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Chair

Mr. Brian Pallister

Standing Committee on Finance

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● (1540)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): I call the meeting to order.

Ladies and gentlemen of the finance committee, I give you the Honourable Jim Flaherty, Minister of Finance.

Minister Flaherty, the floor is yours.

Hon. Jim Flaherty (Minister of Finance): Thank you, Mr. Chairman and members of the committee.

[*Translation*]

I am happy to say that our economy is strong, that government expenditures are on target, our debt is shrinking and taxes are dropping.

[*English*]

We intend to reach higher and go farther for the benefit of families, students, workers, and seniors from coast to coast to coast.

Canada's government has a bold new plan to make our country a world leader by, first of all, eliminating Canada's total government net debt in less than a generation; second, reducing personal income taxes for Canadians each year with the interest savings from this lower debt; third, reducing the paper burden on businesses by no less than 20%; fourth, giving Canada the lowest tax rate on new business investment in all of the G-7 countries; and fifth, building modern infrastructure through innovative public-private partnerships.

[*Translation*]

Mr. Chair, today we give ourselves a new national objective to eliminate the net debt of all governments in Canada by 2021. Starting this year, every dollar of every surplus of the Government of Canada will be used to reduce the debt.

[*English*]

Now, how will this benefit Canadians?

Quite simply, lower debt means lower interest payments. We believe those savings should be passed on directly to Canadian taxpayers. As we pay down Canada's national mortgage, the interest savings generated by this reduced debt will be returned directly to Canadian taxpayers each and every year through a reduction in personal income taxes: lower debt means less interest, means lower taxes.

Based on the $13.2 billion debt repayment we made for 2005-06, I am pleased to announce that personal income taxes will be reduced by almost $700 million starting in 2007, and with future debt reduction the tax savings will rise to $1.4 billion by 2011.

We will do this every year. First of all, we will pay down debt; second, we will achieve interest savings by paying down debt; third, we will apply those savings to personal income tax reductions.

This tax-back guarantee will give Canadians a direct stake and a direct benefit in how we manage government finances on their behalf. We will do so just like any responsible Canadian family. Mr. Chairman, this is a unique and far-sighted initiative that will benefit Canadian families across the country—not just for today, but for tomorrow as well.

Today's economic and fiscal update sets out an additional $22 billion in new tax relief for Canadians over the next six years through several ways. The first is through the tax-back guarantee that I just described. The second is through the tax fairness plan for seniors and pensioners announced October 31. The third will be through a reduction in the E.I. premium rate that will take effect in January. The fourth way is through a second reduction in the GST, which will be reduced to 5%. It will take place no later than 2011 and was our platform commitment. This is in addition to the $20 billion in tax relief over two years for individuals that was announced in Budget 2006.

Mr. Chairman, these historic measures will lead to significant positive change for all Canadians today and tomorrow. Our government's first economic and fiscal update is a positive story. We know where we are headed and we are confident we have the road map to get us there.

As you know, presentations such as these are filled with numbers, but what really matters are the people behind the numbers—the Canadians who get up every day and go to work, pay their taxes, abide by the laws of the land, and try to set a few dollars aside for retirement. Canada is great because hardworking Canadians made it great. It is thanks to their efforts that we live in a country that rewards hard work, helps people get ahead, and provides services like health care and post-secondary education that are the envy of the world. The foundation that supports all that we do is a strong economy and well-managed government finances. In less than a year Canada's new government has taken significant new steps to strengthen our economy and better manage our public finances on behalf of all Canadians.

Today we take the next step.

I am pleased to present “Advantage Canada: Building a Strong Economy for Canadians”. This is a long-term economic plan designed to improve our economic prosperity not only today, but also in the future.

The plan proposes steps to give individual Canadians even greater opportunities to fulfill their dreams of a good job, a home of their own, and a retirement they can count on. Its purpose is to make their lives better by allowing their skills, ambitions, and dreams to flourish.

Mr. Chairman, Canada is back.

[*Translation*]

We have the best economic base of all the G7 countries. We are benefiting from the second longest period of economic growth in our history. We are an emerging energy superpower and we are taking concrete measures to increase and encourage sustainable development and increase our competitive ability.

● (1545)

[*English*]

Today the unemployment rate is near its lowest level in almost 30 years. More than 260,000 new jobs have been created so far this year, all of them full-time. More jobs and lower taxes have contributed to higher incomes for Canadian workers.

At the same time, we face challenges such as a higher Canadian dollar and an increase in exports from emerging economies overseas, two key factors that have impacted our manufacturing sector in particular.

While this has clearly been difficult for the workers affected and their families, the good news is that many new jobs have been created in high-wage sectors. At the same time, manufacturing investment in machinery and equipment is up, and production is higher than in 2002 when the dollar began to appreciate.

I am pleased to report the outlook for our economy as a whole is encouraging. The private sector forecasters surveyed by the Department of Finance see further growth, but at a slower pace than expected a few months ago; they expect the economy to grow around 2.75% both this year and next.

Every economic forecast is subject to some degree of risk. The forecasts I am releasing today are no exception. First of all, the U.S. housing market correction is substantial; second, uncertainty exists about the future prices for many of our key commodities—oil, natural gas, industrial metals—which have been hovering well above historical levels; and third, with a growing U.S. current account deficit and the lack of exchange rate flexibility in emerging Asian nations, we face the risk of the U.S. dollar depreciating further against currencies such as ours, resulting in additional pressure on our exporters.

Despite these risks, I am confident in the underlying strength of the Canadian economy and our ability to deal with these and other potential risks, should they arise.

Mr. Chairman, a strong economy requires sensible, strong Government of Canada finances. We have an obligation to Canadians to manage their hard-earned tax dollars effectively and efficiently. That's how families in every community in this country handle their finances, and they have every right to expect nothing less from their federal government. We make it clear that we would pursue an ongoing strategy to review and scrutinize all government expenditures, a strategy focused on results and value for money. Mr. Chairman, Canada's new government will keep our books balanced and maintain a tight rein on spending.

This has not been the case with previous governments. Over the past five years of the previous government, total program spending grew by an average of 8.2% per year. In 2004-05 alone, growth in spending increased by 14.4%. This growth was neither sustainable nor desirable. That's why when we announced our $13.2 billion surplus for 2005-06 in September—the third-largest surplus in Canadian history—we also announced detailed actions to achieve a further $1 billion in savings this year and next, as we promised in Budget 2006.

Program spending this year and next is now projected to be lower than expected at the time of the budget, thanks to the government's greater fiscal discipline. Spending in 2006-07 will now come in at $1.2 billion lower than anticipated last May.

Mr. Chair, in our first budget we announced a new, more transparent, and more accountable approach to budget planning. Budget planning is now done over a two-year time horizon to provide greater certainty. The former practice of adjusting the budget projections for so-called economic prudence has been stopped.

Canada's new government is also publicly releasing, for the first time ever, our own fiscal projections along with the fiscal projections of four leading private sector forecasting organizations. This will allow members of Parliament and interested Canadians to compare and contrast each of the forecasts, and it will make our forecasts more credible and more predictable.

● (1550)

Mr. Chairman, I'll now present the government's fiscal forecasts for the current year and for each of the five years following that. These numbers take into account the full cost of measures that were announced in the May 2 budget, and since then the $3 billion set aside each year in debt reduction, and further tax relief announcements that I am going to announce today.

For planning purposes, our expected budget balances are as follows, and here are the numbers: in 2006-07, $4.2 billion; in 2007-08, $3.5 billion; in 2008-09, $2.4 billion; in 2009-10, $2.0 billion; in 2010-11, $3.6 billion; in 2011-12, $2.9 billion.

Mr. Chairman, at first glance these appear to be large numbers, but let me try to put them into context, into perspective. Out of revenues of more than $200 billion each year, a surplus of $4.2 billion represents only 2%. That leaves government with a very small margin for error. For example, a small, unexpected decrease of just 1% in revenues would eat up some $2 billion out of that surplus number. That's why we must continue to manage carefully each hard-earned tax dollar. Unlike previous governments, we don't see surpluses as a licence to spend. In fact, quite the opposite: we see modest surpluses as a chance to focus on the priorities of Canadians.

[*Translation*]

As you can see, Mr. Chair, our finances are in order, but we must ensure that surplus amount are used judiciously and that Canadians and their families are getting their money's worth. This requires a focused and long-term economic plan.

Mr. Chair, we have this plan.

[*English*]

Canadians are blessed with one of the world's strongest and most sophisticated economies. We have generous benefit programs and first-rate public services. This didn't just happen. This success required planning and ambition and hard work over the years, traits that were handed down through generations of Canadians. Our parents and grandparents made this country great, and for that we owe them our gratitude. Now we owe it to ourselves, to our own children and grandchildren, to put our minds and our resources to best use so that we can deal with the challenges we will face over the next decade and beyond.

Over the past number of years, the ground rules of the global economy have changed. We live in a changing and exciting time. People, jobs, and investment capital move more rapidly across the globe than ever before. Advances in communications technology, reduced trade barriers, and declining transportation costs affect business decisions across the globe. Talented, motivated people have become the world's most valuable resource. Meanwhile, here at home baby boomers are set to retire in record numbers, testing our capacity to maintain our improved standard of living.

With the right plan, determination, and political will, Canada can become a new leader in this fast-changing global economy. That's what Advantage Canada is all about. Our economic plan is about giving Canada and Canadians the key advantages needed to compete today and succeed for years to come. Our plan aims to improve our quality of life by building a strong economy that is not only fit for the 21st century but equipped to lead in the 21st century.

● (1555)

[*Translation*]

Our economic plan aims to give Canada and Canadians the advantages and assistance they need to remain competitive today and succeed in the future. Our plan aims to improve our quality of life by building a strong economy that is not only adapted to the 21st century, but also able to play a central role.

[*English*]

Advantage Canada focuses on creating five key priorities: first of all a tax advantage, by reducing taxes for all Canadians and establishing the lowest tax rate on new business investment in the G-7; second a fiscal advantage, by eliminating Canada's total government net debt in less than a generation; third an entrepreneurial advantage, by reducing unnecessary regulation and red tape and increasing competition in the Canadian marketplace; fourth a knowledge advantage, by creating the best educated, most skilled, and most flexible workforce in the world; and finally an infrastructure advantage, by building modern, world-class infrastructure that ensures a seamless flow of people, goods, and services over our roads and bridges and through our ports, gateways, and public transit networks.

Advantage Canada is based on four key principles, each one of which will act as a prism through which issues will be viewed and policy decisions made in the years to come. Those principles are: first of all, focusing government on what it does best; second, creating new opportunities and choices for people; third, investing for sustainable growth; and finally, freeing businesses to grow and succeed.

Let me take a minute to focus on each of these four principles, first of all on focusing government—focusing government so it is effective, efficient, and gets results for people.

Nations don't become world leaders by accident. They excel when their governments focus on the things they need to do and do them well. How well they tackle debt is one of those critical areas. Canadian families instinctively understand why reducing debt is important. In every household budget, families know that money spent paying off credit cards or making mortgage payments is money not available to spend on renovating their house, paying for the education of their children, or saving for retirement.

Mr. Chairman, government debt is nothing less than Canada's national mortgage. Reducing debt frees up funds to reduce taxes or to invest in other priorities, such as health care, education, public services, better roads and bridges, safer communities, or a cleaner environment. Reducing debt helps keep interest rates low, which allows Canadians to borrow money for the things that matter to them and their families. Reducing debt helps our economy better deal with the risks of external economic shocks that are beyond our control, or domestic challenges such as an aging population. Reducing debt gives us more fiscal room to prepare for these changes.

[*Translation*]

More than anything, reducing the debt also means being fair to future generations. After all, those who benefited from all those years of excessive expenditures have an obligation to pay the bill. If not, our children and grandchildren will be mortgaged.

[*English*]

Canada's new government has made significant progress on this front. As I mentioned, we made one of the largest debt reductions in Canadian history, $13.2 billion. Canada's federal debt now stands at roughly $481 billion, down $81 billion from its peak a decade ago. Now, that's progress, but we clearly need to do much more to bring that debt down and free up resources for the priorities of Canadians.

We believe it's time to mobilize Canadians to make a national commitment to pay off Canada's national mortgage. We want to lift that heavy weight off the shoulders of the next generation of Canadians so that they can invest more in a better future for themselves and their families. That is why I'm pleased to announce that Advantage Canada is proposing to eliminate Canada's total government net debt by 2021.

● (1600)

[*Translation*]

I am therefore happy to announce that Advantage Canada is proposing an elimination of the debt of the entire government sector in Canada, by 2021.

[*English*]

As a first milestone, the government will move up its commitment to reduce the federal debt-to-GDP ratio to 25% by 2012-13, which is a full year ahead of what had been planned previously and two years ahead of what had been planned by the previous government. This is the right thing to do, but we can and must do more.

As we lift the debt burden, we must also lift the tax burden. That's why our tax-back guarantee will dedicate all interest savings from the shrinking federal debt to personal income tax reductions.

[*Translation*]

As we reduce the debt burden, we must also relieve the tax burden. This is why, according to our guaranteed tax refund, all savings on interest from the reduction of the federal debt will be used to reduce personal income tax.

[*English*]

As debt reduction continues and interest savings accumulate, so too will the tax reductions for Canadian families and taxpayers: less debt means less interest means lower taxes.

Mr. Chairman, to show we mean business, we will set aside funds in the next budget for tax reduction equivalent to the interest savings associated with the $13.2 billion debt reduction this past fiscal year; almost $700 million will be allocated to permanent and ongoing tax reduction. Combined with the interest savings from the planned $3 billion debt reduction set aside for this year and future years, this tax relief will rise to about $800 million for taxpayers in 2007-08, and will rise to an even greater tax reduction of $1.4 billion by 2011-12.

It's time to give Canadian taxpayers a direct stake in, and a direct benefit from, balancing the budget each year and reducing government debt.

Let me stress that these tax reductions are on top of other tax measures this government will introduce or has already announced.

Mr. Chairman, also key to a sound financial footing is low, stable, and predictable inflation. Maintaining low inflation goes right to the bottom line of every household budget. It makes mortgage rates affordable, allowing more families to purchase new homes. It secures the value of incomes and keeps buying costs stable. In 1991 the government and the Bank of Canada adopted an inflation target regime that has kept inflation low and stable. This has allowed households and businesses to benefit through lower mortgage and loan costs.

Today I am pleased to announce that the government and the Bank of Canada have agreed to renew Canada's inflation control target for a further five years, to 2011. The inflation target will continue to be the 2% midpoint of the 1% to 3% inflation control range.

[*Translation*]

To target the government's actions, spending must also be done responsibly, meaning optimizing resources, and putting emphasis on fields of federal jurisdiction. In keeping with the spending reduction of last year, under our new economic plan, on average, the increase in program spending will remain below that of the economy.

[*English*]

To that end, the President of the Treasury Board will outline shortly the government's new expenditure management system. It will ensure that federal spending delivers results, is guided by clearly defined objectives, and goes towards the highest priorities of Canadians.

Mr. Chairman, restoring fiscal balance is also an important part of Advantage Canada. Provinces and territories will be key partners in delivering this plan.

● (1605)

[*Translation*]

The 2006 budget set out a clear plan to restore fiscal balance in Canada according to certain principles. We are currently executing this plan.

[*English*]

Consultations have been held for the past several months at many levels with provincial and territorial governments on all aspects of fiscal balance. Next month I'll be meeting with my provincial and territorial colleagues for the second time this year.

Canada's new government is committed to open federalism and respect for the roles and responsibilities of each order of government. We can build a stronger economy for all Canadians through long-term predictable federal funding in infrastructure, in post-secondary education and training, in a return to principles-based equalization and territorial formula financing programs, and a more efficient, effective, Canadian economic union. Advantage Canada will help us build this stronger economy for all Canadians.

Mr. Chairman, the second principle of our Advantage Canada plan is to create new opportunities and choices for people. With a more focused government we can lower taxes to create incentives for Canadians to save and to succeed. We will be able to keep our best and brightest here in Canada while attracting the people our country will need to build a strong economy.

We believe our role as government is to ensure equality of opportunity for Canadians, not equality of outcomes. That starts with a lower tax burden. Canadians simply pay too much tax compared with tax in other countries we compete with for talented skilled workers and for foreign investment.

Canada's new government began to reduce taxes in our first budget in May. We reduced the GST; we increased the amount Canadians can earn without paying federal income tax; we permanently reduced the bottom rate; we introduced the Canada employment credit; we brought in several targeted tax relief measures—29 separate tax reductions in every area where the Government of Canada collects revenue.

The tax fairness plan we announced on October 31 went even further for Canada's seniors. We increased the age credit amount by $1,000 and introduced income splitting for pensions to increase the rewards from retirement saving. But that's not all. Income splitting for our pensioners means that both spouses can qualify for two full pension income credits, the same tax credit we doubled to $2,000 in Budget 2006. This new step will also enable many pensioners affected by clawbacks on their old age security payments to keep more of their hard-earned money.

I encourage everyone to check out this really neat thing called the seniors tax savings calculator, which you can see here on the screen. It's on the Department of Finance website. It shows, for example, that a senior couple with a single pension income of $30,000 will save $1,118 in federal tax. That's a savings of some 27%.

Budget 2006 and our tax fairness plan took significant steps to get this country back on track and to begin to create a tax advantage for Canada. We need to go further.

To create a greater tax advantage for Canada and Canadians over the coming years, our new economic plan proposes to reduce the GST even further, to 5% as promised, no later than 2011; to deliver a working income tax benefit in Budget 2007 to help low- and modest-income Canadians get ahead and get over the welfare wall; to continue to reduce personal income taxes to make the tax system more fair and to attract and retain highly skilled workers; and to reduce taxes on savings, including on capital gains, to make Canada's system more competitive.

Creating a tax advantage will reward initiative and help Canadian families pay the bills. It would help keep highly skilled Canadians in Canada and make our country the destination of choice for highly skilled people from around the world.

Reducing taxes alone is not enough. We must also do a better job of investing in post-secondary education and training.

● (1610)

[*Translation*]

To ensure our quality of life and to be a world economic leader, we must attract the world's most talented people to Canada and keep them here; innovators, entrepreneurs, researchers, people who are willing to take risks and who succeed. This is why our plan proposes investing more in research equipment at colleges and universities, and in graduate study scholarships, in particular, in science and engineering.

[*English*]

We will also enhance the quality of education and skills of Canadians through stable and predictable funding for post-secondary education and training. We will modernize the student financial assistance system so that it does the job better for young Canadians.

Just as crucial will be bringing under-represented Canadians into the country's economic mainstream—Canadians with low and modest incomes, aboriginal Canadians, older workers, persons with disabilities, and immigrants. Our country simply cannot afford to leave anyone behind. Advantage Canada aims to help all Canadians reach their full potential.

We will provide new opportunities for people to contribute their talents and abilities more fully to society by eliminating barriers to labour force participation, improving the temporary foreign worker program to respond to the needs of employers, and making it easier for Canadian-educated foreign students to stay in Canada. As a society, we will all benefit from their greater participation in our nation's economic life.

Mr. Chairman, the third principle of Advantage Canada is investing for sustainable growth. Canada's government will show leadership and make the smart investments our country needs to excel in three crucial areas—research and development, the environment, and infrastructure. Each of these is critical to ensure long-term economic growth and opportunity for Canadians.

Advantage Canada aims to make Canada a clear research and development and innovation leader. The federal government currently invests some $3 billion a year in research in post-secondary institutions and about $2 billion a year on its own research. This primary research can pave the way for later-stage, potentially profitable research by industry.

We will improve public investment in R and D. At the same time we will make sure that investment reflects national priorities and focuses on the best projects. Although Canada leads the G-7 in public sector R and D investment, that unfortunately is not the case for our private sector.

[*Translation*]

Advantage Canada will create the tax system and business climate required to encourage the private sector to transform brilliant ideas into technologies, products and new services to stimulate economic growth and create well-paid jobs for Canadians.

[*English*]

Our plan proposes to develop and implement a new, comprehensive, excellence-based science and technology strategy. This strategy will allocate government funding and resources to the highest research priorities, better align post-secondary research with the needs of business, and fully prepare young Canadians for work in a knowledge-intensive economy.

To retain and attract highly skilled and mobile people, however, we must go beyond science and technology strategies and public investments in R and D. We need to provide a clean and healthy environment in which to work, live, and raise our families. Advantage Canada recognizes that creating more livable communities also makes good economic sense.

● (1615)

[*Translation*]

The economy, the environment and energy are linked. Our plan takes the close ties between these three issues into consideration.

[*English*]

Canada's new Clean Air Act provides a direct path toward this goal. It will deliver the first-ever comprehensive federal regulation to reduce air pollution and smog, the first-ever federal regulation that will reduce greenhouse gas emissions in Canada—not use taxpayers' money to buy emission-reduction credits in other countries—and the first-ever federal clean air regulation of all industrial sectors in Canada.

This government will continue to focus on environmental improvements based on results, not unachievable targets, and we will invest in sustainable environmental technologies wherein Canada can lead the world.

A clean, healthy environment also requires modern infrastructure. We must improve our roads, bridges, borders, and public transit to clear the air, cut the commute, and drive the economy.

That includes making smart investments to ensure goods and services and people move across the country and across our borders safely, effectively, on time, and at reasonable cost. It means getting people out of cars, getting the cars off the roads, and reducing gridlock in our cities.

Advantage Canada builds on the unprecedented $16.5 billion investment in infrastructure that was outlined in Budget 2006. We will provide long-term predictable funding and a fair and transparent allocation of program funding supporting, among other investments, improvements to Canada's core national highway system.

We will also look for ways to get more out of infrastructure investments by taking advantage of the innovative financing provided through public/private partnerships—and let me say, Mr. Chairman, that we believe there is a lot of room for improvement in how we manage infrastructure projects. Take, for example, the Windsor-Detroit corridor. Windsor-Detroit is the crossing point for 28% of all trade in goods between Canada and the United States. It is just not acceptable that after all these years, governments have not finished the job to make this crossing more efficient and secure. Surely we can do better—and we will. A financing strategy for this vital crossing will be addressed in the next budget to get the job done expeditiously.

Mr. Chairman, the fourth and final principle of Advantage Canada is to free businesses to grow and succeed.

Businesses don't need more government meddling; they do need government to get out of the way and free them to do what they do best, which is invest and expand and create jobs. Our plan will eliminate unnecessary and costly regulations and red tape. This will encourage businesses to invest more in training, machinery, equipment, and innovation. We will reduce the federal paperwork burden by at least 20%. We will work with leading small business organizations, such as the Canadian Federation of Independent Business, to achieve this goal. Our plan will open the doors wider to trade and investment within our own country and with the rest of the world.

Advantage Canada includes the creation of a new global commerce strategy to extend the advantages we already enjoy through the North American Free Trade Agreement. Our plan will build on the corporate tax reduction measures we introduced in Budget 2006. We will lower taxes further to make Canada's businesses more internationally competitive. Our clear objective is to achieve the lowest tax rate on new business investment among all G-7 countries; our determination to do so was made clear with our recent announcement of a further reduction of the corporate tax rate to 18.5% in 2011.

Provinces also have a role to play in creating a positive business environment. We will accelerate discussions with the provinces to eliminate costly internal barriers to trade and mobility and to build on our leading-edge financial system by establishing a common securities regulator. We also encourage the provinces to move ahead with the harmonization of their sales taxes with the GST, which would make the tax system much more competitive for Canadian businesses. Three provinces have already done this, and Quebec adopted a value-added tax in 1991. If all provinces harmonized their sales taxes with the GST, Canada would have the lowest tax rate on new business investment among all G-7 countries by 2011.

● (1620)

[*Translation*]

Mr. Chair, today I have spoken on the performance and perspectives of our economy, on the government's determination to maintain a sound financial condition, and on our new ambitious plan and its objective to increase the Canadian economy's prosperity now and in the future.

[*English*]

I have set out a new long-term plan called Advantage Canada, a plan to build a stronger economy for Canadians, a plan that will give Canada and Canadians the five key advantages we need to achieve and succeed in today's global economy: a tax advantage, by reducing taxes for all Canadians and establishing the lowest tax rate on new business investment in the G-7; a fiscal advantage, by eliminating Canada's total government net debt in less than a generation; an entrepreneurial advantage, by reducing unnecessary regulation and red tape and increasing competition in the Canadian marketplace; a knowledge advantage, by creating the best educated, the most skilled, the most flexible workforce in the world; and an infrastructure advantage, by building the modern infrastructure we need to sustain our growth.

Mr. Chairman, we've already begun to implement our Advantage Canada plan. We will continue to do so in Budget 2007 and in the years to follow. With this plan and the time-tested courage, compassion, and determination of Canadians, we can continue to be a shining example to the rest of the world.

[*Translation*]

Because of this plan and the courage, compassion and determination that Canadians have always shown, we can continue to be a shining example for the other countries of the world.

[*English*]

The world needs Canada. It needs our brains, our resources, our skills, and our resolve, and the world needs Canada to be strong and successful. Our government is mindful of its responsibility and the trust Canadians have placed in us. We will not betray that trust.

Canada's new government is getting things done for Canadians: for families, students, workers, and seniors. We are acting in their interest and in the interest of the nation to ensure that we are the best we can be, now and in the future.

Thank you, Mr. Chairman.

[*Translation*]

Thank you.

[*English*]

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

We begin with questions from Mr. McCallum, for seven minutes.

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

Minister, Canada's government debt today is approximately $480 billion. If you pay off $3 billion a year, which is the plan, how many years will it take us before we're debt-free?

Hon. Jim Flaherty: The commitment, Mr. McCallum, involves the participation of all governments in Canada. It is a commitment to eliminate the net debt within a generation—by 2021—and it can be accomplished within that time on a net debt basis, which of course takes into account the assets of governments in Canada, including the assets that are shared by the federal government and the provinces in the CPP and held in Quebec at the QPP.

Hon. John McCallum: The answer to my question is it would take 160 years, which is a lot more than 15 years.

My first point is that what you're saying is technically true, but it's a gimmick. Canada for years, at least since the Second World War, has based our debt statistics and presentations on Canada's government debt, which is $480 billion. At $3 billion a year, it would take 160 years to pay it off. That is the reality.

You are using this arcane statistic of “net debt”, which nobody, except a few economists in the OECD, has ever heard of, which includes provinces, which includes the Canada Pension Plan, and which nobody out there cares about or has heard of. It's absolutely misleading to talk about eliminating debt and becoming debt-free, because one has to use the measure that has been used for decades, and that is this one: it will take you 160 years to eliminate that debt.

● (1625)

Hon. Jim Flaherty: I couldn't disagree with you more. But the OECD—

Hon. John McCallum: Look, I only have seven minutes.

Hon. Jim Flaherty: No, you asked me a question; I'll give you an answer.

Hon. John McCallum: No, I haven't asked you a question. I made a statement.

Hon. Jim Flaherty: Well, ask me a question about what you were just talking about.

Hon. John McCallum: I only have four minutes or so left.

Hon. Jim Flaherty: So you're just going to make statements; you're not going to ask questions.

Hon. John McCallum: Well, you made a very long statement. You made a 45-minute statement.

Hon. Jim Flaherty: The OECD net debt standard is the standard for the world. It's the gold standard for the world on assessing that debt. It's used by Australia; it's used by most countries.

Hon. John McCallum: Mr. Chair, you should let me have my time or give me additional time.

The Chair: I'm giving you the liberty of controlling your time as well as you can.

Hon. John McCallum: All right.

My general point is I'm not surprised that the Prime Minister was in Toronto for a criminal announcement today, because I would say that this presentation is a case of massive over-promising and under-delivery, accompanied by this trick, this gimmick, about paying off the debt, which is not going to be accepted by any credible economist.

There is also the issue of taxes. Minister, there has been a lot of hype about massive tax cuts and income splitting. If you look at what you actually have on your projections, the income tax reduction is a grand total of $20 per Canadian, and it gets more exciting: within five years, it's $40 per Canadian. That's less than the amount of the income tax...which you raised, from the level the Liberals had dropped it to. Then there is the GST cut you promised in the election, which comes into effect in five years. The total surplus over these years is between $2 billion and $4 billion, which is about what you need to fix the fiscal imbalance—so you have absolutely trivial income tax cuts of $20 to $40 per Canadian, the GST election commitment is five years down the road, and there is not enough money to do any more tax cuts.

I don't understand why you've hyped this up and generated these expectations among Canadians, when you're giving Canadians nothing except the GST cut in five years and a trivial income tax cut.

Hon. Jim Flaherty: Only a Liberal could say that $1.4 billion in tax reductions is nothing. Only a Liberal, having been in government for 13 years—

Hon. John McCallum: It's spread over 33 million Canadians.

Hon. Jim Flaherty: —could say that. The summary of the five-year fiscal projection in the middle of page 38 lists the planned debt reduction, the reduction of the GST, and the interest savings dedicated to personal income tax reductions; you'll see the numbers $800 million, $1 billion, $1.1 billion, $1.3 billion, and $1.4 billion in tax reductions over that time. I know that's trivial to you, but it's not to most middle-class Canadians.

● (1630)

Hon. John McCallum: Maybe a Conservative thinks that a tax reduction of $25 per Canadian is something to get excited about; we had a $100 billion tax cut when we were in government. By that standard, these tax cuts are totally trivial and won't be noticed by anybody, so I don't understand why you've hyped up the media—perhaps it was to change the subject away from income trusts—to produce nothing.

My last point is in relation to the so-called five Canadian advantages. Here I would contend that your long-term plan is a warmed-over version of our previous fiscal update, but with no meat, with no money, because you spent all the money on GST cuts and you have no money for Canada's productivity and prosperity and competitiveness.

If you look at the entrepreneurial advantage, the knowledge advantage, the infrastructure advantage—three of your five—we dealt with those with billions of dollars. You've spent all your billions on GST cuts. You have no money left, so it's empty talk.

The other two of the five Canadian advantages include the tax advantage. I've just explained that those tax cuts are trivial. Finally there is the fiscal advantage, which talks about this elimination of the debt; by any conventional standard used by any standard economist in the land, you will take 160 years to pay it down. As I said, I'm not surprised that Mr. Harper went to Toronto today to generate some other news.

Hon. Jim Flaherty: I'm glad you asked me about your plan from last year, so I can compare it with this plan.

Eliminating total government debt in less than a generation is in this plan. So is continuing to pay an annual debt reduction of $3 billion; there was nothing in your plan last year. We are directing interest savings to personal income tax reductions; there was nothing in your plan last year. We are continuing to control the growth of spending in this plan; there was nothing in your plan last year. We aim for more effective results-oriented government; there was nothing in your plan last year.

I'll share this with you, Mr. McCallum, so you can see how nothing was done in your plan last year, and we actually have deliverables in this plan this year.

Hon. John McCallum: Why does your plan have no new—

The Chair: Thank you very much, gentlemen.

We'll continue with Monsieur Pierre Paquette.

[*Translation*]

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chair.

Thank you Mr. Minister for being here. Perhaps you could use the earpiece, because I noticed, at one point, that we didn't really understand each other: I was speaking of the fiscal imbalance and you spoke to me about income trusts. So I would rather take precautions.

Are you ready, Mr. Minister?

First, thank you again for being here before the committee to provide this economic and financial update. I cannot say I am not disappointed because the Bloc Québécois and Quebec in general expected more content on the fiscal imbalance. I can see that in a presentation of more than 24 pages, a mere two paragraphs address this issue directly.

I also note that in your presentation, and even in the effort you put into your speech, it is clear that the debt and tax reductions are much more important to you than settling the fiscal imbalance.

As for me, I think this should be a priority for your government since, at first, the Prime Minister made a commitment to settling it, in Québec on December 19, and then you withdrew it in the Speech from the Throne and the budget speech.

I also note that the surplus amounts are dwindling even though they are significant. If we ignore your decision to grant 3 billion dollars to repaying the debt, over the coming years, the surplus will be around 7.2 billion dollars. Then, you decided to grant 3 billion dollars… This is questionable.

Concerning spending, is has—I see as you did—increased in a far too significant manner. Therefore, there is some room to manoeuvre.

I ask you two questions. How much do you plan on dedicating to the settlement of the fiscal imbalance? Where will you find the money?

[*English*]

Hon. Jim Flaherty: The "how much" is going to have to await the further discussions that are ongoing.

As you know, Mr. Paquette, in the budget on May 2 we set out a plan that we would follow a certain course of negotiation and discussion, which we've done, involving the Prime Minister, me as the Minister of Finance, and various other ministers dealing with infrastructure, post-secondary education, and so on.

Those discussions continue; that was the plan. They will continue next month with the meeting of the finance ministers, and then we'll move forward with steps in Budget 2007. As I say, that's not new; the plan was clearly set out in the budget—

[*Translation*]

Mr. Pierre Paquette: Say you reach a conclusion with the provinces that it will take 4 billion dollars in the next budget, 5 billion in the next budget, 7 billion—

Where will this money come from? Where is the room in you budget, aside from the 7 billion dollar surplus, to fund the settlement of the fiscal imbalance?

[*English*]

Hon. Jim Flaherty: We haven't agreed on any figures, of course, with any other government about what would be appropriate to remedy the fiscal imbalance.

We have two things: one is that we're the first federal government in Canada to acknowledge that there is a fiscal imbalance and that we need to move toward fiscal balance. We're committed to that.

On page 50, you can see the size of the transfers to other levels of government. They grow from about $40.8 billion in 2005-06 to $49.3 billion in 2011-12, and we also of course are running surpluses.

[*Translation*]

Mr. Pierre Paquette: But I also note that, in the figures you mentioned, it goes from 3% of the GDP, for transfers to other governments, to less than 3% over the coming years. This worries me.

On December 15, you will speak of equalization principles. In the principles you will use to calculate equalization, will the standard of the 10 provinces and 100% of the provinces' income, including income from non-renewable resources, be part of your proposals to the provinces?

● (1635)

[*English*]

Hon. Jim Flaherty: Again, as I'm sure you appreciate, Mr. Paquette, that's one of the issues being discussed. It's one of the issues that—

[*Translation*]

Mr. Pierre Paquette: But didn't your department have a preference? Some people speak of 50% of income from non-renewable resources. You will go there like a lamb and you will be hunted by 10 wolves? You have no preference?

[*English*]

Hon. Jim Flaherty: There are many individuals with preferences. I have preferences too, but the idea is to move toward a consensus, if we can, among the governments in Canada, the federal government and the provinces. There's been some progress there. We know that there's unlikely to be unanimity on equalization and transfers, the fiscal balance issues, but we think that on behalf of Canadians we need to move toward as much consensus as we can obtain—

[*Translation*]

Mr. Pierre Paquette: But you agree with me that in the end, it is the federal government that will have to decide since it is a federal program. In this vein, I ask that you think hard about this principle.

To conclude, at page 79 of your document "Building a Strong Economy for Canadians", you speak of a public policy commitment and you speak of funding infrastructure.

I was quite surprised to see that part of the envelope will be based on the merit principle, to fund projects according to a public-private partnership approach. It seems to me that you will surely favour some projects with this approach. Moreover, you speak of the obligation of the provinces, territories and municipalities to consider relying on public-private partnerships.

Given that in Quebec, the head of infrastructure programs is the province, Quebec, does this mean you will impose the public-private partnership formula on the provinces that are in charge of their infrastructure program?

In the French version, it is on page 79.

[*English*]

Hon. Jim Flaherty: Thank you for the reference. On page 67 there's reference to the public agencies that have been created in recent years, including

[*Translation*]

l'Agence des partenariats public-privé du Québec.

Mr. Pierre Paquette: But this means that in the merit envelope, it will—

[*English*]

The Chair: We'll continue now with Madam Wasylycia-Leis, for seven minutes.

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

Thank you, Mr. Minister, for your statement today.

I want to start with your focus on the surplus going to the debt. I probably would concur with you in terms of the Liberal record on this front; however, it's hard to really tell the difference, in that both the Liberal government before you and now your government seem to be talking in a very unbalanced way of putting so much against the debt that it leaves very little flexibility. You've given us an all-or-nothing plan that I don't think leaves us any flexibility, yet just a few months ago you were quite happy to announce the results of what we had been able to negotiate with the Liberal government, that being the NDP's budget for money in housing, transit, and environment. In effect, your colleagues were delighted over the course of this last month to announce these and talk about them as if they were their own initiatives.

With your approach, where do we get the flexibility to do that kind of progressive initiative, to put some of the money in a balanced way into progress and productivity?

Hon. Jim Flaherty: There are a few issues there.

One is that unlike the previous government, we believe in restraint in the exercise of the federal spending power and in respecting the jurisdiction of provinces. We have the transfer payments, which are accelerating from a little over $40 billion and getting up toward $50 billion. Those are transfer payments to other levels of government, including municipal governments in Canada.

As you know, those are primarily areas of provincial jurisdiction—social services, primary and secondary education, and of course the health transfers, which are accelerating at 6% per year built into the base. The acceleration in that is greater than 6% per annum, and $1.1 billion in total this year for health care. In terms of the social services, there are substantial transfers happening to the provinces.

Ms. Judy Wasylycia-Leis: That really doesn't answer this question of having some flexibility on a year-by-year basis to actually invest in those areas that Canadians seem to be anticipating and that they need just to survive on a day-to-day basis.

Let me then take it a step further and go with your analogy of government debt being nothing less than a Canadian national mortgage. Let me ask you this: if there was a working family that had a son or daughter struggling to get to school, and a grandmother who was paying out of her pocket for drugs and couldn't afford necessary medications, and their plumbing was collapsing, and for the sake of argument let's just say their household was fighting an unpredictable and very expensive war, would you advocate putting all of that family's bonus to paying down the mortgage?

● (1640)

Hon. Jim Flaherty: No, I would advocate budgeting for those items.

If there is in fact a clear need that's a priority, then the Government of Canada should budget for those priorities and not do what the previous government did, which was to have the so-called surprise surpluses every March and then engage in March madness, often spending in areas of provincial jurisdiction without parliamentary authority. We will not do that. We are being open, transparent, and accountable. We're being as accurate as we can in terms of the surplus. If there is a social need, as you described very well—for example, for persons with disabilities—we will budget for it and not go into surplus to pay for it.

Ms. Judy Wasylycia-Leis: Fair enough, but I am suggesting that you're not budgeting for the family's needs—Canadians' needs—by putting some money into reducing the costs of education, or into lowering the cost of prescription drugs, or into providing for child care for working families. You're suggesting that all the surplus, all your flexibility, should go against the debt, and I don't think Canadians believe that's appropriate for a government. I think they want some balance; they want some to go against the debt, but they want you and your government to look out for some of those bigger needs, and they see the role of government as something positive, not something negative that must always be shrunk and reduced.

Hon. Jim Flaherty: Do you know what the role of government has given us in Canada? It's given us $55 billion of taxpayers' money that's going to be paid in interest this year—$55 billion between the provinces and the Government of Canada. That's $34 billion by the Government of Canada and $21 billion by the provinces. That's as much money as all the governments in Canada pay for education in this country—for primary, secondary, and post-secondary education. We're spending that in interest because governments over the years, of different parties, had the attitude in Canada that running up public debt, taxing the next generation, was okay. We don't share that view.

Ms. Judy Wasylycia-Leis: Right, but you can end up with a huge debt down the road if you don't invest now in training and educating your young people and in the future. You suggested in this presentation—and I agree with you, based on what we heard this morning from the independent forecasters—that we should expect a very narrow budget balance. Why, then, are you putting such a priority on tax cuts for profitable corporations? Are you leading us down the path you did in Ontario, so that we end up running a deficit because of that agenda?

Hon. Jim Flaherty: I can assure you that I never ran a deficit in Ontario as Minister of Finance there, and I won't run one here. The way you control that is by being as careful as you can on the spending side. I know that's not a traditional idea in Ottawa, but we're running a tight ship; we are going to control spending. This year we are already spending over $1 billion less than budgeted. The role of Treasury Board is very important; they're doing a terrific job, and so are the ministers, in controlling spending. Nothing gets spent until it's ready to be spent.

Ms. Judy Wasylycia-Leis: In this whole approach there seems to be this focus on a trickle-down theory—that if you reduce taxes and put all your money against the debt, then eventually we're going to have a better society. But you're ignoring the fact that the trickle-down theory doesn't always work. Aboriginal people aren't going to escape third-world conditions with your approach, and you've only mentioned them once in terms of that trickle-down approach. Families aren't going to provide for themselves if you're not going to do something meaningful in terms of child care. You've got more emphasis in this paper on bringing in cheap slave-labour foreign workers than in helping families deal with day care—

The Chair: Madam Wasylycia-Leis, your time has elapsed, and we must trickle on to the next questioner.

Mr. Dykstra is next, for seven minutes.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Mr. Chair.

Certainly I know that Mr. McCallum may not be happy to see you here this afternoon, Mr. Minister, but I certainly am. I'm also interested to note that while he may or may not like your being here this afternoon, you are very popular among Liberal staff, because there are two huge rows of Liberal staffers who came in specifically to listen to you present today, so I want to thank them for coming as well.

One of the points that Mr. McCallum actually made across the country, a question that he asked—and I was surprised he didn't ask it of you—was whether or not the cut in the GST has had a positive impact on the country. I've only got seven minutes and I want to use my time wisely, but could you respond to that question? I'm sure he'd appreciate it.

● (1645)

Hon. Jim Flaherty: Certainly.

I suppose the most convincing evidence on that is the strong consumer confidence in Canada. It is documented in the papers we've seen. Even in a time of some softening in the manufacturing sector, particularly in Quebec and Ontario, we see strong consumer confidence and very strong employment figures. We have, I think, virtually the highest level of percentage participation in the working economy in Canadian history now. I think it's 63% now in Canada.

As I say, there is strong consumer spending and strong consumer confidence; certainly the reduction of the GST plays some role there, and over the course of the mandate, as I indicated earlier, we intend to fulfill our commitment to reduce it the additional percentage point.

Mr. Rick Dykstra: Perhaps you could clarify one of the analogies that I'll use and see if it is correct. It's following up on Ms. Wasylycia-Leis' perspective of a household and a working family. I know that whenever I've gone to the bank for a mortgage, the first thing the bank does is get a clear understanding of what all my liabilities are and what all my assets are. I know I've had a lot more success in achieving a mortgage for my family, or in being approved for one, when my assets outweigh my liabilities. Is that a fair assessment of the paydown on the net deficit?

Hon. Jim Flaherty: Most Canadians have a pretty good understanding of what interest payments are. We all live through them. Particularly on credit cards, interest can become quite onerous. Of course, with mortgages, most Canadians have that experience over the course of their lives, and with car loans as well.

This is an area in which, for whatever reason, both provincial and federal governments, over a long period of time in Canada, felt it was okay to spend money they didn't have. That means they were spending the money of the next generation, of my children and everybody else's children and grandchildren in Canada.

Building up deficits, building up public debt, is simply taxing the next generation. It's not fair to the next generation. It's our obligation, it seems to me, to try to clean up what was created in the last generation. We have an opportunity to do that into the next generation. We can then use those interest payments that we don't have to make on government debt to reduce the tax burden in Canada, which internationally is still out of whack.

Mr. Rick Dykstra: I have a question on one of the interesting points you made with respect to the 260,000 jobs that have been created since the beginning of the year. On page 36 of the update, which I read with great interest, it states:

> In the 2005 budget, the previous government launched a reform of government procurement. Savings from this initiative were estimated at $204 million for 2006–07, rising to $888 million per year for 2009–10 and subsequent years.
>
> After taking office, Canada's New Government undertook an assessment of the procurement reform initiative and has determined that the projected savings were significantly over-estimated.

Could you comment a little bit further on that?

Hon. Jim Flaherty: I don't want to dwell on their failure to accomplish much. I'd rather do it this way. We've been the government for ten months. Through the hard work of the President of the Treasury Board and other ministers, we've already found savings of $1 billion for this year in expenses, and another $1 billion for next year. This is in a time when we're in surplus, but I think there's an important point here. Governments constantly have to be looking for efficiencies and savings and reallocating funds to priorities. That's not something you just do when times are tough; we have to do that all the time. In that way, we're being proper stewards of taxpayers' money. We're taking care with taxpayers' money, which is their legitimate expectation of government.

Mr. Rick Dykstra: You mentioned that whenever you do forecasting, there are risks involved. You also focused a little bit on the four private sector companies that have done some due diligence. Is this the first time this has happened with respect to how this actually speaks to accountability?

Hon. Jim Flaherty: One thing that is happening for the first time is that the Department of Finance is publishing its own projections, and correct me if I'm wrong, but they're then publishing separately the projections, the estimates, of the four independent ones, rather than averaging them. This is an opportunity. It's an opportunity for members of Parliament and for everyone in Canada to have a look and compare the numbers. Interestingly, there's not a broad range of projection, and that shows some consistency.

● (1650)

Mr. Rick Dykstra: One of the interesting five key advantages that I notice is infrastructure. Many folks would assume that the Minister of Transport would be the person who would focus on infrastructure rather than the Minister of Finance. Perhaps you could comment on why that plays such a key role as one of the five Canadian advantages.

Hon. Jim Flaherty: I don't think there's much doubt among most people who have looked at the Canadian economy that we need to increase productivity. There are several things we need to do: lower taxes; invest more in research and development and in post-secondary education and training, so that we have a very able and skilled workforce; and build infrastructure. We've allowed an infrastructure deficit to grow in Canada, one of the classic examples being our border crossings, especially Windsor–Detroit, which I referred to.

There is an innovative financing tool available, and that is the public–private partnership tool that has been used in the United Kingdom, Great Britain, the United States, and more recently in Canada. That is a financing mechanism for the most part, hence the interest of the Minister of Finance in such things. What it can accomplish—and we've seen this elsewhere in the world—is allowing projects to be done more quickly and on budget, with some risk transfer. That's good if we can accelerate this.

There are infrastructure projects in Canada that are of national economic importance. What we're proposing in the plan, in Advantage Canada, is not that they must be done as public–private partnerships, but that public–private partnerships must be considered as an option before the chosen path is taken.

The Chair: Thank you very much, Mr. Dykstra, Minister.

We move now to the second round of questions, and we begin with Mr. McKay, for five minutes.

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

I'm looking at your projections, Minister, with respect to your underlying surplus projections of 2007-08. The Conference Board of Canada says it's a 4.4% increase; the University of Toronto, 4.5%; Global Insight, 5.4%; and the Centre for Spatial Economics, 7.6%. You choose the high end of the range. In fact, you choose 7.3%, which is almost as high the Centre for Spatial Economics, instead of choosing the average. You're almost two points higher than the average. You do that both in 2006 and 2007.

On the next page over, you then go on to say there are a fair number of risks here. There's a lower commodity prices risk. There's a U.S. housing market risk. There's a global current accounts risk, etc. Very conveniently, on the following couple of pages, you then say a one-point error is about $2.6 billion. If in fact you are wrong and the average is right, you've just made about a $5.2-billion error. By my calculations, according to your own projections, that puts you into deficit rather quickly. Your planning surplus in 2007-08 is $3.5 billion, yet a two-point swing—in other words, what everybody else says, as opposed to what you say—puts you into deficit.

Minister, why would you eliminate prudence? Why would you move away from taking, if you will, the average projection of private sector economists and pick the high end of the range? Are you just fattening up the top end?

Hon. Jim Flaherty: We're sure anxious to get rid of this made-up category that your government used called “economic prudence”, which was nothing more than a way of putting money aside for your pet projects every March. We weren't interested in that kind of phoniness with the people of Canada. We're still not, and we're not going to do that like you did for thirteen years.

Hon. John McKay: This is pin-the-tail-on-the-donkey economics. You've just taken the top number and said that's the number you're going to use.

Hon. Jim Flaherty: In fairness to the private sector forecasters, the Department of Finance had available the most up-to-date personal income tax revenue figures, which are actually higher than the figures that were available. But the deputy or the senior deputy can comment on that. There was a difference in the base.

● (1655)

Hon. John McKay: But you've moved away from a principle of essentially taking averages from the private sector economists. Presumably, the information they had in 2006 is the same information they had in 2005. I appreciate that your revenues have been going higher over the last few months. Fine. But you've really picked the top-end number and you've put the whole budget at risk.

The Chair: Mr. Carney, would you like to respond to that?

Mr. Mark Carney (Senior Associate Deputy Minister, G-7 Deputy for Canada, Department of Finance): Thank you, Chair.

The government has retained the principle of using the private sector average. The government's forecast uses the average of the fifteen private sector economists' economic forecasts and then translates them. As the minister said, the key difference is that the government has more up-to-date information and perhaps a better view in terms of the revenue yield, the PIT elasticity, as is outlined in the document, and that results in the higher numbers. So it's providing greater transparency to this committee in terms of what the government's expectation is for the likely surplus.

Hon. John McKay: The obvious question then, Mr. Carney, is why that information wasn't made available to the private sector economists, and whether they would have adjusted their numbers accordingly.

Mr. Mark Carney: The information was made available to the private sector economists. It is a judgment in terms of where the elasticity is going to go. The private sector economists effectively used the historic average elasticity of 1.2. The government's view, based on what we've seen and perhaps based on greater familiarity, having watched tax receipts come in, is that the elasticity will remain higher for longer as a result of higher revenues.

Hon. John McKay: But you know today that the private sector economists, like Global Insight, TD, Mr. Fortin, and the others, had a top number of about $4.2 billion. So I'm a little puzzled that you should be now picking on the wild side, especially in light of your comments about the softening of the U.S. market, the lower commodity prices, and things of that nature.

The Chair: Mr. McKay, I'll inject a couple of quick questions, if I may.

Minister, what is Canada's total government net debt right now?

Hon. Jim Flaherty: Federally it's $480 billion, and the total of the provinces and territories is about $260 billion.

The Chair: That's gross debt, is it? What about net debt?

Hon. Jim Flaherty: That's gross.

The Chair: What's net?

Mr. Mark Carney: Mr. Chair, net debt as of today is $484 billion.

The Chair: It's $484 billion in total.

Mr. Mark Carney: That's the total federal net debt.

The Chair: Federal net debt is $484 billion.

So the earlier observation about the $3 billion a year holds then, on the total elimination of net debt in the next fifteen years. At $3 billion a year, clearly that's highly unlikely in the next fifteen years.

Mr. Mark Carney: The total number I gave you is federal net debt, as the minister outlined in detail in his presentation. Total government net debt in Canada includes the assets of the CPP–QPP, which is a shared asset pool for all Canadians through the federal and provincial governments. Those assets are, at present, $110 billion as of today.

The Chair: So the net, inclusive of the CPP, is $70 billion.

Mr. Mark Carney: It's $484 billion minus $110 billion—

The Chair: It's $484 billion minus $110 billion.

Mr. Mark Carney: —which is shared. It is not federal. It's shared between the federal government and the provinces.

The Chair: So the answer to my question is that $374 billion is the current net number.

Mr. Mark Carney: Yes, although I'll re-emphasize the caveat that the CPP–QPP is not federal money, it is shared money for all Canadians. In commonly accepted definitions of net financial liabilities of a government, though, it is included because it is discharging our intergenerational equity.

The Chair: So we're going to pay off $374 billion over the next fifteen years?

● (1700)

Mr. Mark Carney: The combination of federal debt repayment—

The Chair: Plus the size of the CPP—

Mr. Mark Carney: —plus the provincial balanced budgets and the growth in the size of the CPP will result in zero net debt by 2021.

The Chair: Okay.

I appreciate the references that you make to our knowledge advantage and the flexible workforce. One of my concerns—and it's a concern our committee heard much about in our pre-budget consultation process—is the issue of labour force adjustment. The demographics are frightening, to be fair.

Specific to the subcategory of older workers, Minister, under a previous administration there was an introduction of serious clawback mechanisms for seniors on their benefits, and that may well act as a deterrent for them entering or in fact staying in the labour force and participating in it.

I wonder if you would like to make any specific reference to any intentions in that respect.

Hon. Jim Flaherty: We certainly are committed—and we've said so in this document—to moving ahead with the program with the lovely acronym WITB, which I'm quite fond of, my riding being Whitby—Oshawa, as you know. That addresses in part what you're describing.

The reality in Canada is that if someone is low-income or on social benefits or a combination of those, there is a disincentive to go to work. That's not what we want. We need people to enter the workforce, for the reasons that you've expressed, Chair. That initiative, which we'll outline in Budget 2007 and fund, will, we hope, reduce those relatively high marginal tax rates for persons who are right now marginally interested in working in the workforce, and will encourage them to join it.

The Chair: Thank you, sir.

[*Translation*]

Mr. St-Cyr, you have five minutes.

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you Mr. Chair.

My first question to the Minister is on the limit on the federal spending power. It was mentioned a few times in your documents, but I did not see any specific explanation on the subject. In Quebec, generally, when there is talk of limiting the federal spending power, the possibility is mentioned of offering retirement with full financial compensation from a federal program that falls under the jurisdiction of Quebec and the provinces.

Is this what you are talking about when you talk about limiting the federal spending power? Would this apply retroactively, for example if the government of Quebec wanted to withdraw from the Universal Child Care Benefit and invest those amounts in Quebec's public child care service?

[*English*]

Hon. Jim Flaherty: Well, you won't be surprised to hear me say that the economic plan, Advantage Canada, is forward-looking, not backward-looking. As a government we have consistently said, and as you mentioned said at least two or three times in the plan, that we believe in respecting the jurisdiction of other other orders of government in Canada and the provincial governments and that we intend to limit the federal spending power.

[*Translation*]

Mr. Thierry St-Cyr: You spoke of respecting the provinces' and Quebec's jurisdiction. You also spoke of open federalism. However, in your document, you speak of establishing a Canadian Securities Commission, when this is directly under the jurisdiction of the provinces and Quebec and when all the governments, all the premiers of Quebec had always objected to it.

Are we to understand the open federalism in the Conservative fashion means that the jurisdiction of the provinces and Quebec will be respected when you agree, but that you will interfere in the jurisdiction of Quebec when you do not?

[*English*]

Hon. Jim Flaherty: I think all Canadians are anxious to have an effective economic union. I can tell you that it's awkward for the Government of Canada to be negotiating trade agreements, for example, outside of Canada when we have substantial trade barriers within our own country.

One of the weaknesses we have economically as a country, and this affects Quebec and every other province, is that we have 13 securities commissions. Someone wanting to do an initial public offering, for example, in Canada oftentimes will turn away from Canada because of this incredible burden of registration and government that we have for investing in this country. We want to encourage investment in this country, and it does mean...

I know there's the Montreal Exchange. Mr. Crawford's report on this subject includes protections for the Montreal Exchange. We're not talking about the federal government intruding. We're not even talking about a federal regulator. We're talking about a common national regulator, with representation from all governments in Canada.

● (1705)

[*Translation*]

Mr. Thierry St-Cyr: A passport mechanism already exists between various regulatory authorities to simply that, but I think you are finally answering my question. You say that in this case, you have to interfere in the province's jurisdiction to respond to a certain national need.

Third, I wanted to talk about cuts, savings you want to make or efficiencies you want to achieve. At the Bloc Québécois, we know they have them. Recently, we looked at the Lénoard Committee report again, in which there was a demonstration that we could easily recover 15.9 billion dollars over the next three years.

However, what concerns me, in the approach taken by the Conservative government so far, is that things are being done backwards. First we cut because we think a program might not be effective, and then we try to see if we will reinvest another way. We have strong examples in the arts, concerning performing groups that are touring around the world. There is the unbelievable example of literacy: first we cut and then we say that we might reinvest in the field later.

Do you, in the future, plan on doing the opposite, namely first assess the programs before creating a commotion and, if needed, make the necessary corrections later?

[*English*]

Hon. Jim Flaherty: I'm happy to work with you any time on making more efficient and effective government. In the arts we actually increase funding this year by $50 million, in Budget 2006. But we're interested always in more efficient government and making sure we get value for money for taxpayers' hard-earned money.

The Chair: Merci, monsieur.

Mr. Del Mastro, you'll have five minutes.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

Minister Flaherty, I would describe this as a very exciting day for Canadians. I think today's economic update and Advantage Canada is something people will be very excited about, because it gives a road map, a fairly clear road map, for the road ahead, and it's very promising, very positive.

One of the things I think Canadians look at a lot when we're talking about paying down the debt is, “What's in it for us? How is this going to help me? How is it going to help our community? How is it going to help Canada?” And one of the things you've unveiled is the tax-back guarantee, which I think is very important. We know in our personal lives that if we're responsible financially, there is a benefit from it, but very often responsible government doesn't necessarily mean there's a benefit people can tangibly see in their own finances.

Indeed, they didn't necessarily understand that the reckless increase in spending—as you indicated, some 14.4% for 2004-05 alone, which is about seven times inflation—was bad, because they weren't getting a reduction in their taxes. But with this tax-back guarantee, they're actually going to see that by being responsible, there are savings.

Mr. McCallum said $1.4 billion isn't a lot of money. Well, it starts out at $800 million annually and works its way up to $1.4 billion. We're talking about more than $5 billion in savings. I think Canadians are going to be pretty excited about saving that kind of income tax burden.

Hon. Jim Flaherty: I thank you for the question.

I think what Canadians are witnessing is something we haven't had in Canada in a long time, and that is a government that will reduce taxes. There's some cynicism abroad in Canada, which is probably justifiable, about governments being capable of actually reducing taxes. There are lots of election promises and so on, but we did it.

We said we'd reduce the GST by one percentage point; we did it this year. We also reduced other taxes, so that the tax savings, 90% of which are for individuals, were $20 billion in Budget 2006 over two years, and in this status report another $22 billion over six years. Those are very substantial tax reductions for people, which they will see—which they see already, of course, in the case of the GST, but they'll see the other tax reductions as we go forward.

We also have new spending. We have spending such as the $100 a month for children under six—$1,200 a year—and the additional investments I was talking about today as part of Advantage Canada, in post-secondary education and research and development in Canada. These are all important priorities that we are and will be funding.

● (1710)

Mr. Dean Del Mastro: Great.

Secondly, you mentioned, under the five Canadian advantages, the entrepreneurial advantage. As a person who comes from small business, I can certainly see what you're talking about. We really do need to get the reins off business, allow our entrepreneurs—and there is a real, positive, entrepreneurial spirit in Canada—certainly by consolidating taxes. If you can accomplish that, it would be a tremendous advantage for Canada's entrepreneurs.

Have you had consultations with groups such as the CFIB about eliminating red tape, and if so, have they given you some kind of direction on it?

Hon. Jim Flaherty: I've certainly spoken to them over time. I used to be a member of the CFIB, as a small-business person, too. As you know, they survey their members, and I think feedback has been fairly consistent over the years about the burden. There are some statistics in the report here about the number of people who end up having to be employed by small business just to address this paper burden that's imposed by government.

We took a step recently that was very good, a good cooperative step with the Province of Ontario, entering into a corporate collection tax agreement. It was the case that Ontario was collecting their own tax and Canada collecting theirs. It meant two sets of forms for businesses in Ontario. Now there will only be one. And also, when they are audited, if they get audited, there won't be two sets of auditors coming in and taking up business time and so on.

We have to free business people to work in their businesses, and invest, and not spend so much time filling in forms for government.

The Chair: Thank you very much.

We'll move on to Mr. Savage now, for five minutes.

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

And thank you, Minister. It's always nice to see you at committee.

I would like to talk a bit about education. We talked about that when you were here before. I think improving Canadian productivity is a big issue for everybody. It has certainly been the focus of our pre-budget consultations. We've been going around the country and chatting with people, and everybody agrees we need to do that.

One of the ways, of course, to do that is to invest in post-secondary education. You've indicated in this book you gave us today that there are a number of mechanisms by which students are assisted through the federal and provincial governments. What we hear and what we've seen in the last number of years is that there are groups of students who are not accessing post-secondary education because of financial means. Obviously these are low-income families, persons with disabilities, aboriginal Canadians.

Last year the economic update spoke to that, to the tune of some $4 billion, including $2 billion to improve student financial assistance, $550 million to expand the Canada access grants, as well as a $1 billion post-secondary innovation fund, which you turned into the infrastructure fund. Infrastructure is important, but the issue I want to ask you about is access. Does the federal government have a responsibility to help students who are unable to afford post-secondary education, be it university or community college, to get there?

Hon. Jim Flaherty: There is a role. As you know, it's primarily a provincial responsibility. But we did take a step in the budget this year to help middle-class families make post-secondary education for their children more affordable. This is important, particularly for the groups you mentioned. And it's important for the economy. We want more skilled workers, more educated workers, and more people who can contribute to the workforce. I agree with the comments you're making.

Mr. Michael Savage: You specifically said middle-income families. I'm talking about low-income families: Canadians who are facing a challenge and can't get to university and post-secondary....

Last year the economic update had billions of dollars for assistance. Can we expect something like that from the federal government in the years to come—hopefully, in the budget?

Hon. Jim Flaherty: Well, I'm looking for the billions of dollars in assistance from the update last year. I don't see it on my list. I see a lot of motherhood comments coming from last year—

Mr. Michael Savage: Well, $2.191 billion for student financial assistance, loans and grants: $550 million for the Canada access grant to be expanded, $150 million for assistance for persons with disabilities—

Hon. Jim Flaherty: Oh, this is the one that, last November, before the election, had the $14 billion wish list in it, isn't it?

Mr. Michael Savage: Correct. If you want to go back before that, you can go to Bill C-48, which had $1.5 billion directly for access. That is now gone and has been replaced by the $1 billion you brought in for infrastructure. Is that correct?

Hon. Jim Flaherty: I think the federal focus in post-secondary education should not interfere unnecessarily with provincial jurisdiction. The primary obligation of the federal government is with respect to research and development, and certainly in encouraging graduate students in Canada in science and engineering and business. We're not graduating enough students in Canada with MBAs, with master's degrees in the sciences, including the life sciences, and in engineering. The federal government has a significant role to play there.

● (1715)

Mr. Michael Savage: You correctly point out that Canada leads the G-7 in publicly funded research. We've done that since 1998, since we eliminated the Conservative deficit. In that time, we have escalated at a big rate. The research granting agencies say you can't slow down. We slowed down in the spring. Can we expect, for example, CIHR, for which everybody who came before us, universities, researchers, students, applauded the—

The Chair: Thank you very much, Mr. Savage. Thank you, sir.

We move on now to Mr. Wallace, five minutes.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

Thank you, Minister, for coming today.

I have a few questions.

One thing that confused Canadians with the Liberal government was that they had the three budgets, maybe an update.... I couldn't figure out what they were talking about and when they were talking about it. I'd like you to identify to us, and to those who may be tuning in, the difference between a budget, this fiscal update, and this long-term plan, compared to what Canadians have experienced in the past.

Hon. Jim Flaherty: Maybe I'll start with Advantage Canada, the long-term plan, because we actually haven't had a long-term plan for Canada, with specifics and deliverables in it based on principles, in a long time—in fact, since the last Conservative government, when Michael Wilson was the Minister of Finance, in the 1980s.

Our view was that it was necessary to do that; that governments, like families or like businesses, need to have a plan so that they can look at how they're doing and measure how they're doing. It's a bit dangerous for governments to do this, because we can be measured, and people can say you're not accomplishing what you said you would accomplish. We're not afraid of that challenge, and that's why we've tried to lay out clearly, with deliverables, what we think needs to be done over the next ten years or so in Canada.

And this is a generational thing. This is for our children. This is saying: if we accomplish this, we will have a higher standard of living and a higher quality of life in this country. That's why we're going to do this. We're going to hold ourselves to this plan and we're going to act in accordance with the plan.

When we act—that is, when we implement—then we're budgeting. That happens every spring, and we would have the actual items, where we take this tax measure or that tax reduction or this fiscal policy and say we're going to implement it.

That happens every spring. The fall update is a photo in time of where we are in the fiscal situation about halfway through the fiscal year. That's why I talked about our being a little ahead on the surplus side, and our not spending as much as was planned, and so on. The people in Canada have the right to know—they're the taxpayers, after all—where we stand in the middle of the fiscal year.

Mr. Mike Wallace: I appreciate that clarification.

I have another question for you, which I don't think you had a proper opportunity to answer, because the former revenue minister went on and on, on his own. Could you explain to us what the OECD definition of total net government debt actually is, and how it will work?

Hon. Jim Flaherty: I can. I was actually looking for the reference for it, because then people would be able to look it up when they look on the website. I will find it in a moment.

It's the internationally accepted gold standard for measuring government debt. For example, it's the measure that was used by the Government of Australia when they decided several years ago they were going to eliminate their net debt, which is what they've accomplished, because they set out with purpose, as we are doing, to accomplish a goal.

It takes into account government assets and liabilities. We're looking at the entire country—all the governments in Canada; we're asking all governments to participate in this. Fortunately, eight of the ten provincial governments have balanced budget legislation, so we can have confidence that at least eight out of ten of them will have balanced budgets and will be able to participate in this reduction.

On the assets side, the most significant asset, of course, is the joint asset with the provinces, which is the CPP-QPP, which has assets of about $110 billion.

Mr. Mike Wallace: Before we leave, maybe you'll be able to find where people can look on the website. But my final question, if I still have some time, is on the Advantage Canada plan.

One thing I talked to the forecasters about this morning was that I've always been in favour of reviewing programs that are in place or that government is putting forward, and if they're not working, we either change them, shut them down, or move them.

What is Advantage Canada's long-term plan? What is your view of what government should be doing in terms of program spending and evaluation of programs?

● (1720)

Hon. Jim Flaherty: I think we have to be very focused, because this is a competitive world. It's a global economy now; people and capital can move. To keep the best and brightest in Canada and to attract skilled workers in Canada, we need to have intelligent spending, quite frankly, which means we have to spend on infrastructure, because it has a direct economic impact, and we need to spend on post-secondary education—including research and development—where our innovation will come from. Those will drive productivity increases in Canada.

We need to be reasonable on the business side also, in terms of capital cost allowances and those types of issues, so that we'll see more investment in modern technology, which will also increase productivity.

Productivity isn't about people working harder. Productivity is about more efficiencies in businesses, so that with the same amount of effort people can produce more in a given period of time.

It's like General Motors in Oshawa. There aren't more people, but there are more cars and they're of better quality because of technological advances—plus good workers.

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

We move on to Mr. Pacetti.

[*Translation*]

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you Mr. Chair. I would like to ask my first question in French.

Mr. Minister, I would like to clarify your new definition that we learned today, of what the net debt is of the federal government. You just admitted that you are responsible for the debt for all the provinces.

If this is true, since you decided to not respect the agreements signed with the provinces, such as the agreements on daycares, the Kelowna Accord, additional transfers for health and transfers for post-secondary education, will the provinces' debt be paid by the federal government from the amounts that were not transferred to the provinces?

[*English*]

Hon. Jim Flaherty: I was not unclear, I hope.

The point is that we need all governments to cooperate in reducing their debts in Canada. The greatest debt is clearly the federal debt, which is much more substantial than the accumulated provincial debts. We encourage and we're setting a goal for our country. We hope the provinces will join us in reducing the net debts of the governments of Canada over the course of the next generation, to make up for what went on in the past generation of excessive spending and running up debts, so that we can be fair to the next generation of Canadians.

Mr. Massimo Pacetti: I understand that, but if we don't work along with the provinces in terms of having a 15-year time horizon, if this is something that's going to be dictated solely by the federal government, the 15 years is not going to be attainable. I don't understand where that comes from.

I have other questions, and time is limited.

Where we see the income tax reductions going to come down by $0.7 billion a year, is that the correct number?

Hon. Jim Flaherty: It's $700 million, yes.

Mr. Massimo Pacetti: It's $700 million, yes, $0.7 billion. How much does it represent in terms of a percentage? Does that mean income tax at the lower rate will go from 16% to 15.9% or 15.8%?

Hon. Jim Flaherty: There are different ways of doing that, as you know. You can increase the basic exemption. There are different ways you could effect the personal income tax reduction.

Mr. Massimo Pacetti: We were told this morning that a 1% reduction in income tax is going to cost—or save, depending on which way you look at it—$6 million. So 0.7 would be 0.1% or 0.2%?

Hon. Jim Flaherty: The line you're looking at on page 38 is the line relating to the annual savings in interest on the payment this year of $13.2 billion against the public debt. That alone is $700 million a year this year and next year, 2007, and going forward. Then there's the additional line with the $3 billion per year debt reduction, which is $200 million, $300 million, and growing beyond that. That's how you get to $1.4 billion. There may well be more if there's more surplus.

Mr. Massimo Pacetti: Exactly. I'm just trying to get to the number. When are we going to go back to the Liberal 15%? We're at 16%. When are we going to get down to the 15%?

Hon. Jim Flaherty: There's more than one way to reduce taxes. You can increase the basic personal exemption. There are different ways of doing it, as I was trying to mention.

Mr. Massimo Pacetti: I'm talking about the tax rate for now. I understand there are different ways, but I'm talking about the tax rate right now. So it's not going to happen at the lower rate?

Hon. Jim Flaherty: Sorry?

Mr. Massimo Pacetti: So it's not going to happen. I'm talking about income tax at the lower rate.

Hon. Jim Flaherty: That's one way of doing it, but there are other ways of doing it. Pension splitting is another way of reducing income tax for people, which they seem to like a lot.

Mr. Massimo Pacetti: I'm sure there are a lot of people who would like a lot of different things.

The Chair: I think they might like income splitting even more, Minister.

You have about 20 seconds left.

Mr. Massimo Pacetti: I'll ask a quick one.

Last time you were here, Mr. Minister, we had had the finance officials in in the morning, and we had asked for different estimates on different proposals this committee had seen. We haven't seen any costing. Do you think it would be possible to get some of those costings?

The Chair: I'll do some quick housekeeping for the committee's purposes in response to Mr. Pacetti's question. Committee members, you'll be e-mailed the response from the Department of Finance tomorrow morning on the questions we had asked in our meeting last week.

The second issue I want to remind the committee of is our meeting on Tuesday, which will be at 3:30, at which time we will proceed until we have concluded preparation. The committee is the master of its own destiny, but that's the intention. We will leave that meeting open-ended, and dinner will be served.

We conclude our questioners with Madam Ablonczy.

● (1725)

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Thank you, Minister.

As you can imagine, there's quite a bit of interest in what you've said today. Canadians had heard talk about possible income splitting, some capital gains relief, equalization, and all of these programs. Is there enough room in the fiscal framework leading up to the next budget to address some of these issues? What can Canadians expect on these particular issues that of course are bread-and-butter issues to them?

Hon. Jim Flaherty: It's a good question, and it's very reasonable for Canadians to expect that we will look at the tax options that we have in terms of tax reduction. We're obviously committed to tax reduction. It's important, and we've done a lot of it so far.

We have the capital gains tax issue, which I've mentioned today. We want to reduce capital gains taxes in Canada. That's one issue we'll look at as we prepare for the budget. We'll certainly listen to the recommendations and comments of this committee, which I know are forthcoming shortly on the hearings you had across Canada. We have the personal income tax, which we can always reduce more in Canada, because relatively speaking we have high personal income tax marginal rates in this country, and those affect our ability to attract workers. There are a number of issues concerning taxation, all of which we'll look at as we move towards the budget. Some choices have to be made and some priorities set.

Ms. Diane Ablonczy: I have one other question.

The Chair: Please proceed.

Ms. Diane Ablonczy: I want to come back to my colleague Judy Wasylycia-Leis' concern that somehow this focus on debt reduction and tax reduction to make sure we have a dynamic economy is going to interfere with our ability to deliver strong social programs. What would be your response to that?

Hon. Jim Flaherty: It's just the contrary, actually. We have a very substantial planned commitment of more than $40 billion this year, running up to nearly $50 billion in the years ahead.

We have the fixed increase in the health transfers, which are very substantial running out to 2014, compounding at 6% a year on the base. So we have very substantial transfers, and as part of the discussions right now with the provinces and territories we're looking at that post-secondary education issue and the infrastructure issue. So there's more to come in terms of that relationship.

I might add, if I may, Chair, just at the end, that the total government net debt data is on page 45 of the economic and fiscal update. I knew it was here, but that's where it is: at the bottom of page 45.

Ms. Diane Ablonczy: Thank you, Mr. Chairman.

The Chair: Thank you very much, Minister.

All of us, of course, on this committee are concerned, as Canadians should be, about the productivity gap that exists vis-à-vis a number of our competitors. Today's announcement is going to give us all some optimism, I think, that we're moving in a direction with a plan that can address some of these shortcomings we've seen develop over time.

Thank you to your officials as well for being here with us. We are appreciative of your appearance here.

We are adjourned.

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