House of Commons
CANADA

Standing Committee on Finance

FINA	NUMBER 025	2nd SESSION	39th PARLIAMENT

EVIDENCE

Monday, February 25, 2008

Chair

Mr. Rob Merrifield

Also available on the Parliament of Canada Web Site at the following address:

http://www.parl.gc.ca

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I'd like to call the meeting to order.

We want to thank our witnesses for coming forward. We have two sessions. For the first hour, pursuant to Standing Order 108(2) and the motion adopted on February 11, 2008, we will have a briefing on independent fiscal forecasting. We have with us Mr. Marc Lee, senior economist from the Canadian Centre for Policy Alternatives, and from the Conference Board of Canada, Mr. Glen Hodgson and Mr. Matthew Stewart.

With that, we will start. I believe we have a presentation or two.

Mr. Lee, the floor is yours. We look forward to your presentation.

Mr. Marc Lee (Senior Economist, Canadian Centre for Policy Alternatives): Thank you, Mr. Chair and members of the committee, for having me today as part of this distinguished panel.

I live in Vancouver, so greetings from British Columbia, where last week the provincial budget brought in the country's first carbon tax, something that I'm sure you'll be studying as time goes on.

The CCPA does not do independent macroeconomic forecasting. What we do is provide fiscal forecasts as part of our alternative federal budget process. On this front, our track record is quite good. We were the first in Canada to raise the alarm about understated revenues in federal budgets leading to lower than projected deficits and then, after 1998, larger than anticipated surpluses.

The macroeconomic framework for this year's alternative federal budget is one where economic growth projections have been lowered compared with last October, when the economic and fiscal update was tabled. Whereas the 2007 federal budget lowballed revenues, the re-estimated framework in the economic and fiscal update is much more accurate and provided the fiscal room for the government to make its multi-year tax cuts.

I won't dwell on the prospects for lower economic growth. Developments in the United States suggest that the U.S. has already entered a recession, and the nature of that downturn suggests it could be longer and deeper than recessions in the recent past.

What's at issue is to what extent the downturn for our biggest trading partner—with exports equal to a quarter of our gross domestic product—will affect Canada overall, and what sectors and regions will bear the worst of it.

My forecasts take the economic and fiscal update as a baseline and then make adjustments for changes in the rate of economic growth. The revised base case is on page 15 of the alternative federal budget, which was released today. I've brought copies for all of you. I won't review the remainder of that document, but I will leave it to you to steal our best ideas and recommend that they get put into practice.

Slower economic growth means much less fiscal room heading into budget 2008 than in budgets past. We still anticipate a surplus of $11 billion in 2007-08, as most of the tax cuts kick in during 2008-09 and years after, but based on the updated economic forecast from the Bank of Canada's January 22 monetary policy update, the available surplus drops to about $1 billion in 2008-09.

Now, I should caution that this is not accounting for the government's promise to reduce the federal debt by at least $3 billion. In order to meet that particular promise, and under this new revised framework, the government would actually have to cut spending by $4 billion next year or it would have to revisit some of its tax cuts.

Personally, I would reject the notion that paying down federal debt is a top priority for the country right now. This includes the government's promise to make a $10 billion payment on the federal debt out of the current year's surplus.

In the out years, the surplus in the base case rises to $3 billion in 2009-10 and to $6 billion in 2010-11.

I'd like to underline the fact that if there were to be a major slowdown in Canada, because there is so little fiscal room the budget would naturally move into a deficit position. This is entirely the consequence of multi-year tax cuts from the economic and fiscal update and previous budgets.

The EFU tax cuts build on tax cuts announced in the 2006 and 2007 budgets. Fully phased in, the total revenue loss from the EFU is $14.7 billion per year by 2012-13. But if those previously announced tax cuts are taken into consideration, the total revenue loss from tax cuts by 2012-13 is an alarming $40.2 billion per year. This is a number I got right out of the economic and fiscal update itself.

We therefore need to ask what the federal government would do in the event that there was a slowdown or recession that pushes the budget into deficit. The government has promised to balance the budget, so assuming that they are unwilling to revisit their tax cuts, the only choice would be to cut spending.

In a technical paper for the alternative federal budget released in January—I believe copies were distributed to committee members—I modelled four scenarios of economic downturn and recession, again relative to the EFU baseline, each increasingly more pessimistic than the previous.

Growth estimates for the non-recession years of 2007 and 2010 are essentially the same as the EFU baseline in all scenarios. Essentially what we are modelling is a slowdown or recession in 2008, with a recovery year in 2009.

● (1535)

One note of caution in comparing the alternative federal budget to the technical paper is that today's AFB uses a revised GDP figure for 2007, so the forecast surplus in 2007-08 falls from $11.5 billion in the technical paper to $11 billion in the alternative federal budget.

In the technical paper, scenarios one and two are slowdown scenarios but not actual recessions. They show that it wouldn't take much before the budget reverted to deficit. These scenarios can be seen graphically on page 4 of the technical paper and in more detail in the appendix.

Scenarios three and four model actual recessions rather than slowdowns. In my worst case scenario, the deficit hits $6.2 billion in 2008-09, rising to $12.7 billion in 2009-10 before falling back to just over $10 billion in 2010-11. In terms of tipping the fiscal balance, a nominal GDP growth rate under 2.65% will lead to a deficit for the 2008-09 fiscal year.

The policy question, of course, is what should be done in response to a recession. The prospect of a downturn puts the recent tax cuts into sharp relief. Should the government hold the line on its tax cuts as its primary policy response? And to what extent would things such as the tax back guarantee, which I would argue is a gimmick that converts savings on debt interest payments arising from surpluses into tax cuts.... What would happen to that should surpluses turn into deficits? Does it in fact become a tax increase guarantee?

In response to a downturn, I believe the government should be prepared to run a deficit. Personal and corporate income tax revenues and GST revenues will minimally slow and possibly decline. Automatic stabilizers such as the employment insurance program have been greatly weakened since the mid-1990s, but in the face of a downturn they will push the budget towards deficit.

Surpluses on the EI account have already shrunk a great deal because of rate cuts, from an excess of $4 billion of premiums over benefits paid in 2001-02 to an estimated $2 billion in 2007-08. If unemployment were to rise, the EI account would turn to deficit rather quickly.

The conventional wisdom in Ottawa is a deep antipathy towards deficits under any circumstances. But I would argue that having saved for a rainy day, the federal government should be prepared to use the umbrella of deficit spending if need be. Canada's debt-to-GDP ratio fell from 68% in 1996-97 to 32% in 2006-07. The government has substantial room to run a deficit if it so chooses. Compared with those of other G7 countries, Canada's net liabilities are the lowest by a fair margin, with other countries running deficits in recent years, in contrast with Canada's surpluses.

In the United States, the Bush-Bernanke stimulus package, which has been criticized as not being stimulative enough, comes in a context of a previous year's deficit above 2% of GDP. In Canada, an equivalent deficit would be above $30 billion. That's not what I'm recommending; it's just to put it in perspective for Canadian audiences.

I believe there is much work to be done on climate change, poverty, transportation, and so forth, which make a compelling case for public spending as the vehicle for action. Federal expenditures have recovered somewhat, to about 13% of GDP from a low of 12% in 2000—01, but even this amount is three to five percentage points of GDP lower than levels that prevailed up to the early 1990s.

To put this in dollar terms, four percentage points of GDP amounts to about $60 billion, a fairly considerable sum.

There are detractors, of course, who would prefer to rely solely on monetary policy and who view fiscal policy as ineffective and ill-timed. I disagree. While we need to lower interest rates, this is increasingly an ineffective policy, because there is little ripple effect from the changes in overnight rates from the Bank of Canada to the rest of the interest rate structure. We are seeing, if anything, higher rates from banks for commercial and household lending due to the credit crunch, while the flight to quality in financial markets is driving down interest rates on medium-term government bonds.

We need to put fiscal policy options on the table. The critique that fiscal policy comes too late has some merit, to the extent that recessions are short-lived and fiscal measures involve a lot of long-term planning—for example, building a new bridge or a highway.

But other fiscal measures can be brought to bear. The key is to get money quickly into the hands of people who will spend it. I already mentioned EI. The government should consider measures that would enhance eligibility for EI, so that more unemployed workers would benefit, as currently only about one-third of the unemployed are eligible for EI.

Another measure would be to enhance the GST credit, which would quickly put more money in the hands of low-income Canadians. Other targeted measures could be considered for specific regions and industries that are hard hit.

As for infrastructure, we should be prepared with some big ticket items that we need anyway. The labour market is currently strong, but the fallout for construction could be large over the next year or two.

● (1540)

The fact that the U.S. recession is being driven by a dramatic fall in asset prices—in the past such an event would be called a depression, not a recession—suggests that this will not be your garden variety post-war recession with a quick drop and return to business as usual. This could take a couple of years to play out, and any resulting slack in the employment market could be absorbed by needed capital investments in things like social housing, public transit, and early learning.

That's my presentation. I'd be happy to entertain any questions after the next presentation.

Thank you.

The Chair: Thank you very much.

I believe the Conference Board of Canada is here. Do you just want to answer questions, or would you like the floor for a few minutes?

Mr. Glen Hodgson (Vice-President and Chief Economist, Conference Board of Canada): Actually, Mr. Chairman, can I make four brief comments to open, because we've had a chance to hear from Mr. Lee, and I thought I'd say a couple of things about our perspective on the world.

Message number one is on the U.S. outlook. We actually have not called for a U.S. recession in our forecast. If you look at the consensus forecast on Wall Street, it's about 50-50, and we're with the 50% who believe that the U.S. is going through a very tough period. If it feels bad right now, it's because it is. This is probably the worst quarter, but we don't think a recession is the most likely outcome. Our forecast for U.S. growth this year is about 2.1%, which is smack at the centre of the consensus forecast on Wall Street.

That said, I think we've probably given insufficient weight to another phenomenon, which is called “stagflation”. There I'd actually agree with what Mr. Lee said at the end of his comments, that the U.S. consumer is hugely overburdened with the combination of falling house prices, a weak equity market, very high global oil prices—and the U.S. imports about two-thirds of its oil—and heavy indebtedness. Debt is fine as long as the other side of your balance sheet is going up in value, but what's happened is that the average American is indebted up to about 130% of their income, yet their house price is now falling. That looks like a recipe, to me, for really weak recovery and weak growth for a number of years to come. There I would agree with Mr. Lee. Two years might actually be a short period. It could be three to five years of crawling along, underperformance by the U.S. consumer, which is 70% of U.S. GDP. So that's an important number.

The inflation side, unfortunately, comes from the fact that appreciating currency and high commodity prices, whether it's wheat or oil, is really feeding the underlying inflationary forces in the United States' economy. The last three months have seen inflation of almost 7% in the United States. If you look at the inflationary forces around the world, China, India, and a lot of other countries right now are unfortunately seeing a lot of stimulus in terms of prices.

So I think it's probably a fairly even bet as to whether the U.S. is facing a recession or what I would see as a much more serious problem, which is stagflation, going forward. That could last a long time. It can last into multiple years.

That's important for the Canadian outlook, and that's my second point, because it means that anybody who is selling to the U.S. consumer, any business that's really relying on exports to the U.S., is going to be in a tight position for a number of years to come. We've seen Canadian exports to the U.S. more or less flat in real terms for the last eight years. If you measure the annual growth rate, it's about 1% or less. We used to rely very heavily on sales to the U.S. as a source of stimulus. We can no longer do that. That raises some really interesting questions for our trade and economic policies going forward.

We were actually the most optimistic of all the private sector forecasters right now on our Canadian outlook. We think the Canadian economy can grow at 2.5% this year, but it will be very uneven sectorally and geographically. So the west is best—we think 3% growth or beyond is quite attainable for all four western provinces. Central Canada is very challenged because of the heavy reliance upon sales to U.S. consumers. The industrial heartland is very much challenged. I'm sure you've heard from many manufacturers that have talked about the challenges they're facing. Then Atlantic Canada is bringing up the rear a bit. We do think that growth of around 2.5% is attainable, but again, this is probably the worst quarter.

It feels like we're in a real slowdown right now because we are going through a period of slower growth, but I would point to the fact that we did have growth in the fourth quarter of last year, and the job creation numbers for January were remarkably strong. As we look at all the evidence, we again don't see quite as pessimistic a story as do some other forecasters out there.

One other thing I'll mention on our Canadian outlook, and that's the outlook for inflation. We see the inflation numbers coming way off. It's actually the complete reverse of what we're seeing in the United States. We're the beneficiary of high commodity prices as a domestic economy and we have an appreciating currency, so our forecast for Canadian inflation for this year is around 1.5%. That leaves a lot of latitude for the Bank of Canada to gently cut rates through the course of the year. It also, however, means that nominal income growth—and that's what governments tax—is going to be a little slower than what we or the Department of Finance foresaw last fall. That may well create a challenge for the federal government in terms of going into the budget, because it means revenues will be a little bit weaker than we'd all foreseen.

Very quickly, on a third point, I just want to do a quick contrast between revenue implications on our side and what the government is saying. We haven't formally run our model that we do in terms of one of the four forecasters of record on the fiscal deficit or surplus, but my colleague Matthew Stewart has done a little back-of-the-envelope work, and our best guess for this fiscal year is a surplus of around $11.6 billion or $11.5 billion, which is pretty much the same number as Finance put out in their fiscal outlook back in October. For next year, we have pulled our forecast surplus way down to about $3.4 billion. Finance is forecasting $4.3 billion. So it's in the same ballpark, but you can see that the latitude in the budget for innovative things is getting squeezed. We have come up with more or less the same number for fiscal year 2009-10. We're now forecasting a surplus of around $3.4 billion; Finance had a number of $4.3 billion. Again, a billion dollars on a budget of $230 billion is really just noise.

So our view is very close to or aligning with that of Finance.

● (1545)

The last thing I'll mention, Chairman, is that we're in the midst of doing a series of papers on tax reform. It's an area where the Conference Board has not done a lot of work in the past, but I thought, as chief economist, it was important we get on the record in areas where we need to rethink the tax system on a national basis.

Members might be interested in seeing the work we've done. The first one was on cities and thinking about how to create fiscal capacity for our cities. That came out in mid-January. The second one is actually on green taxes and the use of market instruments to put a price on carbon. We published that about a month ago, and have had a fair amount of media attention.

The things we plan to put out over the course of the year will be around sales tax harmonization, where we will strongly encourage the provinces to harmonize with the GST system—which would be a real boost to productivity, particularly for small business. We're going to look at business tax reform and things like getting rid of capital taxes faster, and we will be thinking of other things we can do to improve business competitiveness. Then we'll look at individual tax reform, based upon the demographics we're facing, because we are now at a point where we argue constantly that we're facing a labour market crunch going forward and we have to think about aligning our tax system with the demographic realities in our labour market.

Thank you, Chairman.

● (1550)

The Chair: Thank you very much.

I'd just inform you that the committee has actually made a decision to vault into a study on taxation, and your input would be very much appreciated. That notice has gone out as of today, so you might want to check our website on that. It's very timely.

That takes us to our question and answer part of the meeting.

We'll start with Mr. Pacetti. The floor is yours.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you to the witnesses for appearing.

Glen, before I ask you a question, could you repeat the numbers for your predictions for 2008-09 and 2009-10? What's your revenue prediction, because we're here for two reasons: to see what your estimates or projections are for the next year or two—I don't want to go more than two years ahead—and to get your opinion on the planned independent budgetary office. So perhaps you could just stick to those.

Mr. Glen Hodgson: I'll start with the numbers.

Running our model takes two weeks, and as a not-for-profit, we can't afford to do that on our own dime, effectively. But Matthew has a pretty good feeling for how the model works, and the estimates we've done are for a surplus of $3.4 billion next year—that would be 2008-09—and the same number for 2009-10.

Mr. Massimo Pacetti: Based on what revenues?

Mr. Glen Hodgson: He didn't do an independent number for revenues, but I think we can assume, for example, that spending is pretty much under control.

Mr. Massimo Pacetti: That's fine. I don't mean to interrupt, but my time's limited. I just want to ask another question.

You spoke about growth and put a lot of emphasis on it—1% or 2%—which is going to affect revenue. Will that affect spending as well?

Mr. Glen Hodgson: Not as much as some economists like to think. There's something called automatic stabilizers, the EI program, for example. If we have a rise in the unemployment rate and people are applying in the areas where they can actually access EI—more in the east than the west—that would kick in. But for the most part, I think spending can be controlled; it's not as dependent upon the rate of economic growth as revenues are.

Mr. Massimo Pacetti: Thank you.

Mr. Lee, in your alternative budget, I see that most of your numbers are.... Well, I'm also comparing it with this paper, where you have ranges, and your ranges are from whether it will be a moderate slowdown to a major recession. Only the revenues or the government intake vary at best by $10 billion, more or less, depending on the year we forecast out to.

I see your expenses don't vary, but are your expenses, your program spending amounts, in this book here? Are they already accounted for?

Mr. Marc Lee: Expenditure revenues are essentially identical to what's in the economic and fiscal update. So those are the government's numbers.

Mr. Massimo Pacetti: Right, but they vary depending on whether you think it will be a moderate slowdown or a major recession.

My question is, given that your spending number is exactly in line with the number in the economic update, are none of the items you're recommending in the book in your forecast? Is that correct?

Mr. Marc Lee: Sorry?

Mr. Massimo Pacetti: None of the items that you're recommending in your alternative budget—

Mr. Marc Lee: We have a separate table, table 3, below the updated status quo framework, which includes both our recommended revenue and our expenditure measures.

Mr. Massimo Pacetti: What page is that?

Mr. Marc Lee: It's page 15.

Mr. Massimo Pacetti: I'm trying to calculate, because we don't have that much time here, where your spending is versus what the government is planning on spending, let's say, for the year 2008-09. The government is planning on spending $207.6 billion. Yours would be the $207 plus the $16.2 billion just below it?

Mr. Marc Lee: Exactly.

Mr. Massimo Pacetti: And with that you would run a balanced budget, because you're going to get an additional $15 billion of revenue. Is that correct?

Mr. Marc Lee: That's correct.

Mr. Massimo Pacetti: Where do I get the backup for the $15 billion additional in revenues?

Mr. Marc Lee: That would be on page 21.

Mr. Massimo Pacetti: Okay. Now, if the scenario were, let's say, a slowdown or a major recession, obviously that $15 billion would not be the amount you think would be collected. Isn't that correct? Under what scenario would the $15 billion be collectable? Would it be under a scenario where you're using a moderate slowdown or in a major recession?

Again I'm using the terminology in the paper that I have here.

● (1555)

Mr. Marc Lee: Well, there are two. There's the technical paper, which was really just trying to look at different assumptions around economic growth and at what they meant for the economic and fiscal update as a base case: without any policy action on the part of the federal government, what would this do to the underlying fiscal balance?

In the alternative federal budget, we use the EFU base case, but we revise our economic growth numbers based on the most recent projections from the Bank of Canada, which are slightly more pessimistic—actually, by about half a percentage point of GDP, I believe—than are the Conference Board's. That's what's driving our assumptions around revenues in the alternative federal budget.

The technical paper was more to demonstrate essentially at what point the budget, of its own course, simply due to the state of the overall economy...what would happen in terms of the bottom line, the surplus or deficit.

Mr. Massimo Pacetti: Let's say that for the fiscal year 2808-09 we didn't collect the extra $15 billion and we didn't spend the extra $16 billion; in your scenario the government for the fiscal year 2008-09 would only have a $1 billion cushion instead of the $4.4 billion.

Mr. Marc Lee: Yes, that's the revised status quo framework. If you forget about any of the recommendations we make in the alternative federal budget, the available fiscal room shrinks to $1 billion if we insert the latest economic projections coming from the Bank of Canada into the economic and fiscal update.

Mr. Massimo Pacetti: Are you doing any work for the Department of Finance, or are you subcontracted for that? Do you give them any advice for their projections?

Mr. Marc Lee: We do not. We do this as an independent process.

Mr. Massimo Pacetti: You spoke about lower interest rates. How would they affect government revenues?

Mr. Marc Lee: We assume that the effective interest rate on government debt in the 2007-08 year stays constant over the next few years; we project interest payments based on that level. That's built into the status quo framework. A lowering of interest rates would increase the available fiscal room.

Mr. Massimo Pacetti: Glen, does your organization do some consulting work for the Department of Finance?

Mr. Glen Hodgson: Yes, we're one of the four forecasters of record working for the Department of Finance, providing an independent fiscal outlook. When the government published the economic statement last fall, we were one of the four forecasters—

Mr. Massimo Pacetti: So the last time you did work for them was for the fiscal economic update?

Mr. Glen Hodgson: That's right. The last time we ran our numbers in a formal way, that Matt actually modelled, was in mid-September.

Mr. Massimo Pacetti: Would you be prepared or not to say that you were off, three or four months ago?

Mr. Glen Hodgson: Well, one of the joys of economic forecasting is that you always get more information. That's why we do our economic forecast four times a year: to try to take advantage of the national accounts data and do the updates.

I would say that the numbers I gave you for next year are actually $7 billion lower than we were forecasting last fall. Because inflation's lower, nominal GDP is actually therefore a fair piece lower than it was expected to be at this time.

The Chair: Thank you very much. We'll now move on.

Monsieur Crête, the floor is yours for seven minutes.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

My questions are for both groups.

It has been announced that oil and gas companies in Canada will go from paying 22.12% in corporate taxes to 15%. What do you estimate the savings for gas companies over the next five years will be as a result of these tax cuts?

[*English*]

Mr. Glen Hodgson: I'll start.

That is part of the government's fiscal plan, but we have not bottled that in any formal way as of yet, because the move to 15% obviously depends upon healthy fiscal outcomes and healthy growth on an ongoing basis. So it's a plan.

I spent 10 years at the Department of Finance, and one of the lessons I learned there is that the things that really matter are the things this year and next year. After that, it's very much a forecast. We wouldn't spend a lot of time, frankly, modelling five years out, because it's not something—

● (1600)

[*Translation*]

Mr. Paul Crête: Give me an estimate for next year or for the next two years.

[*English*]

Mr. Glen Hodgson: Did we actually formally build that, Matt, into our revenue forecasts?

No, we would not have done that in a formal way, because we did our outlook in September. The economic statement came out at the end of October. I think it was October 30.

The next time we formally model both revenues and expenditures we will take into account things Parliament has passed in terms of the tax code. So if Parliament decides that we're going to cut corporate taxes by so and so, we will build that into our modelling at that time.

[*Translation*]

Mr. Paul Crête: Mr. Lee, do you have any information on this topic?

[*English*]

Mr. Marc Lee: The estimates I have for the value of corporate tax cuts are the ones in the economic and fiscal update. And I believe those are not broken out to specify the oil and gas sector.

[*Translation*]

Mr. Paul Crête: If you had to choose between making a productive investment of $4.5 billion in the manufacturing sector or cutting personal taxes by $225 million per year for the next five years, which measure do you believe would be most beneficial for both the Canadian economy and society?

[*English*]

Mr. Glen Hodgson: We have not formally modelled that. We've obviously thought a lot about the advantages of either subsidizing, sustaining the current economy, or trying to find ways to boost productivity over time. Based on my 25 years of experience, my bias is in favour of allowing the market forces to work while also trying to create the most competitive tax environment possible. And that's why, whenever we've written about cutting taxes versus providing subsidies to sectors, my bias over the long term is to really create the most competitive tax environment possible.

I'm very much aware that there are communities going through pain right now—the forest industry in particular is going through a lot of pain—and I can fully understand why governments would think about adjustment programs to help the workers adjust. But fundamentally, if you're worried about productivity and sustainability long term, I think the choice is between lower taxes and more spending. And I'll opt for lower taxes.

[*Translation*]

Mr. Paul Crête: With respect to the recent GST cut, what would you think if I were to tell you that most of this money will serve to spur China's productivity, rather than establishing a program to provide a tax base to manufacturing companies, allowing them to be competitive?

[*English*]

Mr. Glen Hodgson: Fundamentally, our view on cutting individual taxes is that cutting personal income taxes is probably a better boost to productivity than cutting sales taxes.

I think it's a bit of a stretch to think that by cutting a tax in Canada, somehow we've done something of benefit to China. China really has its own act together in bringing about ongoing economic reform. There are clearly competitive challenges for Canadian manufacturers, in particular, because of the new competition they're facing from China. But I would take that back to the work we're going to do over the course of this year on what we think is the optimal tax system for Canada and on the kinds of choices governments at all levels are going to have to make.

Among economists, it's very clear that you get much more of a productivity boost from cutting corporate income tax and personal income tax—things that are barriers to investment—than from cutting the GST.

[*Translation*]

Mr. Paul Crête: Mr. Lee.

[*English*]

Mr. Marc Lee: Thank you.

First of all, I would dissent from my co-presenter about the relative merits around productivity of cuts in various taxes. Most of these are based on theoretical propositions around how different taxes affect the economy. The way the modelling works is that because income tax, which is progressive, moves away more from a so-called natural equilibrium, they are by definition more distortionary. When numbers have been attempted to be put on those, they are usually done as a sort of quasi-empirical framework. The evidence in terms of tax cuts, different types of taxes, and tax mix actually leading to improvements in productivity is quite thin if you actually look at the empirical evidence.

Coming back to your original question, I believe you might be interested in our section on the full alternative federal budget, starting on page 94, where we outline a sectoral development strategy. In a nutshell, we recommend an increase in the corporate income tax rate on the oil and gas sector back to 28% from its current level, which would raise approximately $1.7 billion per year. We would use that to fund the creation of a new value-added sectoral development agency. This would look at projects in the auto sector, the forestry sector, and in other up and coming areas, whether that's high tech or biotech or what have you, in order to get Canada back in the game in terms of more active industrial policies.

We think this would be a much better use of funds. If the program were well designed, targeted assistance of that order would have a much better benefit over the long term than across-the-board tax cuts, which have had huge benefit in areas like banking and oil and gas, for example, with very little return in terms of productivity benefits for the Canadian economy.

● (1605)

[*Translation*]

Mr. Paul Crête: In the same vein, after servicing the debt by $3 billion from the surplus, wouldn't it be wiser to use the surplus for 2007-2008 to create a reserve dedicated to preventing the repercussions of an economic slowdown rather than allocating the entire sum to the debt? If we subtract the $3 billion used to service the debt, we have approximately $7 billion remaining. In your opinion, what would be the most productive option for our society...

[*English*]

The Chair: Very quickly, please.

Mr. Marc Lee: I believe we are at a stage where we need to make major investments in retooling the Canadian economy. Coming from British Columbia, where the carbon tax and other measures to fight global warming have just been introduced, I would suggest that those are some of the really important areas where we need to do that. If we are entering a period of economic downturn where we could see a growing slack in the employment market, it would be an ideal time not only to use fiscal policy to maintain full employment, but also to make those much needed investments that equip our economy for the future.

The Chair: Thank you.

Do you have an answer?

Mr. Glen Hodgson: All of our research points to infrastructure as one of the big unfunded gaps within our economy. If Parliament were going to weigh the various alternatives, clearly a bit more weight on infrastructure is something that the Conference Board would support.

The Chair: Thank you.

We will now move to Mr. Menzies. I believe you are going to share your time with Mr. Dykstra. You have seven minutes. Go ahead.

Mr. Ted Menzies (Macleod, CPC): I am indeed, and I will go as quickly as I can.

Thank you, all three gentlemen, for coming today.

I'm always interested in the advice I get from people and their source of financing and how they gather their advice.

Mr. Hodgson...I can refer to you as Glen, I think.

Mr. Glen Hodgson: We've seen each other a few times.

Mr. Ted Menzies: Yes, we have.

I believe you've already stated that your funding comes from memberships and your consulting work. You provide a service and you're paid for that service.

Mr. Glen Hodgson: We have no endowment, unlike many other think-tanks. In fact, our board has taken a very explicit decision not to have an endowment, not to pursue the money available through trusts, for example. We have to earn our way in the world, and we do that through selling economic forecasts and doing analyses for people, and organizing conferences and networks. That's the core business of the Conference Board. It is basically doing research and facilitation.

Mr. Ted Menzies: Good, thank you.

Mr. Lee, what is your source of financing?

Mr. Marc Lee: Our largest single source of financing is from individual memberships. We also receive funding from organizational members, including trade unions, credit unions, and progressive businesses. A third source would be from foundations, and a fourth would be government.

Mr. Ted Menzies: Thank you.

Mr. Lee, I would ask a very pointed question. How close have your past projections been to reality?

Mr. Marc Lee: The whole reason for the creation of a parliamentary budget office stems from concerns the CCPA raised in its alternative federal budgets, going back almost 10 years. We consistently argued, back when Paul Martin was finance minister, that he was understating revenues and using very conservative economic assumptions, and we made our own projections around what the surpluses would be. Year after year, our projections were far more accurate than those coming out in the actual budget documents. So I would say we have a very good record in our projections for fiscal finances.

To be quite frank, we don't use very sophisticated economic models that take days to churn out their results. They're using some very straightforward principles around the relationship of the growth of revenues to overall gross domestic product and trying to make those based on reasonable economic assumptions about the future.

● (1610)

Mr. Ted Menzies: That's good. I guess we'll go back and look tomorrow afternoon, after Minister Flaherty is done, and see how close you were.

Mr. Hodgson, you raised my interest when you talked about sales tax harmonization. This is something we've talked about both in budget 2007 and in the economic statement. We realize it's provincial jurisdiction, but I would like some more comment from you, if you could, about the benefits. We're encouraging provinces but we can't tell them what to do. I'd like a little insight from you on why that's a good thing.

Mr. Glen Hodgson: I don't want to give away everything in my written brief. I'm having a highly reputable outside reader go through it right now. But our thinking is fairly simple, that simpler is better when it comes to the design of a tax system, and right now we do have a patchwork quilt of sales tax regimes across the country, both in terms of rates and in terms of coverage.

We've seen three of the four Atlantic provinces—it's three out of four, but not P.E.I.—sign up for the harmonized sales tax and come up with one tax collector, one auditor. Clearly that's going to save money for businesses of every size at every stage along the way, and for the taxpayer, because we really have made a very simple administrative system. Quebec has done the same thing. The collections are different, but basically it's a harmonized system.

But if you look at other large provinces, the two most prominent are B.C. and Ontario of course. There is an element of misalignment. Their coverage is different. Maybe the most punitive thing is that businesses who buy business inputs don't get the benefit of a cascading value-added tax system, so they have to pay the sales tax on goods that are covered by the provincial sales tax.

I've had the privilege of giving advice to many ministers of finance, so we've met with Minister Duncan in Ontario and talked about this. I think he's a bit intrigued. I think as a philosophical matter he understands there are benefits, but he's also worried about the revenue impact for his own budget, because if you were to harmonize, he would probably be looking for some sort of bridge. As you know, Mr. Menzies, there is a bigger debate about Ontario's place in the federation when it comes to transfers and having a level playing field. I would suspect that as that dialogue goes forward we're going to have to put a lot of those issues into the pot.

But clearly, I would argue that almost every Ontario business would benefit from having a single sales tax regime that is built on value-added taxation, where they don't have to pay taxes on business inputs that they then often can't even pass on to their customers.

Then there's another level of benefit, of course, in terms of administration and efficiency. That's the argument I make with Mr. Duncan directly, and therefore I'm quite happy to make it to you today.

Mr. Ted Menzies: Thank you.

Mr. Dykstra.

Mr. Rick Dykstra (St. Catharines, CPC): I have a question for both Glen and Marc.

You indicated pretty stridently throughout your document and in your presentation today that tax reductions are not the way to go and you don't see that as sustainable in the long term. Having said that, one of the things that certainly have benefited the manufacturing sector has been the accelerated capital cost allowance. All parties, except perhaps the NDP, believe the extension of that accelerated capital cost allowance is a good thing, meaning that what we did is a very positive thing for the economy.

I know you've spoken about this, Mr. Hodgson, that one of the things we need to do with respect to China is the whole issue of competitiveness. If we're going to be competitive, at least when the dollar is closer to par, we'll have to find the machinery and equipment that will make us more competitive, that will make a greener environment in terms of the potential output of that machinery. So I see that as a tax cut, if you will, but one that has been very specific, very targeted.

You suggest in your document as well that we need to be more targeted. I would suggest to you that that is one of the most targeted tax cuts we could have done, supported across the country, $1.3 billion in investment.

So I'd have to think, Marc, you'd have to suggest at least on that one issue that reduction in itself has been very good for the country.

Mr. Marc Lee: Actually, in our alternative budget we don't roll that back, and I would agree with you that these types of targeted measures can be actually more effective.

In years past, we have called for, instead of across-the-board corporate income tax cuts, something more along the lines of investment tax credits so that we reward actual investment that boosts our productivity over the long term. You simply don't necessarily get that with across-the-board tax cuts. So I'm happy to see the extension of the accelerated capital cost allowance.

● (1615)

Mr. Rick Dykstra: I have a couple of minutes yet. Glen, do you want to comment?

The Chair: If there's another answer from Mr. Hodgson, that'd be fine.

Mr. Glen Hodgson: I very much like your comments. I would actually add another idea into the mix.

This will probably not appear in the budget tomorrow, but one of the things we linked into our briefing on green taxes was the idea of an investment tax credit for environmental goods. If we're going to try to move to a lower carbon future, we can do things within the tax system to try to accelerate the adoption of greener technologies. There are a couple of paragraphs in our brief, if you're interested.

You would probably want an arm's-length group deciding which technologies would qualify, but as we head down the road, that's the kind of thing you could do, in addition to accelerated CCA, to try to encourage firms of all sizes to adopt the latest clean, greenest technologies.

The Chair: Thank you.

We'll now move to Mr. Christopherson.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Chair.

Thank you both for your presentations today.

I want to pick up on the issue of infrastructure. Notwithstanding the government's fervent belief that tax cuts are going to solve everything, I think both of you at least touched on the fact that investment in infrastructure would be a good return.

What I want to do is flip it once, just flip it around and look at it in a different way, because this is being televised, so that people understand why this matters, not just as an important issue locally but also the macroeconomics.

Regardless of who ponies up the money, whether it's municipal, provincial, or federal, just on the macro scene, if we as a country don't find the money to reinvest in our infrastructure and we continue down this road for years and years, and one day at a time, one week at time, one month at time, one more year at a time, we don't tackle that massive infrastructure problem that we all have in most of our communities, what's going to happen? What are the results for Canada macroeconomically if we don't come to grips with our infrastructure needs soon?

Either or both of you could respond, please.

Mr. Glen Hodgson: I think our research shows that the costs, first of all, back up on business.

I'll give you a very concrete example, a study we did on the border, trying to measure what happened with Canadian exporters when the U.S. border security went up and it created a barrier. It actually didn't slow exports down. We've done some pretty complex econometric analysis showing that it didn't slow exports. What it did, though, was raise the cost for our exporters in terms of complying with U.S. security legislation, and therefore it ate into their bottom line. They had to create warehouses on both sides of the line, they had to have compliance, all sorts of things that they're spending money on.

That's a pretty good analogy for what happens if infrastructure doesn't work. It means people have to start planning their business model quite differently, knowing that they're going to have bottlenecks, knowing that they can't get their truck down Highway 401, that they can't get across the bridge at Windsor, that we don't have an integrated national transportation network where they can take stuff off the ship from China and put it into their supply chain on a fairly easy basis.

Initially, the costs will go up for business. That will be the first step. The second step, of course, is that firms will have to rethink their business model and will have to think about what they can afford to do in Canada and what they might be required to do in other places just because they can't get goods to market as quickly as they should.

Mr. David Christopherson: Thank you very much.

Marc.

Mr. Marc Lee: Going back a couple of years, I remember a study, I believe from Statistics Canada, that found that for every dollar of infrastructure spending, businesses benefited by 17¢ per year, which I would argue is quite a good rate of return for infrastructure spending.

I would just caution to distinguish between renewing the existing infrastructure and rebuilding infrastructure. If we are looking at infrastructure—for example, expansion of highways that reinforce sprawling suburban patterns of development—we are locking ourselves in for a generation. The type of infrastructure investments matter a great deal. In particular, public transportation is one, affordable housing is another, and child care and early learning facilities is another. Even in the oil and gas sector—and this is a longer-term proposition—developing infrastructure around carbon sequestration is something that could be incredibly important for the future.

Mr. David Christopherson: Thank you.

Along the same lines, we have put forward—we didn't originate the idea, we just developed the policy—the whole notion of further investment into retrofitting our existing buildings, in particular residences, because commercial-industrial can be on a different track in terms of how you look at it economically. But certainly refurbishing homes does a number of things, and there are three obvious ones.

First of all, it helps our country meet our international obligations, whether it's Kyoto or something going forward, so that as a country we're lowering our emissions.

Secondly, it creates jobs, possibly hundreds of thousands of jobs, because people have to physically go in there and do the work. And this is locally created work.

Lastly, it lowers people's energy costs. So it's actually a savings for Canadians, because over the years they'll be putting out less money for energy costs.

My question, again, is—and I'll leave it very open for you—am I blowing it up too much to suggest that this implies, like the infrastructure, that there's a cost to our nation on the macro level if we don't do this, as well as conversely, that it's a positive that provides good stimulation and helps us hit a number of national objectives?

I'd like your thoughts, please.

● (1620)

Mr. Glen Hodgson: I'll take the second part of your comment first.

I'm not sure we know what the cost is or what the cost benefit is, because we're treating CO_2 like a free good, and as long as we treat it like a free good we actually don't know whether this is a net win or a net loss.

But on your first point, your idea of retrofitting is very analogous to the idea that I put in our brief on green taxes, which is an environmental investment tax credit. That would simply be the same cost as could be applied to the refit industry as well. Or you could do it directly through government programs that have been done in the past. I have a bias in favour of using the tax system, because we have the whole structure for tax administration there already. That's why we provide GST rebates through the tax system, because it actually encourages people to pay their taxes and take advantage of the tax machinery that's already in place.

Mr. David Christopherson: Thank you.

Marc.

Mr. Marc Lee: What's interesting is that if you look at the modelling around different types of taxes and carbon pricing and how they lead into greenhouse gas emissions, you'll see a very good example is the recent report from the National Round Table on the Environment and the Economy. Almost all of the gain over time is due to turnover of capital stocks—at certain points in time businesses need to buy new equipment, consumers need to buy new cars, and things like retrofits happen.

Having a price on carbon that is rising over time gives a signal and it changes the decisions made at those junctures when the capital stock needs to turn over. So over the course of several decades, you then get to essentially the types of targets that the federal government itself has set out, largely on the basis of capital stock turnover. Anything we can do to accelerate that is welcome, from my point of view.

The Chair: Okay. The time is gone now. We're going to enter a second round. We're going to allow only three minutes, and we'll be able to get the second round completed.

We'll start with Mr. Wrzesnewskyj.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): Thank you, Chair.

Mr. Hodgson, I'm appreciative of your candour when you stated that your projections are currently among the most optimistic, if not the most optimistic, although you've pulled your numbers down from what they were in the fall.

I understand also that you were one of four groups that provided numbers to the minister when he was coming up with his projections. Your numbers were better at that time than what you are currently projecting. Is that correct?

Mr. Glen Hodgson: Yes.

Mr. Borys Wrzesnewskyj: Okay, so your numbers were wrong then.

Now you're saying you're out here when everyone else is somewhere on the spectrum to the left of you, and also less optimistic. You've also stated you're optimistic that the U.S. is not going into a recession. There are obviously repercussions, but you did say it's 50-50, so it's a toss of a coin, heads or tails. You were wrong last fall, and based on incorrect projections, rosy projections at that time, the government made some very critical decisions, including accelerating the GST cut to January 1.

With hindsight, would you consider that to have been prudent and responsible?

Mr. Glen Hodgson: Perhaps I'll start by saying that the tone of your question implies that we make systematic errors when we do economic forecasting. That's not the case. If you go back to look at an article done in *Policy Options* magazine about two years ago on the accuracy of forecasters over a 20-year period, guess who was at the top of the list? So we don't make systematic errors.

We do have, arguably, the most sophisticated tools. When we do a Canadian forecast, we have a model with 1,200 equations in it, where we have modelled people's behaviour down to minute detail. We were really working off the numbers that came out of the national accounts; that's how we do our forecasts. We were stronger, which is probably the reason the government has four different forecasters and uses a consensus.

● (1625)

Mr. Borys Wrzesnewskyj: Since we only have three minutes, unlike the previous round of seven minutes, I'll interrupt you there.

You've referenced 20 years. Just by looking at you, I doubt you were there 20 years ago!

Mr. Glen Hodgson: No, but unfortunately I was at the Department of Finance 12 years ago.

Mr. Borys Wrzesnewskyj: And you also referenced some 1,200 different equations that you use.

The Chair: Make it a very quick question.

Mr. Borys Wrzesnewskyj: Okay, I'm just going to quickly move to something else.

You said that we, unlike the States, are most likely not going to be facing inflation. Last week we saw wheat or flour prices in Canada move to about $1,200 a tonne; previously they were around $500 per tonne. How long will it be before that works its way through and shows up in our inflation numbers?

Mr. Glen Hodgson: It's already showing up in people's baskets. When you go to the grocery store right now, a basic loaf of bread is $2.40 or $2.50, whereas was $1.60 last fall. Inflation is fundamentally a phenomenon driven by monetary policy, however, and it really depends upon whether the Bank of Canada is going to monetize that—which I'm afraid the Fed is doing right now in the United States, by the way. As a macroeconomist, I'm quite worried that the Fed is actually feeding long-term inflation in the United States by its huge cuts in interest rates.

You can have price changes without having inflation, as long as you don't create the liquidity within your economy for that to turn into inflationary forces. Our dollar went from 85¢ to parity with the U.S. dollar in six weeks, and that, of course, cut all of our import prices at the same time as wheat prices were going out. It's that balancing act that the central bank is dealing with every day.

The Chair: Thank you very much.

Michael Chong, the floor is yours for three minutes.

Hon. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

I know that Marc Lee, in the documentation he gave us, was talking about a carbon tax, but I notice that the Conference Board also made reference to it. So I have two questions.

First, the folks at the Canadian Centre for Policy Alternatives argued for a $30 per tonne carbon tax and projected that it would produce about just over $5 billion in revenues, I think it was.

Mr. Marc Lee: Fully phased in, it will be about $7 billion, because the tax would start on July 1. So it's only three-quarters of a fiscal year.

Hon. Michael Chong: Thank you for that clarification. So there'll be about $7 billion in revenues, fully phased in, from $30 a tonne.

Is there modelling producing those numbers for you as well? Maybe you could tell us a little bit more about what the Conference Board's position is on this.

Mr. Glen Hodgson: Well, we haven't done a formal modelling of the fiscal impact.

Our position is fairly simple. We are producing CO_2 right now, and the consensus of the Intergovernmental Panel on Climate Change is that it is having an impact on our physical environment; therefore, we think we have to start attaching a price to CO_2. That is the whole point of a green tax or carbon tax, which is to treat that as what's called an externality in economics, a bad thing that we're treating as free, and it's not free but actually having some sort of deleterious impact.

Secondly, however, if you put in place a green tax, as B.C. did just last week, you do it in a way that's revenue neutral. That would actually allow you to cut other taxes, which the B.C. government is doing, and effectively keep your revenues in balance going forward.

Those would be the fundamental elements of our brief.

Hon. Michael Chong: I believe it was actually the Government of Quebec that was the first provincial government in Canada to announce a carbon tax, and not—

Mr. Marc Lee: It's a very small amount applied to a very narrow base, so it's technically not a carbon tax—although we could perhaps quibble on that.

Mr. Glen Hodgson: They also tried to tell producers not to pass it on to consumers, which frankly is the wrong position. The whole point of a carbon tax is to get people to understand that whether they're buying a big car or small car makes a difference to the environment, and thus to shape consumer behaviour going forward.

Hon. Michael Chong: I have just one quick question.

The Chair: Very quickly, yes.

Hon. Michael Chong: Could you tell us when the Conference Board is planning on coming out with their proposals in this regard?

● (1630)

Mr. Glen Hodgson: We've done a first briefing, which is on our website, and it sets out the elements of a national strategy for pricing carbon. We are creating a couple of forums right now, one on climate change adaptation, where we're getting some of the major emitters to sit in the room together with governments at all levels and talk about better practice. So we're really doing this on an ongoing basis.

I personally have been invited to be part of an advisory group working for the National Round Table, looking at what the optimal state would be for a carbon price rule down the road. I understand this work is going to occur over the next year and at some point the National Round Table will come up with its own report. So we will be attributed to that process.

The Chair: Thank you.

Mr. Laforest.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chairman.

Good afternoon. My question is for Mr. Lee, but I would also like to hear Mr. Hodgson's opinion.

Mr. Lee, in your opening presentation, you said that your organization had chosen 2008 as the year to reduce poverty. Do you have any idea of the magnitude of the financial losses that the federal government is incurring because of tax havens? These amounts could be used to fight poverty, if we were to eliminate these tax havens. Do you have an idea of the amount of money at stake?

To my mind, the fight against poverty and tax havens are totally contradictory. Tax havens serve those who have a lot of money. If we are to fight poverty, we should make attacking these types of situations a priority.

[*English*]

Mr. Marc Lee: It's a good question. It's been a few years since I've seen an estimate on the amount of loss due to tax havens, and we don't include that in our alternative budget. But I would agree with you that we have been too much preoccupied with changes in the tax system that benefit the wealthy.

[*Translation*]

Mr. Jean-Yves Laforest: Don't you believe that if you designated 2008 as the year to fight poverty, it would be useful to look into this issue in a more in-depth manner?

[*English*]

Mr. Marc Lee: It's a fair comment, and we would certainly be prepared to do further research on this, but we are a small non-profit organization with limited resources and we do the best we can with a small budget and a lot of volunteer time.

But thank you for putting that on the radar. I will look into it.

[*Translation*]

Mr. Jean-Yves Laforest: Mr. Hodgson.

Mr. Glen Hodgson: I don't have much expertise in this area. The Conference Board of Canada has never conducted any research on tax havens. I do apologize, but this is not a topic on which I can offer an expert opinion to members of the committee.

[*English*]

The Chair: Thank you very much. With that, we'll now suspend and then we'll move our second group of witnesses in for this session.

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(Pause)

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• (1635)

The Chair: We'll call the meeting back to order pursuant to Standing Order 108(2) and the motion adopted on February 11, 2008, for a briefing on the annual report and business plan for the Financial Consumer Agency of Canada.

From the Financial Consumer Agency of Canada, we have Ursula Menke, the commissioner. It's good to have you here.

We have Jim Callon. It's good to have you here, as well as the director of the financial literacy program.

So with that, we'll allow you to take the floor and then we'll proceed with questions and answers. The floor is yours.

[*Translation*]

Ms. Ursula Menke (Commissioner, Financial Consumer Agency of Canada): Good afternoon, Mr. Chairman. I would like to thank you and the Standing Committee on Finance for inviting the Financial Consumer Agency of Canada to appear before you.

[*English*]

I am proud to say that I have recently been appointed commissioner of the Financial Consumer Agency of Canada, as of mid-December. I will do my best to respond to your questions.

To begin the discussion today, I would like to first highlight the mandate of the agency and then present to you some key activities that the agency is undertaking and that may be of interest to you.

The agency's mandate is to supervise and monitor the conduct of federally regulated financial institutions that take deposits and make retail loans. It is also charged with the mandate of consumer education in the financial sector.

Our work complements the regulatory framework that includes the Office of the Superintendent of Financial Institutions, which supervises the safety and soundness of our institutions; the Canada Deposit Insurance Corporation, which protects consumers through its insurance of retail deposits; and the Department of Finance, which is charged with the financial sector policy framework.

At its most fundamental level, the agency's role is to ensure and promote compliance with the disclosure provisions found in the various financial institutions' statutes. Our mandate does not give us a role in matters of redress. Parliament, in establishing the financial consumer protection framework, clearly separated individual consumer redress from enforcement of the law. The ombuds services were a response to Parliament's desire that all financial institutions belong to a third party dispute resolution body, to provide redress for individual consumers based on fairness.

As the market conduct regulator, our ultimate objective is to encourage a fair and competitive marketplace by ensuring that consumers have the information to make informed decisions.

[*Translation*]

Pursuant to our mandate on consumer education, the FCAC educates consumers on their rights and responsibilities when they are dealing with financial institutions. We provide Canadians with accurate and objective information on products and financial services, on a timely basis, in order to help them better understand and select products that will help them better manage their personal finances.

Our publications and online tools give consumers information on various products and financial services such as credit cards, mortgages, bank accounts, credit records, and payday loans.

• (1640)

[*English*]

By filling in the information gaps that exist in the marketplace, the agency provides Canadians with the tools they need to help them navigate a complex financial marketplace.

Demand for our services is growing. Every year more and more Canadians come to us to obtain information or to register a complaint about a financial institution. Since 2001 the agency has received more than 140,000 phone calls, e-mails, and letters from Canadians. Last year, in the 2006-07 financial year, we distributed 750,000 publications to consumers across the country.

Our website has become one of Canada's best sources of objective, up-to-date information on financial products and services. In the previous financial year, our website received in excess of 1.4 million distinct visits.

Through our outreach program, the agency is working with a growing number of partners in order to increase our reach and awareness of the agency among consumers. In 2006-07 our partnerships with the Canada Revenue Agency and Human Resources and Social Development Canada helped us reach over 8 million consumers directly, through inserts in GST rebate, child tax benefit, old age security, and Canada Pension Plan cheques.

Last year Parliament voted the agency $3 million over two years as an initial investment in improving financial literacy among Canadians, and in particular youth. We are forming alliances across the country in an effort to leverage these funds as much as possible in terms of spurring interest in investment and improving the financial capability of Canadians.

Canadians are expected to take charge of their financial affairs in a rapidly changing financial marketplace to invest for their futures and their families' futures and to accumulate enough savings to support their retirement.

[*Translation*]

To this end, Canadians need tools, information, advice and training to manage their personal finances with confidence.

[*English*]

With our funding, we are working with the British Columbia Securities Commission on a joint project to develop a web-based curriculum for high school students. We are piloting a project with George Brown College and the Ontario Investor Education Fund in presenting convenient mini-courses for college students. We are working with other government departments and Statistics Canada to carry out a national baseline survey to determine the financial strengths and capabilities of Canadians that will provide substantial data for focusing more efforts in this field.

[*Translation*]

We are also working in collaboration with a non-profit organization called the Social and Enterprise Development Innovation (SEDI) as well as the Autorité des marchés financiers du Québec in view of holding a second conference on financial ability. This conference will bring together experts and stakeholders to share knowledge, and develop the necessary networks to advance this program.

Lastly, the Internet will serve as the main platform to set up a resource centre that all of our partners and all Canadians will be able to use and share.

[*English*]

In closing, I would like to thank you for this opportunity to appear before the committee. I look forward to answering any questions you have.

[*Translation*]

I will be very pleased to answer your questions.

[*English*]

The Chair: Thank you very much for being here and for answering the questions.

We'll now move to the question and answer period, and we'll start with Mr. Pacetti.

The floor is yours for seven minutes.

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

Congratulations, Ms. Menke. It's a new post. I hope you won't regret it in a couple of months.

I was listening to your brief, but I'm a bit surprised that you didn't mention anything about the crisis that's happening in the financial industry today. That's one of the reasons we asked you to come here. I don't think it's something you could ignore, so I'll ask you this question. How are consumers going to be protected with what's happening out there?

There seem to be losses. Day after day we're hearing about losses, and they keep getting revised, and they keep getting revised towards an upper amount rather than a lesser amount. The banks are under extreme pressure to keep reporting more and more profits, but if they're not there, somebody's going to have to provide them with those profits, and I think it's going to be the consumers, and probably Canadian consumers.

So how do we protect the Canadian consumer, what is your role going to be there, and what is your view in the future? I think that should have been addressed in the opening comments and not during my seven minutes, so if I interrupt you it's just because I want to lead you towards some quicker answers.

● (1645)

Ms. Ursula Menke: I guess I'd have to say there's only a part of that we can deal with effectively. There are certainly much broader questions. For example, part of the question you've asked related to areas that are significantly outside my mandate in terms of investments.

With respect to the mandate that I have from Parliament, what we do is ensure that the banks actually follow the rules. Most of the Canadian consumers you're talking about have ongoing relationships and they have contracts, of course, with their institutions. Those contracts will, of course, determine what the relationship is.

I didn't understand from the way the motion was originally drafted and the question that I saw...what you were looking for was the effect, I thought, on the consumers themselves. I guess the agency gets relatively little information on that directly. The most direct information we would get on the effect of what's going on in the market right now is from inquiries and complaints that we would have, and on the basis of that stream of information, I have to say at this point in time that there doesn't seem to be any effect upon consumers. We have noticed no increase in concerns related to credit matters.

Mr. Massimo Pacetti: No, because I think this is an item that is in the news now, and we'll probably see it in a month or two when the policies start coming out in the banks. That's what I'm worried about. I'm trying to get ahead of the curve, and that was the purpose of my motion. What we don't want to see is consumers all of a sudden getting a letter saying, “Your interest rate is such and such” or “We've just made an adjustment to your credit card” or “We made an adjustment to your bank account that you've had with us for years.”

You say you have to make sure the banks follow the rules, but we all know what that means. Follow the rules, but based on what? Most consumers don't know what their rights are. How are they going to be protected? By the time you get one or two complaints, a lot of people don't even know they can complain. We get some complaints, but even for us it's hard to really pinpoint who we should direct that complaint to. I have a relationship with some of the bankers in my riding, but when it becomes high level it's tough. If it's on a branch level it's probably easier.

Ms. Ursula Menke: There are a couple of issues around there that you've identified. As I tried to make clear in my opening remarks, unfortunately what the mandate of the agency is is to apply the disclosure provisions, the provisions that relate to consumers and the consumer protection provisions. I could summarize those provisions by saying that they are essentially around the requirement for institutions to clearly inform and disclose to their customers what the relationship is. The agency does not have any kind of mandate in relation to actual levels and setting of levels, so there is nothing I can do with regard to changes in interest rates. All I can do is ensure that they followed the rules that were set out in the law and in the regulations.

Mr. Massimo Pacetti: Such as proper notice being given.

Ms. Ursula Menke: Exactly.

Mr. Massimo Pacetti: How about rate fees, in terms of banking charges? Would that also be under your mandate?

Ms. Ursula Menke: I have nothing to say with respect to that either.

Mr. Massimo Pacetti: So the market forces would set that? It would be up to competition and competitors.

You say there's been an increase in complaints. What type of complaints do you see? Is there a particular type, or are they about a certain type of sector? Is it banking, or insurance, or credit card companies?

Ms. Ursula Menke: Actually, it's not correct to say that we've seen an increase in complaints; we've actually seen a decrease in complaints. What we have seen is a significant increase in inquiries. There are many more people who know about us now. We get close to 150,000 hits a month on our website. A website clearly is not a complaint site; it is an information site. That's what's been going up.

● (1650)

Mr. Massimo Pacetti: And in terms of complaints?

Ms. Ursula Menke: Our complaints have actually been going down quite significantly.

Mr. Massimo Pacetti: The majority of complaints would still be in what sector or what area?

Ms. Ursula Menke: We have a variety of complaints. Interestingly enough, I would say the majority of our complaints are in areas that don't really directly relate to our mandate; in other words, to compliance with legislation. The smaller number of complaints, well less than half—I don't have the figures right at my hand—deal with compliance issues. Those would be issues related to disclosure: account opening issues, credit card issues, mortgages, lines of credit —those kinds of things, primarily all disclosure issues.

Mr. Massimo Pacetti: That would be in your annual report, is that correct?

Ms. Ursula Menke: That would be in my annual report.

Mr. Massimo Pacetti: The other item is insurance companies. Do you also have jurisdiction over the insurance companies?

Ms. Ursula Menke: To the extent that they actually do consumer lending, I have. Fundamentally, I don't deal with products; I deal with the disclosure requirements. They normally don't have accounts, so to the extent that they make loans to consumers, either as direct loans—which usually doesn't happen, as it's usually mortgage lending that they do...the cost of borrowing regulations apply to them.

Mr. Massimo Pacetti: How about foreign entities? For example, I can think of ING. Would it be under your purview as well?

Ms. Ursula Menke: To the extent that it does retail, yes, it is. They open accounts to retail customers, so yes, for example.

Mr. Massimo Pacetti: Is there a tendency for complaints to be geared more towards foreign banks or entities or towards local—or let's say Canadian—banks? Is there a tendency either way?

Mr. Jim Callon (Deputy Commissioner, Financial Consumer Agency of Canada):

Generally there isn't a trend towards foreign banks. Given the market that the domestic banks have, the majority of the complaints would be centred around the domestic banks.

Mr. Massimo Pacetti: Thank you.

The Chair: Thank you very much.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chairman.

Good afternoon, I want to thank you for introducing us to your organization.

With respect to consumers' rights, particularly financial rights, your organization makes me think of David and Goliath. Given the magnitude of profits being raked in by banks and the means they have at their disposal, I often have the impression that no matter how efficient an organization is, it will never truly be able to counter the propaganda that is being spread by financial institutions in their dealings with clients.

I wonder to what extent what you are doing is sufficient. I do not doubt the quality of your work, but shouldn't we create a department of consumers' rights to better protect consumers in all areas, not just the financial sector?

Ms. Ursula Menke: You are raising a question which in all honesty I am unable to answer. Generally speaking, I would say that one cannot lose sight of our twofold mandate. We not only ensure compliance with the law, which is very important: our institutions are very large and must comply with legislation. But we also have another very significant mandate with regard to consumer education. That is why I emphasized the high number of people who consult our website on a monthly basis. There was a significant increase in the number of website visitors over the last two years, which I am delighted to see, because it is important for people to become familiar with our website and obtain objective information.

Mr. Jean-Yves Laforest: I agree with you entirely on the fact that in the final analysis, you are making sure that financial institutions respect the rules and the laws. What I am trying to say—and this is not a trick question—is that if there were a department of consumer affairs, there would perhaps be a different set of laws, and consumers would possibly be better protected as a result. What you do, you do well. The banks are complying with legislation, but are the laws strong enough with respect to the rights of financial institutions? That is what I mean.

I will ask you another question. Have you carried out any studies on the types of clients? There are people who are less educated, illiterate, and on low incomes who are being solicited by the banks. Have you conducted any comparative studies on the penetration rates of advertizing campaigns that are targeted to these groups as compared to other groups that would have the means to defend themselves?

● (1655)

Ms. Ursula Menke: No, we have not carried out any specific study on that. Obviously, we have figures which have been collected by others on this, and that is one of the reasons why we are increasing our efforts regarding clearer communication, to make sure that our information is clear and available to the vast majority of Canadians.

Mr. Jean-Yves Laforest: I have a final question. Your organization's funding comes from the financial institutions. At first glance, without presupposing any conflict of interest, it could raise the issue. Have consumers made any such comments to you?

Ms. Ursula Menke: No, but it may be because I have not been there for very long. Many of the regulatory bodies at the federal level are indeed funded by the institutions they regulate.

Mr. Jean-Yves Laforest: These are the same as the organizations that are being monitored.

Ms. Ursula Menke: That is correct.

Mr. Jean-Yves Laforest: Thank you.

[*English*]

The Chair: Thank you very much.

Mr. Menzies, I believe you're going to share your time with Mr. Dykstra.

Mr. Ted Menzies: I am indeed. I'm a very sharing person today. I like to make sure everybody has an opportunity.

Thank you, first of all, for your presentation. I'm finding this very fascinating. Congratulations on your new role.

Here is one thing, and this may be off topic from where Massimo's motion wanted to take us. But in hearing your presentation and in reading some of the comments, I'm very interested in how and if this may impact, or you may have a role in, white collar crimes with the financial institutions.

I have a constituent who has been trying to raise this very serious concern about brokers being able to encourage people to use in-house products, and about suggestions that these brokers may be getting kickbacks for selling more in-house products than they do a more expanded option of products. We're looking at encouraging provinces to sign on to a common securities regulator to try to police this. With our 13 regulators out there, we find it very disjointed.

I'd be very interested in your comments on that, if you see a role for yourselves in this or if you have indeed heard this complaint.

Ms. Ursula Menke: I can't speak to the specifics of the complaint, but—

Mr. Ted Menzies: In general purposes. There's more than one.

Ms. Ursula Menke: I think one hears a variety of concerns around that, and we certainly do take them very seriously. With respect to the part of our mandate that deals with consumer education, we do quite a bit on that. We provide a variety of information—tip sheets, that sort of thing—and we are regularly expanding that information to give neutral advice to people.

One of the things we're going to be doing is a tip sheet in relation to financial advisers, giving consumers some advice about the types of questions they should be asking people who are giving them advice. We don't provide specific advice; we provide generic advice. Our objective is to improve the competitiveness of the system through having informed consumers. That's our objective on the consumer education side, and that's where we would be acting in relation to that matter.

● (1700)

Mr. Ted Menzies: So informing.

Maybe I'm one of the naive ones here, but I wasn't aware of what your role is. How do we get consumers and taxpayers to avail themselves of this service?

Ms. Ursula Menke: Well, as I say, one of the main tools we have is our website. On the one hand, we have our publications. As I said in my opening remarks, we put out about 750,000 pieces of information in the last fiscal year. We continue to do that. Through the financial literacy money that we got from the government last year, we are also working on a program for financial literacy. We are working at a variety of different levels to expand the base of information and we do inserts so that people know about us and come to see us. We're doing a lot of various activities to ensure that we extend our reach.

Mr. Ted Menzies: Thank you.

The Chair: Mr. Dykstra.

Mr. Rick Dykstra: Thank you, Mr. Chair.

I have just a couple of quick questions. Well, one's a quick question. It probably has a long answer, so I'll save that one for my second question.

One of the interesting things that I noted on page 11 of the document you put out is the relationships that you've been able to build with the private sector and not-for-profit organizations, including the YMCA of Greater Toronto, an organization in Montreal, and an organization in Winnipeg. I'm from a smaller municipality—it's an urban municipality—but I wonder what types of partnership you were able to foster, such as those, or like those, in smaller urban centres or in more rural settings versus in the larger big cities.

Ms. Ursula Menke: Thank you very much for that question.

That's indeed a challenge for us, quite frankly. We're a small organization ourselves. What we're trying to do is expand these partnerships. Larger cities obviously tend to have more organized community associations, but we are definitely, under our financial literacy initiative, trying to expand our reach to community associations throughout the country. It isn't easy. We have to do it in many cases, particularly in smaller communities, one community association at a time. But we are on a path to doing that and expanding that very much.

Mr. Rick Dykstra: That's good to hear.

I have one other question, and I know there's not a lot of time left.

A lot of what you do is obviously, even just in the title of the document, value for Canadians. With regard to a number of the organizations that report directly to the finance committee under the jurisdiction of the Minister of Finance, often the question we ask is, what value do you provide for the funding you receive? Are you able to measure that? You're an organization that receives some $8 million a year. Can you actually say, look, we actually saved taxpayers *x* amount of dollars this year, which assists us in terms of measuring up against the dollars that are invested in us as an organization?

Ms. Ursula Menke: That's always a very difficult thing to do, as you can appreciate.

One of the things we're going to be doing this year is that we have developed and we're in the processing of finalizing a very large baseline survey of financial capability in the country. We want to use that as baseline information and over the years be able to assess how our programs will have improved capability annually. That's one good way of doing it.

We have some indication from our partnership in British Columbia, for example, that education does make a difference. It's always nice to know. We all believe it, but it's nice to see some actual numbers on it.

We have some indication with respect to, for example, our compliance work, where there is a direct payment back to customers when mistakes are made. So that's a return of dollars into customers' pockets.

Those are all small indicators. We're trying to develop better and more consistent indicators over time, but that is a challenge for us.

Mr. Rick Dykstra: Through you, Chair, as just a comment in regard to that, perhaps it would be helpful when the next document comes out if the suggestions that were made in terms of where that will go and how that will be justified could be included in the yearly report, at least for the next fiscal year, at least to get it started and see where it may go. It sounds as if you're on track to beginning to be able to do some of those measurables.

● (1705)

Ms. Ursula Menke: Thank you.

The Chair: Very good.

Now we'll move to Mr. Christopherson for seven minutes.

Mr. David Christopherson: Thank you, Chair.

Thank you for your presentation.

Right off the top, what are the most serious infractions you find during the course of your business?

Ms. Ursula Menke: I'm going to turn that one over. I haven't been there long enough to answer that one directly myself.

Mr. Jim Callon: The area in which we have the most challenge in terms of working with the institutions is disclosure, making sure the disclosure is clear, concise, and in plain language.

Mr. David Christopherson: Disclosure of what, precisely?

Mr. Jim Callon: That's particularly in credit products—mortgages, mortgage documents, lines of credit, and credit card documents.

Mr. David Christopherson: Okay, I'm going to push this just a little more. What sorts of things are you finding? What are the institutions doing that they shouldn't be?

Mr. Jim Callon: There are a couple of issues we've dealt with.

We have worked with the industry over the last two years to ensure that any consumer who is bound by a credit agreement is provided with equal disclosure in terms of any costs or fees and any changes to the terms and conditions of that loan. The industry practice had been that they would only provide disclosure to the primary borrower, which left secondary borrowers in the lurch in terms of knowing what was happening to the loan. That involved significant discussions with the industry, significant changes to their systems to be able to provide each person who's bound to the credit agreement equal access to disclosure requirements.

Another aspect we've dealt with deals with the marketing of credit cards, where there was a practice that the industry was starting to advertise credit cards with rates "as low as". The consumer would be expected to think they could get the rate "as low as", when in fact the majority don't get that rate. Again, it was a practice that was starting to permeate in the credit card business, and we worked with the industry to eliminate that type of practice in the marketplace.

Mr. David Christopherson: I'm just curious. As an infraction...I use that word, but it may not be the right word in your world. You talk about them working. I want to get clear how you go about enforcing what you do.

Ordinarily if there's an infraction, you advise people they've done something wrong, and here's what they need to do; and if there's any penalty attached, here's what it's going to be; and if you have an appeal procedure...that sort of thing. But what I'm hearing is that you worked with the industry to solve this, and it didn't require any regulatory change of any sort. Was there not a regulation in place that you could point to and say, "You have to do this"? I'm just curious as to why it was a matter of meeting with them and talking to them. That's all fine, but normally in enforcement matters that's not what you do. You discover an infraction, and you're on it.

Ms. Ursula Menke: I think our processes are exactly as you've described. When we talk about working with the industry, what we have, of course, is a discussion over exactly what the regulation means.

I wasn't there at the time, but it was clearly an issue of uncertainty over what exactly the interpretation of the regulation was. The discussions were held with the industry. They agreed with the agency's interpretation of the regulation and put into place the changes in their own processes, and the end result was that we got compliance.

Mr. David Christopherson: What would be another issue? That's one disclosure, but what would be another one that you get a lot?

Mr. Jim Callon: It depends on the year. When the branch closure regulations started up whereby banks were required to give disclosure on closing the branches, you would see in our statistics a balance in terms of not complying with the branch closure regulations. They have adjusted, and that's not an issue in today's regulatory environment.

Primarily, as I say, it's dealing with the disclosure up front of the terms and conditions of the credit card, line of credit, or loan the person is getting, and making it clear what the interest rate is, what the fees are going to be, and how the changes will occur or what the changes will be during the life of that agreement.

● (1710)

Mr. David Christopherson: Okay, we're back to disclosures again.

Is there another? I'm just looking for the top two or three big things you deal with. There's no trap here. I'm just looking for the biggest things you deal with, so I can get a sense of what your agency is dealing with on a day-to-day basis.

Ms. Ursula Menke: If you are looking at the enforcement side, it is disclosure of different things. We have a variety of regulations. They deal with a variety of products, opening of accounts for example, but they are always at the end of the day about disclosure —clear, complete disclosure. So we're going to give you examples of disclosure.

The rest of the mandate, as I say, is on the education side.

Mr. David Christopherson: Right. I understand that point. That's fine. I appreciate that. That's a great answer.

If you could recommend to this committee, or to Parliament, two things to change that would be an improvement for the consumer in the areas you are responsible for, assuming that the world is never perfect, what would they be? What areas would you like to see us looking at to enhance consumer protection across the country?

Ms. Ursula Menke: You're putting me on the spot here, but I'll respond.

I think the issue we see is that of course the world changes very quickly. The legislation and the regulations, quite frankly, don't really keep up, and what I would like to see is a more principles-based regime where we don't always have to try to play catch-up with products that don't quite fit into the four-square of the rules as they exist right now. That would be the big thing.

The other one is that I would love to have more money to do more consumer education.

Mr. David Christopherson: Yes. Well, that's going to take me to my next question.

The Chair: Very quickly.

Mr. David Christopherson: Very quickly? Okay.

On the national financial literacy program that was in the 2007 federal budget, you had certain goals that you set out for yourselves. Can you tell me how you're doing on that? Because that is the other half of your mandate, the education piece.

Ms. Ursula Menke: Yes, right.

There's more to it than that, but that's certainly a big piece right now, and it's a key piece. Actually, I think we're doing very well. We're in the process of taking a product that was developed by British Columbia and turning it into a web-based product so people can access it in different ways.

The product that was prepared by British Columbia was meant for delivery in the classroom, so we're giving it an alternative delivery. We're doing another conference, and one of the key things we're spending a lot of time on is developing more of those partnerships that I was talking about. We can't deliver very much product ourselves. We can't deliver training except through the web, because we're a small group, so we are encouraging more partners to come in and help us deliver the product through the schools, the community associations, and the financial institutions. I'm happy if they do it too.

The Chair: Thank you very much.

We'll now move to our second round.

We have Mr. Pacetti for five minutes.

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

I think we've found what we were looking for. It's on page 21, the complaints section, the tables in the 2006-07 annual report. Two of the major items obviously are the 33,000 inquiries and the almost 16,000 general inquiries. But I guess the troubling numbers are under the accounts heading. There are 261 complaints regarding chequing, and the other large amount is 326 complaints regarding collection. I'm wondering what those are about, if you would look at pages 20 and 21 of table 3.

Ms. Ursula Menke: Yes.

Sorry, you're talking about the number 1,096 on cheques, for example? Is that the one you're talking about?

Mr. Massimo Pacetti: I'm not too worried about inquiries, but mainly about complaints, 261 of them.

Ms. Ursula Menke: I would only be guessing. I can't really tell you. What I can say is that one of the things to note about that particular table you're looking at is that these are complaints that do not include compliance matters. So I would be guessing, but I would suggest to you that these are probably service complaints of some sort.

Mr. Massimo Pacetti: Is that the same case for the collection on page 21?

Ms. Ursula Menke: That would be the same thing. Because the heading is excluding compliance matters, those again would be really beyond the jurisdiction of the agency. In that case, I'm not sure what it would be. It may be debt collection or debt collectors. I'm not really sure, to tell you the truth. I can't give you more specifics on that right now. If you would like us to look, we can.

● (1715)

Mr. Massimo Pacetti: Yes, perhaps you could just give us one or two lines through the clerk.

My question is in regard to the selling of the credit cards. Some of the banking institutions sold some of their credit card divisions to offset some of the losses they incurred. I'm just wondering what impact you foresee that having on the cost to consumers for their credit cards. Is it going to increase, or what is your prediction, or what do you feel is going to happen with that?

Ms. Ursula Menke: I'm not exactly aware of the specifics that you're referring to. I didn't realize that banks had sold off their credit card operations. Are you aware of any of that? I'm not aware of that, quite frankly.

Mr. Massimo Pacetti: Yes, I think it was the Royal and the CIBC that sold part of their credit card.... Okay.

You also mentioned working in collaboration with CDIC. Is there any overlap there in terms of work that's being duplicated by CDIC?

Ms. Ursula Menke: No, there is none whatsoever. Their mandate is quite different. We're starting to work together on advertising and consumer education. They don't really have a role in consumer education, but they would like to support the agency's work in that regard. So we're working together, but there is no overlap.

Mr. Massimo Pacetti: There is nothing with the OSFI, the Office of the Superintendent of Financial Institutions, I would imagine?

Ms. Ursula Menke: No. Our mandate was basically carved out from theirs.

Mr. Massimo Pacetti: The other question would be on identity theft. Has that been a concern to your organization?

Ms. Ursula Menke: Indeed it has. That's one that we spend quite a bit of time on, on the consumer education side, trying to remind consumers about how they should deal with their debit cards and their credit cards to reduce the risks of that. The reality is that a large part of that is not consumer-driven behaviour, but we do remind consumers about what they can do to protect themselves.

Mr. Massimo Pacetti: Why is it not consumer-driven behaviour?

Ms. Ursula Menke: The largest part of the behaviour is not something over which consumers have control. Somebody puts a little camera into a machine. It's really beyond the consumer's ability to control. They don't see these things, and so in that sense—

Mr. Massimo Pacetti: Okay, I understand what you're getting at.

What happens with people who do have their identity taken or stolen? Has there been cooperation from the financial institutions?

Ms. Ursula Menke: Yes. There is a code on debit cards that deals directly with this matter, and if there has been identity theft or that fraudulent activity, basically the institutions hold them harmless.

Mr. Massimo Pacetti: But you haven't seen situations in which the institution and the consumer have been at odds as to the rectification of the moneys that have been stolen or borrowed or misappropriated?

Ms. Ursula Menke: Certainly that happens. That does happen.

Mr. Massimo Pacetti: I have just one more quick one.

It does happen? But is that...?

Ms. Ursula Menke: In those circumstances, at that point in time, it's really beyond.... On a specific case, it's a redress issue. It's really not part of the mandate of the agency, so we ask the consumers to go to the ombudsman services to deal with them and to use that chain.

Mr. Massimo Pacetti: I have a final quick question on credit unions in Quebec. Do you have any jurisdiction over them?

Ms. Ursula Menke: No.

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

The Chair: Mr. Crête, you have five minutes.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chairman. In July 2007, you carried out a survey which indicated that 33% of respondents were not well aware of their rights as far as financial products on the market are concerned. It states that 41% stated they needed more information and that 60% of respondents mentioned that they found most information on financial issues hard to understand. Earlier on, you said that you would like to have a bigger budget in order to be able to act on these issues.

Could you explain how your funding works? I understood that it was the financial institutions, the clients, that provided your funding. Do you file budgetary requests every year with the people who pay the fees? Explain how it works to us, so that we can determine if the available amounts could be increased.

Ms. Ursula Menke: I will ask my colleague to respond in detail. I know that we collect these fees and that it is not the institutions that set a ceiling.

● (1720)

Mr. Paul Crête: How is the funding defined?

[*English*]

Mr. Jim Callon: The funding is defined based on our projected needs and the activities we have outlined in our business plan. The fees that are applied to the institutions are set and invoiced during the fiscal year. Those are the funds we have available to carry out the activities, including compliance and consumer education.

[*Translation*]

Mr. Paul Crête: Who determines the amount of the fees?

Mr. Jim Callon: We establish the budget.

Mr. Paul Crête: Therefore, if you decide to fund a particular information campaign for the general public in order to improve awareness of your organization, you yourselves would be able to say that, for example, you need $2 million more in order to carry this out. You would set the rate, and the companies would pay the fees.

Mr. Jim Callon: Yes, but on top of that, the government decided last year to contribute to this effort in order to increase consumers' skills in the financial sector.

Mr. Paul Crête: What size was the contribution? What was the amount you were given?

Ms. Ursula Menke: We were given $3 million over two years.

Mr. Paul Crête: And how much money came from the companies?

Ms. Ursula Menke: Approximately $8 million per year.

Mr. Paul Crête: So you receive $8 million a year plus $1.5 million.

Ms. Ursula Menke: Approximately.

Mr. Paul Crête: Do these amounts seem adequate to you if you are to fulfil your mandate insofar as information is concerned?

Ms. Ursula Menke: For the moment, we must remember that we are really a relatively small organization. Therefore, we have a limited capacity to spend money without spending badly. We are therefore very happy with the money we currently have, and we are in a position to spend it well. We are very happy with what we have.

Mr. Paul Crête: Do you believe it would be an interesting idea if the fines you impose on an institution when they are in breach of a regulation be paid to you rather than the Receiver General of Canada, or not?

Ms. Ursula Menke: In actual fact, the fines—and I do not have the specific figures in front of me—would not make a very big difference. The fines are not what is important, it is rather the possibility of increasing our budget by $1.5 million per year in order to be able to put more emphasis on educational activities.

Mr. Paul Crête: If you refer to the survey that you carried out and that I was talking about earlier, are you satisfied overall with the level of knowledge and with customer satisfaction? Do you have specific objectives for the next year or following years in this regard? Do you need additional funding in order to meet them?

Ms. Ursula Menke: We have not established specific objectives. In fact, I was saying earlier that it is difficult to establish very specific and very measurable objectives in terms of education, in general. Therefore, we have not done that.

Would I like to obtain additional funding in the years to come? Yes.

Mr. Paul Crête: Do you believe that young clients should be targeted? For example, let's say I have children who are 17, 22 and 24, and they are given better information so that they will have a better understanding of these issues. They would have that knowledge for life, because 80% of that information would not change. Would such a program be relevant in your opinion?

Ms. Ursula Menke: In fact, that is exactly the initiative that we are taking currently with British Columbia, that is indeed intended to reach 15, 16 and 17-year-olds. We do believe, like you, that learning at that age has life-long value.

Mr. Paul Crête: Would you like to see that program extended across the country, and have you done any cost estimates as to what that might represent?

Ms. Ursula Menke: There are major challenges. In British Columbia, schools must offer this type of course, where that is not necessarily the case across the country. As you know, this is a strictly provincial issue. That is why I was speaking earlier on about partners in order to better promote this type of initiative. I try to promote a recognition across the country of the importance of financial education.

● (1725)

[*English*]

The Chair: Thank you.

I have a couple of questions that are a follow-up from what I heard around the committee.

With regard to your complaints, which I believe Mr. Pacetti was referring to on pages 20 and 21, I believe you told the committee it was outside your mandate to deal with them. What do you do with those complaints when they come to your office?

Ms. Ursula Menke: We send those off to the ombuds services. When people come in to complain, in any case, regardless of the complaint for which they're seeking redress, we can't deal with redress for them because we're an enforcement agency. We give everyone who calls with a complaint the appropriate contact information so the ombudsman can deal with the actual redress component.

The Chair: Okay, so you refer them to another agency, but you don't take that complaint and move the complaint anywhere?

Ms. Ursula Menke: No, we can't. If the complaint is a compliance matter, then we will look at it. But if it is not a compliance matter, then it is out of the jurisdiction of the agency to do anything about it.

The Chair: Thank you very much.

I want to thank you for coming to the committee. We appreciate the time we've been able to spend together, and I appreciate the questions of the committee.

The meeting is adjourned.

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

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

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