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Chair

Mr. Dean Allison

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● (0905)

[*English*]

The Chair (Mr. Dean Allison (Niagara West—Glanbrook, CPC)): I'd like to call the meeting to order. Pursuant to Standing Order 108(2), our study of the Canada Employment Insurance Financing Board is before the committee.

Part of what this committee is hoping to do over the next couple of meetings is delve into part 7 of Bill C-50, to establish the Employment Insurance Financing Board.

To our first meeting we want to welcome all of our witnesses from the Department of Finance and the Department of Human Resources and Social Development. We have Sherry Harrison and Louis Beauséjour. We also have Yves Giroux and Tamara Miller. We want to thank you all for being here.

I believe Louis and Yves will be making the presentations. Take the time you need. I realize you're pros at this and understand how it all works. We'll be asking some questions, and hopefully you'll be able to shed some light on what exactly will be happening. That will help us direct the next couple of meetings as we consider what's going on with this new financing board.

I know we're all excited to hear what you have to say. Who will go first? Louis.

[*Translation*]

Mr. Louis Beauséjour (Director General, Employment Insurance Policy, Department of Human Resources and Social Development Canada): Good morning. I am Louis Beauséjour, the new Director General of Employment Insurance Policy. Four weeks ago, I replaced Bill James, who has now taken up new duties.

With me is Ms. Sherry Harrison who is the Director General responsible for the implementation of the proposed Canada Employment Insurance Financing Board. Also with me from Social Policy at the Department of Finance are Mr. Yves Giroux and Ms. Tamara Miller.

I would first like to thank you for the opportunity to discuss the Canada Employment Insurance Financing Board (CEIFB). As you are aware, in budget 2008, the government took steps to address commitments made in the 2007 Speech from the Throne, to improve the governance and management of the Employment Insurance Account.

My opening remarks will focus primarily on providing an overview of the proposed CEIFB Act which is contained in Part 7 of the Budget Implementation Act. Part 7 of the Budget Implementation Act contains three parts. First, there is the CEIFB Act which creates the new Crown corporation. Second, there are changes to the EI Act and, finally, there are the consequential amendments to the Department of Human Resources and Skills Development Act and the Financial Administration Act.

The CEIFB Act provides for the establishment of the CEIFB, a Crown corporation reporting through the Minister of Human Resources and Social Development, with responsibility for implementing the budget 2008 announcement regarding the governance and management of the EI account.

Pursuant to this Act and amendments to the Employment Insurance Act, the CEIFB will be responsible for setting the EI premium rate under section 66 of the Employment Insurance Act; managing a separate bank account, where any excess EI revenues from a given year will be held and invested until they are used to reduce premium rates in subsequent years; and maintaining a cash reserve as a contingency fund in order to support relative premium rates stability within legislated parameters.

[*English*]

These changes are in keeping with the government's commitment to improving the management and governance of the EI account. As a small crown corporation working at arm's length from the government, the CEIFB will ensure independent decision-making regarding the setting of premium rates and will ensure that EI premiums are used exclusively for EI purposes. These changes will place the program on firm financial footing going forward and will ensure that it is well positioned to withstand changing economic conditions. The CEIFB will be accountable to Parliament via the Minister of Human Resources and Social Development and will report publicly on its activities and results.

The government will maintain its responsibility for EI benefits and program delivery. The CEIFB is not to conduct any business or activity inconsistent with its mandate, including in relation to benefits and other payments made under the Employment Insurance Act.

The CEIFB is to be governed by a board of seven directors, including a chairperson, appointed by the Governor in Council on the recommendation of the Minister of Human Resources and Social Development, who will hold office during good behaviour. A seven-member board of directors was deemed appropriate to accommodate the focused mandate and to fulfill the duties of the three CEIFB committees that are required to be established as described in the proposed CEIFB Act.

Candidates for appointment to the board will be identified by a three-member nominating committee comprising a chairperson appointed by the minister on the basis of merit, a commissioner of employers, and a commissioner of employees. Officers of the CEIFB specified in the legislation include the chief executive officer and the chief actuary. The planning, reporting, and financial management framework for the CEIFB builds upon relevant provisions from part X of the Financial Administration Act. The CEIFB Act will include additional and more specific provisions with regard to board committees, investments, financial management, and reporting.

The EI Act is being amended to implement the new rate-setting mechanism. This new rate-setting mechanism will take into account any surpluses or deficits that arise on a go-forward basis to ensure that program revenues balance with expenditures over time.

● (0910)

[*Translation*]

To that end, the legislation provides that the CEIFB set the premium rate for each year in order to generate just enough premium revenue during that year to cover expected payments, and to ensure that the CEIFB's reserve is maintained at its target level.

In setting the rate, the CEIFB is to take into account information provided by the Minister of Human Resources and Social Development Canada regarding past EI expenditures and forecasted changes to the program, and from the Minister of Finance regarding past revenues received and anticipated EI revenues and expenditures, as well as the most current forecasts of economic variables relevant to setting the rate. The board will also take into account any investment income earned, and other specified information, including information the CEIFB considers relevant.

The government will retain its authority to substitute a rate for the one set by the CEIFB if it judges it is in the public interest to do so.

Amendments to the Employment Insurance Act also provide for the establishment of a reserve through the transfer of $2 billion from the Consolidated Revenue Fund (CRF), to be indexed annually as prescribed by regulation. This $2 billion-amount takes into account different economic scenarios and assessments undertaken in conjunction with the employment insurance Chief Actuary. It was estimated that a cash reserve of this level would be adequate to offset cash shortfalls under the new rate-setting model resulting from a mild recession, such as the one experienced in 2001-2002.

Transactions related to EI will continue to be recorded in the EI account. EI premiums will continue to be collected by the Canada Revenue Agency through source deductions, transferred to the CRF and credited to the EI account.

In situations where EI revenues exceed EI benefit payments during the year, funds will be transferred from the CRF to the CEIFB's account, charged to the EI account and invested until they are used to reduce premium rates in subsequent years. In situations of revenue shortfalls, the difference would be covered through a transfer from the CEIFB's account to the CRF and credited to the EI account.

The legislation also provides for advances from the CRF in situations where the reserve is insufficient to cover EI benefit payments, with advances to be repaid in subsequent years using the premium rate-setting mechanism.

● (0915)

[*English*]

With the CEIFB taking on the responsibility for EI premium rate-setting, the EI Commission will retain its other responsibilities for supporting the EI appeal system, making regulations with the approval of the Governor in Council, and review and approval of policies related to program administration and delivery.

The EI Commission will continue to have an important role in the EI program that is complementary to the role of the CEIFB, and it will be given an ongoing mandate to continue the EI monitoring and assessment report as a permanent annual report.

In addition, the EI commissioner for workers and the EI commissioner for employers will be given new responsibilities as they become members of the nominating committee responsible for identifying and recommending qualified candidates for appointment to the CEIFB board of directors. This will ensure that business and labour play a role in selecting the most qualified individuals to manage decision-making concerning the financing of the EI program

The government's objective is to have the CEIFB running as soon as possible, preferably in time to set the 2009 EI premium rate using the new premium rate-setting mechanisms. The timing of the establishment of the CEIFB will be dependent on the passage of the relevant legislation. Should the CEIFB not be in a position to set the 2009 EI premium rate, the EI Commission will do so according to the existing legislation.

We would be pleased to answer any questions members may have regarding the proposed CEIFB, but first I'll let Yves speak

[*Translation*]

Mr. Yves Giroux (Director, Social Policy, Federal-Provincial Relations and Social Policy Branch, Department of Finance): I would like thank you for the opportunity to explain the changes to the management and financing of the employment insurance program as set out in Bill C-50, the budget implementation bill.

The creation of the Canada Employment Insurance Financing Board and a new premium rate-setting mechanism as set out in budget 2008 addresses the expectations of Canadians with regard to employment insurance and the premium rate. It also affects necessary changes to the program at a time when the Canadian economy is entering a period of relative uncertainty. As such, we are entering this period with a position of relative strength, compared to most of our partners.

[*English*]

The government remains committed to ensuring that the right policies and programs are in place to help Canadians, as demonstrated by the numerous measures in the budget that will certainly help weather these uncertain economic times. Within this context, the proposed Canada Employment Insurance Financing Board will help ensure that the EI program is well positioned to withstand changing economic conditions.

As noted by my colleague Monsieur Beauséjour, the new board represents a significant improvement in the management and governance in the EI account. An independent board of directors will have the responsibility each year for setting EI premium rates, using a new mechanism that will ensure the program breaks even over time. The board will be responsible for managing its own bank account, and it will maintain a real cash reserve in that account.

[*Translation*]

In our view, Canadians can have confidence in the fact that the employment insurance program will be managed on a purely cost-recovery and go-forward basis, and that the premium rates will not be higher than what is needed to pay benefits.

My colleague Tamara and I would be pleased to answer any questions from honourable committee members.

[*English*]

The Chair: Thank you very much for those presentations.

We're going to start, as we normally do, with our first member.

Mr. Savage, you have seven minutes, sir.

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

I want to thank the witnesses for coming here today. We appreciate your assistance as we sort through this new policy directive of the government.

Employment insurance has become a very important part of the social fabric of Canada. When I read the budget and came to page 71 about this new crown corporation, it made me and a lot of other Canadians a little bit nervous, frankly. That's not to say there isn't good cause and that there haven't been many cases made that there should be a more independent administration of employment insurance—I think there's a case to be made for that—but the idea of a totally separate, arm's-length crown corporation for EI causes people some concern.

That's why this committee has taken the step of doing a brief study on this to find answers to some of the key questions and provide Canadians more information. We appreciate that we may be at an early stage in terms of the mechanism of creating this new crown corporation, but there are some very important questions that need to be asked.

This committee is well aware that employment insurance is an issue that we've dealt with at this table; we have more private members' bills on employment insurance than we do on anything else. They tend to be on the benefits side as opposed to the premium side, I think, in part because the premium rates for EI per $100 of insurable earnings have dropped since 1993 from $3 to $1.73 on the employee side, and from $4.20 to $2.42 on the employer side. So premium rates have dropped significantly in the last decade or so, and benefit levels have also dropped.

There have been some good pilot projects brought in by the previous government, which I think took some steps in balancing that. And we all want to make sure that employment insurance works for employers and employees, both on the premium side and benefit side. But there are parts of this country that are hugely reliant on employment insurance, so we need to make sure that we get this right. So I think it's an important study that this committee is doing.

Beyond this study, could I ask either Monsieur Beauséjour or Monsieur Giroux or anybody else, what consultation is the government planning as it formulates the plan for this new crown corporation? What public opportunities will there be for people to provide input into the makeup of this new crown corporation?

● (0920)

Mr. Louis Beauséjour: Sherry, do you want to answer that?

Ms. Sherry Harrison (Director General, Canada Employment Insurance Financing Board Task Team, Department of Human Resources and Social Development Canada): Maybe I could respond to the member's questions with regard to the process for appointing the board of directors. As indicated in the opening remarks, the board of directors will be selected from a list prepared by a nominating committee. The chair of the nominating committee will be appointed by the minister, based on merit. That chair, as well as the two existing EI commissioners, will be responsible for preparing a list of proposed nominations.

The merit criteria for the board of directors are specified in the act, and those appointments are Governor in Council ones. The government process for making those appointments will be adhered to.

Mr. Michael Savage: Thank you.

Beyond just creating the commission to run it—assuming the government will have some directive for this commission as it sets it up—is there going to be some public consultation? Are there going to be some across-Canada opportunities for employers, workers, individuals, and industry groups to have input into the formulation of the crown corporation?

Ms. Sherry Harrison: The legislation provides that the board of directors may consult on the establishment of EI rate-setting. The act does not specify how and when that consultation is to be undertaken, so it would be up to the board of directors to establish that process.

Mr. Michael Savage: I understand that the Treasury Board Secretariat's report, *Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations*, indicates that there have to be some annual meetings to receive comments from stakeholders. Will that be followed? Is this part of the process?

Ms. Sherry Harrison: To my knowledge, it is not specified in the legislation, but I am certain that those guidelines will be brought to the attention of the board of directors for consultation. The act does specify a public report by the board of directors on the premium rate-setting process and consultations by the directors, as well as the tabling of other public documents to Parliament.

Mr. Michael Savage: There was some discussion of the fact that in the new board there will be representatives of employers and employees. Did I hear that correctly?

Ms. Sherry Harrison: The nominating committee chair is selected by the minister based on merit. That individual, as well as the two existing EI commissioners, will be responsible for proposing the list of board of directors.

Mr. Michael Savage: The question is, is there a mandate that employees and employers be equally represented?

Ms. Sherry Harrison: That is not specified in the legislation.

● (0925)

Mr. Michael Savage: I see.

Let me ask you about the $2 billion that's being transferred.

In the last number of years the EI fund has had its annual surplus and/or deficit, and we all know the discussion of the accumulated surplus being some $50-plus billion. In 1991-92, there was in fact a deficit in the EI account of almost $4 billion; in 2000-01, there was a surplus of over $8 billion.

How did you come up with the $2 billion? Would it not make more sense to transfer a larger sum of money to the new corporation?

Mr. Yves Giroux: The $2 billion was assumed to be sufficient whether in a recession or a slowdown, in the event that it ever were to happen. It's important to keep in mind that should the reserve not be sufficient, the government stands behind this and would cover any shortfall that would be needed to pay the benefits. So transferring an additional amount of money was not deemed necessary at this point, given the new rate-setting mechanism that will be put in place.

There were different figures mentioned a couple of years ago, but these were assuming keeping the rate stable throughout the economic cycle, which is not the case now.

Mr. Michael Savage: We're all familiar with the notional, at least, surplus of some $54 billion, and that this money has gone. It's been used to pay off debt. We could have an argument at this table forever about whether that was a wise move or not, but the money has actually gone. But we do have these huge fluctuations, which generally are more than $2 billion, and in the last decade they've been on the plus side.

What was the surplus in the fund for the last fiscal year?

Mr. Yves Giroux: I don't have the precise figure, but I believe it was well below $1 billion. So over the last two or three fiscal years, I think it was close to $2 billion in total.

Mr. Michael Savage: Well, according to the Library of Parliament, it was over $3 billion for 2006-07.

Mr. Yves Giroux: The EI program operates on a calendar year basis, so there might be differences arising from that difference.

Mr. Michael Savage: Okay.

Is there still a possibility, if a case was made, that more than $2 billion would be transferred to this organization?

Mr. Yves Giroux: I'm not sure I understand your question.

Mr. Michael Savage: It's probably not a fair question to ask you, then.

I would make the statement that it seems to me that $2 billion is an insufficient amount to transfer to this new organization, considering the fact that there have been huge surpluses in the last number of years. But if you go back to the early 1990s, there were large deficits. Although this new crown corporation is responsible for setting the premiums and not the benefits, there is great concern in large parts of the country that the connectivity of them could be affected. In fact, this may be arm's length unless the government wants to get a grab of something on the EI side. And it might actually affect the benefit side as well. So that's where some of the concerns are coming from.

We're going to hear from some of the people who are affected.

Two seconds? Two minutes?

The Chair: Yes, sure. Two seconds.

Mr. Michael Savage: I just want to get a sense of the dollars here. I've heard, and my colleague from West Nova, who knows these things quite well, has heard that a half-percentage-point drop in employment equates to roughly $1 billion on the benefit side.

Is that a number with which you're familiar?

Mr. Yves Giroux: I don't think you can make that simple an equation, because a change in the unemployment rate in itself does not necessarily mean the EI benefits will be affected. It can vary greatly, according to the length of unemployment, who is suffering from unemployment.

On your point about the 1991-92 deficit, I'd like to point out that the economic structure back then was significantly different from what it is now. For instance, the unemployment rate was significantly higher in the early 1990s than it is now. So all of the things being equal, even if we were to go into an economic downturn, the impact on the EI benefits and the surplus or the deficit of the account would be way, way smaller, in my opinion.

Mr. Michael Savage: I'll come back to that.

Thank you very much.

The Chair: Thank you, Mr. Savage.

We're going to move to Mr. Lessard for seven minutes, please.

[*Translation*]

Mr. Yves Lessard (Chambly—Borduas, BQ): Thank you, Mr. Chairman.

I would like to welcome you and thank you for appearing this morning to provide us with this information.

I will follow up with Mr. Savage's line of questioning. I understand that Bill C-50 provides that when the fund does not have a sufficient reserve, for example, in the event there was a significant change to the employment rate, amounts could be advanced from the Consolidated Revenue Fund to the employment insurance account. Once the premium rate is adjusted, according to those new responsibilities, the CRF will be refunded.

Are the $2 billion that are transferred from the CRF, to establish a reserve, considered as an advance?

● (0930)

Mr. Yves Giroux: No, the bill provides that the $2 billion are considered as a reserve. To my knowledge, the bill does not contain a provision for those $2 billion to be refunded. So, this is a transfer. The bill does provide for the $2 billion reserve to be indexed. There is no provision requiring the money to be returned to the government, to the CRF, in any well-defined timeframe. The $2 billion are not considered as an advance, but as a transfer.

Mr. Yves Lessard: So, the amount is deemed to belong to the employment insurance account.

Mr. Yves Giroux: I don't want to get into that type of technicality, namely whether it belongs in the employment insurance fund, but I believe that people would indeed think that it does belong there, if it was transferred and if the bill contained a provision calling for indexation each year. So people would certainly believe that the money would belong in the employment insurance fund, but since I am not a lawyer, I cannot give you a legal opinion as to whether the money should legally be in the Employment Insurance Fund. But I certainly believe that people think that's where it belongs.

Mr. Yves Lessard: Given the position you hold, I imagine that you were involved in the drafting of this bill.

Mr. Yves Giroux: Indeed, you need lawyers to draft a bill, but I certainly was involved with regard to the measures which were included in the budget.

Mr. Yves Lessard: So you are very familiar with the preparation of the framework, etc.

Mr. Yves Giroux: When I appear before a committee as I am today, I have the impression that I don't know enough, but...

Mr. Yves Lessard: The Auditor General reminded us that in 2004, $46 billion were stolen from the Employment Insurance Fund —really, it was theft—and in the course of its work in 2004-2005, this committee recommended that those $46 billion be put back into the Employment Insurance Fund at the rate of $1.5 billion per year.

This money rightly belongs in the fund. The committee had also recommended that the amount, which today is $54 billion, be considered as a loan to the government that should be repaid into the fund.

How can you argue that the money should not go back into the fund, when the reverse applies, namely that the money which will be taken from the Consolidated Revenue Fund and put into the fund, will have to be repaid to the government with interest? How does that stand to reason?

Mr. Yves Giroux: The amount of $54 billion, which was $46 billion at the time, was not in a specific account, but it was simply an accounting entry, as you probably know. The consolidation of the employment insurance fund had been strongly recommended by the Auditor General of the day, Mr. Denis Desautels. This was a time when the Employment Insurance Fund was in a chronic deficit situation. So the Auditor General recommended to the government that the fund be integrated into the Consolidated Revenue Fund, and that the deficit be entered as a liability of the government of Canada, which the government of the time actually did. The situation changed afterwards, as the Employment Insurance Fund began to accumulate a large surplus. Since the successive surpluses were integrated and consolidated into the Consolidated Revenue Fund, they were not put into a separate account. So the $54 billion do not actually exist in a dedicated account.

Mr. Yves Lessard: We know all that. We must remember two things. At the time, according to Mr. Desautels, consolidation would be the better solution because it would make managing the situation easier, given the huge fluctuations in the unemployment rate. At one point, it stood at 13%. The situation was out of control. Consolidation made managing the situation easier, but there were not surpluses at the time.

You say that this an accounting operation. But for a worker who paid $3.20 for every $100 earned, and for an employer who paid 40% on top of that amount, it was not virtual money. They did not send you numbers, but money. However, that money was spent elsewhere. What it really comes down to is that people who work hard to earn a living overpaid by $54 billion. It was not a surplus; the money should have been spent on supporting those who had lost their jobs.

Today, nearly 60% of people who are unemployed, and who paid employment insurance premiums, do not receive EI benefits. The surpluses therefore came as a result of cuts made in the employment insurance program. What is the rationale for this argument? You have to pay back what you have borrowed from the Consolidated Revenue Fund, but not what you have borrowed from the fund. We should have put the question to the minister, but we did not have much time, and it is a political matter.

● (0935)

[*English*]

The Chair: Mr. Giroux, that's all the time we have. I want you to answer the question, so you have time to do that, but that's all the time we have.

Mr. Yves Giroux: I'll do that very shortly.

The Chair: Take your time.

Mr. Yves Giroux: I mean briefly.

[*Translation*]

You are saying that the Employment Insurance Account should be reimbursed this $54 billion. You also appear to be saying that there is a dichotomy between the amount loaned and advanced to the Employment Insurance Account and that this amount, according to Bill C-50, should be reimbursed.

For explanatory purposes, I think that we should set aside this $54 billion. I can tell you what Bill C-50 will enable us to do in the future. Two billion dollars will be funnelled into the Employment Insurance Account. If surpluses are created, we will account for this in setting the premiums for subsequent years. If there is a surplus, it will be returned to the workers and employers in the form of lower premiums. Similarly, should we unfortunately incur a deficit, the new employment insurance board will advance money through this $2 billion and this amount will have to be reimbursed over subsequent years through higher premiums.

Why not transfer a higher amount? Why not use part of this $54 billion? You stated that this would be a good question to put to the minister and I can only agree with you on that matter.

[*English*]

The Chair: Thank you.

Thank you, Mr. Lessard.

We'll now move to Ms. Yelich. You have seven minutes.

Mrs. Lynne Yelich (Blackstrap, CPC): Thank you.

I would like to talk about the crown corporation, the board, and the benefits of having this board. It's arm's length. It's a crown corporation. It's non-partisan. There are benefits from the merit-based nominating process. Do you believe this is more transparent? I would just like a comment on having this done in the form of a crown corporation, because I know there is some concern about setting up another crown corporation.

So would all of you care to comment on that?

Mr. Louis Beauséjour: The idea of having a crown corporation is to make sure that the rate-setting decision would be independent of government and that an independent body would oversee all of the considerations, taking into account the law, the fact that they have to take into account the level of the yearly investment income, the parameters of the benefits that have to be paid for coming years, and the level of the reserve.

Ms. Sherry Harrison: I would like to add to that regarding a few of the recording mechanisms. It is arm's length from the government. It will be accountable to Parliament via the Minister of HRSDC and will report publicly on activities and results. For example, quarterly financial statements will be made available publicly. The act does provide for a special examination of systems and practices of financial management control to be done every five years and the results of that to be tabled in Parliament.

As I said before, the premium rate-setting report will be provided publicly, and there is the requirement for an annual report and summary of the corporate plan and budget to be tabled in Parliament.

● (0940)

Mrs. Lynne Yelich: Would you care to comment, from Finance, on the benefits of having a crown corporation?

Mr. Yves Giroux: One benefit of having a separate crown corporation is that it allows the creation of a separate bank account that will be managed to the benefit of premium payers and benefit recipients, so that the rates can remain a bit more stable. Another advantage is that there will be additional predictability in the setting of the premium rate by having a clear set of guidelines for the crown corporation to set its premium rate going forward, as well as having premium rate payers benefit from any potential surplus that could arise in the future years.

Mrs. Lynne Yelich: So it's fair to say it would be more transparent.

Mr. Brown will now share my time.

Mr. Gord Brown (Leeds—Grenville, CPC): Thank you, Mr. Chair, and thanks to the witnesses.

Mr. Savage spoke about the arm's-length nature of CEIFB. What are the benefits of having such a prudent non-partisan arm's-length crown corporation, in your view?

Mr. Louis Beauséjour: Again, the advantage would be to ensure decision-making regarding the rate-setting and that the EI premiums are exclusively used for EI purposes. I would also mention the fact that there would be a separate account where funds can be held and invested outside the consolidated revenue fund, which will ensure that all the money will be used for the purpose of what they—

Mr. Gord Brown: So you're quite comfortable that this will be a good reflection of the amount of money that gets paid in by workers and by employers, so that it will better reflect over the longer term the amount of money that should be.... We all know that this $54 billion is now there and was spent in a number of ways, including debt reduction, so it's not as if $54 billion is just sitting in an account.

So you're quite comfortable, going forward, that this is really the right way to go in terms of reflecting the right rates so that it's not an unnecessary tax on jobs.

Mr. Louis Beauséjour: Exactly. I think we are comfortable that it would be a way to ensure that the contributions will be used only for EI.

Mr. Yves Giroux: If I may, I'd like to add to that. It's very difficult to predict very accurately the precise rate in October or November that will be sufficient to cover all of the benefits for an entire year, from January to December. So while I'm confident in the capacity of my colleagues to predict, or the actuaries to predict, the economic conditions 12 or 14 months down the road, it's almost impossible to be bang on, to the cent.

So having an independent crown corporation that maintains a cash reserve and that has the capacity to take into account the surplus of the previous years in setting the rate going forward ensures that premium rate payers will, over time, pay exactly the amount that is necessary to cover the cost of the EI program—no more, no less. I think that's the great improvement in the creation of the CEIFB over the previous system.

Mr. Gord Brown: Yes, as one who comes from a business background—from a company that employs over a hundred people—I know that whenever we created new jobs we didn't only look at the amount of money that it costs to pay the employee, but we also looked at the cost of the additional moneys we had to pay out to the government. And it did have an impact on the number of people who could be employed, because it was a large deterrent to creating jobs. I'm quite comfortable now that, going forward, the amount of money the employer is going to pay will in fact reflect that. So I appreciate that.

● (0945)

The Chair: You can ask a quick question, if you want. You have about 20 seconds.

Mrs. Lynne Yelich: I thought you made an interesting point about the calendar year, which sort of confuses figures as well. This will create a little more understanding of surpluses or deficits, because it will be their own calendar year and they won't be working with another calendar year.

Did I read that or understand that right, that that confuses things more? When Mr. Savage asked about this so-called surplus that year, it really wasn't accurate, because the EI runs in a different calendar year. Is that fair to say?

The other thing I thought was really interesting is that it doesn't matter, the CRF will always back it up if there is.... We don't have to worry. I think that is a concern, that this $2 billion is there, and once it has gone, the poor employees will not have the benefits there. But it's up to the board, and the board will decide if the benefits are.... Parliament will decide if benefits are expanded, and of course Revenue Canada will always cover it. Am I right?

Would you like to reiterate?

Mr. Yves Giroux: The federal crown will be there to cover any shortfall should the $2 billion be exhausted. Whatever needs to be paid will be paid. This is a statutory program.

The Chair: Thanks.

I have a quick question before we move over to Ms. Sgro. Is there any reason for a seven-member board? I realize crown corporations can be composed of large numbers, but will they be full-time or part-time directors? Was there any particular reason for that?

Ms. Sherry Harrison: I'll answer that one. The seven-member board was deemed appropriate in light of the very focused mandate of this particular board in relationship to some of the other boards you may be familiar with. It will be run by a board of directors, on a part-time basis, with the necessary skills and experience to carry out the organization's mandate.

The Chair: Thanks.

I'll go to Ms. Sgro for five minutes, as we start our second round.

Hon. Judy Sgro (York West, Lib.): Thank you very much. We're glad to have you here to help us understand a bit better.

What is the total operational budget going to be?

Ms. Sherry Harrison: The legislation does not specify a budget. One of the first requirements of the board of directors will be to establish a corporate plan and a budget for consideration by the Treasury Board, and then it will be tabled in Parliament.

Hon. Judy Sgro: You must have some idea of the anticipated administrative costs to operate this crown corporation.

Ms. Sherry Harrison: We expect it to be a very small, focused organization in light of the mandate, but I am not aware of a dollar value assigned for a budget.

Hon. Judy Sgro: I'm very leery. I understand there's all this complaining about all of this money that people are paying, but from my perspective, it all goes back into funding HRDC and the employment insurance programs and programs that Canadians need.

Convince me why Canada needs another crown corporation to oversee this. The rates have already been dropped, but so have the benefits. How are Canadians going to be better off as a result of establishing this crown corporation?

Mr. Louis Beauséjour: It's all related to the fact that we've made a contribution that is on the plans of the government to ensure that the decision-making regarding the rate-setting would be independent of the government, and to ensure that the premiums are exclusively used for EI purposes going forward. That's really why it was thought that creating a crown corporation was the way forward.

Ms. Sherry Harrison: If I may also add to this, the legislation provides that the board may invest the reserve until it is required to pay for benefits. So it's anticipated that the operating costs of the board would be more than covered by any investments they might generate against the reserve.

● (0950)

Hon. Judy Sgro: I'm still not convinced. No one has convinced me. Maybe I should have been asking the minister, but we didn't have enough time.

I'm very open. We've been hearing for the last seven or eight years since I've been a member of Parliament all about this issue about the EI, the EI, and the EI, and this big fund we have that goes right back into dealing with everything that's needed for the running of the country.

How is setting it aside as a crown corporation going to make it better? How is it going to improve the service to Canadians? Is it going to be dealing with the amount of money Canadians are receiving when they need it? Are you going to have the ability to decide whether you're going to increase it to 75% from a benefit perspective? How are Canadians going to be better off as a result of this?

I'm very open. It's not a partisan issue. I'm interested to know how Canadians are going to be better off as a result of establishing another crown corporation.

Mr. Yves Giroux: If I may, Canadians will be better off in the sense that Canadians are premium payers—at least those who contribute to the EI program—and they will have the certainty that if there is a surplus, it will be returned to them as premium payers through lower premiums, if there is such a thing as a surplus going forward.

With respect to the benefit rate, it will still be for the government to decide the rate of benefits, or any changes to benefits. So the crown corporation will not change the benefits; it will only have the power to set the rate. If there's a surplus, Canadians can have assurances from the moment Bill C-50receives royal assent onwards that the premiums they pay to the EI program will not be used for other purposes, towards reducing the debt for example. It will be used solely to pay for EI benefits, and if there's a surplus, it will be returned through lower premiums.

That's the big benefit to Canadians, in my opinion.

Hon. Judy Sgro: We're clearly going into an economic downturn. No one knows if it's short-term or long-term. There will be, under these circumstances, a lot more people who are required to draw on employment insurance to assist them in this time that's ahead of us. If you have lowered the premiums, which the government could do at any time it wanted prior to having a crown corporation, how are you going to deal with that? Let's say the premiums are where they are now, and you suddenly have a huge spike over the next two years of people needing assistance. How are you going to respond to that?

The Chair: That's all the time we have. I want you to answer the question. We're out of time, but I'd like the witnesses to answer the question, if they could.

Mr. Yves Giroux: Should the chief actuary estimate that a premium rate increase is necessary due to changing economic circumstances, the rate will very likely have to go up. The legislation sets boundaries by which the premium rate can go up. There's a limit above which the premium rate cannot go. The CEIFB cannot set the rate to increase by more than 15¢ per year. That's my understanding. So should the chief actuary, this board of the CEIFB, estimate that a premium rate increase is necessary due to changing economic circumstances, the rate will have to go up by an amount that is up to 15¢ per year. So that's how it would be dealt with, should there be an economic downturn severe enough to warrant an increase in the premium rate-setting.

The Chair: Thank you, Ms. Sgro. That's all the time we have.

We're going to move to Mr. Lake now, for five minutes.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): To start, I'd like to get a little bit of historical context here, if I could. Can you tell me when this was originally accumulated? I think it's called a notional surplus. Maybe give a little bit of a timeframe.

Mr. Yves Giroux: It started accumulating after the recession of the early 1990s. I don't have the precise figure. I was prepared to speak to Bill C-50 more than the historical background with respect to the notional surplus, but it went back to the early 1990s.

Mr. Mike Lake: So roughly it would be fair to say right around 1993-ish, somewhere in that range.

Mr. Yves Giroux: Probably around that time.

Mr. Mike Lake: What was the $54 billion spent on? Obviously it wasn't spent on EI. What was that money spent on?

● (0955)

Mr. Yves Giroux: It was spent on general government expenditures, so there's no way of saying where exactly it was spent. It was consolidated with the CRF—the consolidated revenue fund—so it was spent on general government activities. So I could not say one area.

Mr. Mike Lake: The gun registry—who knows?—the Liberal campaigns, things like that.

An hon. member: Health care.

Mr. Mike Lake: I'm wondering if you can explain the rationale that would allow this, in terms of the history there, because it doesn't seem to make sense. Mr. Lessard was making this point, that it doesn't seem to make sense that we would collect money from employers and employees and then use it to fund the gun registry—that doesn't make a whole lot of sense—or anything else that the government does, after telling them that it was for an EI program. What was the rationale that allowed it to be spent on something else?

Mr. Yves Giroux: Well, given that the AG, in the mid-1980s, suggested very strongly that the government consolidate EI expenditures and EI premium revenue collections within the CRF, the moment you had a surplus it had to go towards debt reduction if there was an overall government surplus.

As I explained previously, even if we have the best experts in the country, it's very difficult to very accurately predict what the precise EI premium rate should be when you are in October of, for example, 1994. Expecting to be exactly on target for the whole of 1995 is extremely difficult. Actuaries, by nature, tend to be very prudent. That's why we have pension plans that are solvent, generally speaking, and that's why we have insurance that is solvent, because actuaries are prudent, so there is money left in the bank. And they tend to be prudent, as well, when explaining or suggesting what their premium rate should be. That, in retrospect, led to surpluses over a number of years. These surpluses, due to the nature of the recommendations of the AG in 1986, had to be consolidated into the overall government fiscal framework.

The government back then was running overall surpluses, and yet again, according to the AG's recommendations, these automatically have to go towards debt reduction. So that's what led to this situation.

Mr. Mike Lake: When Mr. Savage was talking, he talked about how the bill makes him nervous and he asked if it didn't make more sense to transfer a larger amount of money. He talked about the government wanting to make a grab of something.

Now, I would suggest that what we're trying to do in this case is actually to do the exact opposite, to stop that. I think we've seen that the Liberal government previously grabbed $54 billion of EI funds and spent it in a whole bunch of different widespread priorities.

It seems to me that these changes are to say that from here on in, we want EI money to be spent on EI and nothing else. Is that accurate?

Mr. Yves Giroux: To the best of my knowledge, that's totally accurate. If there were to be a surplus after Bill C-50 receives royal assent, if it does, I can't see any way a surplus in the EI program would be used for any other purpose but for paying the benefits first and reducing the premiums. I don't see any other way.

Mr. Mike Lake: Okay.

I would like to get a handle on the cashflow here under the new agreement. Again, I think Mr. Lessard may have been talking about this a bit. The $2 billion is basically a cash account almost, just an operating fund, in a sense. So if you run a surplus or a deficit within the account in a given year, how soon will it catch up? The idea is that it will always balance out, but how soon would it balance out? For example, if it ran a surplus and collected $2 billion more one year, how soon would that money return to the payers?

The Chair: Once again, you've finished your time, but I'd like an answer to the question.

Mr. Yves Giroux: There are limits to the possible swings in the EI premium rate that are set out in the proposed legislation. How soon that would have to be repaid depends on two things: on the extent of the repayment that would be required; and then on the room that would be left once economic conditions are taken into account—so the room that would be left, the 15¢. If, for example, the premium rate is estimated to need to increase by 10¢, that leaves 5¢. Depending on the size of the repayment that was required, then that would affect the length of repayment.

Maybe my colleagues from HRSDC want to add to that.

● (1000)

Mr. Louis Beauséjour: I just want to clarify the question. Is this related to the accounting? Is it a question relating to whether the transfer will happen every month or whether it will be done at the end of the year? Is that the kind of question you wanted to get at?

The Chair: I'm just going to ask them to come back maybe in next round and pick it up with more clarification.

Mr. Lessard, sir, you have five minutes.

[*Translation*]

Mr. Yves Lessard: Thank you, Mr. Chairman.

I must say that you have a weird argument to defend. One day, I attended the hearing for a case of an employee who had been charged with the crime of stealing money from his employer. This employee alleged, before the court, that he had made good use of the money since he had invested it in the education of his children. The judge heard the case, but concluded that this constituted theft all the same. I would imagine that this is the same thing here. We are talking about misuse here.

I do understand your answers, this morning. This is the way that the legislation has been written and you do not have any choice. You want to implement a mechanism to ensure that the fund is managed appropriately and independently from the Consolidated Revenue Fund. You are saying that the fund will no longer be dependent on the government. The problem does not lie in the way that it was managed, but rather in the way that the money was used. It seems to me that we are witnessing the same scenario for the following reasons. First of all, I do not understand why we did not turn this over to the premium management board, for example. This board exists, has already been mandated—and it is keeping this mandate—of looking after the administration to ensure that premiums are in keeping with the regulations. Do we agree on that?

However, the board is now responsible for administering premiums. What does the board have to do with that? The minister stated clearly, and you did so yourself this morning: we have to manage the fund to ensure that there are adequate premiums so that we can fulfill our responsibilities to the unemployed. This decision was made by the minister. It's surprising to note, however, that this management applies only, with respect to lower premiums, when there are surpluses. The minister said this in a speech, and I quote:

> The board will also be responsible for managing a new bank account, independent from that reserved for the government's general revenues, whereby any surplus in employment insurance premiums for a given year will be kept and invested so that premium rates will be reduced for the following years. The Government of Canada made a commitment to provide $2 billion in order to create a real cash reserve, which will be administered by the board. Naturally, the Government of Canada and the Employment Insurance Commission of Canada will continue to be fully responsible to carrying out the program and making employment insurance payments, and they will continue to define eligibility and benefit levels.

How can we not conclude that, from now on, the plan will not be improved?

Mr. Louis Beauséjour: In fact, the legislation does not deal with the future. The government keeps its power to determine the adequate level of future benefits. If the government decided to change it for any reason, it would be obliged to inform the board about it beforehand, so that the board can keep up with the changes as it determines future contribution rates.

Mr. Yves Lessard: This would mean that any surplus in the fund, whether it be a carry over from past surpluses, or a new surplus, can only be used to lower the contribution rates. It is written here and you are repeating it this morning.

● (1005)

Mr. Yves Giroux: Hypothetically, we could say that if the government anticipated a large surplus in the employment insurance fund, it could choose to increase the benefits and to inform the board, which,in turn, should take it into account when setting the premium rates.

For instance, if the government anticipated an enormous surplus, the government could decided, in September or in October, to improve the benefits. This is purely hypothetical. The board would be informed of it and it would set its premium rate in accordance with that. Given the large size of the surplus, it would probably not deem it necessary to raise the premium rate. It will probably prefer to spend some of the anticipated surplus.

Mr. Yves Lessard: My question is for Mr. Giroux or for anyone else among you.

Among the seven directors, how many of them are full-time?

Mr. Yves Giroux: This is a question for Ms. Harrison. No one has been appointed yet, because the bill has not yet received royal assent.

Mr. Yves Lessard: You should know that because the people who will be appointed will ask you the same question. They will ask you whether or not they will be hired on a full-time basis.

[*English*]

The Chair: That's all the time we have.

Ms. Harrison, you can answer the question.

Ms. Sherry Harrison: The legislation does not specify whether they are full- or part-time, but with the very focused mandate of the organization, I expect there will be part-time appointees.

The Chair: Thank you very much. That's all the time we have.

We're now going to move to Mr. Cuzner. Five minutes, sir.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): First, when you're seeking this first commissioner for this new corporation, where could we drop off resumés? I'd like to put my friend and colleague Mr. Lessard's name forward, should he decide on a career change, and I'm sure I'd get support right around the table.

[*Translation*]

Ms. France Bonsant (Compton—Stanstead, BQ): He wants you to chair the commission.

Mr. Yves Lessard: I am not aspiring to that, but I appreciate your trust. You know that this commission will be in charge of the in and out.

[*English*]

Mr. Rodger Cuzner: We should bring this into context. We want the history lesson because we take some things for granted here now. We take balanced budgets and surplus budgets for granted.

To think back when the Auditor General made the recommendation and the recommendation was followed to put the EI account into general revenues, we have to remember that the unemployment rate was at 12.5%, that interest rates were at 12.5%, that CPP was on the rocks, so things had to be done. We can certainly go back as deep as we want and put whatever view we want on it, but that's the reality.

You indicated in one of your previous answers that the board could decide to increase rates. Could they also decide to cut benefits, should we run into a protracted period of...? The board cannot do that? Where would that have to come from, if that was ever to evolve? Would that have to come to Parliament?

Mr. Louis Beauséjour: That would be a government decision.

Mr. Rodger Cuzner: It would be a government decision, or it would have to come to Parliament, or what? We want to find out.

Mr. Louis Beauséjour: It depends if a change to the legislation is required or not.

Mr. Yves Giroux: If it's a change in the benefits that is done through regulations, for example, it's the Governor in Council. If a more fundamental change is required, and it's an amendment to the Employment Insurance Act, then you'd all be consulted because that would have to be discussed in Parliament.

Mr. Rodger Cuzner: So this change would not necessarily preclude entering into new programs within EI. For example, there've been a fair number of private member's bills on employment insurance. The extension of benefits to those who are receiving health benefits under EI for traumatic cases, cancer, lung transplant, whatever it might be, that would not be under the responsibility of this board; it would still be a function of, or a responsibility of, the House.

Mr. Louis Beauséjour: Correct.

Mr. Rodger Cuzner: Great.

We're talking about additional transparency and the importance of additional transparency. The changes that were made in 2005 when we looked at changing the method of the rate-setting to match it more closely to benefits, where do those changes fall short?

● (1010)

Mr. Yves Giroux: I would say the main difference between the 2005 rate-setting mechanism and the one that is likely with the changes that are before you today is the surpluses. The proposed board will have the management of a reserve, and then if there's a surplus the board would have to take that into account in setting the rate going forward. I think that's the main change, but I can be corrected by my colleagues if they want to add something.

Mr. Rodger Cuzner: That would be the main point?

Mr. Louis Beauséjour: Yes.

Mr. Rodger Cuzner: Okay, because what we felt in 2005 was that the inputs necessary were identified in 2005 and responded to in 2005. It's just that.

I'm fine with that.

The Chair: Okay, that's your time. Thank you very much.

Monsieur Gourde, you have five minutes, sir.

[*Translation*]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you very much, Mr. Chairman.

I think that the highest rates that the employment insurance fund ever asked of employees and employers were 3.2% and 4.7%. Roughly, in what year did this happen?

Mr. Yves Giroux: I had prepared for a discussion of Bill C-50, but I have not memorized all the figures that go back to the 1990s. If I remember correctly, it was in 1993, or at least in the early 90s.

Mr. Jacques Gourde: I think that you mentioned earlier that there were a deficit in the fund during certain years, and that money had been injected by Treasury Board or that the rates had been balanced out during those years.

Mr. Yves Giroux: If I remember correctly, and as one of your colleagues mentioned earlier, the Auditor General in the 1980s, Mr. Desautels, made a recommendation. When large non-consolidated deficits crop up, he had strongly suggested that the government consolidate the employment insurance account so as to fully reflect the liabilities incurred by the deficit in the employment insurance fund. At the time, this was perceived as a way to reduce the deficit of the government in power. The Auditor General therefore strongly suggested that the deficit should be consolidated within the accounting parameters of the federal government, so as to fully reflect all financial transactions at the federal level.

Mr. Jacques Gourde: This would mean that, despite the high rates, there was still a shortage of funds at that time.

Mr. Yves Giroux: Once again, if I remember correctly, the sums amounted to billions of dollars rather than hundreds of millions. These were fairly large deficits for a program of that size.

Mr. Jacques Gourde: Subsequently, the rates stood at 3% and 4.7%, which means almost 8%, for several years. Did it take four or five years before the rates began to go down again?

Mr. Yves Giroux: I think that the rates began to go down fairly quickly. We could provide you with detailed information about this in a few hours or in a few days.

Mr. Jacques Gourde: Very well.

There was a period of liability followed by a period of assets, and then there was a surplus in the fund. Was the amount of $54 billion higher than the amount of the previous liability, or was there some exaggeration?

Mr. Yves Giroux: Once again, these are very specific questions that reach far back into time. I should do some research before answering you. I am afraid that I might mislead you, but I believe that, based on the Auditor General's recommendation, the government did, indeed, consolidate the figures. They show the balance accumulated from the time when the amounts were consolidated almost up to now.

Mr. Jacques Gourde: Consequently, our initiative to create a board will allow us to put an end to this accounting game so that the money will be entirely available to the employees and employers, and so that the funds that were used and that are being used for employment insurance will come back to the contributors.

A minimum rate of 15% was mentioned. Could the rate go down to only 10% during any year? The rates will most likely be changed in 10% increments.

Mr. Yves Giroux: Fifteen does not stand for a percentage, but for the amount of 15¢. It is a maximum. Therefore, it would go down as far as 1¢.

Mr. Jacques Gourde: It could go from 1¢ to 2¢, but the maximum would be 15¢. In other words, with the previous surpluses, we could have had amounts below $1, if the money had not been returned to the Treasury.

Mr. Yves Giroux: With an exceptional improvement in the economic climate, it would be theoretically possible.

● (1015)

Mr. Jacques Gourde: If things get much worse in an exceptional way, it will take several years before the board runs into deficits, because we have a 15¢ maximum.

Mr. Yves Giroux: This is possible, however, as we heard earlier, the government guarantees the payment of benefits. As this program has already been legislated, a person is eligible regardless of the amount held in the reserve or the amount that is no longer in the reserve. The government, the federal Treasury, guarantees the payment of all the benefits to eligible persons.

Mr. Jacques Gourde: Someone mentioned a $2 billion reserve indexed at a rate of 2 or 3% per year.

Mr. Yves Giroux: I gather that this is so, because of the consumer price index or some other index determined by Statistics Canada. Currently, it stands at about 2% per year.

Mr. Jacques Gourde: Mr. Chairman, I find it hard to hear the witness. Everyone is speaking at the same time. I rise on a point of order. I listen to the others when they speak. Could you rule on this?

[*English*]

The Chair: If we could all keep it down, that would be great.

Okay, go ahead, Jacques. You're almost out of time. You've got another 10 seconds, sir.

[*Translation*]

Mr. Jacques Gourde: The indexation percentage will come straight from the Treasury, and not from the surplus in the fund.

Mr. Yves Giroux: I think that it will come from the fund, so as to maintain the reserve at an appropriate level.

Mr. Jacques Gourde: We are talking about $2 billion maximum. The amount could be raised to $2.1 billion, and the money would come from the premiums.

Mr. Yves Giroux: This is the way I understand it.

Mr. Jacques Gourde: All right.

[*English*]

The Chair: Thank you, Mr. Gourde.

We're going to move to Mr. Martin.

Mr. Martin, since you missed your first round, I'll give you a few extra minutes here, just as long as there are not too many complaints from the rest of the committee.

Go ahead, Tony.

Mr. Tony Martin (Sault Ste. Marie, NDP): I'll try not to be too controversial, then.

The reason I was late coming this morning.... This is a very important topic and I did want to be here. I appreciated Mr. Savage moving a motion that we would study this new initiative by the government on EI. I have a number of questions.

I just came from a press conference, where we were looking at the results of a study released this morning by Statistics Canada that indicates that the top 5% of Canadians have gotten much richer over the last few years and yet the bottom 20% have lost ground. Their salaries have gone down; their purchasing power has gone down. What we're seeing in some parts—particularly in Ontario now with the big hit to the manufacturing sector—is that many, many people who paid into EI over the years don't qualify anymore for this insurance they thought would be there for them when they got themselves into some difficulty.

Many are falling off of the EI wagon a lot sooner than they expected or anticipated, and the economy isn't recovering sufficiently that they can get another job, particularly a job that reflects their skill, their experience, their knowledge, and their background. It seems there are lots of jobs beginning to evolve in the service sector, in call centres and that kind of thing, that pay anywhere from $10 to $15 an hour. But the $20 to $30 an hour jobs seem to be disappearing, and people are struggling.

I was just wondering, when this decision was made, if there was any analysis. Mr. Giroux said earlier—I was a little surprised that he would make such a loaded statement—that this is going to be good for Canadians. This move to this new system of managing the EI program and fund is going to be good for Canadians. I suggest that what we're doing is buying in ever more and more to a notion that if we simply allow the market...and use labour strategy initiatives to deal with unemployment, poverty, and social inequity, things will actually get better. The statistics are now showing that things are in fact not getting better, but that they're getting worse for a large group of people. The gap between the rich and the poor is growing.

In making this decision, was there any analysis done as to the social impact overall of this change that we're hearing about here this morning?

● (1020)

Mr. Louis Beauséjour: In fact, the change we're proposing is not linked to the benefit. We didn't look at what the impact on benefit could have been, because the change was about how we'd be setting the rate going forward, to ensure that the money collected would be used only for EI purposes.

Mr. Tony Martin: And money in the past was used for various programs across the country to help different groups. Sometimes there was a special pilot program put in place where there was a particularly difficult economic time. How will this affect that kind of programming and those kinds of decisions with this one?

Mr. Louis Beauséjour: The new legislation will not affect the way the decision will be taken for whether we need to do a new pilot or.... That would rest within the EI Commission and the government.

Mr. Tony Martin: Okay, but the reality—

Mr. Louis Beauséjour: In fact, that doesn't change the way the benefits side of the business is conducted.

Mr. Tony Martin: A $200 billion tax relief package just floated out over the last two years. It will reduce the capacity of the federal government to participate in many of the important ways Canadians expect their government to carry them through difficult economic times.

There is now a move to reduce the premiums into EI, which was a source of money for government to keep people afloat, making sure that we were making the best use of their skills to grow the economy. Have you done any analysis of how cutting the money to the EI fund, on top of the $200 billion tax relief package that's been rolled out, is going to affect your ability to deliver the programs that people look to you for?

Mr. Yves Giroux: The tax cuts were indeed announced by the government, but there were also significant investments in the social area. For example, there was a $39 billion increase in transfers to the provinces, which are the primary deliverers of social services and health services. This was prior to the significant tax cuts of the economic statement. There were also significant investments in aboriginal priorities—investments for post-secondary education—announced in the budget. All these investments were announced at the same time, shortly before or after the significant tax cuts.

Will the tax cuts reduce the ability to make investments? Possibly, in the future. But so far the evidence shows that the government has the means to invest in the social areas where Canadians need to be supported. For example, the budget announced an extension of the targeted initiative for older workers, which was scheduled to sunset at the end of March 2009. But the budget delivered in February 2008 announced its extension until March 2012. So there are significant investments to help those who need government support.

Ms. Tamara Miller (Chief, Labour Markets, Employment and Learning, Social Policy, Federal-Provincial Relations and Social Policy Branch, Department of Finance): The intention of the new rate-setting mechanism in the CEIFB is not to cut rates but rather to ensure that rates charged to premium payers match the cost of running the program. That's why there's authority for the board to raise or lower, based on the needs in the program. The intention is not to have a go-forward cut of the rate premiums unless the program costs less.

Mr. Tony Martin: We all know, though, the reality over the last number of years. Particularly since we've changed the way EI was managed and the rules that govern that, the surplus in EI went up by some $55 billion over those years. So from that, one would project that there would be cuts.

I say to you, Mr. Giroux, that out there across the country—and I've travelled it for the last year or more, looking at the issue of poverty—provincial governments, and particularly municipal governments, are finding themselves cash-strapped even though, yes, there are some transfers from the federal government to the provinces, and that happens regularly, but they're not as much. There have been cuts to those transfers over the last 15 years in this country, starting with doing away with the Canada assistance plan, then the reduction in the transfer for health, and then the social transfers. It has simply been downloading. Anybody who has watched the political scene will tell you there has been a massive downloading of responsibility for lots of social programs to the municipalities that collect property taxes. That puts the responsibility, then, on a smaller number of already strapped individuals in communities to deliver some of these programs.

So to suggest for a second that somehow a $200 billion reduction in the capacity of government to participate in the overall managing of the social structure of the country is going to be offset by these very modest transfers and investments in some areas, I think, belies the reality here and the truth.

What I'm asking is, has any analysis been done of that and what the impact of this will have on our ability, as government, to actually get out there, particularly given the stats that have come out today from Statistics Canada indicating that the gap between those who have and those who don't and the fact that the middle class are stuck...? Their wage has gone up $1 a week since 1980. Nobody in that category, and the bottom 20% is.... You know, we're all struggling. They're all struggling out there to make ends meet and they're looking to government for some direction.

Dependence on the market, the labour market strategy that governments have adopted over the last 10 to 15 years, is obviously not working to reduce that. Is there any concern about that?

● (1025)

The Chair: I remind you that this will be the last comment.

But if you could finish off the answer, sir, that would be great.

Mr. Louis Beauséjour: The way we can answer that is to say that the purpose of the act is only about ensuring the rate-setting, and the contribution that is collected will be sufficient to deliver on the benefit that has to be delivered, given the current EI Act. There is nothing in the act that limits the ability of the government to make decisions on the benefits.

Mr. Tony Martin: Except the money.

The Chair: We'll leave it at that.

We're going to move to Mr. Thibault, then Mr. Lake and Ms. Yelich. Madam Bonsant will then have a quick intervention and we'll wrap it up with that.

Mr. Thibault, five minutes, sir.

[*Translation*]

Hon. Robert Thibault (West Nova, Lib.): Thank you, Mr. Chairman.

If I understand correctly, the difference between what the proposed board could do and what the department can currently do consists in the ability of maintaining a surplus, or a working fund of $2 billion.

Mr. Louis Beauséjour: There are two modifications. There is, indeed, the ability to maintain a $2 billion fund, but also, in the future, if in some given year—

Hon. Robert Thibault: No, it is all right, the department can already do that now. The department now has the ability to set rates that take into account things like expenditures, and to—

Mr. Louis Beauséjour: —that take into account the expenditures for the coming year, as a matter of fact.

Hon. Robert Thibault: The department currently has that power. The difference is the ability to maintain a surplus or a fund.

Mr. Louis Beauséjour: In fact, this is not the only difference. The surpluses from previous years are transferred into the fund, and this money is taken into account to ensure that the reserve is brought back to the same level.

Hon. Robert Thibault: Yes, but the minister already has all the powers to establish rates and premiums. He can do that at will. He can apply any calculations that he wants to all past revenue. I think that the difference consists in the fact that we will be able to maintain this reserve of $2 billion. The surpluses will now go into the reserve. Is this not the big difference?

[*English*]

Ms. Sherry Harrison: Maybe I could start.

I would suggest that the first change is that currently the rate-setting for the EI is conducted by the EI Commission, which is chaired by the deputy minister, and I believe the associate deputy minister is—

● (1030)

Hon. Robert Thibault: Yes, I only have five minutes. I don't want to go into this for a long time.

Ms. Sherry Harrison: Okay. So right now, under the proposed legislation, it will be moved to an arm's-length—

Hon. Robert Thibault: But now the minister, with his structure, has the capacity to set any rate he wishes. The Minister of Finance, the Government of Canada, can tomorrow say the rate is going to be $1 or the rate is going to be 50¢.

Ms. Sherry Harrison: The EI Commission.

Hon. Robert Thibault: But what they don't have the capacity to do now is to maintain a reserve. This bill creates that capacity to maintain a reserve.

And that reserve, I understand, is limited to $2 billion, right?

[*Translation*]

Mr. Louis Beauséjour: It is a sum of $2 billion which can be indexed over time.

Hon. Robert Thibault: Yes.

M. Louis Beauséjour: The difference is that there is an obligation —

[*English*]

Hon. Robert Thibault: Okay, enough on the difference. What I want to find out here is this.

So we have a reserve of $2 billion. If unemployment goes down to zero this year because of some miracle in the economy, and revenues are in excess of expenditures, and the surplus is $10 billion, the reserve is holding $2 billion, so there will be another $8 billion. Where does it go? To the consolidated revenue fund?

[*Translation*]

Mr. Yves Giroux: No, in this case, the surplus would go into the account managed by the Canada Employment Insurance Financing Board and would be used only for reducing the EI premiums over subsequent years.

Hon. Robert Thibault: In how many years must they spend these funds?

Mr. Yves Giroux: There are limits to rate increases or decreases. It will depend on the economic climate of subsequent years and on the rate, everything else being equal. Thus, it could be entirely spent in one year if the excellent financial climate persists.

Hon. Robert Thibault: Thus, the decisions would be more or less the same as those that the department currently makes. Based on economic projections, we will calculate how much we received last year and how much was spent. The issues are more or less the same. The only difference is that the surplus is kept in a fund apart from the Canadian government's consolidated revenues.

Mr. Yves Giroux: It is kept in a separate account—

Hon. Robert Thibault: I will share the rest of my time with Mr. Savage, but I cannot see why we must create a State corporation to do this. I understand that we must amend the current legislation to allow for this surplus, if this is what we want, but why are we setting up a Crown corporation? I find this difficult to understand.

Mr. Yves Giroux: I think that creating a Crown corporation should ensure more independence and guarantee that the surpluses are really used for reducing employment insurance premiums, if there really are surpluses.

Hon. Robert Thibault: Thank you.

[*English*]

The Chair: Mr. Savage.

Mr. Michael Savage: The point I was trying to make is that we've become used to surpluses in the EI account. In the early 1990s, we had four years in a row where we had deficits. The concern—and what I'm most concerned about—is, yes, we want premium rates to go down, but we don't want this to be a back-door way to reduce benefits for workers. And given that we had four years in a row of deficits in the account are now heading into a period of economic downturn, and rates are lower than they were, I need to be assured that this system will not be used as a back-door way—because how much you can change the premium rate is limited—for the government to turn around and reduce benefits. That's what I'm looking for.

I appreciate the information you've given us. We will be asking other witnesses over the next couple of meetings for their views on that as well, but that is the concern we have. I'm not concerned about this in good times; I'm concerned about it in bad times, which we appear to be headed into.

Thank you.

The Chair: Thanks, Mr. Savage.

We're going to have Mr. Lake and Ms. Yelich, and then we're going to finish off with Madame Bonsant.

Mrs. Lynne Yelich: I guess I'll speak first.

I just think, Mr. Chairman, that some of the questions Mr. Martin asked are not for these officials to answer, because they are the ones who are going to help set up this new board. When we talk about benefits and the prosperity gap, I think those questions are for other officials to answer. Other than asking if they have done the analysis, I don't really think the questioning is for them.

I think that on protecting the benefits and making sure the benefits are there, we should be having different officials for that, because I'm sure these officials aren't here to answer that. Today it should be about the EI account—and I thought Mr. Thibault asked a good question on that, because it is important to know some of the things he mentioned.

I just want to reiterate that Parliament will still be overseeing benefits, so that is us—it's the opposition and the government at the time. It doesn't put more powers.... In fact, it just puts in place more transparency.

Am I correct?

Witnesses: Yes.

● (1035)

Mr. Mike Lake: Actually, it fits well with what I was going to suggest. The act has nothing to do with political ideology and everything to do with transparency.

Mr. Savage talked about all the private members' bills that have come before the committee, and the Liberals have supported almost all of them. Hypothetically, if the Liberals, God forbid, actually became government and decided to implement all the changes they've supported through private members' business, they could double the benefits and double the rates, if they wanted to, through legislation. If the NDP became government and wanted to decrease the qualification period to three hours and increase the benefits to 120% of income, they could do that through legislation, if they decided they wanted to do that.

Whatever those decisions are, we're talking about transparency here, saying that what's collected for EI is going to be spent on EI, plain and simple, nothing more, which is what we've been asked about. I'm pretty sure the Liberals have employers in some of their ridings who have asked them the same thing: we just want what's collected for EI through employees and employers to be spent on EI.

That's what this bill accomplishes. Correct?

Mr. Yves Giroux: Yes.

Mr. Mike Lake: I want to finish by going back to what I was talking about before, about this surplus and deficit type of situation. I talked a little bit about a surplus situation, but let's say we had a $4 billion deficit in EI one year. So $2 billion would be covered through the reserve, and $2 billion would basically be loaned by the government, in effect. Right?

Witnesses: Yes.

Mr. Mike Lake: Eventually there's a formula—and I just want to try to understand this—that would catch up through an adjustment to the rates. It would basically be a mathematical formula that would catch up over time. Is there a limit to how much time this can take? If you had a disaster and had an $8 billion deficit, could it take 10 years to catch up?

I want to get some clarification on how that mathematical function works.

Mr. Yves Giroux: It could take 10 years, depending on the economic conditions, the size of the deficit, and the size of the advance from the CRF. It could well take 10 years.

The goal in setting limits on the premium rate, the changes from year to year, is to avoid having big hits on employees and employers, especially in the case of a downturn. That's why it could take a relatively long period of time to repay any deficit, should there be one.

Mr. Mike Lake: From a logistical standpoint—again going back to a surplus situation, because it may be a little bit easier to understand—if you collect a $2 billion surplus, that money is considered owed back to employees and employers, but it treats the employees and employers as a group. It doesn't go back necessarily to the employees or employers who paid it, because some of those employers might be out of business and some of those employees might have retired. It goes back to them as a group through lower rates down the road. It treats them as a group.

Mr. Yves Giroux: Yes.

Mr. Mike Lake: Okay, I think that's enough. Thanks.

The Chair: Thank you.

Madame Bonsant.

[*Translation*]

Ms. France Bonsant: Let us start again from the beginning, because I want to understand this clearly. Bill C-50 intends to create a board that will manage money, but that will not manage the applications for employment insurance benefits. Will it be in charge of compassionate leave applications, sick leave or maternity leave?

Mr. Louis Beauséjour: It will always be up to the Canadian Employment Insurance Commission and the government to determine these things.

Ms. France Bonsant: Will Bill C-50 result in giving public servants and directors a role where they would act like cashiers, as in a bank or in a credit union? They will be taking in and handing out money. I find this difficult to understand.

Mr. Beauséjour, I understand that there is a consolidated $2 billion fund. All the surpluses will go back, as some kind of gift, to the government. In fact, all the surpluses will go back to the government.

Mr. Louis Beauséjour: This is not so. The new board will not take in any money. As I said in my comments, Revenue Canada will continue gathering the money through the consolidated fund at the beginning. A consolidation will be made to find out how much surplus money there will be at the end of the year. The surplus will be transferred from the consolidated fund, credited to the employment insurance fund and transferred to the new board which will determine the premium rates for the following year while taking into account the money...

● (1040)

Ms. France Bonsant: This is what I am trying to understand. In fact, if there is a surplus, it will go back to the government. On the other hand, if there is a deficit, it will be treated as a loan that will go back to the employment insurance.

Mr. Yves Giroux: No, if there is a surplus, it will not go back to the government. If there is a surplus, the cashiers that you refer to will be managing $ 2 billion, and a surplus on top of that. These cashiers will certainly have an important role to play!

Ms. France Bonsant: This is only money. As they say in English, it will be pay and smile. They will manage the money from the premiums but nothing else. This is what I understand.

Mr. Yves Giroux: You think that managing $ 2 billion is not all that much ...

Ms. France Bonsant: I am not saying that it is not all that much, I am saying that this already exists within the government. This board is being set up simply to manage funds and premiums. I do not understand.

Mr. Yves Giroux: The board will manage an amount of $ 2 billion along with the surpluses, if any. It will also make sure that the surpluses are returned to those who paid the premiums.

Ms. France Bonsant: Will they receive a cheque?

Mr. Yves Giroux: They will be granted a reduction in the premiums over the subsequent years.

Ms. France Bonsant: This will give them about $10 a year, but no added protection.

Mr. Louis Beauséjour: In fact, there are two aspects to the role of the board. Its primary role consists in managing monetary funds.

Ms. France Bonsant: Yes.

Mr. Louis Beauséjour: There is also the role of determining the rates for the premiums which they will determine based on the information that it has and to the best of its knowledge. It will determine future rates.

Mr. Yves Lessard: Following what Mr. Lake said earlier, we feel that this weigh down the apparatus. A part of the commission's current mandate will be turned over to this board, which will be responsible for making recommendations to the minister regarding the balance between premium rates and the commitments made by the fund. This is clear. This happens automatically. Why not simply give this mandate to the commission by increasing the number of commissioners, for example? I think that this would have simplified matters and that it would have been in line with the unanimous recommendation made by this committee.

Mr. Yves Giroux: The underlying objective of creating a Crown corporation is to ensure greater transparency. Rather than leaving the decisions in the hands of the commission, we decided to create a Crown corporation, for the sake of greater transparency.

Mr. Yves Lessard: We are in favour of setting up an independent fund; we agree on that. However, I find it difficult to understand how this decision can ensure more transparency.

Let us look at this from another angle. How could the commission have failed to be transparent if it had some extra commissioners? The only difference is in the number of commissioners.

Mr. Yves Giroux: I believe the decision to create a Crown corporation belongs to the minister. Its objective is to increase transparency. That is the only answer I can give you. We have already made that point.

Mr. Louis Beauséjour: The fact that it will guarantee that money is managed independently is also an factor that was considered.

Mr. Yves Lessard: Just because you are telling me that does not mean that it is a convincing argument. That is more or less what Ms. Sgro said earlier. It is all fine and well to tell us that the objective is to ensure transparency, but how did the commission, which already had this mandate, fail to provide this transparency? All they had to do was to entrust it with the fund.

Mr. Yves Giroux: If I may—

[*English*]

The Chair: This will be the last answer.

[*Translation*]

Mr. Yves Giroux: Our role is not to convince you, but to explain the provisions of Bill C-50. I apologize if you expected me to convince you of something. I can do my best to explain it to you, but to convince you... That is why I am not in politics, I am not good at convincing people.

Mr. Yves Lessard: You understand that we are not blaming you.

Mr. Yves Giroux: Even if it were a blame, I could take it.

Mr. Yves Lessard: You deserve a lot of credit for explaining to us the government policies provided to you. A lot of credit, indeed.

● (1045)

[*English*]

The Chair: I want to thank the guests as well. Before we finish, though, Ms. Sgro had one more follow-up question. Then we're going to let the witnesses go, unless there are any closing comments.

Ms. Sgro.

Hon. Judy Sgro: I have a couple of comments, because I want to make sure that I'm following it.

It's very easy to understand setting up this EI fund, regardless of whether I think it's a good idea or not. All this transparency—that's easy. You collect $2 million; that's where it is, and when you have more, you reduce the premiums. That's really simple, okay? That's not a difficult thing.

My concern goes back to this: up until now, when we did the whole issue of the consolidated revenue, at the end of the budget year we have $50 million that we can reinvest. Some of that's coming from those same premiums that our employers are paying. They had a right to complain when it was as high as it was, but there were reasons that it was that high. Now it's down to a much more reasonable level, but a lot of the money they pay doesn't just go into paying EI benefits: it goes into job retraining programs and so on.

I don't think you're going to be able to answer this question; it's really a question for the minister, and I'll ask if we could get the minister back here for a short period of time before we conclude, just so we can get our questions answered.

I'm concerned with the money. Now we're going to roll it; we're going to have it over there, and then we can reduce premiums, which is just fabulous, but where are we going to get the shortfall of money that up until now was going into providing job retraining programs and all the wonderful things that HRSDC does? There's going to be a shortfall in the money they would normally be getting. I'm concerned that the shortfall for the people who are unemployed isn't going to pay the price when they need job retraining programs and so on.

It really isn't a question for these poor people, who are simply saying this is what this crown corporation's doing.

The Chair: Judy, my understanding is that it doesn't change. That's what's in the program now, so that's what we continue to pay rates on, unless the minister or the government decides to change the benefits; then it would be done separately. Isn't that correct? It's built into the system right now through the rates we pay.

Mrs. Lynne Yelich: It's Parliament that decides.

The Chair: Exactly. Once again, it is the mechanism. I think what everyone's trying to understand is whether this changes it. Does it just deliver the same benefits in a different way?

Hon. Judy Sgro: But we may not have the money that's needed. We're going to reduce the premiums because we have a surplus and based on that surplus, but that money before would have been all part of a big consolidated fund that—

The Chair: But they're not entitled to change the program. The program has to be changed by Parliament.

Hon. Judy Sgro: Then we're going to have to make sure HRSDC is getting enough money to offset whatever would have been there before. Hence the reason, prior to our completing the study, to ask the minister if he could come for half an hour to hear the concerns we have.

The Chair: We'll talk to Lynne and see what's—

Mrs. Lynne Yelich: I think Ms. Harrison—

The Chair: Hold on. I've got a bunch of people here.

Mike, did you have one final comment?

Mr. Mike Lake: Yes, I do.

This is the whole point of the transparency behind this. If we're going to pay for something that does not fall under EI through HR and you're looking for a way to pay that, then the proper procedure to do it is to put it in the budget and vote on it as Parliament. Put it in the budget as a budget item if it's not something that falls under the EI program. That's transparency. What we're trying to accomplish with this is not to hide things that don't fall under EI within EI revenue.

The Chair: Okay. Lynne is next, and then Mike and then—

Mrs. Lynne Yelich: I think Ms. Harrison wanted to say something, so I'll ask her that.

The other thing we have to remember is that the premiums don't change for a subsequent year. If you do have that surplus, it'll be a year before the premiums go down, and then you have a little bit of a cushion if something happens—if there's a deficit or a downturn in the economy, because we probably won't have further deficit.

Then again, the premiums will go up if it looks like a projected.... Am I right, or is it not even a projected surplus? I think there will be enough forethought on the premiums' rate-setting to make sure there will always be money there.

I think there has to be a shift in thinking at committee, first of all. They have to forget about the $54 billion in surplus. I think that's what we can't seem to grasp here.

I'd like to hear what you were going to say.

The Chair: I know Mr. Lessard doesn't want to forget about it, anyway.

I'm going to have one final comment from Mike, and then I'm going to dismiss the witnesses.

Mr. Michael Savage: Thank you.

Further to Judy's point about the minister, I've had some questions answered here today. I appreciate what you've given us. I think you've given us a very good start on this.

It does highlight that there are unanswered issues about this philosophically and in terms of where the government's going to go with this. Not much information has been given. I think this little study we're doing is the right thing to do. We have to hear from other witnesses; we do need to have the right, though, to ask the minister to come back if these questions continue to be unanswered after we've heard from other witnesses.

But I appreciate the work you've done for us today.

● (1050)

The Chair: There is, I think, a better level of clarification, and there will be still more with the coming witnesses.

Mrs. Lynne Yelich: I would think he would come, because I think he'd be very happy, after he's heard—

The Chair: You'd like to talk about it.

Well, why don't we put the request and tell him we're thinking about bringing him back for the encore performance: “We loved you so much, we want you back again.”

I want to thank the witnesses once again for being here today.

I will remind the subcommittee that we're going to try to deal with the witnesses over the next couple of meetings.

With that, I'm going to dismiss the meeting and thank the witnesses once again for being here today.

The meeting is adjourned.

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