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Chair

Mr. James Rajotte

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● (0905)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is the 61st meeting of the Standing Committee on Finance. Pursuant to Standing Order 108(2), we're studying the progress report on monitoring and oversight of the 2009 budget.

We're very pleased to have with us this morning, from the Library of Parliament, the Parliamentary Budget Officer, Mr. Kevin Page. We have an hour and a half with Mr. Page this morning.

Mr. Page, I will ask you to introduce your colleagues and to give an opening statement. Then we'll have questions from all members. Welcome back to the committee. We look forward to your remarks.

Mr. Kevin Page (Parliamentary Budget Officer, Library of Parliament): Thank you, Chair.

I have with me today three important members of my group. They're all important, but they are three very important ones since we're small. With me are—

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Point of order, Mr. Chair.

The Chair: Mr. Pacetti on a point of order.

Mr. Massimo Pacetti: Yes. Normally this committee sits in one of the rooms where the committees are televised. I'd like to know why we haven't taken the time to reserve one of those rooms when we have a witness of the stature of Kevin Page.

The Chair: We did ask for a room in Centre Block. You are right, Mr. Pacetti, that typically we do sit in Centre Block, but the Auditor General is releasing a report today, so we were bumped by the Auditor General.

As you will recall, this date was agreed to by me and the vice-chairs, including you, and in fact, it is being recorded. We did have some requests from news organizations, so the House of Commons is recording this meeting.

I'm sorry, Mr. Page. Please continue.

Mr. Kevin Page: With me, I have Mr. Sahir Khan, our assistant parliamentary budget officer for revenue and expenditure analysis, and Mostafa Askari, the assistant parliamentary budget officer for the economic and fiscal situation and fiscal outlook. As well, our senior economist is Chris Matier, for economic and fiscal outlook as well.

Thank you.

The Chair: You may continue with your opening statement.

[*Translation*]

Mr. Kevin Page: Very well.

[*English*]

Good morning, Mr. Chair, vice-chairs, and members of the committee. Thank you for inviting me and my colleagues to speak to you today regarding Canada's economic and fiscal situation and our monitoring of the government's third-quarter report on the implementation of the 2009 budget.

I have three key messages.

The first is that the Canadian economy appears to be emerging from a difficult recession. The average private sector outlook is stabilizing, although uncertainty remains high as the fallout from the global financial crisis persists. Based on the latest information, the PBO is indicating that the emerging recovery is fragile and the short-term economic risks continue to be on the downside.

The second point is that the world recession has thrown Canada further off its fiscal track. While Canadian fiscal numbers are significantly better than those of many other countries, even under the most optimistic private sector forecasts the federal fiscal situation is unlikely to return to balance over the medium term. A fiscal plan with targets and/or rules could help guide an exit strategy once the economic recovery has been put on a sustainable path.

The third point is that with the high levels of uncertainty and the loss of fiscal room, the policy challenges and trade-offs associated with both cyclical and structural issues become more difficult. This environment puts a premium on the need for transparent quarterly reporting on economic monitoring and budget implementation.

In this regard, the government may wish to consider the merits of including information on activities, outlays, and/or expenses to date, in addition to commitments, in the next quarterly budget implementation report. The government may also wish to consider providing analysis to parliamentarians on the effectiveness of stimulus spending to date on supporting Canadian output and jobs.

[*Translation*]

Let me now turn to the economic and fiscal situation and outlook. In July, at the request of the House finance committee, I released a comprehensive assessment of the economic and fiscal situation and outlook. At the time, I reported that private sector forecasters, on average, expected to see a technical recovery in the second half of this year, followed by modest economic growth in 2010 and more robust growth over the medium term.

I also reported that, on the basis of this economic projection, the government would experience a cumulative budget deficit of about $156 billion over the current and the next four fiscal years. In September and early October, my office, the PBO, updated its July projections, and I would like to highlight the key conclusions of our update.

[*English*]

The preponderance of indicators suggests that the Canadian economy has begun to stabilize in the third quarter following three quarters of negative growth. These indicators include consumer and business confidence, employment, hours worked, housing activity, and retail sales. While the Canadian economy has weathered the global recession better than most economies, Canadians have been hit hard by the recent downturn.

PBO estimates of the output gap, the level of real output compared to its potential, indicate that the depth of the weakness in the Canadian economy is more severe than it was during the recession in the 1990s and is similar to the recession experience in the early 1980s.

The unemployment rate stands at 8.4% in September, compared to 6.2% a year earlier. Including involuntary part-timers and discouraged workers, the unemployment rate would be about three percentage points higher. The average duration of unemployment is increasing at a significant rate. Canada has lost 395,000 full-time jobs since October 2008.

Although a general consensus has emerged that a recovery in the global economy is under way, considerable uncertainty continues to surround the outlook.

While the Canadian private sector forecasts indicate a modest recovery in the second half of the year, international forecasters like the IMF and the OECD are less sanguine about the pace of economic recovery and continue to emphasize the downside risk to the economic outlook. Despite this uncertainty, the September 2009 PBO survey of private sector forecasters suggests little change in the Canadian economic outlook since July.

According to the PBO survey, based on the average private-sector outlook, real GDP is projected to fall 2.3% in 2009 and rise 2.3% in 2010. Nominal GDP, the broadest measure of the government's tax base, is projected to fall 4.6% in 2009 and rise 4% in 2010. The unemployment rate is projected to average 8.4% in 2009 and then rise to 8.9% in 2010.

● (0910)

[*Translation*]

The updated survey implies that the Canadian economy will not return to its potential until the end of 2013. This translates into a cumulative loss of over $200 billion or about $17,000 per Canadian household in unrealized output.

According to the PBO view, there are downside risks to both the short-term growth and labour market forecasts in the September private sector survey. These risks include the potential for a weaker U.S. recovery as well as the potential for negative impacts stemming from the recent strength of the Canadian dollar.

[*English*]

The PBO projects a cumulative budgetary deficit of $167.4 billion over the next five years. The budget deficit is projected to rise from $5.8 billion in 2008-09 to a peak of $54.2 billion this year, falling to $19 billion in 2013-14. Consequently, the federal debt is projected to rise to $631.2 billion in 2013-14, which corresponds to 33.8% of GDP.

The PBO has improved some of the tools that it uses in doing fiscal projections, including the construction of our own measure of potential output and the government's structural balance. Based on the new estimates of potential output, PBO calculations continue to suggest that the budget is not structurally balanced over the medium term.

The PBO estimates that the structural balance would deteriorate from an essentially balanced position in 2007-08 to an $18.9 billion structural deficit in 2013-14. That said, the structural deficits projected over the medium term are significantly smaller than those of the early 1980s and early 1990s. They are also small relative to the size of the economy.

However, a more thorough assessment of the sustainability of the current fiscal structure requires a longer-term perspective, in particular taking into account the fiscal challenges posed by population aging. The PBO has undertaken such analysis and will release a comprehensive assessment of the sustainability of the government's finances in the coming months.

As noted, the PBO continues to judge that there are significant risks to the economic outlook, and there's of course a wide range of possible outcomes. To help illustrate this point, we have simulated the fiscal implications of a range of private sector economic forecasts in our September survey.

In 2013-14, the projected budgetary balance ranges from a deficit of $7 billion to a deficit of about $34 billion. This suggests that even under the most optimistic private sector forecast the budgetary deficit is unlikely to be eliminated without policy actions.

[*Translation*]

Further, considerable uncertainty remains with regard to future effective tax rates and revenue basis. In effect, there is a risk that effective personal income tax rates will recover at a slower pace than the PBO assumption.

In addition, corporate income tax revenues are subject to a high degree of uncertainty as a result of corporations' ability to carry losses backward or forward. An upside risk to the fiscal outlook in the near term arises from the possibility of large amounts of lapsed infrastructure funds. For example, one in every three planned infrastructure dollars went unspent in the past two fiscal years for which data is available.

Based on these considerations, we continue to judge that the balance of risks to the fiscal outlook over the medium term is tilted to the downside.

The high levels of uncertainty and risk also underscore the importance of a fiscal plan with clear targets for budget balances and debt. In the same vein, quarterly reports that highlight activities, outlays or expenses related to budget implementation, in addition to commitments, will help us understand the nature and impact of budget stimulus measures on economic recovery.

● (0915)

[*English*]

In closing, I thank you for the opportunity to speak to you today. I will be happy to answer your questions.

The Chair: Thank you, Mr. Page, for your opening statement.

We will go to questions from members.

Mr. McCallum.

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

Welcome, Mr. Page and associates.

My apologies. I was a few minutes late. I went to the normal place in the Centre Block, not realizing that the government was shunting us over here where there are no bright TV lights.

Mr. Ted Menzies (Macleod, CPC): We were worried about the bags under your eyes.

Some hon. members: Oh, oh!

Hon. John McCallum: I would like to ask you, first of all, about the information provided by the government. In this report, you note that you requested information on the government expenditure plan and they said no. There was the recent incident of, in this computer age, 5,000 pages being dumped into your office. Then, in your recent report, you referred to "uneven information regarding the implementation progress, relevant benchmark outputs and expected outcomes of measures in the stimulus package".

If you put those things together, it's hard for me to avoid the conclusion that the government is deliberately depriving you of information so that you cannot, as well as otherwise, provide us with information regarding these impacts. Is that a fair conclusion?

Mr. Kevin Page: Well, sir, as you've noted we've asked for information from the Department of Finance on a number of fronts. One front was really to look at some of the income shares behind their forecast so that we'd get a better sense of what was behind their revenue forecast, particularly their effective tax rates and elasticities.

As you've noted, we've also asked for information with regard to the spending profiles of different departments over the five years, which we think is very important for our examination of structural spending going forward. We have not received any information on either front.

With regard to infrastructure spending, specifically the implementation of the stimulus package, almost one-third of that is stimulus-related discretionary fiscal policies. I point out that when you estimate the amount of debt we're expected to accumulate over the next five years, even on an average private-sector forecast, we're looking at about $167 billion.

We asked the Department of Transport and Infrastructure for information on infrastructure, and we recently received some information. It's true that it's in paper form. I've had a few conversations with the deputy minister. We're trying to get it in electronic form. We've not received it in electronic form yet, but we are hopeful. We've also requested a technical briefing with their officials, so that we could better understand the nature of the data we've received. It's still a work in progress.

Hon. John McCallum: Thank you.

Well, I would think that in 2009 for the Government of Canada the notion that an electronic version does not exist is totally lacking in credibility. Would you agree?

Mr. Kevin Page: Well, we're quite convinced—you're correct, sir—that there is an electronic version and we're hoping to get an electronic version. I haven't given up hope. We've also looked at different ways in which we can machine-read the information in a paper-based format onto an electronic format, but we know that it will cost thousands of dollars to do so.

Hon. John McCallum: Thank you.

I'll turn now to your table 2-2 on direct program spending, where you've subtracted their unidentified savings. Those savings were $2 billion this year, going down to $1.5 billion, $1.1 billion, and $0.6 billion. I have two questions on that.

I remember from my time in government that when we did savings we'd usually go in the other direction. We'd start with $0.6 billion and move up gradually to $2 billion, because you can't find huge savings in year one.

Given that we're approximately halfway through the fiscal year, is it possible to find $2 billion of savings at this juncture?

Mr. Kevin Page: We've highlighted the unidentified savings, as you've noted, because we haven't seen the details on those savings. It is the same situation we found ourselves in on asset sales, when we saw, almost a year ago, that government was adjusting the fiscal projections for things that we felt didn't have sufficient information behind them.

Is it possible to generate $2 billion worth of savings? If the government has identified measures and we haven't been made aware of them, that's the reason we've not adjusted the books yet. Is it possible to generate $2 billion? It is possible, but we haven't seen the details.

● (0920)

Hon. John McCallum: My last question is related to that. You say that the record of the last two years is such that only approximately two out of three infrastructure programs have been done and the other has lapsed. Can you tell us how many billion dollars of lapse that might be? In an accounting sense, if it's more than $2 billion, might that be the source of their savings?

If they simply didn't do all of the infrastructure they said they were going to do, they'd conceivably have savings substantially greater than $2 billion. So that's how they'd find the savings. It's not a happy way to find the savings, because we want the shovels in the ground and the jobs created, but from an accounting point of view, could that be how they found those savings?

Mr. Kevin Page: As we noted in our speech today, if spending is lower than projected for these stimulus measures, particularly infrastructure, we could see a deficit this year that is smaller than what the government is projecting.

We're assuming, on the infrastructure spending, that if the money does not go out the door this year, it will roll forward into the future year. We're not arguing whether that's a good thing or a bad thing, but if you look at our output gap measures, the economy is very weak right now and will continue to be weak even until next year.

We have raised the risk that money would be lapsed this year, based on lapse history. We have raised additional risks in recent days. In speaking with some municipalities, we've heard that it's difficult to get the money out in the two-year timeframe. Some of those municipalities suggested that we should look at the two-year timeframes we allowed for the infrastructure fiscal stimulus program.

So there are some of those risks. Certainly a lapse would mean a smaller deficit. It would mean potentially, if you roll it over, more spending next year. But even the timeframes are pretty short.

Hon. John McCallum: Thank you very much.

The Chair: Mr. McCallum, you have a few more seconds.

Hon. John McCallum: Do you have any idea of the dollars that could be lapsed, the order of magnitude, on infrastructure in this current year?

Mr. Kevin Page: I'm not really in a position today, sir, to give you a sense of the potential lapse we might see on some of the stimulus spending, particularly infrastructure. We are looking at the data. Again, we got a significant amount of data, over 4,000 pages, on Thursday. Once we go through that data it will give us a sense...at least it gives us a sense now of how much, relative to the project, the overall federal spending amount is, and for much of that data, the project start and end dates.

We'll start to get a sense of whether or not this money can flow this year or next year. But prior to our analysis of that data, I'm not in a position to give you a lapse estimate at this time.

Hon. John McCallum: Thank you very much.

The Chair: Thank you, Mr. McCallum.

We'll go to Monsieur Laforest.

[*Translation*]

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

Mr. Page and members of your team, good morning.

First, I want to thank you for the work that you do. It is extremely important and in keeping with your mandate, which is to inform the public and parliamentarians in a non-partisan way of the exact state of public finances. In this regard, your mandate is extremely important, particularly in Quebec, given the various presumed or confirmed scandals within government. Your team works completely at arm's length, and it is extremely important to continue to do so.

You answered the question I wanted to ask you in part, that is, whether or not you had access to all the information you need to do your job properly. Would your reports be more specific if you had access to more information? Do you feel that some information is not being conveyed to you and that that prevents you from doing good work?

Mr. Kevin Page: Thank you for your question and your support, Mr. Laforest.

The Parliamentary Budget Officer has a budgetary problem, like Canadians in general.

It is true that if it were possible to obtain more information from government on revenue estimates and infrastructure expenses, we could provide you with better analyses. I hope that in time we will be able to improve the level of confidence and prepare better analyses for you.

● (0925)

Mr. Jean-Yves Laforest: Regarding the infrastructure program or the economic recovery plan, we know that a number of countries have adopted economic stimulus measures. In the United States, broad-based programs were implemented. With respect to the information available on program effectiveness and transparency about actions taken and results achieved, are you able to draw a comparison between the information we receive here and what is available there?

Mr. Kevin Page: Our team prepared an overview of 15 OECD countries. We obtained results for 11 countries. The best practices are to be found in the United States on issues of transparency for economic stimulus measures. Clearly, there is a gap between Canada and the United States in terms of transparency. As I've stated, it is important for the next quarterly report to contain information on commitments as well as expenditures for each quarter.

Mr. Jean-Yves Laforest: I find the work that you do extremely important. For the first year of your term, you were to receive a budget of $1.8 million and in the second year, that would increase to $2.8 million. Your term has been extended, and you are receiving an increasing number of requests from parliamentarians.

Did you receive that increase? If not, will you still be able to continue to do your work as effectively and independently as you have so far?

Mr. Kevin Page: I thank you for your question.

Clearly our mandate is broad: we carry out economic and fiscal analyses, cost estimates and expenditure reviews. Our team needs the $2.8 million budget. I'm expecting good news in that regard.

We work with a $1.8 million budget. If we cannot get the $2.8 million budget, it will still be possible for us to continue preparing economic and fiscal forecasts and to review the impacts of programs like those related to infrastructure. Several members of my small team remain on assignment, but that will soon come to an end. This is a critical time for our office.

Mr. Jean-Yves Laforest: It makes no sense that the government should be unable to increase your budget so that the public may receive relevant information and so parliamentarians may continue to get your estimates and your reports, which are extremely important and effective. I referred to democracy earlier on. Given what we are experiencing today, in other words, a $57 billion deficit this year, it is important for you to have access to the budget. Someone is making a mistake somewhere along the line.

Thank you.

Mr. Kevin Page: I thank you, Mr. Laforest.

The Chair: Thank you, Mr. Laforest.

[*English*]

We'll go to Mr. Menzies, please.

● (0930)

Mr. Ted Menzies: Thank you, Mr. Chair.

Thank you, Kevin.

I feel that I can perhaps call you by your first name. We see you often enough that we're almost on a first-name basis now.

Thanks to your colleagues who've joined you here this morning.

I might suggest that you need to have a chat with whoever does your scheduling. I understand that from here you run right to a Senate committee hearing. You should space those out a little bit to give yourself a breather in between.

You absolutely do good work and we do appreciate it at this committee. We look at some of the critiques of what we're doing, and I think everyone understands that we're caught up in a global recession, and we're doing the best we can. I see your comments that we appear to be emerging from a difficult recession and the average private sector outlook is stabilizing, although uncertainty remains, and I guess that's the key: uncertainty.

When I talk to my constituents, they're not so hung up on the numbers as they are about the outcome. They ask if we're going to see an end to this recession and they ask if this government has a plan. I think what we see reflected in all of these reports and in your analysis of the report is that there is a fragile movement toward recovery.

Mark Carney, Governor of the Bank of Canada, in answer to a question the other day, said that:

> ...definitions of recession and recovery based simply on GDP are a little unrepresentative. There are broader factors like industrial production, unemployment, etc.
>
> I think in the fullness of this experience of the recession and the recoveries, and the amount of time it takes for economies to return to their previous path of potential growth, it is likely that Canada will return to its path of potential more quickly than the other crisis-affected economies, including the two European countries you mentioned. But that's something one sees over the fullness of time, and that's what ultimately will matter.

The key is “and that's what will ultimately matter”.

Do you agree with the governor's comments, Mr. Page?

Mr. Kevin Page: Well, I prefer to provide our own independent view. You can see whether it lines up with the governor's comments.

But on your opening point, Mr. Menzies, in terms of the numbers, the outcome, and what it will feel like for many Canadians in different parts of the country, I would say, as I highlighted today in my speaking points, that when the economy is operating well below its potential.... We estimate that in the third quarter of 2009 we're about five percentage points below where we'd be if the economy was fully employed and if we had a sense that capital were fully employed. It's well below its trend rate.

When you compare that with where we were in the 1980s when we had a severe recession, which is when I started my public service career, there's a lot of pain out there in terms of loss of output. As you've noted, when you look at industrial production numbers, they're down, in double-digit ranges in real terms. If you look at unemployment in the goods sector or industry, it's down 8% relative to an average of 2%.

So if you are in those towns that are affected.... For instance, sir, I grew up in Thunder Bay, and I see some of my old friends who have lost their jobs in the forestry industry and are concerned about whether or not those are coming back. So how it feels depends sometimes on where you're at.

In terms of the fragility of the outlook and when we might get back to our potential, our own numbers suggest—and I think they're quite consistent with what the OECD and the IMF suggest—that it will be something more like the end of 2013 when the economy will be back at its trend level, which is a bit longer than what you alluded to regarding what Mr. Carney said to you just a few days earlier, sir.

When you look at the IMF's analysis of what happens to economies after financial crises and the debt bubbles we have and all the de-leveraging that takes on, you tend to see more of a U-shaped type of recovery. That's consistent as well with analysis done by professors at Harvard and at the University of Maryland as well, who have examined this over many different countries' experiences.

If you look at our output gap and the projections that are in our report today, the private sector is basically saying it will be more like a V-shaped recovery. Even with the economic recovery in 2013, in our report it actually looks more V-shaped than U-shaped. If you look at the output gap experience in the 1990s, it looks like a much more U-shaped experience.

It's in that context, sir, that we say the risks are more on the downside, that this could last a little bit longer, and that we could see growth much closer to trend growth rates in 2010, which is where some of the private sector forecasts are, at around two and a half per cent as opposed to well above trend, which I think is where the Bank of Canada is for 2010.

We'll have to wait and see, but that's certainly where the uncertainty and risk lie.

● (0935)

Mr. Ted Menzies: Good. Thank you.

I'm sure you won't be surprised if I go to your comments about the coming fiscal challenges posed by an aging population. I've been very involved of late in working with pensions and the intergenerational issues we're facing. I'm pleased to see that you're going to take a serious look at these.

We all realize that we are going to be facing a demographic challenge in the very near future—I, for one, am from the beginning of the baby boom—and that it will impact our economy in the long term. I'd be very interested in where you go with that. What is your report actually going to focus on?

Mr. Kevin Page: Sir, the report that we will release between now and probably late January or February, when we typically get a budget, will look at longer-term economic and fiscal projections. We'll actually look forward, even in a 50-year time period, using different assumptions for demographics, productivity, and labour input. We'll look at the fiscal impacts of that aging as well.

Again, when we talk about this, what we're trying to do for you, sir, is to give you a context around some of the fiscal challenges that we face, and not only in the medium term, as we're saying today in pointing out that we're looking at having a small structural deficit. Also, to really get at it and assess whether that small structural deficit is sustainable, I think you have to project forward and see what the impacts of aging are going to be, because aging will slow labour supply growth, which means that revenues will be down. Aging will also put upward pressure on those old-age security payments, as you know very well, sir, from all the work you've been doing, and it will put pressure on health-care related expenditures.

We'll lay that out under different scenarios. It will give you the context to decide what types of fiscal targets we need, what some of those policy challenges are, and how we bring the two together, which is really the interesting debate that you folks weigh in on. But we'll give you that context.

The Chair: Thank you, Mr. Menzies.

[*Translation*]

Mr. Mulcair, go ahead.

Mr. Thomas Mulcair (Outremont, NDP): Thank you very much, Mr. Chair.

It is now my turn to say that I am delighted to welcome Mr. Page and his team to our committee meeting.

I do not want to spend too much time reiterating comments made by my Bloc and Liberal colleagues, but I must say that last spring, when the time came to determine our priorities, we felt that a boost was your priority. You could not discharge your duties pursuant to the mandate assigned to you by Parliament, in other words, to work in the public interest, if you did not have the resources you need.

[*English*]

So if an army travels on its stomach, your office travels on its wallet. If you couldn't have your employees there, you couldn't do your job, and the rest of it we could fight about afterwards.

[*Translation*]

I am outraged, truly, that the Parliamentary Librarian continues, despite the unanimous will of Parliament, to try to stifle your office. It is scandalous, contempt of Parliament, and we intend to tell him so on the first possible occasion.

I would like to start by referring to the famous Accountability Act, whose title is ill-chosen. It should have been referred to, in French, as the *Loi sur l'imputabilité*. Apparently, from now on, it is the deputy ministers who are accountable. There is some discussion as to whether or not infrastructure spending is being done by the book.

Last week, I was able to show that you had been handed a huge stack of unprocessed documents, without a synopsis or summary, nor the electronic means to access the documents. In concrete terms it is quite obvious, if we turn to this Accountability Act. The electronic version must exist, because the deputy minister has a legal obligation to create such systems. Am I wrong?

[*English*]

Mr. Kevin Page: You're absolutely right. Under the Financial Administration Act deputy ministers do have responsibilities for moneys flowing out the door, responsibilities for making sure that Treasury Board polices are being followed and that the financial statements are strong, clear, and transparent.

We're aware that electronic versions do exist. We speak to the municipalities on this issue, so we know they're inputting it into the database.

Quite honestly, we're focusing on infrastructure because, again, we are a small team and we think it's a very important part of the stimulus program that will contribute to growth down the road. In addition to the information that we're trying to get now, which is the preliminary information, I think we need to get the progress reports, quarter by quarter as well, electronically, so we can analyze for you the impact that it is having on output and jobs.

● (0940)

Mr. Thomas Mulcair: Another thing that's provided for in the accountability act—section 16.4, if memory serves—is that all procedures and policies of the Treasury Board have to be followed on both ends. So if we're talking about billions of dollars in public spending on infrastructure, the recipients must also respect and be in conformity with a long series of procedures and policies to make sure that they've done everything right.

With the reams of documents you received last week, are you able to make an evaluation and determination of that? How can you do the job we're asking you to do by statute? It's the will of Parliament: the statute creating your office is the will of the Canadian people through Parliament. How can you do that job? Do you have the information to allow you to make a proper determination as to whether or not the recipients are also in conformity with all of those procedures and practices, as they must be?

Mr. Kevin Page: Again, just to back up a little bit, our focus as legislative budget officers is to provide you with our best independent analysis of what the impact may be of that type of spending on output and jobs. We are well aware, because we're all public servants, of what those Financial Administration Act responsibilities are and what kind of information should be made available to both the deputy minister and minister of transport and infrastructure.

But I think the Auditor General would be better placed, in a retrospective sense, to assess whether or not the Treasury Board policies or Financial Administration Act policies in general are being followed. Our focus is to get this information so we can get a sense of how the stimulus is impacting the fragility of the economic recovery. Infrastructure is important there. I think most economists are quite supportive of the fact that we are spending significant amounts of money on infrastructure.

Mr. Thomas Mulcair: I take the point, and it's well made, but at the risk of insisting on this, it's a bit of a chicken-and-egg problem, because we're asking you how much of this stimulus money is actually getting out and if it is producing the effects on the economy. You were given reams of documents which putatively show that all of this money has gone to various municipalities, but if indeed those policies and practices have yet to be met, and if indeed the municipalities, as we suspect, have not necessarily met those yet, these are just announcements.

As *Le Devoir* pointed out on its front page today, at a cost of $7,000 an ad for millions and millions of dollars across Canada, we're boasting about the government's spending, but is it not the case that we can't really know if that money can flow if those criteria have not been met? In other words, it's a condition precedent, a condition *sine qua non*, to any spending that those criteria and procedures and practices be followed. Is it not?

Mr. Kevin Page: It is, sir. We think the design of the infrastructure stimulus program is such that we know one of the criteria is that there will be progress reports to show not only whether money has been committed, but the flow of activities until the final cheques are signed off. We're hopeful that over the next number of months we can continue to look at these progress reports.

We're also hoping—and this speaks to Mr. Laforest's question—that, like the Americans, the government will start showing not only commitments, which are kind of the first stage of engagement, but will also start showing the disbursements, the activities, both on a cash or on an accrual basis, that are impacting on a quarter-to-quarter basis.

We're hopeful, but you're absolutely right: the Financial Administration Act means that level of information is there. We're hopeful that maybe in the fourth quarter report we'll start to see evidence of the disbursements.

The Chair: You have 20 seconds.

[*Translation*]

Mr. Thomas Mulcair: There have been very serious allegations of collusion, namely in the city of Montreal, but also in other cities in Quebec. I understand that on occasion you refer us to the Auditor General or to other agencies like the Competition Bureau. Nevertheless, do you not think that, to shed light on the matter, as billions and billions of dollars are being shovelled out of government coffers, it would be appropriate to have increased vigilance and that all rules, not only those of the federal Parliament but also those related to the Competition Act and so forth, be overseen to ensure there is no collusion and that no one is trying to come up with a way to spend too much on municipal infrastructure projects?

[*English*]

The Chair: Very briefly, please, Mr. Page.

Mr. Kevin Page: We think there is a risk that we could lapse significant amounts of moneys this year, and we would assume that the government would roll that money forward into the next year. If we roll all that money forward, we think you could see some inflationary types of pressures in certain industries, such as the engineering industry and the construction industry, so we have expressed concern that in the context of this risk, the government may wish to explore the timelines for the program, that two-year timeframe for the infrastructure stimulus program.

● (0945)

The Chair: Thank you.

We'll go to Mr. McKay, please.

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

Thanks to you, Mr. Page, and to your staff.

First of all, I wanted to thank you for your work over the past number of months in very difficult circumstances. We ask a lot of you, and you don't always get the cooperation you should.

I want to focus on fiscal outlook. I'm particularly concerned about the run-up of the accumulated deficit. Even between July and now, the accumulated deficit has gone up by $12 billion. My recollection of these kinds of things is that the farther out you get, the less accurate you become. Generally speaking, projections are pretty solid for a year or two, but after that it starts to run off.

In your projection of the $167 billion over the next five years, I would be concerned that you might actually be low on that number. I'd be interested in your observations.

Mr. Kevin Page: The projection of the accumulation of debt of $167 billion over this year and the next four years is based on an average private sector forecast. As for all those economic assumptions, we survey about 12 economic forecasters, we provide an average forecast, and we also do our own independent fiscal forecast.

We've said that we think the short-term and medium-term economic risks, and the fiscal risks as well, are on the downside, based on our sense of the uncertainty and risk out there, which we've enumerated in our documents. So in that sense, we would agree with you, sir, that the risks are on the downside. It would be....

Hon. John McKay: Yes. The range as you get out gets further and further. Thank you for that.

I'm also concerned about these chronic deficits of $19 billion on an annual basis. It seems to me that when we were running surpluses, there was much joy in the streets when we would get to a $10 billion surplus. Now we're told that a $20 billion chronic deficit is well within our capacity, it fits within our range of GDP, and besides, we're doing way better than other countries.

I'd be interested in whether you see these chronic deficits as really simply not so much a function of the stimulus and the downturn in the economy, but also a function of policy decisions made by this government in its last two or three years.

Mr. Kevin Page: In our calculations of the structural balance, we say that we thought the federal balances were roughly in balance in 2007-08. As you say, sir, that rises slowly to about $20 billion in 2013-14, or about 1% of GDP.

Our view is that the stimulus in that context is temporary, not structural. For the most part, the $47 billion stimulus for 2009-10 and 2010-11 will end at the end of March 2011, so it's not going to contribute to the structural problem.

However, we are deficit financing the stimulus package, so part of the increase you see in the structural balance going forward is an increase in debt charges, which we'll see going from a little over $30 billion in the current year to closer to $40 billion in 2013-14.

Hon. John McKay: Apparently it's all right to pass on that debt and deficit to future generations when just a few months ago it wasn't all right.

I note that if in fact the GST, for instance, had been left where it was when this government came in place, we wouldn't be running a deficit in 2008-09 and we wouldn't be running a deficit in 2013-14. Essentially you would have cut off both ends of this deficit thing.

On the revenue side, there are policy decisions taken by this government that have exaggerated the difficulties in which we find ourselves. What's even more disturbing is that on page 5 of your report you say:

> It is important to note, however, that the [direct program spending] component of PBO's fiscal projections is based entirely on Finance Canada's forecast. Ideally, PBO would produce an independent projection of departmental expenditures.

So on the revenue side of the equation, you've made your own independent judgment. On the expenditure side of the equation, you're pretty well stuck, on direct program spending, with whatever it is the government tells you.

● (0950)

Mr. Kevin Page: It's in that context that we asked the Secretary of the Treasury Board for information on departmental reference levels for the current year and going out for the next four years.

We are quite aware that there is a risk we may not see the kind of low spending growth that's inherent in the government's projections right now. You can see direct program spending growing at about 2% in the last two years of the projection period. We've never seen numbers like that. Even in the last four years of the five-year projection you have direct program spending growth at roughly 4%, which is very low.

We've gone through all the major components of spending and we compared growth rates in those projections vis-à-vis the past 5, 10, 15, and 20 years, so we're quite aware that achieving that spending growth target will be difficult.

The Chair: Thank you.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chair. I will be splitting my time with Mr. Roy.

I would like to quickly get back to the issue of your budget, Mr. Page. It would seem to me that members of the Standing Joint Committee on the Library of Parliament, who are responsible for your mandate and your budget, had unanimously voted in favour of having it raised. I would like to know whether, according to you, the Speaker of the Senate, the Speaker of the House of Commons or the Parliamentary Librarian may be holding up your budget increase.

Mr. Kevin Page: The Speakers of the Senate and of the House of Commons are responsible for the management and oversight of the Library of Parliament. However, as I said, I am still waiting to see whether our budget will be the same as what we expected. That would mean a budget of $2.8 million. I am waiting for that information.

Mr. Jean-Yves Laforest: Thank you.

Mr. Roy, go ahead.

Mr. Jean-Yves Roy (Haute-Gaspésie—La Mitis—Matane—Matapédia, BQ): Thank you, Mr. Laforest.

You refer to future estimates. You refer to government revenue estimates and to the aging population, which could have a major impact on future government revenues.

You said that 395,000 jobs have been lost over the last two years. These were very well-paying jobs in the manufacturing sector. At this point, the majority of jobs created in Canada pay far less than those of the manufacturing sector, and they are often part-time positions. So, the tax rate and government revenues would certainly be less than they would be had the 395,000 well-paid jobs in the manufacturing sector been kept. Indeed, those people would be paying higher taxes.

Today, we are seeing—and economists are telling us so—that the jobs that are being created do not pay as well. It seems as though we would have to live with an increase in these types of jobs and a continued drop in well-paying manufacturing sector jobs.

Are you able to tell us whether government revenues over the next few years, based on personal income tax rates, will increase or whether, on the contrary, they will continue to drop? In my opinion, the more well-paid jobs lost, the less taxes collected, that is obvious. If you replace 395,000 jobs or one million well-paid jobs by one million jobs at a lower tax rate, it makes a huge difference to revenue.

Mr. Kevin Page: I thank you for your question. Clearly, the recession has a major effect on the manufacturing sector in terms of production as well as job numbers.

[*English*]

There has been a lot of research done, not only in Canada but in other countries, on when you have these difficult recessions. I think it's fair to say that at least on a world basis this is the most difficult recession we've had since the Great Depression. It has had a hard impact on Canadians, unfortunately, and particularly in this recession on our manufacturing sector, where you see jobs down by almost 10%.

That has an impact when you have capacity utilization rates in the industrial sector that are less than 70%. You're not working anywhere near capacity for a period of time. That's one of the reasons why our output gap is so deep. It will take a number of years—until 2013—for it to come back. Because it will take time.

In terms of bringing back those jobs and the quality of jobs, that will be a struggle. Even in most projections of the economists, you will not see the unemployment rate come down to a structural level of 6% to 6.5% beyond the medium term. That is not necessarily very abnormal for recessionary experiences.

We are looking at premium rate increases under the employment insurance program. In our assumptions, as noted in our study, we assume that after the first two years there will be increases of 15¢ for each year, so we're really talking about a 60¢ increase out to 2014. That will amount to roughly $700 per job, which is significant. That is simply the way the legislation has been written right now, but it is something to be mindful of as well.

● (0955)

The Chair: *Vous avez trente secondes, monsieur Roy.*

[*Translation*]

Mr. Jean-Yves Roy: Thirty seconds is not enough.

[*English*]

The Chair: *Merci, monsieur Roy.*

We'll go to Mr. Wallace, please.

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

Thank you, Mr. Page, for being here today.

Mr. Khan, it's nice to see you again. You've been in my office lately.

Before I get to your report, I have a question regarding Bill C-288, which is a private member's bill that has been sent to this committee. I've asked your office to do a review of its financial issues. I'd like to know how much it's going to cost us if it's implemented. And what type of timeframe do you need to get that work done? I know we've talked about that.

Mr. Sahir Khan (Assistant Parliamentary Budget Officer, Expenditure and Revenue Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): Thanks, Mr. Wallace.

Since we received the request in September we've been working pretty diligently on this and working with a number of the members of this committee to get at the details underlying a number of figures. We received a message from the Department of Finance two days ago indicating that they are preparing a response to provide the assumptions underlying the department's costing.

Once we receive that and have an opportunity to go through it, they've offered to have further discussions. If those go relatively quickly—and there will be a review process, of course—we're really trying to get it done before the end of November, which is the timeframe that you and others have indicated would be most useful to the committee. We are doing our best to meet that timeframe. It is really dependent upon when we get the information.

Mr. Mike Wallace: The reason I ask is that there is a steering committee meeting, and I think we should ask for an extension on that bill's timeframe so that we can get the information as a group and discuss it properly. That's all I wanted to know about it.

Just out of curiosity, I note that you seemed to be able to turn around information for our Liberal friends on unemployment programs quite quickly this summer, and it's taking a few months for this. What's the difference? Why were you able to do it quickly for the Liberals, but not for us?

Mr. Kevin Page: Well, sir, we don't look at it in a partisan way like that. If you look at the availability of information, we had amazing help from the chief statistician at Statistics Canada to get us the kind of EI information we needed. Fortunately, the database underneath that program is quite substantial on the labour market with the surveys that are done and shared with Statistics Canada, so that was a big difference. We got information very quickly.

Mr. Mike Wallace: Thank you very much.

Would you say, Mr. Page, that our paying down of $37 billion worth of debt over the last number of years helped Canada, going into the recession, to be in a better position than, say, our neighbours south of the border?

Mr. Kevin Page: Sir, I think the work done by this government and the previous government in terms of bringing down debt made an enormous difference in strengthening our balance sheets and has brought a lot of resilience to our economy.

Mr. Mike Wallace: I have a question for you on your report, which I appreciate. On page 3, you say that "the level of nominal GDP based on the September PBO survey is very much in line" with Canada's finance department.

So in actual fact, if I look at chart 1-3, based on your survey.... Your survey is not your own model. You're surveying 12 private sector folks, I think you said, the same group that the finance department is likely surveying, or close to it. Our GDP growth outlook numbers are actually better than what you estimated in the July report. Is that correct? Am I reading that right?

Mr. Kevin Page: If you look at what we're saying, in our survey that we conducted in late September and early October, the nominal GDP over the five years is effectively the same from the survey we conducted in July.

In terms of modest differences in our forecast, maybe Chris will provide the comparisons between the PBO projections, based on the latest survey, with the ones that Minister Flaherty released in his fiscal update in September.

Mr. Chris Matier (Senior Advisor, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): Relative to our June outlook, there is a slight improvement in the near term. That's for real GDP growth in 2009 and 2010.

● (1000)

Mr. Mike Wallace: Right, but you're saying that this is right in line with the results of Finance Canada?

Mr. Chris Matier: Yes, for their August survey, as well as for the level of nominal GDP, which matters the most for—

Mr. Mike Wallace: Quickly, because I only have 10 seconds, on table 1 for unemployment outlook, the outlook is actually improving, is it not, based on what I'm seeing there? Also, on your survey, the unemployment outlook is actually improving.

Mr. Chris Matier: Yes. That's correct.

Mr. Mike Wallace: Over what you had surveyed in June?

Mr. Chris Matier: Yes, in June.

Mr. Mike Wallace: Thank you very much.

The Chair: Mr. Page.

Mr. Kevin Page: Just as a clarification, Mr. Wallace, we projected in June an unemployment rate.... Well, based on our average private sector survey for 2009, we projected 8.7% in June, and in 2010, 9.4%. We're now saying 8.4% based on our September survey, rising to 8.9%, so we're still seeing an upward increase in the unemployment—

Mr. Mike Wallace: That's down from 9.4% though, sir.

Mr. Kevin Page: Yes, it's down from 9.4%, sir.

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace.

We'll go to Mr. Pacetti, please.

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

There are a couple of issues here, but I guess I'll try to hit them with one shot.

Your department is lacking in resources and the government is not providing you with information, so what are we doing here? You're still able to generate reports, so what is the problem?

Let's address it from the side of resourcing. Where is the problem with the resourcing?Where does it come from? We've been hearing that it's from the Library of Parliament and we've been hearing that it's the government that's holding it back. Can we get a firm answer as to what the problem is so we can rectify it?

Mr. Kevin Page: Well, sir, I'd very much like to get a firm answer myself.

But again, in terms of our situation, we're part of the Library of Parliament. Our budget, we were told, for the first year was to be $1.8 million, rising to $2.8 million in the second year. The library is under the administration of the Speakers of the House and the Senate. The librarian is responsible for the administration of the library. The mandate certainly belongs to the PBO, so we're waiting for that signal from the Speakers.

Mr. Massimo Pacetti: So the latest discussions you've had with the Library of Parliament.... Because my understanding is that there's been a report and they've consented to the fact that they should be releasing the full $2.8 million, shouldn't that be the latest action that should be implemented?

Mr. Kevin Page: You're right, sir. The Standing Joint Committee on the Library of Parliament prepared a report that had 10 recommendations. I received that report at the end of June and developed a detailed action plan that I provided to parliamentarians, to a number of you as well, and to the committee as well, at the end of September.

We know that the supplementary estimates (B) are coming forward and hopefully there will be a supplementary estimates (C). We're hoping to get a signal very soon that our additional resources will be included in those supplementary estimates.

Mr. Massimo Pacetti: So you're hoping to see it within the next two to three weeks.

Mr. Kevin Page: We are hoping, sir, but we haven't been given that signal.

Mr. Massimo Pacetti: Because if you don't get the money, your staff has to know whether they're going to stay or not. These are long-term commitments. You cannot expect your staff to hang on and wait hopefully. There needs to be a commitment made by your department to maintain your staff. Am I correct or not?

Mr. Kevin Page: Yes, and, sir, we're saying that these staff members are actually critical to the projections and costing we're talking about, and they're on secondment. As I've said to a few other members—and I don't mind saying it here, sir—we need a critical mass to do our work. If we don't have that critical mass, it's my recommendation as the Parliamentary Budget Officer that the office be shut down, because you need a minimum amount of resources to do the work.

Mr. Massimo Pacetti: Do you have any money to even give out contracts for independent forecasting and items like that?

Mr. Kevin Page: At this point in time, we do not have money to do that, sir.

Mr. Massimo Pacetti: Okay.

On the other side, in terms of getting information, it's not possible that.... You're telling me that you've received 4,000 to 6,000 pages of handwritten material. You cannot tell me that there is no electronic version of that material that you received. It's done in electronic format, is it not?

Mr. Kevin Page: Sir, we know there is an electronic format. We're trying to get the electronic format. We've also—

Mr. Massimo Pacetti: So what is...? How is that possible in this day and age? There has to be somebody hiding something. There's somebody who's responsible in that department for not providing you the information. So again, under the responsibilities act, should we call forward the deputy minister or minister? Again, what is your advice on getting that information?

Mr. Kevin Page: I was on the phone with the deputy minister this morning asking for that information in electronic form. If we don't get it in electronic form, we've also been working the last couple of days to see if we can machine-read that information from paper.

Mr. Massimo Pacetti: But why do you have to machine-read it? All you have to do is get the electronic version of that information.

Mr. Kevin Page: I agree. We're hoping that we will get it, sir.

Mr. Massimo Pacetti: But why do you have to negotiate?

● (1005)

Mr. Kevin Page: I don't—

Mr. Massimo Pacetti: Why do you need to have discussions? We are here to help you, so help me to help you. Tell me what you need, because this can't go on. This is not acceptable. You cannot, in this day and age, receive 4,000 to 6,000 pages in boxes. I don't even know what you received. I'm hearing different reports from different people. You have to tell me.

Mr. Kevin Page: Well, I think that whatever this committee could do in terms of strengthening or allowing me to get that information, increasing my chances of getting it, would be much appreciated. But yes, I think—

Mr. Massimo Pacetti: Is it your feeling that there's something to hide there?

Mr. Kevin Page: Well, sir, we don't.... I mean—

Mr. Massimo Pacetti: This is your money just like it's my money. It's our money.

Mr. Kevin Page: Yes, and if we have to incur additional costs in order to machine-read that information, it is the taxpayers' money as well.

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

The Chair: Thank you, Mr. Pacetti.

We'll go to Mr. Kramp, please.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair.

Good morning, all.

The reality, of course, is that we don't live in isolation on this globe. You would be only too familiar with the economic and fiscal relationship with our trading partner to the south. Quite frankly, if they don't have a sustained recovery to some extent in the U.S., it presents challenging times for us.

I'm just wondering what observations you might have with regard to some of the key information that obviously is available to you to assess their circumstances? Can you give me an idea of your long-term prognosis for the American economy?

Mr. Askari, you would probably be dealing with that.

Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): Well, sir, we don't study the American economy in detail, but obviously in doing our own forecast there are assumptions made. The general view of the U.S. economy is that the recovery is going to start in the second half and is going to continue in 2010. Based on IMF projections, they have an output gap that is very similar to the one we have right now in Canada, and there is an expectation that our output gap is not going to be closed until 2014.

Mr. Daryl Kramp: Obviously you don't have it in your mandate, and you don't even have resources to research their circumstances, but it is crucial because it impacts so dramatically on us. Although you might not research it, what measures would you use to monitor what they have and what's going on there?

Mr. Mostafa Askari: In doing our forecast, as we mentioned earlier, we use a private sector survey forecast. Those numbers from the private sector reflect an assumption for the U.S. economy.

Also, the model we use to calibrate those forecasts, to do further work, and to do our fiscal projection has an underlying assumption for the U.S. forecast. To do our own work, we rely on that private sector forecast for the U.S. economy.

Mr. Daryl Kramp: Okay.

Well, obviously we all recognize as well the crucial importance of stimulus around the world. It is globally accepted as absolutely necessary and meaningful. Do you have any assessment at all about the effectiveness of the U.S. stimulus? Do you have any indications or data on that? Because it does relate directly to our manufacturing and export capacity.

Mr. Kevin Page: Sir, just to follow up on our tracking of the U.S. situation, Mostafa is absolutely right. Our private sector surveys implicitly have an outlook built in for the U.S., but in addition to that, there's a lot of information available in terms of projections going forward and risks. They have a 50 blue chip sector forecast, and it's very easy to monitor the range of forecasting and some of the uncertainty around that.

As for the stimulus package in the U.S. and their deficit situation, again, they're talking about a problem that is much more severe than ours. We're talking about a deficit in Canada today, sir, at the federal level, of about 3.6 percentage points of GDP. Again, this is smaller than we experienced in Canada in the early nineties and early eighties. We're talking about something three times larger in the United States. As a result, debt there will build up at a much faster rate. There is also a significant structural problem in the U.S.

They have a stimulus package of about $800 billion in the United States, which has an economy of roughly $15 trillion. There again, through their monitoring as well, we do track that. We looked at benchmarks for reporting. We could see how much money is going out the door there. Their last quarterly report stated that roughly $150 billion of that close to $800 billion has gone out the door so far. So a lot of that stimulus still hasn't really had an impact.

GDP in the United States grew at 3.5% in the third quarter, at an annual rate. This is probably higher than what a lot of private sector forecasts are assuming for Canada in our third quarter. We're probably looking at something that is more in the 1% range, even with those low basic price data that we've recently received.

The U.S. actually shrank at a slower pace that we did in the second quarter, so we're looking at all kinds of stimulus measures with whatever data is available in order to look at relative performance in the second and third quarters, and potentially the fourth quarter as well.

● (1010)

Mr. Daryl Kramp: Right.

Now, on serviceability, obviously the world is concerned with the U.S. debt, but comparing our debt and/or GDP ratio to debt, and the debt-to-equity or debt-to-GDP ratios around the world among G-7 countries—

The Chair: Your question, please.

Mr. Daryl Kramp: —where would Canada be relative to the U.S. and the rest of the G-7?

Mr. Kevin Page: Sir, thanks to the progress we've made since the mid-1990s and in recent years, our deficit and our debt-to-GDP relative to the economy is far superior to others'. I think we have benefited by that. As a result, we were able to put forward a stimulus package that was substantive, to support the Canadian economy and the weak output gap.

The Chair: Thank you, Mr. Kramp.

We'll go to Mr. McCallum, please.

Hon. John McCallum: Thank you.

Concerning third-quarter GDP, my understanding is that in the first two months of the quarter, monthly GDP growth was zero, then -0.1%. That doesn't sound very good. I know that the quarterly numbers are not exactly comparable to the monthly ones, but do those two numbers lead us to think that maybe the growth rate in the third quarter will be negative? Or are you confident that it will be positive?

Mr. Kevin Page: We've spent a lot of time today talking about uncertainty and risk and whether we're confident about any of these numbers. For the third quarter, when we see the quarterly numbers come out, we think you could quite easily get a number around 1% growth.

We've been fooled a little bit by looking at the monthly basic price industry output data on a month-to-month basis in the past, but we think that in the third quarter you'll see, because of the information we've seen on retail sales, relatively strong growth in retail sales, and in consumption we'll see some bounce-back.

We'll see continued strength in the government sector. We'll probably see a little bit of bounce in the investment sector. Even in trade, where we've had eight consecutive quarters of declining real net exports, we'll probably see the first boost in exports in the third quarter. It will be a small boost. What will weigh down the growth numbers there will probably be imports.

So we think 1% is possible for the third quarter.

Hon. John McCallum: Thank you.

Just to expand a little bit on your conversation with Mr. Mulcair, can you explain.... This is information that should be available but is not available to you, and this is, I believe, the quarterly reporting that municipalities are required to do. Are they required to indicate jobs and things of that nature?

Mr. Sahir Khan: Sir, from our discussions with jurisdictions both provincial and municipal, we understand that there is some fairly detailed progress reporting, and specifically on implementation progress of the various initiatives they're undertaking. From what we've seen, we're not sure whether jobs is a specific indicator, but certainly other attributes associated with progress are detailed in these reports—or at least they're designed to be inputted and received by the government, so that would be our expectation.

Hon. John McCallum: So these are reports that the municipalities receiving money are required to submit quarterly. Is that right?

Mr. Sahir Khan: Yes, sir. The program has its own guidelines and there are reporting requirements from the recipients back to the government, so the government would be collecting this type of information. Our presumption, then, is that there's an availability of information on the quarterly progress of this program.

Hon. John McCallum: Do we know in what months the government would have received such reports already?

Mr. Sahir Khan: Well, sir, we know at least that there was an input period in June and we have specifically asked for the quarterly report. We have not yet received it.

Hon. John McCallum: So we know that such information exists and is in the hands of the government, detailing the degree to which progress has been made on various projects, which is precisely the information we've been looking for over many months. We know that exists, but we know that the government simply does not agree to give it to you. Is that right?

Mr. Sahir Khan: It's our presumption that it exists and has been reported back. Our understanding is that it's part of the program guidelines. But we have not yet received it.

Hon. John McCallum: Okay. Thank you very much.

The Chair: You have one minute, if you want it.

Hon. John McCallum: I'll end on that note. Thank you.

The Chair: Thank you, Mr. McCallum.

I'm going to take the next round as the chair.

First of all, Mr. Page, I want to thank you for all your work for this committee, and especially, as we're doing our pre-budget consultations, your work on the fiscal situation as we move forward. It's a very sobering outlook in terms of projected deficits, but it is, I think, a very good background for us as committee members as we deliberate over the recommendations we have been given.

As you might suspect, we've been given very few recommendations on how to reduce spending, but quite a few in terms of increasing spending, so it will make our decisions much more difficult.

I do, though, want to address your point on the output gap. You make a statement that "the level of real output compared to its potential indicates that the depth of the weakness in the Canadian economy is more severe than [in] the recession of the 1990s and similar to the recession experienced in the early 1980s".

Could you expand on that? My recollection in terms of the unemployment rate and interest rates is that the perception is that the recession experience of the 1980s was much harder on the Canadian economy and on Canadian individuals and families. So could you expand in terms of comparing those two recessionary periods? Also, if you wanted to give more background on the output gap, I'd appreciate that.

● (1015)

Mr. Kevin Page: Maybe we should start with a little explanation of what's behind our output gap. Then we'll do a comparison of labour market and other indicators.

Do you want to start, Chris?

Mr. Chris Matier: In this report, what we've done is produce our own independent estimate of potential output. In previous reports, we relied on estimates from the Department of Finance over history and on going-forward estimates from the Bank of Canada and private sector forecasters. This time around, it's a fully independent estimate.

Potential output really reflects the output that would be produced if all the inputs in the economy were fully utilized. The unemployment rate would be at its trend level. Productivity would be at its trend level. It's a very useful metric for comparing previous recessions, as opposed to just comparing what the unemployment rate was in 1980 versus what it is now.

When you compare the past recessions in terms of the unemployment rate gap, you find that this recession is actually quite similar to those previous downturns. What's changed is—

The Chair: It's similar to 1980, but not to 1990.

Mr. Chris Matier: They're not that much different in terms of the gap between what we observed to be the actual unemployment rate and where we think it should be or where it is close to its structural estimate. What has happened through time is that these trends have moved. When trends typically move, it's somewhat misleading to compare levels across time.

The Chair: In terms of potential output, based on analyzing the output gap, are there policy measures? Are there things parliamentarians should be looking at in terms of fulfilling that potential output? We can look at indicators such as unemployment, but in terms of reducing unemployment or taking action so we've fulfilled that potential, are there areas this committee and other parliamentarians should be examining?

Mr. Kevin Page: Sir, we think it's our role to provide the economic and fiscal context. How big is that output? How weak is output in Canada? What is the unemployment rate gap relative to some measure of full employment?

We're quite comfortable in terms of analyzing stimulus spending in terms of the stimulus we've seen go out the door at the Canadian level, at the 2% level, and IMF practices.... We looked at various principles—timing, temporary, and the targeted nature—and we think that for most part the package we produced for stimulus in Canada is consistent with those three principles.

In the context of an output gap, what is significant is 5% in the third quarter and, again, not closing until 2013. Would there be measures you want to be mindful of? In the context of the unemployment rate, right now it is at 8.4%, and the gap is closing very slowly. Even in 2013-14, it still will be upwards of 6.5% to 7%. Are there measures? What do they look like?

These issues have already been raised here today, such as what the potential impact could be. Increasing EI premium rates is an example. The total cost to employers and employees would be upwards of $700.

In the context of trying to stimulate, to grow the economy faster, and to close the gap faster, what are the appropriate policies? We're more in a position.... If you put questions to us and ask us if we can analyze them in the context of this output gap, we'd be more comfortable doing that than recommending specific measures.

● (1020)

The Chair: So if we asked whether you could analyze if the stimulus should be carried forward or not, you could analyze whether that would reduce that output gap.

Mr. Kevin Page: Well, we can certainly if we get.... I mean, we've talked here today about stimulus and with the money going out there whether money will flow in 2009 and whether some of that will roll forward in 2010. We're quite comfortable in terms of looking at that type of information and what it would mean for the output gap and for the fiscal balance.

But yes, it would be in the context of your request.

The Chair: Okay. Thank you very much.

We'll now go to Mr. Mulcair, please.

[*Translation*]

Mr. Thomas Mulcair: Thank you very much, Mr. Chair.

I would like to give Mr. Page an opportunity to repeat what he stated earlier on in French, in other words, unless his office receives the amounts unanimously allocated by the Senate and the House of Commons, he might as well close it down, quite simply. I'd like to start by asking him to repeat that in French. Then, I'd like to know whether he believes it is intentional, whether that is what some people would like to see happen.

Mr. Kevin Page: Mr. Mulcair, as I said in English, it is absolutely necessary to have a critical mass to be able to prepare economic analyses, study the financial situation and analyze costs, such as those related to Afghanistan, and review expenditures. You need an experienced team to prepare estimates and cost methodology. In my opinion, I have put together a good team, a strong team. If it is impossible to maintain this team—as I said, there are a number of us on assignment at this point—I believe it would be preferable to close our office rather than continue to pretend we can properly oversee the budget.

Mr. Thomas Mulcair: As you know, in life—and politics are part of life—it is always a little risky to impute motives, especially when those motives may be disgraceful. We have always felt that your office greatly disturbed the Conservative government, which tends to control everything up to the very words uttered by ministers. We saw the long arm of the Prime Minister's Office as a source of the difficulties you experienced last spring.

When I saw John Baird's obvious contempt in handing you a metre-high pile of documents, saying that you had asked for the information and that you should manage, I understood that our worst fear was beginning to come true. So, on behalf of the NDP, I am asking you to stand firm. We will do everything in our power so that the will of Parliament, expressed both ways, be upheld. First of all, there is the Accountability Act, which indeed created the position you hold to ensure that all Canadians could have access to valuable information on the budget. A testament to that is the fact that your estimates have proven to be more accurate than those of the finance minister, who, as usual, tries to feed us a line.

Then, there is the other side to the will of Parliament, unanimously expressed by the Standing Joint Committee of the Senate and of the House of Commons, which determined that you were to have the right to oversee the budget. As an elective representative, I find it intolerable that someone who is unelected, like the Parliamentary Librarian, and who is obviously in cahoots with those who are responsible for everything that has been going on for the past six months, should thwart the legally expressed will of elected representatives. To my mind, this situation cannot last.

You have our full support, and I speak not only to those who are here with you to testify today, but I know there are several other individuals in your office who do painstaking work and who are constantly finding obstacles in their way. I want to commend you on your patience and on everything you have done to help us.

Mr. Kevin Page: Thank you.

Do you have a question?

I simply want to say that I do not want to impute motives to anyone.

Mr. Thomas Mulcair: I have done it for you. There is no problem, Mr. Page.

The Chair: Thank you, Mr. Mulcair.

[*English*]

We'll go to Mr. McKay for a final round.

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

I want to go back to this overall picture you're painting here. The revenue projections are in keeping with everybody else's. You're basically stuck with that. Your debt projections are going to be whatever they are. The minister has already said he's not going to touch transfers. Therefore, the only way in which you'd come back from chronic deficits is if you get serious about your program spending.

You're stuck with what the Department of Finance says. They stick a cabinet label on it, saying that this is all secret and nobody can see it, so you're ending up having to look at it, and then you criticize their fantasy projections with respect to sale of assets. Then you rightly comment that their projections with gross spending averaging less than 4% are problematic, given their history.

My question is this. In the context of effectively being stonewalled on expenditures, and in the context of skepticism with respect to the minister's statement that they're going to restrain program spending to around 3%, are you therefore confident that the chronic deficit of $19 billion a year going forward is in fact accurate, or may we actually be looking at something rather more dramatic than that?

● (1025)

Mr. Kevin Page: Sir, with respect to the context of your point, particularly with respect to direct program spending, as we've said, it would be relatively optimistic, relative to the historical experience, to achieve growth rates for program spending, particularly direct program spending like that of the last few years, as low as 2% per year.

Because again, in that component you're looking at a large compensation component of the federal government. Potentially there's not a lot of downward movement in that. As well, there's a lot of program spending for non-transfer-related programs. Our structural estimate at roughly $19 billion in 2013-14, would be.... We think if there's risk around that number, there would be a risk that the number would be higher.

Hon. John McKay: Yes, I tend to agree with that.

I want to give my friend here a bit of time, but if you're running your program spending at 7% to 8% increases on an annual basis, it seems somewhat less than credible to think that somehow or another you're going to rein it in at around 3% or 4%. I agree with your observations.

Mr. Pacetti.

[*Translation*]

Mr. Massimo Pacetti: Thank you.

We have talked about jobs and job losses. We also talked about money invested by the government in infrastructure projects. I know that you have a limited amount of information. According to the government's analyses, the government plans to create 220,000 jobs with the funds invested, if I am not mistaken. Based on your assessment, it seems that no jobs will be created. What is your opinion on this matter?

Mr. Kevin Page: In the third quarterly report, the government said that it would be possible to create and maintain 220,000 jobs. In my opinion, based on our projections and the analysis model that we use, it seems that that is an optimistic assessment,

[*English*]

or the upper end of the range. I think it's important in the context that as we get information on different parts of the stimulus package, we develop information from the bottom up, so that we can test some of those top-down kinds of projections. We're not saying it's not possible to generate 220,000, to create or maintain that number of jobs, but we think it's important that we track the money and that we look at information that municipalities are sending.

Mr. Massimo Pacetti: But on the fact that it's going to be a jobless recovery, we also discussed this with the Governor of the Bank of Canada last week. We're a little bit preoccupied with what's going to happen in the future. You talked about the higher Canadian dollar and the risks that all those attributes will bring to Canada.

In the end, it's all about jobs and making sure that people are working. You talked about lost output and I think the lost output is right there. I don't think we've spent enough time on the lack of jobs and what the stimulus money is actually creating. I think we should probably devote more time to that. I think that's something that's not necessarily highlighted in your report. There should be a large focus on that.

Mr. Kevin Page: Well, sir, in our report we do say that overall when you look at employment, we've seen some stability in the situation since March. We still continue to see private sector job losses, but that's been offset, in some part, by public sector job increases and increases in self-employment.

Mr. Massimo Pacetti: But is that good for the economy?

Mr. Kevin Page: I think we'd be happy if we saw a better balance there and had stronger private sector growth. I think implicit in the private sector forecast as well—you used the term joblessness—are some modest increases in employment over this year, but basically being offset by labour force growth and somewhat higher unemployment.... You'll still see the unemployment rate drift modestly upwards.

Mr. Massimo Pacetti: Is that in your figure 1-1, where you're talking about employment and the unemployment rate?

Mr. Kevin Page: Yes, sir. Figure 1-1 is consistent with that.

● (1030)

The Chair: Thank you, Mr. Pacetti.

Thank you, Mr. Page. We want to thank you and your team for being with us today and for your opening statement, your responses to our questions, and your ongoing reports. We appreciate that.

I understand you have a meeting with the Senate committee very shortly, so thank you very much.

We'll adjourn and then start another meeting at 10:30.

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