a business tool for growth.

Michael.

Mr. Michael Tinkler (Vice-Chair, Society of Management Accountants of Canada): Thank you, Steve.

Some may wonder why we link productivity and public sector management. To us, a key by-product of enhancing productivity is an increase in resources available to invest in health, education, infrastructure, and other programs that improve our lives. The Government of Canada is the single largest organization in the country, with considerable impact on the well-being of Canadians. Strengthening how it manages its own employees, programs, and expenditures can only help to ensure more effective and efficient use of resources aimed at improving our quality of life.

As an overall framework approach to strengthening public sector management, we urge committee members to resist any impulse to recommend new layers of prescriptive rules, regulations, and policies on top of existing ones. We believe that fewer—not more—and better rules are needed. We would prefer to see a strong principles-based framework, incorporating sound risk management, as opposed to a prescriptive command-and-control set of rules.

In fact, next month CMA Canada is publishing a new guideline entitled “Identifying, Measuring, and Managing Organizational Risk for Improved Performance”. We will be sharing this guideline with the Comptroller General of Canada because we believe it will assist him and his colleagues in their work. We would also be pleased to share our new guideline with committee members, perhaps through the clerk, Mr. Chairman.

● (1030)

[*Translation*]

We believe the government is doing what it can to improve the controllership function. However, that exercise will prove fruitless if we do not allocate adequate resources to employee recruitment and training, in order to meet the demand for accredited departmental controllers. We are very pleased with the announcement made yesterday by the President of the Treasury Board, who said that up to $35 million will be allocated to train experts in such areas as finance and auditing. That seems to be a good starting point.

Investments in systems are also required to ensure operational efficiency on a whole-of-government basis and more effective tracking of expenditures, and that more accurate and complete information is available to support sound decision-making.

We therefore urge the Committee to recommend that the upcoming budget provide adequate resources for these essential investments.

[*English*]

Mr. Chairman, I wish we could take credit for this, but subsequent to our written submission to you and your committee colleagues, the President of the Treasury Board announced a new policy on internal audit. Released last Friday, the new policy would take effect on April 1, 2006, to be fully implemented by 2009.

It will take us some time to fully understand and evaluate all of the measures introduced in the new policy on internal audit. Our very preliminary observation is that it appears to address the main issues that we identified in our submission to this committee. For example, firstly, there is independent representation on departmental internal audit committees. In fact, the new policy calls for a majority of the members of internal audit committees to be independent of the public service, and the preferred model is to have the committee entirely independent, as is the case now in the private sector.

Secondly, contrary to our suggestion, chief audit executives in departments and agencies are not to be nominated jointly by the deputy head and the Comptroller General. Deputy heads will have this responsibility. However, the Comptroller General was given responsibility to issue guidelines on the qualifications of chief audit executives. Moreover, the Comptroller General must be consulted by the deputy head when preparing the annual performance appraisal of the chief audit executive. In addition, the deputy head must also consult with the Comptroller General and Treasury Board Secretariat before any action is taken to discipline or terminate a chief audit executive. Safeguards on the removal of chief audit executives are just as important as ensuring a degree of independence in hiring.

Thirdly, deputy heads are required to attend all meetings of their department or agency internal audit committee. This level of participation would ensure deputy heads are aware of problems in their department or agency, and they would be in the position to order remedial steps to be taken wherever necessary.

Mr. Chairman, we thank you and your colleagues for your interest this morning, and we look forward to responding to any questions you may have during the question and answer session with this morning's panel.

The Chair: Thank you.

I have to be honest. This is one of the better panels we've had in terms of discipline—not in terms of content, because I don't want to go there. In terms of discipline, most of the presenters kept the time for their briefs under eight minutes. So thank you. We've caught up a lot.

I think we're going to get around to all the members who are here. We'll go to Mr. Pallister, Monsieur Bouchard, Madame Boivin, and Ms. Wasylycia-Leis, for five minutes each.

Mr. Brian Pallister (Portage—Lisgar, CPC): Thank you, and good morning, Mr. Chairman, colleagues.

Thank you very much for all your presentations. I would say that it's one of the better panels we've had in terms of content as well. I appreciate all your comments.

Our committee is charged with an onerous responsibility. We're asked to come up with recommendations that present a balanced and reasonable framework, if you will, for the tax revenues we take from Canadians. Your presentations are very much appreciated in helping us in that task.

Over the last couple of years, I think we've gone from pure dithering to dithering now with conviction. That's where we are in this country right now. It's dithering with confidence. When I say that, I mean there is still an inability to articulate what the priorities of this government are. I want to address that a little bit.

I say that with reference to things like a number of those you have referred to, like the corporate tax reductions that were contained in the budget. They are now off the table, then they're on, then they're off. This is the kind of thing that creates uncertainty in terms of investment and management decisions in our country, which makes it less likely that we'll achieve any kind of a productivity agenda in our time.

On the Bank Act proposals and bank mergers, are they are on or are they off? We don't really know from this government.

Aboriginal policy is a very important issue for the future of this country.

Much is said about feeling pain, but not much is said about how to alleviate the pain. Not much is said in terms of specific issues in that respect.

With infrastructure investment as well, there are a lot of uncertainties.

Frankly, the tone at the top does matter, as we all learn in our first-year business courses. As a revenue critic for the Conservative Party, I can tell you that this government doesn't have a revenue problem, it has a spending problem, and it's a major spending problem.

Again, the tone at the top matters in any organization. We've seen too many abuses of the spending privileges given to people in government positions, whether patronage or not. I appreciate your comments, sir, about how we have enough rules, but it doesn't matter how many rules we have, frankly, if they're ignored or violated, does it? Really, they could be innumerable, and it would make no difference.

I want to say, Mr. Morrison, that I really appreciated your comments. You know I'm a believer in a national highways program that works and that has significant investment in it. And you know, as Mr. Boshcoff does, of my concern for the need to see us have a twinned national highway throughout our country. To me, it's a long-standing oversight that has not been addressed. From a safety perspective and from a national unity perspective, I want to go on record as saying I am very supportive of your efforts and those of your members.

I want to ask you specifically how you view the government's new proposal to divide so-called surpluses one-third, one-third, one-third, into debt, tax, and spending. I'd like to know from you, Mr. Williamson, what you think of that proposal.

● (1035)

Mr. John Williamson: Our organization was quick to call it what it is, which is really just a silly idea. It is so prone to manipulation that it's an empty promise at the end of the day. There's nothing in it. The act is designed to divvy up future surpluses between spending, debt relief, and tax relief, but there's nothing preventing the government from spending down a surplus over the course of a fiscal year.

It also makes a mockery of accrual-based accounting, whereby we know we allocate spending in a fiscal year. If this begins to happen, where we're spending after the fiscal year, it makes it far more difficult for Canadians, parliamentarians, to track how money is being spent.

I don't need to say much more than that, except that I view it as a phantom tax cut promise and really just a goofy, silly idea.

Mr. Brian Pallister: It doesn't really address the silo mentality of spend it or lose it either, which is a concern. As a former provincial minister, I have to tell you that I see that as an ongoing challenge when dealing with any bureaucratic structure, frankly.

Mr. John Williamson: I would say it actually reinforces it. Again, if there's no commitment to cost control or spending restraint, it just ensures more spending at the end of the fiscal year that's unplanned for and unnecessary.

Again, I think it's far better to set targets in a budget and live with them. At the end of the year, if there's money left over, pay down debt and roll out meaningful tax relief to Canadians, rather than a promise that won't be met.

Mr. Brian Pallister: Several of you have alluded to the need for longer-term plans. Naturally, that is a goal that we certainly share with you, in terms of being able to plan, forecast, and invest in a climate of some certainty. Do any of you want to weigh in on that aspect or on this one-third, one-third, one-third proposal by the government at this point?

The Chair: Mr. Shaughnessy.

Mr. Kelly Shaughnessy: Maybe I'll kick off.

In raising revenue to finance government programs, there are fundamentally two variables: the rate of tax and the tax base. We firmly believe we should be making this country competitive. By making this country competitive we will establish a long-term capital base on which governments will be able to finance their programs that are very important to Canadians.

We have seen examples provincially and federally of what happens when you ratchet up tax rates. We've seen that very clearly in a number of provinces in Canada, and that is not what we want to see in this great country of ours. We believe very firmly in making this country competitive. I recall speaking with Mr. Penson. The competition is global today for capital; in some cases it isn't just in the northern states. The competition for capital today is throughout North America, the Americas, and the world. That is what we have to compete with.

● (1040)

The Chair: Thank you, Mr. Pallister.

I just want to remind the witnesses that we're limited in time. I'm going to allow the members five minutes, but that includes answers. If you could keep your answers concise, I would appreciate it.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman. I also want to thank each and every one of you for your excellent presentations.

My first question is for the witness from the Conseil canadien de la coopération. You say that the government should recognize the significant contribution made by the Canadian cooperative movement. You also would like to see more openness on the part of the federal government. Finally, you said that you were receiving assistance, including from the Department of Canadian Heritage, but that your funding has diminished or disappeared completely over the years.

At the present time, would you say that savings through the cooperative system are increasing or decreasing? Whatever the case, why are we seeing this result?

Mr. Michel Rouleau: Well, in actual facts, savings through the cooperative movement all across Canada are on the rise. Every year, there are approximately 200 more cooperatives established in economic sectors that are already mature, as well as in sectors that are part of what is called the new economy. Earlier, I referred to the social economy and new sectors where new cooperatives, as well as worker cooperatives are being established. So, it's a matter of individual communities taking charge.

Why is the Cooperative Investment Plan beneficial? Because cooperatives have to be given an opportunity to build their capital and if they only build capital through surplus reserves, that is not adequate to ensure their long-term development and vitality. That is why we are asking workers, members and producers to invest in their cooperatives. But in order for that to happen, there have to be tax exemptions. The system that has been in place in Quebec for the last 20 years has been very effective. So, we are asking the federal government to implement this same system — in other words, to contribute an amount equivalent to what the Quebec government is providing.

You may say that last year, we already asked the government to provide for the deferral of taxes on rebates for people who invest in a cooperative, but the fact is we were not asking for one or the other; we were asking for both. We explained that in order for there to be rebates, you first have to have a surplus. Not all cooperatives have the ability to provide rebates. When they don't provide them, there is no additional capital through deferral of that tax.

Does that answer your question, Mr. Bouchard?

Mr. Robert Bouchard: Yes, that's excellent. Thank you.

My second question is addressed to the Certified General Accountants Association of Canada. You talked about the fact that Canada is losing ground globally. You also said that our aging population is a significant problem and that we should probably increase immigration or, at the very least, suggest solutions to such issues as an aging population and job shortages, in particular.

Do you think the labour shortages you referred to and that many are predicting will affect Canada could result in higher productivity costs?

[*English*]

Mr. Everett Colby: I think it will lead to a lack of productivity if you don't have enough people to carry out the functions, if I'm understanding your question correctly.

The younger people who are moving up and coming up through the workforce represent a much smaller percentage of our population than the existing baby boomer generation. These people are also going to have the burden, theoretically, of supporting this aging population, and this side is reducing.

So we need not just immigration for immigration's sake, but immigration of a skilled labour force to help fill those roles that we don't have enough people to fill. That will help to increase our productivity, but it's not a direct link. We believe that in increasing productivity there's much more the government can do, especially in terms of taxation.

Maybe my partner can add to that.

● (1045)

[*Translation*]

Ms. Carole Presseault (Vice-President, Government and Regulatory Affairs, Certified General Accountants Association of Canada): Thank you for your question, Mr. Bouchard.

I believe a number of the recommendations contained in a research paper that we prepared and that is somewhat more substantial than this one suggest that we must ensure that workers can successfully enter the labour market. That means developing policies that will allow Canada to compete with other countries in attracting immigrants.

The tax side is important, but workplace initiatives are equally important to ensure successful integration, so that people can in fact make a contribution in the workplace.

Mr. Robert Bouchard: Thank you.

Le président: Thank you, Mr. Bouchard.

Ms. Boivin.

Ms. Françoise Boivin (Gatineau, Lib.): Thank you, Mr. Chairman. I want to thank all the members of the panel for being with us this morning. Five minutes to make a presentation is really very little time. And it's too bad, because we could practically devote one whole meeting to each of you.

I also want to convey my greetings to the witnesses representing the cooperative movement. I have a great deal of respect and admiration for the work you do. You do in fact represent both sides — in other words, the people who believe in something and the employees who get involved in all of that. I want to say a special hello to Sylvie St-Pierre-Babin who is in the room today and is very active in the movement. I support the measures you are proposing. I also want to say hello to Mr. Morrison. I was pleased to be able to openly support what you are proposing.

The problem with Canada's infrastructure is something that concerns me greatly. I heard the comments made by my colleague, Mr. Palliser of the Conservative Party — the party that left us with a pretty huge deficit. But seeing as how we have had eight consecutive balanced budgets and we are ranked first among the G-7 countries, we don't really need any one to give us advice.

That leads me to ask two questions with respect to infrastructure. You didn't say much about that. On the other hand, you spent a lot of time talking about tax cuts and lower tax rates. Yesterday, we heard from representatives of an engineering association who told us that we have a $60 billion infrastructure deficit.

With disasters occurring across the globe and what people in New Orleans — which is located in the most powerful country in the world — are experiencing, one may wonder why we didn't invest the amount of money, which really seemed like a lot of money — $15 billion at the time — but which, if you compare it with what it would cost now to make the necessary repairs… Well, it seems to me that kind of investment would have been extremely worthwhile, to avoid the devastating effects that we have seen in New Orleans.

So, when I hear it said that government spending is troubling and see that some people seem to be allergic to Bill C-67, which was introduced to try and ensure that there is a proper balance, that obviously raises questions in my own mind.

I would like to hear more from panel members with respect to our specific infrastructure requirements in Canada. We can enhance our productivity as much as we like, but if our infrastructure is crumbling, we won't have the time to think about anything else.

The public health issues that yesterday's panel raised with us are also a concern. When people say we should not be spending on government programs, I have to admit that I have some difficulty reconciling that with everything else.

That is why I support Bill C-67. Without necessarily saying that it is a panacea, it is certainly a way of ensuring some balance. And I have to say, Mr. Williamson, that I found your comments in that regard surprising. Do you believe our infrastructure needs in Canada are as serious as some people seem to believe?

And for those who have not yet had an opportunity to do so, I would be interested in getting your feedback on Bill C-67, the Unanticipated Surpluses Act.

● (1050)

[*English*]

Mr. John Williamson: Thank you. It's nice to hear your comments.

I didn't talk about gas taxes today and the gas tax transfer, but since 2000 we've been pushing for half the federal fuel taxes to be dedicated to cities across this country. We agree with that and have been advocating for that for a year, in conjunction with the gas tax cut.

The problem we have with those deals is that highways, roads, bridges, maintenance, repairs, and construction are not part of them. They are really plans to deal with water mains and Kyoto implementation, not road construction. Provinces across the country are now coming out and saying they also need money for roads, so I actually think an opportunity was missed with those deals, because the very people who are clamouring for infrastructure money are now saying they're not going to get it. I think what's happening in Manitoba is a sign of that, whereby the deal is being held up because the mayor there is insisting money be used for roads.

Do you know that Edmonton, Calgary, and the large cities in British Columbia can't use any of the gas tax money on roads or infrastructure spending around the highway network? That's a mistake.

Yes, spend on infrastructure, but don't call a gas tax transfer that's designed to implement Kyoto infrastructure spending, because it's not.

The Chair: Monsieur Lacombe.

Mr. Barry Lacombe: Yes, if I might respond to both of those questions, in terms of infrastructure, border infrastructure is exceedingly important to Canada's economic prosperity and well-being. I don't know if you've seen the report from the Coalition for Secure and Trade-Efficient Borders, but just the bottleneck at Windsor adds $2.3 billion in cost to Canadian manufacturers. It adds $800 to the price of each car; as you know, in the production of a car, it goes across the border eight or nine times. So border infrastructure is very important to Canada's economic well-being.

More generally, if we don't have a strong manufacturing sector... we might have the best infrastructure in the world, but you have nothing to take on it, in terms of economic progress. That is why we believe strongly that we have to focus on manufacturing and improvements in productivity through new investments in machinery and equipment due to improved capital cost allowances.

On the allocation of surpluses, it troubles me that it focuses on the surplus rather than on what one's doing underneath the surplus. We believe you need to have contingency plans. We believe in fiscal prudence, but we would rather see a budget that more accurately reflects spending and tax decisions so one is not dealing through the course of the year with the build-up of a surplus. Experience has shown that a surplus tends to go more to spending than to other activities. That's of concern to us, so we would rather see it done up front, clearly, and in a prudent way, but not focused solely on the surplus all the way through.

The Chair: Thank you, Mr. Lacombe.

Thank you, Ms. Boivin.

Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chair, and thanks to all of you for your presentations.

This panel is probably one of the first ones we've had in these pre-budget consultations that has given a fairly major focus to corporate tax changes or reductions.

It would be an understatement to say, as you know, that I'm not a big proponent of corporate tax cuts, but I have been following the literature a great deal. It seems to me there isn't any kind of uniform and united position among the business community for corporate tax cuts as a panacea for our productivity issues. In fact, some of the studies and some of the business folk suggest that we're in a period of considerable profitability for corporations. Don Drummond mentioned in April, on the TD Bank report, that we are at an unprecedented period for corporations having a pile of cash. Others have suggested that hasn't translated into investments that would increase productivity. Many feel there needs to be investment in areas like innovation, technology, education, and training.

My question is for Mr. Lacombe, Mr. Shaughnessy, and others. Why do you keep advocating for across-the-board tax cuts for corporations, as opposed to perhaps selective tax cuts that actually require certain investment decisions that would help productivity? If resources were scarce and we had to make hard choices, wouldn't it make more sense to at least start by focusing on education and training to prepare for the future in a 21st century economy?

● (1055)

Mr. Barry Lacombe: Thank you very much.

Let me take a shot at trying to answer that question or series of questions.

First of all, while there may have been some increase in corporate profits, as Don Drummond has pointed out, there have been investments, and one of the things that's happened is Canada has become a net exporter of investment. In other words, net foreign direct investment in Canada is now negative.

I think that reflects a number of things, including the corporate tax rate, because if one is going to invest, one takes a look at the North American market and one makes a choice as to where is the best investment environment. It may not be Canada. We have higher corporate tax rates. We have a lot of uncertainty about energy. We face a lot of competitive problems. So I think that's one dimension of this.

In terms of directed, we argue as a coalition that we need both. That is why we focused on a two-year writeoff for new investments in machinery and equipment. Most of the literature, virtually all of the literature, I think supports the proposition that somewhere about 50% of Canada's productivity gap with the U.S. is attributable to the fact that we're not providing workers with the most efficient and best technology to make use of their skills.

So if we went with a capital cost allowance, it would require investments, and you would, of course, have the fast writeoff, but that would move us some distance in solving the productivity gap between Canada and the U.S.

In dealing with the foreign direct investment net position, I think that's where we advocate general reductions in the corporate tax. They're very important to stem that flow and get us back to where we should be, which is being a net importer of capital. Those would be our positions on this.

That is why you can't see them as competitors. In many ways, they have to go along together, but certainly the one that works best for domestic productivity right now would be that capital cost allowance improvement for new machinery and equipment.

Mr. Bradley Rowse (President, Taxation Specialist Group, Senior Vice-President, Taxation, The Bank of Nova Scotia, Canadian Bankers Association): Mr. Chair, I'd like to add that one of the key criteria we're pushing is the elimination of the capital tax on an accelerated basis. It is widely recognized, and I think universally, that capital tax is an impediment to adding to the capital base and is a major roadblock on the way to productivity improvements. I think this is something that is universally sought.

On the issue of income tax cuts for corporations, broad-based, I think it's float the water and all ships rise. Canada does need to have a competitive environment to attract the capital, and lowering the overall tax rate sends that message more clearly than targeted cuts. You do need to get the message out internationally that this is a place for capital.

The Chair: Thank you, Ms. Wasylycia-Leis.

I have Mr. Penson, and then Ms. Minna and then Mr. Boshcoff.

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

We have a short time, so I'll keep it brief.

One thing we've heard quite a bit at this committee in pre-budget hearings, and not just this year but in many years, is that government needs to control their spending, and there's been a 44% spending increase in five years. That's over double the rate of growth in the economy, plus inflation. But others come along and say, what's the problem? Government is making lots of money; the corporate sector is making lots of money. There shouldn't be any problem here.

I want you to talk about the consequence of where we're going with this sort of uncontrolled spending and the urgency to do something about it. It seems to me that your argument is being lost in society. Somebody said here today, it's important to have balanced budgets. What does that mean? Anybody can have balanced budgets in government if you charge enough taxes, but isn't there a consequence for society, for our business sector, for capital?

Somebody talked about capital. There's a net outflow of capital these days. That should be very worrisome to Canadians, because the very people who are coming to ask for increased spending here... where are we going to get the ability to do that if our companies are not reinvesting in machinery and equipment because taxes are too high or there are better places to invest?

I want everybody to have a cut at that, if possible, in the short timeframe.

● (1100)

Mr. Michael Tinkler: Thank you, Mr. Chairman.

I agree with Mr. Penson that there have been increases in corporate spending, but I'd like to caution the members at looking at that on too much of a broad-brush basis. I think a lot of the sources of that spending might have been in certain program areas associated with statutory payments, in areas like employment insurance, pensions, and so on.

What we see from our perspective as management accountants is that on the management side—and I have to say that in my other life I am a management consultant who works with senior level and middle level public servants very often—the public service is stretched. When we talk about spending cuts, I think we have to be very careful that we don't cut where it's going to impinge on the government's ability to properly control its spending.

I don't know many finance departments or HR departments or IT departments where we've been that we can identify a lot of fat and waste. In fact, the impact of what's happened in the last 10 years has been to cut things, sometimes cutting things too much, which the government has recognized in its initiative on internal audit—

Mr. Charlie Penson: Mr. Tinkler, are you telling us you're supporting this 8% spending increase per year?

Mr. Michael Tinkler: Not totally in all areas. I'm just suggesting, Mr. Penson, that we need to be careful about not cutting across the board.

Mr. Charlie Penson: No, I understand that, but is that not a concern to you, the growth in the spending, 8% a year?

Mr. Michael Tinkler: I think when you look at it in terms of the overall picture, in relation to where that is putting us in relation to our debt and where that is putting us in relation to investments that can be made in productivity, like in infrastructure, in fact in the long run we are increasing our ability to earn revenues.

Mr. Charlie Penson: The question I have is, can this be sustained?

Mr. Williams, Mr. Shaughnessy, let's hear your views on this.

Mr. John Williamson: I can quantify it for you quickly. These are actually not my numbers. There's the TD study that showed that since 1989 the economy has grown by 26%, yet after tax incomes are up by an abysmal 3.6%. With these high taxes, basically we're working harder, we're working longer, but we're keeping less in our pockets at the end of the day, and that's having an impact on savings for retirement and on growth of the economy. What does too much money mean? We've changed so much in ten years. Where ten years ago when the budget was being balanced every dollar seemed to count, today I would say that's not the case in this city. I would say because of the excess money we don't have that same focus on getting value for the dollars the way we once did. I'll leave it at that because I know we're pressed for time.

Mr. Kelly Shaughnessy: Clearly, what we feel is that no matter what the growth in expenditure, no matter what the programs are, the way to finance those programs is to have a competitive tax environment in this country. And we can finance health care, we can finance education, we can finance all those things that are very important to the social fabric of this country and at the same time have a competitive tax environment, because if the tax base goes up, there is a lot that we can finance in the country. But my fear is that by having—I don't want to use the word "uncontrolled"—large increases in expenditure when the going is good right now, if the base isn't there, then it will result in tax increases at some future date, and at that future date we'd begin to lose the competitiveness of our country.

What I really think we have to do is have a very sound tax base, and that will permit us over the very long term to finance those programs that are important to ourselves in this country.

Mr. Charlie Penson: Do I have any more time, Mr. Chair?

The Chair: No, that's it. Thank you.

Ms. Minna.

Hon. Maria Minna (Beaches—East York, Lib.): Thank you, Mr. Chairman. I have a few areas, but I'll try to focus on two.

One of them is that I can't help but be baited by the comments made by Mr. Williamson, who said we are warehousing kids. I think it's totally unconscionable to make that kind of comment, quite frankly, and it shows that you have a total lack of understanding of what we're doing and what's really happening. Paying out $1,600 a child, as we're doing through the child tax credit to address the issue of poverty, does not even begin to deal with the need out there.

First of all, I've seen it in my own riding. Since the increase in child care funds, there have been spaces opened up. I've visited the schools, and the early years programs are working tremendously, because they work with the parents who need parenting assistance and they work with the children to give them a really good early start.

Your suggestion does nothing. It does not build infrastructure. It does not train the teachers, it does not keep the teachers updated, and it does not give them a decent salary. It does not do any of the things that children require at that early stage.

What I would do is I would look at extending possibly the parental leave from the current one year to 18 months or two years, because I think it would be great for the parents to have that. I do not see at all the impact of what the families need and the children need if we're child-focused, because the kind of money you're talking about will not allow families to stay home. Those women who are now working will continue to work. It's like saying let's shut down elementary school and give families a couple of thousand each, and then they can worry about whether there is an infrastructure and who trains the teachers, who hires them, and whatever. It's really the same thing, because early education...that's what it's about: early learning and care.

So just very briefly, because I have another area that I really want to get to in a second, could you give me an answer as to why you're still focused on this very ineffective way of giving to kids?

● (1105)

Mr. John Williamson: I think there are two. One, at the end of the day I believe a parent is still the best person, or parents are the best—

Hon. Maria Minna: If the parent can stay with the child.

Mr. John Williamson: Parents are the best people to raise kids, not professionals.

Now, when we put this together we actually looked at the federal government's proposal to spend $5 billion over the next five years on the day care program.

You're saying that our plan of $1,600 per child for every family is not enough. Well, $5 billion over five years is a drop in the bucket as well. In fact, you would only cover about 10% of the kids under 10 in a single year with $5 billion. So what you're advocating is in fact a huge program that's going to cost upwards of $30 billion or $40 billion a year, if you want to put all the kids in Canada in some kind of institutional program.

We're just saying, give parents a choice at the end of the day. This kind of change would be significant and would help parents.

Hon. Maria Minna: I think the system we're advocating does give choice.

The other thing is that people were saying to me, when I was canvassing in my riding, that they're paying $1,300 a month for a child in child care in the private system. So $1,600 pays for a month; what about the rest of the year? They'll look at me and say they want proper structure, not to mention the fact that early education is what it's about. Even with children at home, they should have some exposure to—

Mr. John Williamson: So are you advocating $1,300 for every parent who wants to put a child in—

Hon. Maria Minna: No, I'm advocating that we increase the $5 billion—which really amounts to $1 billion a year—or up that amount and really build a national early education and care program, rather than start wasting money, because it does not work, it is not effective, and it is not productive.

But I want to go on, because you and I are not going to agree on this one.

Mr. John Williamson: Probably not.

Hon. Maria Minna: I want to go onto something else. I just wanted to put that on the record because I'm very passionate about it; I've worked at it for years.

Mr. Colby, you had some good suggestions, with the exception of some of the tax cuts—though maybe we need to look at personal tax cuts. Certainly in the area of investment in human capital, I agree with you. On mandatory retirement, there is some discussion going on.

You made a comment earlier about how the government is spending rather lavishly, and somewhat irresponsibly, I suppose, to some degree. I think we tend to forget that we had huge or massive cuts to programs in this country, and that's why we're catching up on health care and catching up on a whole pile of stuff. Those cuts I was opposed to at the time.

The other issue is investing in human capital, and you mentioned immigrants, who I agree with you are obviously one way of bringing in skilled labour. The problem I'm having, though, is that we have a lot of immigrants in this country—and I'll tell you, a lot of them are in my riding. There is one area in my riding with eight buildings and 12,000 people who are underemployed and can't get jobs, and yet they're skilled—80% of them have graduated from university, yet companies are not hiring them.

Can you give me an idea about the other side of this equation? How do we get the labour force to hire these skilled people who are driving taxis and doing menial work and are struggling? It's a problem. Give me a solution. Where are industries taking their responsibility for this?

Mr. Everett Colby: All parties need to invest in that growth, and it goes hand in hand with increasing productivity. There is an economic cost to taxation; so for every dollar, let's say, of corporate tax, a company actually loses $1.37 of economic benefit. That $1.37 could go into creating more jobs to hire these skilled labourers.

Now, our comments in regard to the immigrants and the skilled labour force deal more along the lines, at this point, with how do we make sure we have enough people to fill all of the jobs that are going to open up when this aging population moves off the radar screen? Our population growth here is not going to be able to sustain that.

So while I agree with you that there are some problems right now —and perhaps that's more for the immigration minister to look at in terms of the overall profile of who is coming in—if business cannot reinvest in itself, thereby creating jobs, there aren't going to be the jobs for these individuals. So we're bringing in people without having the jobs for them yet.

● (1110)

Hon. Maria Minna: There are many sectors that are looking for employees, and these people still can't get hired. I think there's another barrier that we need to address, and that is racial problems.

The Chair: Thank you, Ms. Minna.

Thank you, panel.

I just have a quick question, Mr. Williamson, on your pre-budget submission. On page 8 you referred to increasing the basic personal exemption, which you say would cost us $4.3 billion in foregone revenues next year, rising to $27.9 billion.

Is that a cumulative number?

Mr. John Williamson: No, it's not cumulative; it's a total.

It's a hit, yes.

The Chair: If the exemption were $15,000 in 2009, you figure it would cost $27.9 billion?

Mr. John Williamson: That's right, and that's for both the spousal and the basic personal exemption, meaning that if you're earning $30,000 as a couple, you would pay no federal income tax.

The Chair: Great. Thanks.

Again, thank you to the panel. We went over time, as we started a little bit later. Thank you for taking time out of your day. You can see the challenges we have. Even though the panel was very similar, we still had different points of view. This is a challenge that we face as a committee, but thank you for your time.

The meeting is adjourned.

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