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Chair

Mr. Brian Pallister

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● (1530)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Good afternoon, ladies and gentlemen and members of the committee. It's nice to see you.

Our guests from the Department of Finance are here pursuant to Standing Order 81(4), main estimates, 2006-07, votes 1, 5, 10, and L15 under Finance, referred to the committee on Tuesday, April 25, 2006. I call votes 1, 5, 10, L15 under Finance.

We'll have a brief presentation and follow with questions.

Welcome to our guests.

Madam Volk, would you like to proceed?

Mrs. Coleen Volk (Assistant Deputy Minister, Corporate Services Branch, Department of Finance): Thank you.

Good afternoon, Mr. Chair. My name is Colleen Volk, the assistant deputy minister of the corporate services branch at the Department of Finance. With me today are Barbara Anderson, assistant deputy minister of the federal-provincial relations and social policy branch; Paul-Henri Lapointe, assistant deputy minister of the economic and fiscal policy branch; and Serge Dupont, acting assistant deputy minister of the financial sector policy branch, and many members of our department in the seats behind us.

[*Translation*]

We understand that the Committee will be meeting with other members of the Finance Portfolio – the Canadian International Trade Tribunal, the Financial Transactions and Reports Analysis Centre of Canada, the Office of the Superintendent of Financial Institutions, and the Office of the Auditor General – on separate occasions, so today's discussion focuses solely on the Main Estimates of the Department of Finance.

As you are likely aware, the Department's responsibilities include preparing the federal budget, developing tax and tariff policy and legislation, managing federal borrowing on financial markets, administering major transfers of funds to provinces and territories, developing regulatory policy for the country's financial sector and representing Canada in international financial institutions and fora.

[*English*]

The estimates that have been tabled in the House identify total budgetary requirements for the Department of Finance of $73.6 billion. It is important to know that $73.2 billion, or over 99%, of this amount relates to statutory votes for items that have already been approved by Parliament through enabling legislation. These include items like the payment of public debt charges, Canada health and social transfers, and equalization payments. These statutory votes are displayed in the estimates document for information purposes and will not be included in the appropriation bill.

Within the statutory votes there is a net increase of $4.1 billion over last year, with the major contributing factors being a $5.6 billion increase in transfer payments to provinces and territories and a $1.5 billion decrease in public debt costs.

The non-statutory votes of the Department of Finance show a decrease over last year. This consists of a $540 million reduction in grants and contributions related to payments made by Canada under multilateral debt relief initiatives, slightly offset by a $9 million increase to the operating vote, primarily related to increased salaries resulting from new collective agreements.

● (1535)

[*Translation*]

I would ask the committee to note that these Estimates were tabled before the Federal Budget and as such do not reflect any potential impacts. We are currently working with our colleagues at the Treasury Board Secretariat to determine what impact, if any, the budget will have on the Department's finances and, should there be adjustments, these will be reflected in a Supplementary Estimate.

[*English*]

We will be pleased to address any questions the committee may have on these estimates.

The Chair: Thank you for your presentation.

We'll begin with Mr. McCallum, for seven minutes, sir.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you.

Knowing a bit about functions in Finance, I suspect this first question would be for Mr. Lapointe. My first question is that given that page 218 of the budget plan says that the 2005 tax rate is 15% and the 2006 tax rate will be 15.25%, would he agree that that represents an increase?

Mrs. Coleen Volk: Chair, could we ask Serge Nadeau to answer that question?

Mr. Serge Nadeau (General Director, Analysis, Tax Policy Branch, Department of Finance): This is a tax reduction compared to the budget 2005 track, which has been legislated.

Hon. John McCallum: That wasn't my question. On page 218 of the budget it says that the tax rate is 15% in 2005 and 15.25% in 2006. That's the statement. My first question is, do you agree that that's an increase?

Mr. Serge Nadeau: Well, it's an increase compared with what is being administered currently; however, as I said, it's a tax reduction compared with the legislative fiscal tax reduction.

Hon. John McCallum: But is it an increase relative to what all Canadians paid this year? It says very clearly on the tax form—

Hon. Garth Turner (Halton, CPC): It was never passed, John.

Hon. John McCallum: —that the tax rate is 15%. So clearly Canadians, in filling out their tax form for the year 2005, paid 15% in 2005, as stated in the budget document. Is that correct?

Mr. Serge Nadeau: Do you mean compared with what is being administered?

Hon. John McCallum: No, not compared with anything. Is it 15%?

Mr. Serge Nadeau: That's right.

Hon. John McCallum: That's right.

Mr. Serge Nadeau: So compared with the 15%, yes, it's a tax increase; however, it's a tax reduction compared with the legislated tax—

Hon. John McCallum: No, but I'm just asking one question at a time, if I may.

It is true that Canadians, according to the tax form—and they've sent the money in, and filled it out—paid 15% for the year 2005. Is that correct?

Mr. Serge Nadeau: That's correct. It's a fact.

Hon. John McCallum: And it's true that Canadians in 2006 will pay 15.25%. Is that correct?

Mr. Serge Nadeau: That's correct.

Hon. John McCallum: Then how can you deny that's an increase in what Canadians are actually paying?

Hon. Garth Turner: Because the intention with the one-quarter —

The Chair: Order.

You each have time for questions, so we'll just let Mr. McCallum finish his round.

Hon. John McCallum: Would you agree that in terms of the tax rate Canadians are actually paying, as stated directly in the budget, it's going from 15% in 2005 to 15.25% in 2006?

Mr. Serge Nadeau: That's correct.

Hon. John McCallum: And similarly, the basic personal amount is going down, in terms of actual payments, between 2005 and 2006. Is that correct too?

Mr. Serge Nadeau: That's correct.

Hon. John McCallum: Okay. Then why on page one of the budget speech does it say the contrary: that the tax rate is going down?

Mr. Serge Nadeau: It's going down compared with the legislative track.

Hon. John McCallum: But how is that relevant to taxpayers who are actually paying the lower amount and who then in the following year go to a higher amount?

● (1540)

Mr. Serge Nadeau: Well, this is a permanent tax reduction compared with the legislated track. That's—

Hon. John McCallum: But is that relevant to Canadians, as opposed to what they actually pay? How many Canadians care about a legislative track versus what they actually pay?

Mr. Serge Nadeau: Well, this is a very.... I don't know how many Canadians care about that. I think many of them should, but one way or the other, here you're right, in the sense that the tax rate they were paying was 15% and now it's going to be 15.25%.

On the other hand, the legislated track is 16%, and now they are going to pay 15.5%. This is factual.

Hon. John McCallum: So all your tax tables showing the impact on families of given incomes are based on this legislative fiction, if one can use that term, that tax rates are coming down, when in fact they're going up.

Mr. Serge Nadeau: It's compared with budget 2005—the legislated track. Of course our table also includes other measures that were proposed in the budget—for example, the employment credit, and also a number of other tax targeting measures.

Hon. John McCallum: No, but that's not the question.

The tax tables are based on this idea of the tax rate going down instead of up. Is that correct?

Mr. Serge Nadeau: It's based on a 15.25% tax rate in 2005.

Hon. John McCallum: But in terms of impact, it's based on coming down to that, rather than up to that.

Mr. Serge Nadeau: The basis is budget 2005, you're right.

Hon. John McCallum: Okay, I have one last question.

Page 54 of the budget states: “Reflecting the Government’s focus on its priorities for this budget, it will not proceed with about $7 billion in spending proposals over five years announced in the... Economic and Fiscal Update.” But nowhere does the budget explain these cuts. Seeing that they have clearly been itemized and calculated, can you please tell us exactly what those $7 billion in cuts were?

Mr. Paul-Henri Lapointe (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): I would refer you to a number of tables in the follow-up data. I have them here.

If a measure is not included in the budget, it means that it is not proceeding. If you go to the tables in chapter 5 of the follow-up data under “Creating Opportunities for all Canadians”, under innovative economy, and under the global commerce, you will see the list of the initiatives that are not proceeding.

Hon. John McCallum: Well, are you able to provide to the committee those numbers adding up to $7 billion? People in my group were unable to reconcile those numbers.

Mr. Paul-Henri Lapointe: Well, as I said, we have those in the tables. I can point out to you later on where they are.

Hon. John McCallum: Okay. Well, thank you.

The Chair: Thank you.

Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Mr. Chair, I am going to ask one brief question, and then let my colleague speak.

This morning's newspaper published a piece claiming that the Report of the Auditor General, scheduled for next week, will say that $5 billion has supposedly been mislaid by the Department of Finance.

Could you give us any exclusive information about this sum? Where was it lost? What is being done about it? This is quite astonishing. I can barely wait till next week.

Mr. Paul-Henri Lapointe: I think that you are referring to tax revenue that the Canada Revenue Agency or the Customs Agency stated it probably could not collect. This question should be put to the Agency.

Mr. Yvan Loubier: The heading of the news item said that the Department of Finance had lost $5 billion.

Mr. Paul-Henri Lapointe: It is not the Department of Finance.

Mr. Yvan Loubier: I am going to wait till next week. I am going to go to the in camera meeting of the Auditor General.

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): My question concerns page 3 of the Estimates. The second and third votes, Youth Allowance Recovery and Alternative Payments for Standing Programs, have a negative balance. Why are the amounts negative? Are these estimates out of date?

● (1545)

[*English*]

Mrs. Barbara Anderson (Assistant Deputy Minister, Federal-Provincial Relations and Social Policy Branch, Department of Finance): With respect to the payments to the territorial government, we used to pay that through vote 5, and in 2005-06 we moved it into a legislative statutory program. So this is just a negative replacing the positive on the previous page.

Similarly, for the second one, the health reform transfer, when the Canada health transfer was created, this health reform transfer was rolled into it. So this is a negative just to account for the increase that you see on the previous page.

[*Translation*]

Mr. Thierry St-Cyr: What are the exact counterparts? You say that the youth allowances are in another vote. Which vote do you mean?

[*English*]

Mrs. Barbara Anderson: For the youth allowance, the variance there is a change in one year to the next. The transfers to territorial governments are now found on 9.2, under the Federal-Provincial Fiscal Arrangements Act, and the health reform transfer, as I said, that $3.5 billion, was rolled into the Canada health transfer.

Mrs. Coleen Volk: The transfers for the territorial governments can be found on the second statutory item on page 9.2.

[*Translation*]

Mr. Yvan Loubier: That is fine, Mr. Chair.

[*English*]

The Chair: Are there any further questions? No?

Over to you, Madam Ablonczy.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): It'll be Mr. Dykstra.

The Chair: Oh, Mr. Dykstra, please, seven minutes.

Mr. Rick Dykstra (St. Catharines, CPC): Sure.

My question really stems from this whole issue of trying to identify the 29 tax reductions that are in the current budget. The question I have is whether, one, the increase in the personal exemption rate, and two, the employment tax credit bring the overall tax burden down for all Canadians.

Mr. Serge Nadeau: That's right. If you compare to budget 2005, it does. It brings the tax burden down. As well, if you compare with the update overall, the tax burden on average is down.

Mr. Rick Dykstra: So it is down. That's good to hear.

I was interested to hear my colleague opposite suggest that Canadians don't necessarily care about all the issues we are dealing with on a technical basis, that what they care about is whether their taxes are actually going down. So I would put to you again that if we are to clear away all of the malaise, all of the crowded technical issues on the table, the basic sentiment, the basic objective that the finance department sees from this budget is a personal tax relief for Canadians.

Mr. Serge Nadeau: That's right. Overall, as it's presented in the budget plan, on average this provides tax reduction for every income class.

Mr. Rick Dykstra: The other question that I posed to Revenue Canada when they were here—and I wouldn't mind getting your opinion on this—was the process upon which the previous government's budget of last year was carried in terms of the implementation of the 16% to 15% reduction. Was that carried through a ways and means motion?

Mr. Serge Nadeau: That's correct.

Mr. Rick Dykstra: If I understand what Revenue Canada officials said on Tuesday, in fact the only way we can see that decrease actually enshrined is through legislation being introduced in this budget, because it was done through a ways and means motion last year.

● (1550)

Mr. Serge Nadeau: That's right. Making it permanent had to be through voting on a bill that allowed the reduction to 15%.

Mr. Rick Dykstra: I'm not trying to put you in the position of an elected individual, but if one were to vote in the House on this issue, to support that 16% to 15% reduction, one would in fact have to support the budget that we're going to be voting on at the end of the day.

Mr. Serge Nadeau: Actually, the bill would be different, because one would be the reduction from 16% to 15% while the other one would be a reduction basically from 16% to 15.25%. So it would be a different bill.

Mr. Rick Dykstra: Would it be included in the same bill, the same piece of legislation?

Mr. Serge Nadeau: No, because these would be contradictory.

Mr. Rick Dykstra: So can you clarify for me how the two will actually be passed?

Mr. Serge Nadeau: Actually, only one bill is going to be tabled, and the bill will propose that the rate be reduced from 16% to 15.5%, starting July 1, 2006. The gross amount would be what the bill will propose.

Mr. Rick Dykstra: The 16% to 15% reduction, how is that then going to be carried through?

Mr. Serge Nadeau: As CRA explained yesterday, in the past it has been customary for CRA to administer a tax rate reduction based on the tabling of a ways and means motion. So it has been administered.

Mr. Rick Dykstra: At a certain point, that reduction needs to be made through legislation.

Mr. Serge Nadeau: Lawrence, does it? Maybe I'll just ask.

Mr. Lawrence Purdy (Chief, Tax Legislation Division, Department of Finance):

Good afternoon. My name is Lawrence Purdy, and I'm with the tax legislation division in the tax policy branch.

If I may venture an answer to your question, Mr. Dykstra, a proposal to reduce a tax rate in the form of a notice of ways and means motion is in legal terms just that, a proposal, until the Parliament of Canada has voted on and approved it. Strictly speaking, it has no legal effect until it has been enacted by Parliament.

As an administrative matter, the Revenue Agency was prepared to act on the basis of the notice of ways and means motion for purposes, for example, such as employer withholdings from their employees. The measures in the current bill implement reductions in the legislative form, and assuming that this bill is passed, those will be the only ones that are enacted. The previous notice of ways and means motion died with the previous Parliament.

Mr. Rick Dykstra: So if that motion were not carried through in legislation, though, what would happen to the...?

Mr. Lawrence Purdy: There'd be no rate reductions vis-à -vis the 2005 budget. In other words, the rate reductions that are offered in this budget would not take place if that legislation were not enacted.

Mr. Rick Dykstra: So would that put us in a position of folks who did actually apply through their tax returns having to reapply based on the fact that 16% to 15% would have never existed?

Mr. Lawrence Purdy: It would put them in a very difficult position. It would also put the Revenue Agency in a very difficult position. It would have to decide how it would deal with that. It would be faced with large numbers of taxpayers who had filed with an expectation that rates would be *x*, finding out after the fact that rates in fact were not that.

Mr. Rick Dykstra: So in fact the reason it is in the budget is that the 16% to 15% reduction needs to be carried out through a piece of legislation?

Mr. Lawrence Purdy: If it's to have effect, there does need to be an enactment.

The Chair: Thank you, Mr. Dykstra.

Over to you, Madam Wasylycia-Leis.

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

I'm sorry I was a bit late. I'm glad you're all here. I gather, walking in, that we're asking general questions, not necessarily line-by-line questions? All right, this is great.

I have three areas I'd like to deal with. One is the surplus issue. How much surplus was there at the end of the last fiscal year?

Mr. Paul-Henri Lapointe: Well, we indicated in the budget that we estimated the surplus at $8 billion.

Ms. Judy Wasylycia-Leis: How much was there before you hived it off in different...? What was the total surplus before you began the spending of that in terms of different trust funds or different allocations? Was it $ 20 billion?

● (1555)

Mr. Paul-Henri Lapointe: If you go to the table 4.2 of the budget plan, we started out with the surplus estimated at $13.4 billion in the fall update.

Ms. Judy Wasylycia-Leis: Okay, and what was it just going into the end of March 31? That's all I'm interested in.

Mr. Paul-Henri Lapointe: Yes, that was the—

Ms. Judy Wasylycia-Leis: That was it?

Mr. Paul-Henri Lapointe: Yes.

Ms. Judy Wasylycia-Leis: At $13.4 billion. So we know that—

Mr. Paul-Henri Lapointe: It was estimated at $13.4 billion—

Ms. Judy Wasylycia-Leis: Estimated at, but you would have known then the exact number, because in fact decisions were made right at the end of the fiscal year to disperse significant amounts of the surplus, $3.3 billion to set up trust funds to implement the NDP's portion of last year's budget. You put $2 billion into CPP investment.

So I'm wondering what the total was going into the budget process and why the decision was made to leave five beyond the normal three for contingency and prudence?

Mr. Paul-Henri Lapointe: I'm not sure I understand what you mean by the CPP, but for 2005-06 we had a surplus estimated at $13.4 billion in the fall update. We had to account for measures that were taken before the update, and it reduced the surplus by $1.4 billion. We have the impact of consolidating the foundations in the government financial statements, which reduced the surplus further.

Then we have revised the surplus projections based on the latest economic forecasts that we had. So that gave us a revised surplus.

If you go to what was done with the surplus, we had to account for the tax reductions that took effect in January 2005, so we had total measures of $5.7 billion that we had to account for. Then we have the money that would be spent under Bill C-48 which amounts to a total of $3.6 billion. And this, of course, is conditional on the surplus being above $2.0 billion at the end of the year—we will know that in September—and that leaves us with a surplus after all this of $8 billion. That's the best estimate that we have now.

Ms. Judy Wasylycia-Leis: Okay.

Mr. Paul-Henri Lapointe: The year, of course, is not closed, as we're looking at the March numbers now, and we are going to go to the normal year-end adjustments for departments that have committed funds and the adjustment for revenue when we go from cash to accrual, and we'll have an estimate at the end of the year. But our estimate right now is $8 billion.

Ms. Judy Wasylycia-Leis: I raised the pension issue because as far as I read in the budget there was $2 billion from surplus dollars that went into the CPP fund to deal with...well, I'm not sure exactly why, because the pension is solvent for another 70 years. I'll come back to that. That's not the main point of my question.

What I'm trying to get at is that there's been general agreement by all sides that we should leave some money aside for contingency and prudence and that in fact it does go against the debt. Nobody quarrels with that. But in this case we're $5 billion over that which is likely to go against the debt, or has gone against the debt. Some would say that's good. As far as I can tell, that brings the debt down from $494 billion—straight math—to $489 billion. I'm trying to understand if you've done any cost-benefit analysis of doing that, which probably reduces the time we pay off our debt by a few seconds in a day, versus the $5 billion that could have been invested using the accepted formula of a trust fund, as we did with the Bill C-48 money, in something like child care.

Maybe I'm getting into political issues, and I shouldn't be asking these questions, but I'd like to know, wouldn't the cost-benefit of putting $5 billion into, say, a child care fund over five years produce a lot more than paying off the debt by that much, which brings the total down a bit but sure doesn't do much to stimulate the economy, grow the economy, and build for a reduction in the debt in the long term?

● (1600)

Mr. Paul-Henri Lapointe: All I can say is that we would have had to have authority to spend the money. We used Bill C-48 to provide funds—

Ms. Judy Wasylycia-Leis: Which was great, I acknowledge.

Mr. Paul-Henri Lapointe: The rest goes to reducing the debt.

Ms. Judy Wasylycia-Leis: I acknowledge that, absolutely. I said it from the beginning, but there's $5 billion that could have solved the problem; you could have met the targets for child care and we could have reaped enormous benefits.

The Chair: I'm sorry, Madam Wasylycia-Leis, did I mention we're not televised today?

Ms. Judy Wasylycia-Leis: I'm not doing it for television; I'm doing it because I'm...I was going to say pissed off, but I won't.

On the question of the changes in terms of the GST, I'd like a cost-benefit analysis of that reduction of 1% in the GST. As far as I understand, it really does have a very minimal effect for low-income earners. People under $40,000 might, if they're lucky, reap $199 in benefit from that reduction, as opposed to something like a $900 benefit to a family making over $150,000.

I would assume you've got that kind of a breakdown and you could table with us a chart that shows who reaps the benefit and how the 1% reduction in the GST affects families right across the board.

Mr. Serge Nadeau: We could share that with you.

Ms. Judy Wasylycia-Leis: That would be great.

Mr. Serge Nadeau: As you can imagine, this is based on statistical models, but this data is available.

Ms. Judy Wasylycia-Leis: That would be great.

Do I have time for one more question?

The Chair: No, you don't; time has elapsed, but there may be a subsequent opportunity.

Mr. McKay, five minutes.

Ms. Judy Wasylycia-Leis: He wanted to finish his answer.

Mr. Serge Nadeau: The fact is that for those with very low incomes a GST reduction provides more tax relief than an income tax reduction—just to clarify what you mentioned.

Ms. Judy Wasylycia-Leis: That's not what the main authorities on anti-poverty say.

A voice: It's a fact.

The Chair: Time is up.

Mr. McKay.

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

Ms. Judy Wasylycia-Leis: On a point of order, please.

The Chair: Yes.

Ms. Judy Wasylycia-Leis: Could I ask that the evidence to back up that statement be tabled with the committee?

The Chair: You did, and he agreed to.

Ms. Judy Wasylycia-Leis: No, on this last piece.

Hon. John McKay: Thank you, Chair.

I want to ask a question about the Kelowna accord. You'll recollect the November update, and you'll recollect that the November update provisioned for the Kelowna accord. My recollection is as well that the sources and uses tables provisioned for the Kelowna accord, and yet it's been suggested that those moneys were never booked. Can you advise me as to whether it was reflected in the November fiscal update and reflected also in the sources and uses?

Mr. Paul-Henri Lapointe: The Kelowna accord was not reflected in the fall update numbers because the accord took place after the update. The funding is coming from the surplus unallocated in the fall update, and at the time we said the surplus would be used to address other priorities, and that's all there was. The accord came after the fall update, and therefore the numbers were not reflected in the document.

Hon. John McKay: So coming out of the surplus, though, with the change of government, that sources and uses line simply got stricken from the books and moneys were then made available to other uses. Is that a fair statement?

Mr. Paul-Henri Lapointe: The government indicated what measures would be confirmed and which ones they would not follow through on, and they decided to proceed differently with regard to aboriginal issues.

Hon. John McKay: So roughly it freed up about $5 billion for other uses?

Mr. Paul-Henri Lapointe: It's probably not that much, but—

Hon. John McKay: Somewhere in that neighbourhood.

Mr. Paul-Henri Lapointe: Yes.

Hon. John McKay: The second question has to do with a chart that appeared in the 2005 budget. I know it appears on your website, and it has to do with, if you will, the advocacy of a tax relief measure. The chart talks about the economic value of tax relief in the area of capital cost allowances or capital taxes or personal income tax versus a consumption tax. And in your documentation and in your chapter in the 2005 budget, it talks extensively about what is the best tax relief for increases in productivity. Are you able to confirm that chart and that information is still valid information, and it's still the view of the department that in terms of productivity the consumption tax is the last tax you would cut—assuming you had a choice—and personal income tax or capital cost allowances are in fact first choices to be able to develop an enhanced productivity?

● (1605)

Mr. Serge Nadeau: The department has published a number of studies in the past that showed that according to economic models, from an economic efficiency point of view, the consumption tax is the most efficient. With that being said, however, there are a number of factors entering into the decision as to whether or not to reduce a particular tax. There are, of course, other criteria such as administrative simplicity, fairness, and so on and so forth. But if we believe these models, the consumption tax is the most efficient tax.

Hon. John McKay: It's not only private sector economists who would take the view the department holds, but the department has not changed its view in the last few months.

Mr. Serge Nadeau: If we believe these models, then that's what these models say. Just to make sure, however, the budget reduced the GST but also reduced many personal income taxes and corporate income tax. In fact, in terms of tax reduction, most of the tax reduction is in terms of income tax, not the GST.

The Chair: Thank you, Mr. McKay.

Over to you, Mr. Turner.

Hon. Garth Turner: Thank you.

Can I talk about vote 10? Are we okay with that?

Mrs. Coleen Volk: Yes.

Hon. Garth Turner: Vote 10 is a change from the previous estimates, which named two insurance companies in the mortgage insurance business as being GE Capital, now Genworth, and CMHC. And now we're changing the wording of that to throw this open to more competition, I presume.

There are some issues here that concern me a little bit, because right now half of all the mortgages being insured in this country are basically high-ratio mortgages. And we have a real estate market that's gone nuts, and we have housing prices that are the highest ever. It strikes me that high-ratio mortgages are now an issue of some importance, and particularly if the real estate market starts to unwind, the Government of Canada has a potentially huge liability on its hands. So we need to be fairly careful as we open up this area to more competition.

So my questions are pretty simple. Have you consulted with the stakeholders prior to this being put before us? In other words, have the existing companies in the mortgage insurance field been able to offer their input into this change?

Mr. Serge Dupont (Acting Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): That's a good question. Obviously the mortgage market is evolving rapidly, and this is an important measure.

In fact, simply to clarify, CMHC is not named here. Rather, it is the predecessor company, the Mortgage Insurance Company of Canada, in the prior vote, that has ceased to do business, and GE Mortgage Insurance, which is the predecessor to Genworth. Those were the two there.

What the vote does, as you're indicating, is allow the minister to enter into agreement with other companies to basically offer the same guarantee facility to those other providers. These other providers, then, clearly would be coming into competition with Genworth and with CMHC for the mortgage insurance business.

In regard to the prudential part of your question, these providers obviously are regulated by the Superintendent of Financial Institutions. They need to hold sufficient capital commensurate with the risks they're taking. Therefore, that is providing some level of comfort that the guarantee is not an open-ended type of liability but rather is a contingent liability that is protected through prudential means.

● (1610)

Hon. Garth Turner: Just to clarify, though, in the case of Genworth, that's 90% that the Government of Canada—

Mr. Serge Dupont: Correct. It is not exactly the same treatment as CMHC.

Hon. Garth Turner: Right. The Government of Canada is on the hook for 90% of what Genworth lends somebody to buy a home with 5% down.

Mr. Serge Dupont: Well, the way it works is that if there is a default of a house owner, the financial institution then would first realize on the property. For the shortfall, they would then go to their insurer. Their insurer is regulated by OSFI, the superintendent, to ensure that it has sufficient capital to be able to withstand these kinds of contingencies. So the government guarantee comes into play only if the insurer—in this case Genworth, the only one out there—were to become insolvent. Then the government would have to....

Genworth, in addition to holding its regulatory capital, in support of this agreement with the Government of Canada is contributing to a guarantee fund that is providing further capital against this contingent liability for the Government of Canada. It is also paying a fee to the Government of Canada. So there are a number of steps before you actually reach the government liability.

Hon. Garth Turner: Yes, I understand.

The chairman has a hell of a heavy gavel in this committee, so can we move it along a little bit?

Mr. Serge Dupont: I'm sorry.

Hon. Garth Turner: Thank you. No problem.

The Chair: You have time left, Mr. Turner, if you'd like to use it creatively.

Hon. Garth Turner: My creative question is, have you consulted with Genworth?

Mr. Serge Dupont: We have had a number of discussions with Genworth over the past number of years, until recently. We have not consulted with them on this specific vote.

We, to my mind, have always been clear with Genworth that this was not an exclusive type of agreement we had with the company, and there was never any representation made to that effect. So Genworth was not consulted with regard to the specific wording, but would have had reason to expect that at a point in time another competitor would come in to claim for the same facility.

Hon. Garth Turner: All right. So we haven't—

The Chair: You have enough time for a quick question.

Hon. Garth Turner: So we haven't talked to the stakeholders here. Have we done some analysis on the impact that adding competition to the marketplace would have? In other words, have we given some thought to whether some of the principal players in this market, who are now insuring people in rural areas and other people who may not be getting this kind of coverage, would exit that in the face of new competition, to just go and pick off more of their prime clients? In other words, have we looked at the marketplace ramifications on consumers of this rather significant change?

Mr. Serge Dupont: I guess we would hold that more competition ultimately is a good thing. We have not tried to assess, if a new player comes in, what actually would be the new market shares and exactly who would have what share of what market. We have not done that type of detailed analysis.

The Chair: Thanks, Mr. Turner. Time is up. We'll go now to Mr. Savage, but perhaps you will have time to follow up later on.

Hon. Garth Turner: I have a question on his statement.

The Chair: Over to you, Mr. Savage.

Mr. Michael Savage (Dartmouth—Cole Harbour, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for appearing today.

I want to follow up on a request made by Ms. Wasylycia-Leis about a chart concerning benefit by income class on the GST cut. That was a question. Is it going to be provided to us?

Mr. Serge Nadeau: Yes, it will be.

Mr. Michael Savage: I just wanted to make sure that would be provided. Thank you. I'll be very interested in seeing that.

On July 1, the basic personal exemption is going to be lowered by $400. Is that correct?

Mr. Serge Nadeau: That's correct.

Mr. Michael Savage: What's the impact of that on the lowest-income Canadians?

Mr. Serge Nadeau: For the lowest-income Canadians, well, it depends on what income class you're talking about. If it's someone making around $15,000, that would mean approximately—I'm just counting in my head here—about $30.

Mr. Michael Savage: So the taxes will go up

Mr. Serge Nadeau: Yes, by $30, but they will benefit from the Canada employment credit as well as from other measures, and of course from the GST reduction.

Mr. Michael Savage: That's assuming they have employment income.

Mr. Serge Nadeau: That's correct.

Mr. Michael Savage: Let me come back to that.

Let me ask you a question. Maybe Ms. Anderson would be interested in answering this. What's the department's view on the Atlantic accords?

● (1615)

Mrs. Barbara Anderson: The government, I think, has been very clear that they will respect those accords.

Mr. Michael Savage: What do you think of that?

Mrs. Barbara Anderson: I'm a bureaucrat. That is....

Mr. Michael Savage: The reason I ask is that the government took pains to actually print this in the document, the concern they felt that the accords were widely criticized as undermining the principles on which equalization is based. Do you think that's true?

Mrs. Barbara Anderson: I think there have been a great many concerns raised about the Atlantic accords.

Mr. Michael Savage: By the department?

Mrs. Barbara Anderson: No, by other provinces and through the media.

Mr. Michael Savage: They have not been by anybody in Nova Scotia or Newfoundland and Labrador, but I don't want to get political about it.

Let me ask you another question, if it would be fair. The cuts to Environment Canada amount to how much from this budget?

Mr. Paul-Henri Lapointe: There are no cuts to Environment Canada.

Mr. Michael Savage: Were there no cuts to Environment Canada, to the EnerGuide for Houses program?

Mr. Paul-Henri Lapointe: Yes, there are some programs that will not be followed through. They are included in the $7 billion or so of measures that will not be implemented.

Mr. Michael Savage: Can you confirm that the EnerGuide for Houses for low-income Canadians has been cancelled?

Mr. Paul-Henri Lapointe: Well, there is a program that exists already in the fall update providing additional funding for that.

Mr. Robert Dunlop (General Director, Economic Development and Corporate Finance, Department of Finance): Mr. Chair, and members of the committee, I can't answer the question about specifically how Environment Canada has been affected. You were speaking about the elements that were included under Bill C-66, which was passed. Some elements were proceeded with in this budget, and the government also indicated that other elements wouldn't continue, and that included the EnerGuide programs— some programs run by Environment Canada and others by Natural Resources Canada.

Mr. Michael Savage: Correct, but that would be a cut. The EnerGuide for Houses for low-income Canadians has been cut.

Mr. Robert Dunlop: Yes, that's correct. That's part of the—

Mr. Michael Savage: The $500 million over five years is no longer in the budget.

Mr. Robert Dunlop: That's part of the amount that Monsieur Lapointe was speaking about earlier.

Mr. Michael Savage: Thank you very much.

Thank you, Chair.

[*Translation*]

Le président: Mr. St-Cyr.

Mr. Thierry St-Cyr: I have two questions. The first one is about the Department of Finance. The Prime Minister often talks about the next equalization report. I wanted to know how this report is coming along. When will it be made public? Mid-May and late May have been mentioned. What is the objective?

[*English*]

Mrs. Barbara Anderson: The latest that we hear from the expert panel is that they anticipate having their report completed by the end of the month.

Mr. Thierry St-Cyr: It will be at the end of May.

Mrs. Barbara Anderson: There is not an announced date as yet, but we are anticipating it.

[*Translation*]

Mr. Thierry St-Cyr: All right.

For my second question, I would like to come back to what was said earlier about the impact of the extension of mortgage insurance to private companies other than Genworth Financial Canada. There has not been much said about the impacts that this extension would have on Genworth and other possible private insurers.

Has anyone studied the effects of this on the Canada Mortgage and Housing Corporation, on its market share and eventually on its current accumulated surpluses?

Mr. Serge Dupont: The policy in this area as in others is to promote competition so as to ensure competitive prices for buyers of properties. No estimate has been made to find out exactly how large a market share each of the stakeholders would have, according to the various scenarios. It will be up to the market to decide, under the policies set by the stakeholders, what the effects will be on market shares.

● (1620)

Mr. Thierry St-Cyr: Would you be inclined to say, intuitively, that new players will take market shares from both Genworth Financial Canada and the Canada Mortgage and Housing Corporation, or whether the private insurers will divide up the same share they hold at present?

Mr. Serge Dupont: It will be up to the market to decide, in the light of strategies used as much by CMHC as Genworth Financial Canada and the new stakeholders.

Mr. Thierry St-Cyr: For now, you have not done any analyses to try and see how the...

Mr. Serge Dupont: We are not making any a priori judgments on the way the market will react when the new competitors arrive. As a rule, competition ensures better prices and better service, and produces better results as much for the clients as for financial institutions and in the end the buyers of properties.

Mr. Thierry St-Cyr: All right.

[*English*]

The Chair: Mr. Turner.

Hon. Garth Turner: Thank you.

I do want to pick up from where I left off and where my colleague followed up on this. I have some basic questions here about vote 10.

The benefits of competition, as I understand from your last response, would be more competitive pricing and better service. On what do we base those comments?

Mr. Serge Dupont: It's simply the basic rules of the market. As you bring more suppliers into a market, that tends to provide either better prices, better services, or better outcomes for the demand side of the market. In this case it's the financial institutions directly, and the consumers indirectly.

Hon. Garth Turner: So it's just a theoretical supposition that competition breeds lower prices and better service across the board.

Mr. Serge Dupont: I think it's a general proposition in the domain of economics.

Hon. Garth Turner: But we haven't done any research, and we haven't talked to the stakeholders.

Mr. Serge Dupont: The stakeholders could have a different view about whether competition is a good thing. But I would hold that in general competition flows through and benefits the demand side of the market.

Hon. Garth Turner: So you haven't talked to experts like Clayton Research Associates, independent analysts who look at these issues and determine the likely impact on consumers.

I'm asking this because the stakes are fairly high right now to make a fundamental change in the mortgage insurance marketplace, are they not?

Mr. Serge Dupont: I understand. I guess to some extent the same questions could have been put to officials when the first private sector provider was brought into the marketplace. I think the judgment over the years is that it's been a good thing; that Genworth has made a good contribution to the marketplace, alongside CMHC, and that other competitors may also bring new innovations, new ways of doing things, new products or services to the marketplace that would also be a good thing.

Hon. Garth Turner: But are we not concerned about a diminution of service? I'm thinking particularly about some rural areas and some parts of the marketplace—people with less-than-perfect credit who may not be as well served when the major players are now in greater competition to retain their market share and their bottom line. Obviously it's easier to go for the well-heeled, urban neighbourhoods where there's less risk for these guys than in the regions, or with people who have imperfect credit who also deserve to buy homes.

Mr. Serge Dupont: I guess whether one has a monopoly or there are two or three corporations, there will perhaps be some more attractive segments of the markets than others. If these markets are being served now, it's not necessarily obvious why they would not be served if there were more competitors in the marketplace.

Hon. Garth Turner: Is one of the major advantages you're visualizing lower insurance premiums for high-ratio mortgages?

Mr. Serge Dupont: Or it could be some form of better service. The marketplace will decide what the innovations will be, whether in terms of product, price, or servicing. That will be for the marketplace to determine.

Hon. Garth Turner: Mr. Chairman, we seem to have something before us that is based on no research and no consultation. I'd like to make a motion that this committee invite experts here to give us answers to the questions being asked. I think the stakeholders and independent industry sector analysts should be invited here.

Before we vote this in, change the marketplace, and impact the most expensive real estate market we've ever had in our country—in which, as I've said, half of all mortgage takers today get mortgage insurance—we need to know what we're talking about. With respect, I don't think we do right now.

I would like to make that motion, please.

● (1625)

The Chair: Mr. Turner, to facilitate that, the committee has adopted a rule that you have a 48-hour notice for motions. Of course, you could do that.

To satisfy you, I would mention that we're not going to be proceeding with votes on this until probably the middle of next week. So you have ample time to bring a notice of motion forward, and we can deal with it as a committee at that time.

Hon. Garth Turner: Didn't I just do it?

The Chair: You have to give notice of motion. You wish to do a motion; you said you wanted to move. I suggest you have to make a notice of motion.

Your time is up.

Over to you, Mr. McKay.

Hon. Garth Turner: Notice of motion.

Hon. John McKay: Thank you, Mr. Chair.

Hon. Garth Turner: Could I ask if there might be unanimous consent on the part of the committee to invite these people to come and chat with us?

The Chair: What you've just done is give a notice of motion.

Hon. Garth Turner: Could I ask if there might be unanimous consent from the members of the committee that we proceed to invite these particular people to come before us, so we know a little more about how to vote on this issue?

The Chair: You need the unanimous consent of the committee to overturn the rules we've adopted as a committee. If you wish to do that, then we would be dealing with the motion at this point and not at our next sitting. I can ask the committee if they would like to give unanimous consent to that.

Yes, Mr. McKay.

Hon. John McKay: Perhaps I could speak to it briefly.

The Chair: Yes, briefly.

Hon. John McKay: I think Mr. Turner is actually on to something. This is a significant public policy change with fairly significant implications in other areas with respect to mortgage insurance. It should be explored: i.e., the 75% versus 80% versus 85%, why CMHC has 100% but Genworth has 90%, and such things. I think it's a rather significant public policy issue.

We would be interested in exploring this public policy issue, and if it's necessary for the purposes of Mr. Turner's motion, we would waive our 48 hours. But if in fact this is not going to come up as a vote today, then we may accomplish the same thing.

The Chair: That's my earlier point. To be clear, we're on the topic right now of waiving the 48-hour notice requirement we adopted just last week. Now, if this point is to that, please proceed; if not, then we'll move on.

Ms. Judy Wasylycia-Leis: Certainly it's to that point. In fact, what we're talking about are important matters pertaining to the estimates for the Department of Finance that need clarification before a vote is taken. Therefore, the request to waive the 48 hours is to ensure that we hear appropriate testimony on a particular issue before we vote.

Related to that, I might add it's normal practice for the minister to appear before estimates are approved. I think we also need to waive the 48 hours to consider the motion to request the minister to appear on the estimates pursuant to Standing Order...whatever it is.

Mr. Rick Dykstra: We are debating—which I'm not even sure you can actually debate in terms of rules of procedure—a move to unanimous consent, which is not even debatable. Now we're moving to debate something else, a motion that has nothing to do with unanimous consent.

The Chair: So I ask again for unanimous consent. Do I have unanimous consent to move to Mr. Turner's motion?

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Can you just repeat the motion? I'm scared that...there seems to be something here to avoid the finance minister's coming.

The Chair: Mr. Turner, are you going to draft something right now?

Mr. Massimo Pacetti: I just want to make sure that's not the intent here.

Hon. Garth Turner: The intent is simply that this committee request the presence of stakeholders and expert witnesses with regard to vote 10. It's simply that.

The Chair: Okay. Do we have unanimous consent to bring that motion, first of all? Yes?

Would you like to move that, or can I just read into the record that you have so moved what you just said? Are you okay with that?

● (1630)

Hon. Garth Turner: Yes, please.

(Motion agreed to)

The Chair: Mr. McKay, it's over to you.

Hon. John McKay: Thank you.

I want to explore the issue of so-called fiscal imbalance, particularly with respect to what this budget does or doesn't do for that issue.

Here is what I understand the budget to do: it puts up $255 million for several provinces, sets aside $3.3 billion to fund Bill C-48 obligations, makes a commitment to talk, and makes a commitment that in 2007 it will bring forward legislation in the sweet by and by. At the same time, the budget actually seems to take money, or reasonable expectations of money, away from provinces.

Can you confirm that the $3.5 billion for workplace skills and the vast bulk of the $5 billion committed for early childhood learning has in fact been removed?

Mrs. Barbara Anderson: Let me answer the second question first. As Mr. Lapointe pointed out, some of the $7 billion reduction did include those things you have just mentioned. The child care money for 2006-07 will flow to the provinces and then those agreements will be replaced.

Hon. John McKay: If in fact we do all the toing and froing here as to what's in and what's out, is it fair to say the transfers to provinces this year will actually be lower in this budget?

Mrs. Barbara Anderson: No, because this year the child care transfer, which is not included in our definition of the statutory programs run by the Department of Finance, was a separate contribution agreement provided through Social Development Canada, which is now HRSD. So the transfers have increased substantially from one year to the next. The early childhood development this year would be as predicted, because it will be flowed for 2006-07.

Hon. John McKay: So are the provinces actually, in absolute dollar terms, receiving more money or less money this year, in this budget?

Mrs. Barbara Anderson: In 2006-07 they will receive substantially more through the equalization program. If you look here, the numbers have been updated. There's the 3.5% escalator on that program, so the provinces will receive more. In addition, there's a 6% escalator on health transfers, and they will receive that. There are $3.3 billion in trust funds that they will receive, and they will continue to receive the child care money for 2006-07.

Hon. John McKay: There have been some newspaper issues with respect to how Ontario's being treated. Can you confirm that the Canada-Ontario agreement will be fulfilled?

Mrs. Barbara Anderson: The government was clear—I don't have the page number here—

Mr. Paul-Henri Lapointe: It's page 159.

Mrs. Barbara Anderson: —on page 159 that the Ontario agreement will be honoured.

Hon. John McKay: So the concerns of the provincial treasurer are unfounded?

Mrs. Barbara Anderson: It's hard for me to speak to other people's concerns. The government has been very clear that it will honour the agreement. There is perhaps a difference of opinion on the part of the Minister of Finance from Ontario as to how that will be done, but there is no difference of opinion on whether it will be honoured.

Hon. John McKay: What is the difference of opinion? What's the issue between the Province of Ontario and the Government of Canada at this point?

Mrs. Barbara Anderson: That is difficult for me to say. The Ontario minister has raised the issue of the climate change fund. You see in the budget that there is money applied against that commitment for these two years. Far be it from me to say that I do not altogether understand their concern, but their concern has been raised.

● (1635)

The Chair: Thanks, Mr. McKay.

Madam Ablonczy.

Ms. Diane Ablonczy: With respect to this somewhat interesting controversy about Ontario, there was an agreement made with Ontario, I believe, to address their fiscal imbalance to the tune of $5.8 billion. Is that agreement being kept?

Mrs. Barbara Anderson: Yes. As it says on page 159 of the budget, the government will honour the commitment made in the Canada-Ontario agreement. That agreement, you will remember, was to address some concerns of the Province of Ontario with specific inequities and some concerns with long-term spending in certain areas. So yes, it will be honoured.

Ms. Diane Ablonczy: All right. That's good to know. I'm sure Ontarians will be happy to know that.

Hon. Garth Turner: I'm happy with that.

Hon. John McKay: Extremely happy.

Hon. Garth Turner: We're happy.

Ms. Diane Ablonczy: There's much happiness here. This is good.

You've said that the personal income tax reductions in the 2005 Liberal budget were only proposals until approved, so my question is, if these estimates before us today are not approved, then those proposed reductions in the Liberal 2005 budgets are null and void. Is that basically what happens? Perhaps you can explain.

Mr. Serge Nadeau: Are you talking about the proposals in the November 2005 update, or in the budget 2005?

Ms. Diane Ablonczy: I'm talking about the personal income tax levels having been 16% and then proposed to be 15%.

Mr. Serge Nadeau: I will again ask Lawrence, who is a legislative specialist, to comment and answer your question.

Ms. Diane Ablonczy: Good. You have lots of experts here. That's good.

Mr. Lawrence Purdy: Thank you.

Mr. Chairman, I'm not sure I can add a great deal to what I said before.

The status of legislative proposal as it moves through Parliament includes, of course, introduction as a notice of ways and means motion, but the notice of ways and means motion itself is not an enactment of Parliament and it doesn't have the power of an act of Parliament. So a proposal that has reached the stage of a notice of ways and means motion but has not proceeded to enactment does not have legal effect.

Ms. Diane Ablonczy: So it's important that these estimates are passed in order to give it effect. Is that correct?

Mr. Lawrence Purdy: The proposals in the 2006 budget will only become law once they are enacted, once they form part of an act of Parliament, yes.

Ms. Diane Ablonczy: I'm talking about the proposals in the 2005 budget, which are in the estimates before us today.

Mr. Lawrence Purdy: Oh, I'm sorry. I'm actually not certain of that. I must admit I don't know much about the relationship between the tax legislation and the estimates themselves.

Ms. Diane Ablonczy: Perhaps you could find out, because that's kind of an interesting wrinkle. We should probably know the answer to that.

With respect now to the money going on to Ontario, once the 2006 budget is passed, then more moneys will flow to Ontario. Is that correct?

Mrs. Barbara Anderson: That's correct.

Ms. Diane Ablonczy: And how much more would that be?

Mrs. Barbara Anderson: On page 159 it is laid out what they will get in respect to 2006-07 and 2007-08.

Ms. Diane Ablonczy: This has been an interesting question for me because the 2005 Liberal budget is spread out over five years. The budget 2006—the new Conservative budget—is spread out over only two years, so we're kind of comparing apples and oranges here. I wonder what the significance is of a shift from a five-year to a two-year planning horizon.

Mr. Paul-Henri Lapointe: Well, I don't know if you're referring to the Canada-Ontario agreement again or more generally, but with respect to the Canada-Ontario agreement, what the budget does is show very explicitly how the agreement will be met over these two years, and it makes a general statement about the five-year agreement overall, which would be honoured.

The budget does not provide year-by-year, detailed numbers beyond 2007 and 2008, because we are on a two-year budget horizon.

● (1640)

Ms. Diane Ablonczy: Now, with the five-year horizon, the figures I see in the tables, for example, table 5.8, are heavily back-end loaded. In other words, hardly any of the tax relief promised over the five years takes place in the first two or three years. The promise is that most of it will take place in the last two or three years. And it seems to me if I were a Canadian I would want to see the promise kept right away, because who knows what could happen five years down the road? Anything can happen. There could be a change of government. There could be some kind of fiscal change of heart on the part of the government that made these promises.

The Chair: You're out of time, Madam.

Ms. Diane Ablonczy: Why would there be a need to have promises made that aren't going to be kept till two or three or four years from now? How is that good financial planning?

The Chair: Give a brief response, if you wish, sir.

Then you're out of time, Madam.

Mr. Paul-Henri Lapointe: All I'm saying is that the budget shows clear commitments for the next two years. It doesn't go beyond this, with a few exceptions, like the infrastructure programs, where it shows the commitments over the next four years. But for most of the budget commitments, it is clearly a two-year budget horizon.

The Chair: There is time for a couple more questions.

Madame Wasylycia-Leis, s'il vous plaît.

Ms. Judy Wasylycia-Leis: Just a couple?

The Chair: Oh no, five minutes.

Ms. Judy Wasylycia-Leis: Thank you.

The Chair: My past experience tells me, Madam, that will mean, at most, two.

Ms. Judy Wasylycia-Leis: The first question I have was hinted at before, with the cuts in the environment area. I would assume it is the finance department that would issue a directive around any decisions taken by the government to find savings through cutbacks in programs. We know that the government has announced its intentions to find $22 billion in savings, and we would assume some of these things we're hearing about in dribs and drabs are part of that.

So is there an overall directive? Who issued it? When's the deadline? And what are the guidelines for the $22 billion in savings?

Mr. Paul-Henri Lapointe: Well, the budget announced $1 billion of cuts this year and next year, for both years. Treasury Board Secretariat is working on this, and there is a commitment to report by the fall on it. So it is really the Treasury Board that will work on finding the savings that we are talking about here.

The only other mention of the allocation is with regard to the child care measures in 2007-08 that will be replaced with other environment measures. But again, the reallocation that we are talking about is the responsibility of Treasury Board.

Ms. Judy Wasylycia-Leis: So you don't know anything about $22 billion—nothing from the minister?

Mr. Paul-Henri Lapointe: All I'm saying is that Treasury Board is working on a plan right now.

Ms. Judy Wasylycia-Leis: And the finance department wouldn't know anything on that, right?

Mr. Paul-Henri Lapointe: Well, we will be informed of what they are doing.

Ms. Judy Wasylycia-Leis: Okay, I'll move on, then.

As the finance department, you're responsible for the budget. There must be some reporting mechanism from Treasury Board to you, then, in terms of these cuts, because someone has to be there to understand the ramifications to be able to account for it. Are you the final stop? Does the buck stop at the Department of Finance, in terms of analysis?

Mr. Paul-Henri Lapointe: No, this is the responsibility of the Treasury Board.

Ms. Judy Wasylycia-Leis: What about in terms of the overall budget? There's always been a requirement that a gender analysis be done of the budget. The last time I asked, I was told that nothing had happened to that point last year, other than that each department supposedly does its own gender analysis and contributes it to the overall. But is there no one in your department who does an overall analysis based on gender, so we can see which parts discriminate against women?

This leads me to the next question, which has to do with the new child allowance, because my understanding is that it will in fact benefit...disproportionately and negatively single-parent women at the low end of the scale with children under the age of six. So I'd like to know if analysis was not done before that decision was made?

Secondly, could you give us a chart with the numbers actually breaking down the disbursement of the child allowance by income group and family category.

That would be one question. I have more, though. I'm just trying to get this all in before I get cut off.

● (1645)

Mr. Serge Nadeau: In terms of a chart giving a breakdown of the benefits by income, we have those available, yes.

Ms. Judy Wasylycia-Leis: Okay, and you can table that with the committee?

Mr. Serge Nadeau: Yes, of course.

Just to make sure, I'm not sure if we have the data available by gender, though. We have that available by family, of course, but we don't have—

Ms. Judy Wasylycia-Leis: But at least we'll know whether they're female-led families or not; we can at least get that much, because you'd have that if it's by family.

Mr. Serge Nadeau: We have that by family, but we don't know if they are headed by women or men.

Ms. Judy Wasylycia-Leis: You wouldn't have it by women?

Mr. Serge Nadeau: Not necessarily.

Ms. Judy Wasylycia-Leis: Okay. I would assume, even though the Minister of Justice from the province of Manitoba said the opposite, that the child allowance is going to be taxed federally?

Mr. Serge Nadeau: It's going to be taxed based on the lowest-income spouse or partner.

Ms. Judy Wasylycia-Leis: When you give us that chart, would you give us the chart after the federal taxes are taken, and any clawbacks from the provinces that you know of?

Mr. Serge Nadeau: Well, we are able to give you the after-tax value by typical family, but the provinces—actually, five provinces—have said that they would not claw back the child allowances.

Ms. Judy Wasylycia-Leis: So could you give us a breakdown for two provinces: one that claws back and one that doesn't, by family category?

Mr. Serge Nadeau: I think it would be better to ask the province to do that, because they are more aware of their programs than we are. What we can do is give you the impact of the—

Ms. Judy Wasylycia-Leis: I've two more quick questions, very quickly.

The Chair: No, thank you, Madam Wasylycia-Leis. You're out of time.

I have a quick question for Monsieur Dupont, if I could. I believe the budget alluded to a white paper, or a discussion document of some kind, on financial institutions. When will that be forthcoming?

Mr. Serge Dupont: There's been no pronouncement on the timing, other than the spring. Obviously, it is a decision for the minister to make as to the timing of the contents of that white paper.

The Chair: Is it your department that's working on that?

Mr. Serge Dupont: Yes, that's right, it's the Department of Finance.

The Chair: Thank you.

We have time for a couple more.

Mr. Savage, over to you.

Mr. Michael Savage: Thank you, Chair.

I'd like to spend a little bit of time on Bill C-48 and what's happened to that money since Parliament dissolved last year. Bill C-48 put $1.5 billion into post-secondary education. Correct?

Mr. Paul-Henri Lapointe: No, $1 billion.

Mr. Michael Savage: Bill C-48, I believe, was for $1.5 billion.

Mr. Paul-Henri Lapointe: Yes, it allowed for up to $1.5 billion.

Mr. Michael Savage: What's happened to that money?

Mrs. Barbara Anderson: It was enabling legislation that the government could provide “up to” an amount. The announcement that was confirmed in the budget was that the government had decided to provide to provinces and territories—there was also a foreign aid component—up to $3.3 billion. It was laid out here that for post-secondary education there would be a $1 billion trust, an $800 million trust for affordable housing, and $300 million for housing aboriginals off-reserve.

Mr. Michael Savage: I understand that; it's all of Bill C-48. I want to speak specifically about the money for post-secondary education, because Bill C-48 wasn't designed or dedicated for universities and post-secondary education. It was specifically earmarked for student access, was it not?

Mrs. Barbara Anderson: No, it was a pretty broad “up to” for post-secondary education and training, including...but I don't have the exact words here.

Mr. Michael Savage: Did the language not say student “access”, to improve student access, particularly aboriginal student access?

Mrs. Barbara Anderson: Including aboriginal student access, and we certainly hope that the provinces spend this money that's been provided through a trust in ways that increase or improve student access. There is no reason to think they won't.

● (1650)

Mr. Michael Savage: There's no reason to assume they won't or no reason to assume they would, either, correct?

Mrs. Barbara Anderson: There's every reason, I think, to assume they would. We've worked on operating principles for the trust, which outlines the objectives.

Mr. Michael Savage: I appreciate that.

The concern is that we've spent a lot of money in universities in Canada in the last number of years, $13 billion particularly in research, leading the G-7 in publicly funded research. We've done a pretty good job on that and we need to keep the pressure on. But I think there's a consensus in university communities, certainly among students but also university presidents and professors I talked to, that access is the issue. The economic update followed Bill C-48 and in fact dwarfed Bill C-48 in the money that it put into student access—$2.2 billion, for example, for the lowest-income Canadians, persons with disabilities, aboriginal Canadians.

My concern is that there is nothing specifically dedicated to student access. Tax credits do not help the lowest income Canadian, even the massive textbook tax credit of $80 on an $8,000 tuition at Acadia or $6,000 at Dalhousie. So my concern is there is no absolute way of ensuring that the money in Bill C-48 is actually going to go to students, is there?

Mrs. Barbara Anderson: No, there is not, legally—

Mr. Michael Savage: Thank you.

Mrs. Barbara Anderson: —but we would argue that the tax measures in the budget should assist low-income students—

Mr. Michael Savage: We can all argue about the benefits.

Mrs. Barbara Anderson: —and that the government, as part of the fiscal balance discussions, has highlighted the area of post-secondary education as one of the priorities.

The Chair: Monsieur Loubier.

[*Translation*]

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

I have two short questions to ask our guests. Regarding the $1,200 for each child under the age of six, paid in monthly instalments of $100, the federal government in its last budget said specifically that that would not affect the National Child Benefit. However, it says that next year the National Child Benefit Supplement will be eliminated. So there is already a cost related to the $1,200 a year, that is, the disappearance of the National Child Benefit Supplement. Even if it is not doing anything to the National Child Benefit, the government is still going to take tax from families that receive the $1,200 a year for each child under the age of six.

Have you estimated, out of the total of $9.6 billion for this program of $1,200 for each child under the age of six, how much tax recovery by the federal government annually, including the National Child Benefit Supplement, will be worth?

Mr. Serge Nadeau: Yes, we have estimated these amounts. I could send them to you.

Mr. Yvan Loubier: Roughly speaking, how much are they?

Mr. Serge Nadeau: For both, about $600 million.

Mr. Yvan Loubier: Six hundred million dollars?

Mr. Serge Nadeau: Yes. I will have to check to be absolutely certain, but the tax paid to the federal government on the program is about $300 million. And the saving is also about $300 million.

Mr. Yvan Loubier: All right.

You estimate that, with the contingency reserve, in 2006-2007 and 2007-2008, federal surpluses, after the measurements of the last budget, will be $3.6 billion and $4.4 billion respectively. Mr. Flaherty wrote in his budget that for the next budget, in the spring of 2007, he will deal with the matter of fiscal imbalance. To settle this matter, however, talk up to now has been of a minimum of $9 to $10 billion a year for the whole of Canada.

Did you prepare a statement of non-recurring estimates and revenue programs, that are going to end in 2006-2007 and 2007-2008, and also the annual $1 billion saving that you mentioned awhile ago that would make it possible to reach higher levels in the surpluses already recorded of $3.6 and 4.4 billion, for example, starting in 2008-2009, when we will have enough money to settle this matter once and for all?

● (1655)

Mr. Paul-Henri Lapointe: As you know, the budget is showing a surplus of $3 billion, plus $1.4 billion in 2007-2008, and the government undertook to reallocate some resources. For the fall, we are aiming at a permanent amount of $1 billion. There will be other exercises. I do not know what the amount will be for subsequent exercises, but there will be others. So it is another source of additional funds.

Mr. Yvan Loubier: Yes. What is the range of amounts attributable to recovery? I do not want to talk necessarily about 2007, but if a budget commitment is made by the Prime Minister as of 2007, do you think that for the following years the range that could be freed up in 2008-2009, 2009-2010 might be enough to reach the amounts I just mentioned? Is that a possibility?

Mr. Paul-Henri Lapointe: All I can say to you...

Mr. Yvan Loubier: Is this a possibility?

Mr. Paul-Henri Lapointe: I cannot judge what amounts will be deemed satisfactory; we could discuss that for a long time. Nevertheless, there is already a surplus which is not allocated and there will be additional allocations. I cannot determine the amount right now. No one can know what it is. All I know is that there is an exercise under way at present, that there will be a report this fall and that it will continue afterwards. What amounts will be freed up? I do not know.

Mr. Yvan Loubier: Do you think, for 2008-2009, that it is possible that there might be a reallocation of some $5 billion?

Mr. Paul-Henri Lapointe: I would not like to speculate on any amount whatever.

Mr. Yvan Loubier: But, Mr. Lapointe, you usually speculate.

Mr. Paul-Henri Lapointe: No, I do not speculate.

Mr. Yvan Loubier: You used to speculate about surpluses in the past. Very badly, but you did it...

Some hon. Members: Ah! Ah!

Mr. Yvan Loubier: All right, I will get back to you on that sometime.

Le président: Thank you, Mr. Loubier.

Mr. Harvey.

Mr. Luc Harvey (Louis-Hébert, CPC): Earlier, a question was asked about 16%, 15%, 15.25%. I usually stick to the bottom line. The gymnastics required to get to the bottom line do not matter much, it is the final result that counts.

Will that represent a real tax reduction, yes or no?

Mr. Serge Nadeau: Do you want to talk about the effect on personal income tax compared to the November update?

Mr. Luc Harvey: I want to know what the effect will be compared to my last tax return.

Mr. Serge Nadeau: Yes, on average, income taxes will be lower. If you also include the GST reduction, nearly everyone will have a real decrease in their income taxes.

Mr. Luc Harvey: A bit earlier...

Mr. Yvan Loubier: I hope that you agree, it is your government.

Mr. Luc Harvey: A bit earlier, there was talk of $5 billion to eliminate the debt. What saving, in terms of interest, does a refund of some $5 billion have?

Mr. Paul-Henri Lapointe: More or less, if we take the interest rate in effect on the debt, which is about 5.5%, a reduction in the debt of some $8 billion represents a permanent saving of slightly more than $400 million a year.

Mr. Luc Harvey: These are recurring amounts. Agreed.

I have one final question. In your opinion, at what rate should we pay off the debt so that it is fair? I am the father of four children and may be a grandfather one day. What would be equitable, as a debt reimbursement cycle, so that one generation does not lose more or so that it does not have to pay more than another? Is this a good question?

Mr. Paul-Henri Lapointe: That is a very good question. However, if you put it to all the people sitting around this table, I am sure that you would get as many answers, if not more, as there are people. I cannot venture to say what the optimum reimbursement or the optimum reduction of the debt is. I can say, though, that the government aims to reduce the debt-equity ratio – which is really the relevant figure in terms of measuring the debt burden – to 25% in 2013-2014. We have to remember that it was over 68% in the mid-1990s. This is huge progress over the situation then. So I can simply tell you what the rate of reduction of the debt burden planned here is.

● (1700)

Mr. Luc Harvey: At that rate, when will the debt be reimbursed?

Mr. Paul-Henri Lapointe: Reduction of the debt burden results from reimbursement of the debt, that is, from $8 billion to $3 billion, but especially from growth of the economy. It is important to consider the debt burden in relation to the size of the economy, that is, the capacity of Canadian taxpayers to assume this debt. That is what is most important. There may be a reduction of up to 25% shortly before the middle of the next...

Mr. Luc Harvey: Would it be preferable to cancel the debt or to maintain it at its present level?

Mr. Paul-Henri Lapointe: We can always have all sorts of wishes and say that it would be preferable not to have any debts. What I see, myself, is that we are making huge progress and we are going to continue to make progress so as to deal with future demographic pressures.

Reduction of the debt burden also results in a reduction of the share of government revenue that is devoted to payment of interest on the debt. In the mid-1990s, over one third of every dollar collected was used to service the debt. At present, this percentage is a little over 16%. By decreasing the indebtedness ratio to 25%, this ratio will be about 12¢ a dollar, or a third of what it was in the mid-1990s. This decrease will give us enough flexibility to cope with the pressures stemming from future demographic changes.

The Chair: Thank you very much, Mr. Harvey.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chair.

My question is about the same subject. Our debt is about $499 billion, is it not?

Mr. Paul-Henri Lapointe: It is $494.4 billion.

Mr. Massimo Pacetti: If we plan to reimburse $3 billion a year, that means that we are going to be reimbursing the debt for another 125 or 130 years, or more. I think that is the answer that Mr. Harvey was looking for.

As for interest rates, if they increased by 1%, would that mean that we could end up with an extra $4 billion in interest at the end of the year?

Mr. Paul-Henri Lapointe: The document shows the impact of changes in interest rates on servicing the debt. An increase of 1% in the interest rates results in a variation in debt service of about $1 billion. So, if the interest rates increase by 1% during one year, there will be a net increase of...

Mr. Massimo Pacetti: This is $1 billion, not $4 billion. It is not 1% of the total debt. Thank you.

[*English*]

This next question is mainly for information. I wasn't here at the beginning of your presentation.

How does it work for the budget process? We had the Canada Revenue Agency and had different numbers thrown at us on the costs whenever there's a change in policy, such as when the tax rates go from 15% to 16%, or from 16% to 15% and 15.5%. The one that we had questions on was the GST, when the GST is reduced from 7% to 6%.

I'm a bit worried. If you're not talking to a department like the Revenue Agency and trying to determine how much it's going to cost, I wonder, with all these measures when you're preparing a budget, how much it really costs to implement some of these measures, especially some of these superficial ones where we're giving back $80 for books and public transit and things like that.

Mr. Serge Nadeau: In terms of the GST, I believe Monsieur Michel Dorais yesterday said that it would cost around $10 million in total to administer the tax reduction. More generally, we do speak with CRA to find out how much it costs to administer measures.

● (1705)

Mr. Massimo Pacetti: But do we have any idea of what the GST would have been, the reduction from—

Mr. Serge Nadeau: On the GST, Monsieur Michel Dorais mentioned yesterday that it would cost $10 million to administer the change.

Mr. Massimo Pacetti: But it wasn't clear whether it was $10 million, or whether it was recurring or non-recurring?

Mr. Serge Nadeau: No, it's non-recurring; it's $10 million flat. The transition from the 7% to the 6% will cost $10 million.

Mr. Massimo Pacetti: Are there any costs related to the private sector? Do you look at what it costs in the private sector? Does that affect your numbers, or...?

Mr. Serge Nadeau: In the context of the GST, for example, it's very difficult to go beforehand and ask them, how much is it going to cost you? However, the change was very much supported by the business sector, because they expect to do more business after the tax reduction is implemented.

Mr. Massimo Pacetti: I'm not sure which business sector.

How about when you are affecting other departments? Is there communication with them?

Mr. Serge Nadeau: Yes, there is communications in the sense of departments that would be.... I'm talking here in terms of the tax policy. Yes, there are discussions with the departments involved in the implementation of some measures.

Mr. Massimo Pacetti: Okay. So none of the budget measures of 2006 will be in the estimates. Is that correct?

Mr. Serge Nadeau: That's my understanding; the estimates came out beforehand.

Mr. Massimo Pacetti: Okay. So the estimates for 2006-07 are all based on the 2005 budget. Are there any budget initiatives in the 2005 budget that have been eliminated and should not be in 2006-07?

From what I understand, for example, the child care agreement is still applicable. It's been cancelled, or will be cancelled, but the 2005 or 2006 agreement is in place. But the Kelowna agreement has been cancelled and no money was dispersed. Would that not be in the estimates? I'm not sure.

Mr. Paul-Henri Lapointe: No, all the measures proposed in the post-fall update would not be included, unless confirmed by the government. All the measures in this budget are not reflected in the mains.

Mr. Massimo Pacetti: Will that be in the supplementary?

Mr. Paul-Henri Lapointe: It will be in the supplementary estimates, yes.

The Chair: Thank you, Mr. Pacetti.

I want to give Madam Wasylycia-Leis a chance to ask a question.

Ms. Judy Wasylycia-Leis: Since I have to go, I'll ask this in 30 seconds.

On the question of mortgage insurance, I know we're going to come back to it; however, I would like to know—since it was Serge who answered quite definitively on its purpose—whether or not this initiative was talked about before the new administration. Is this something that was on the agenda for a while? And on what basis would we be deciding public policy: in terms of competitiveness, as opposed to the ability to ensure we meet certain social objectives and find a way to put money back into social housing, rather than opening up something for the private market because it's a lucrative proposition?

Mr. Serge Dupont: Sure. I would simply say that the same item was included in the supplementary estimates that died on the order paper in the last session. So it was carried over.

Ms. Judy Wasylycia-Leis: It's a Liberal idea, aha!

Mr. Serge Dupont: The issue of opening the market to private competition was basically done back in the early 1990s—

Ms. Judy Wasylycia-Leis: I know that, yes. It's when we lost the national housing policy.

Mr. Serge Dupont: —when one provider was brought into the marketplace. As I indicated, it was always understood—certainly from the point of view of the government, but perhaps less clearly by the provider—that the same facility would basically be provided to others, should they come forward.

Ms. Judy Wasylycia-Leis: I apologize. Now I'm really late.

Thank you.

● (1710)

The Chair: Before Madam Wasylycia-Leis has to leave, I'd like to relate to the committee that the minister hopes to be here the first week after we return from our break. That's what we're shooting for, in answer to your earlier inquiry.

Ms. Judy Wasylycia-Leis: Great. Thank you.

The Chair: Mr. Savage, over to you.

Mr. Michael Savage: Again, thank you.

We had talked a little bit about Bill C-48, specifically with reference to post-secondary education—and I had the opportunity to get the exact text of Bill C-48—because there was some question about whether it involved access or whether it involved university spending. The exact wording is that it is: “for supporting training programs and enhancing access to post-secondary education, to benefit, among others, aboriginal Canadians, an amount not exceeding $1.5 billion”.

We followed up on that with the proposals and the economic updates, specifically around the issue of access to post-secondary education. I come from a province that has the highest tuitions in the country. It's anywhere from $6,000 to $8,000 a year. The tax credit on books is just not relevant; $80 is not a significant amount. A lot of students don't get the benefit of tax measures anyway.

Is there anything introduced in the budget that will specifically address the issue of access by the lowest-income Canadians to post-secondary education? I know that sounds confrontational. I don't mean it that way. I'm trying to find it.

Mr. Serge Nadeau: You mentioned tax measures. There's also the scholarship measure, in the sense of the complete elimination of federal income tax on scholarships and bursaries, as well. You mentioned the textbook tax credit.

Mr. Michael Savage: I'm talking about people who can't afford to go to university, not the benefit to those who already go and will save $80 and whatever else there is in this measure. The update in the fall specifically targeted the Canada access grants, and also produced a plan specifically for Canada's disabled community, which is having a really difficult time getting to university because of the extra costs. I know you indicated that there are more transfers perhaps going to the provinces, and we hope it trickles down to students through the provinces. There is nothing specifically on the issue of access for low-income Canadians in this budget.

Mrs. Barbara Anderson: Beyond those tax measures, no.

The Chair: I'll let you finish up quickly, Mr. Savage. We have three others on our list, and we can get each of them in if I hold it to about four or four and a half minutes. That's how we'll proceed.

Mr. Michael Savage: I'm done, thank you.

The Chair: Very good.

Mr. Harvey.

[*Translation*]

Mr. Luc Harvey: Mr. Pacetti asked a question awhile ago about how much Canada's total debt was currently?

Mr. Serge Nadeau: Mr. Lapointe, perhaps you can answer.

Mr. Paul-Henri Lapointe: I mentioned a little while ago that the federal debt came to $494.4 billion.

Mr. Luc Harvey: In that case, if the interest rates increase by 1%, how come we only pay $1 billion more in interest?

Mr. Paul-Henri Lapointe: I was talking about an increase for one year. The debt is not renewable each year. Part of the debt is short-term, renewable quarterly, semiannually or within a year, but there is also a part of the debt spread out over 15 years, or even 20 years.

Mr. Luc Harvey: Finally, there is 20-year financing at a fixed rate of 5.5%.

Mr. Paul-Henri Lapointe: That is right, yes.

Mr. Luc Harvey: I understand, Thank you.

[*English*]

The Chair: Mr. McKay.

Hon. John McKay: Thank you, Chair.

Not so long ago, the department was dead set against transit passes. The rationale was that they were very expensive. All they did was fund people who were already using the transit system; the increase in users was quite modest, and they did nothing for the infrastructure of transit systems. Is that still the view of the department, or has that changed?

Mr. Serge Nadeau: There are a number of reasons why transit passes could benefit from a tax credit. You're talking about an issue relating to the environment, but it would also reduce traffic congestion. It can also be part of an overall strategy to respond to challenges on the infrastructure front and also on the environment front.

Hon. John McKay: But your own studies show that this allocation of money, whether it's $1 billion or $2 billion, had minimal impact on increased usage. What's changed between then and now?

Mr. Serge Nadeau: Our studies show that by itself, the impact on ridership is not that great. However, if it's part of an overall strategy, in terms of infrastructure strategy, in terms of the quality of services, then of course the impact is greater than it would be otherwise.

● (1715)

Hon. John McKay: But everything in this business is about choices. You have a choice as to whether you're going to apply $1 billion or $2 billion towards improving the transit system by allocating moneys to municipalities or by allocating it to users.

The choice that appears to be made here is the choice that is probably least effective. Would you agree with that?

Mr. Serge Nadeau: I think there still are some funds going to the infrastructure of cities. In that context, this is a two-pronged approach. It's encouraging the users to use transit but it's also helping municipalities to set up the infrastructure.

Hon. John McKay: There was already money going to municipalities through the gas tax and things of that nature, to do these very things. This budget takes $2 billion of hard-earned money from taxpayers and allocates it in a fashion that is probably the least effective fashion in which it can be allocated—for transit users as opposed to building subways or buses.

You know, there's no sense having users of the system if you don't have the buses in the first place.

Mr. Serge Nadeau: That's why, I guess, there are infrastructure funds.

In terms of the fiscal cost of the transit passes, I don't think it's $2 billion. I think it's half that over five years.

Hon. John McKay: I just want to confirm that the department's view has not changed on the efficacy of transit passes. Is that fair?

Mr. Serge Nadeau: Depending on the models used—

Hon. John McKay: Or depending on the minister.

Thank you.

The Chair: Mr. Dykstra, over to you.

Mr. Rick Dykstra: I'd like a little clarification on the cost of implementing a reduction in the GST, for example. Taking that a little bit further, actually, I would assume that all ministries, when a federal budget is being put together, would bring forward potential new funding proposals, potential new opportunities, if you will, be it tax reductions or whatever. I would assume that with each one of those proposals there is included a cost measure for the ministry to actually implement the strategy, whether it be an increase or whether it be a decrease. Is that the case?

Mr. Serge Nadeau: On the tax front, it's going to be the CRA that will administer the tax measures. So yes, there are some discussions with the CRA as to how much it would cost to administer such-and-such a measure.

In terms of other programs, I'll let the others answer. I'm only talking here about the expenditure programs.

Mr. Paul-Henri Lapointe: I would say that when proposals are brought to cabinet for discussion on a new program, the department would normally include in their cost estimate the cost of administering the program.

Mr. Rick Dykstra: So there is obviously a cost to administer a program. If it's an infrastructure program, if it's a cut in the GST, if it's an increase in a budget that has to do with the Minister of Natural Resources, there are always going to be costs incurred by the government to make those changes.

Mrs. Barbara Anderson: I would say that is true if the policy changes need big implementation machines behind them. From our side, the department administering the transfer programs, we don't have an increased cost with an increase in transfers. I'm not bragging that we're so efficient, it's just that there are some programs that see increased costs.

Mr. Rick Dykstra: Whether you're going to transfer...and I was actually leading into the transfer of funds and the fiscal balance strategy. When you simply change a number, and you're cutting a cheque, it doesn't take a whole lot of work to just change the number versus change the program.

In terms of fiscal balance with provinces, I wasn't quite sure, although I know a colleague has already asked a question on it, what the total transfer payments were to the Province of Ontario in the last budget. I don't have the document in front of me that would indicate this.

● (1720)

Mrs. Barbara Anderson: For 2006-07?

Mr. Rick Dykstra: For 2005-06.

Mrs. Barbara Anderson: I have my handy little cheat sheet here. In 2005-06, transfers to the Province of Ontario totalled $18.9 billion.

Mr. Rick Dykstra: What will they be in 2006-07?

Mrs. Barbara Anderson: They will be almost $19 billion—$18.970 billion.

Mr. Rick Dykstra: So there is an obvious increase in the funds allocated to the Province of Ontario in this budget versus what was allocated in the last budget.

Thank you.

The Chair: Mr. Turner is next.

Hon. Garth Turner: I have a quick question or two about the macroeconomic modelling you folks do. I'm wondering whether the change in the exchange rate has any kind of impact here that we ought to know about, because we are obviously in somewhat uncharted territory right now. In other words, are we concerned about the rapid change to the exchange rate in the last few months, and perhaps, going forward, seeing more of the same?

Mr. Paul-Henri Lapointe: You have to look at the cause of the exchange rate movements. In the past few years the appreciation we have seen has resulted largely from the run-up in commodity prices, and in particular energy prices.

In this case, of course, the impact will be much less. There will be some regional impact, an impact that will require adjustment, but the impact in a macro policy sense will be much less than if it were to occur by a run against a currency or a portfolio shift, as the economists would describe it. The change we have seen today has been largely a reflection of the rise in commodity prices, which reflects the growing wealth of Canada in terms of trade improving.

This is not to say that it has had no impact, that it does not require adjusting the economy, but what we have seen to date is that remarkable capacity for the economy to adjust. We have seen a decline in the manufacturing employment as a result of increased productivity in that sector, but it is offset by job gains in other sectors of the economy, including construction, for instance, so overall employment growth has remained fairly strong. We have the lowest unemployment rate in 30 years.

Hon. Garth Turner: I'm glad you brought up the point about productivity, because our productivity level has increased, right?

Mr. Paul-Henri Lapointe: Yes.

Hon. Garth Turner: It is one of the good stories in the economy right now—up more than two points.

Lastly, there is the impact on interest rates. With the exchange rate differential that we have today, and given some of the inflationary pressures the Bank of Canada has been concerned about...we've had six interest rate increases in the Bank of Canada's base rate. The Fed moved today. The Fed prime is now—what, 5%? Where are we going from here? Are we looking at another two or three rate adjustments by the Bank of Canada? Does that throw your projections off?

Mr. Paul-Henri Lapointe: I will certainly not try to do the job of the Governor of the Bank of Canada. All I will say is that the private sector forecasts we are using for planning purposes assume, or have built in, some increase in interest rates in 2006. The short-term rates are projected to average about 4.4%, if I recall, compared to an average of 2.7% in 2005, so it's already built into the forecasts of private sector economists.

● (1725)

Hon. Garth Turner: Thank you.

The Chair: Thank you, Mr. Turner.

Mr. McKay, you have just a minute and a half or so.

Hon. John McKay: In the not-so-distant past, the department was dead set against children's fitness credits. They had two arguments. The first argument was that there would be endless requests of other people who were going to ask for credits, whether for dance or for other cultural things—for piano, etc. The second argument was that it would be administratively problematic, in part because although you have various large clubs that probably could adjust, you also have a lot of little clubs that would be challenged to be issuing something as valuable as a tax credit.

What has changed since the department had that view?

Hon. Garth Turner: Our government.

Hon. John McKay: Is that the only answer?

Does the department still have that same view?

Mr. Serge Nadeau: First, in terms of the administration, the budget announced that a small committee of experts would be set up to decide which program would qualify for the tax credit. So that will help the administration in terms of developing guidelines for it.

Hon. John McKay: And other than that, the department still retains the same view?

Mr. Serge Nadeau: I'm just trying to recollect.

Hon. John McKay: You could go to your website.

Thank you, Chair.

The Chair: Thank you, Mr. McKay, and thank you very much to our guests here today. We appreciate the cooperation of the members of the committee as well.

I remind committee members that on Monday we will have representatives from FINTRAC here, and also from the Canadian International Trade Tribunal. I look forward to that discussion on Monday.

The meeting is adjourned.

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