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Chair

Mr. James Rajotte

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● (0845)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. Pursuant to Standing Order 108(2), we are studying our government's economic update and fiscal projections.

We have two panels today of an hour and a half each. At our first panel we're honoured to have the Parliamentary Budget Officer, Mr. Kevin Page.

Mr. Page, I understand you have an opening statement for the committee, and I would ask you to introduce your colleagues at the table. You can begin any time.

Welcome, and thank you for being here.

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

With me is Dr. Mostafa Askari. He heads up our economic and fiscal analysis group. As well there is Chris Matier, a senior economist in that group. Jeff Danforth is another senior economist who helps us with economic and fiscal projections, and finally there is Sahir Khan, who is our assistant parliamentary budget officer for revenue and expenditure analysis.

[*Translation*]

Good morning, Mr. Chair, vice-chairs, and members of the committee. Thank you for inviting me and my colleagues to speak to you about Canada’s economic and fiscal outlook.

[*English*]

Good morning, Mr. Chair, vice-chairs, and members of the committee. Thank you for inviting me and my colleagues to speak to you about Canada's economic and fiscal outlook.

I will make some brief remarks about the Parliamentary Budget Office's updated fiscal projections and highlight issues for consideration in the context of the upcoming 2011 budget. A handout with charts and tables is provided to accompany my remarks.

The PBO's updated fiscal projections are based on the economic outlook from Finance Canada's December 2010 survey of private sector forecasters. On a status quo basis, the fiscal outlook is essentially unchanged from the projections provided to this committee last fall. The federal deficit is projected to fall from $56 billion, or 3.6% of GDP, in 2009-10, to $39.8 billion, or 2.5% of GDP, in 2010-11, to roughly $10 billion, or 0.5% of GDP, in 2015-16.

The federal debt is projected to rise from $519 billion, or 34% of GDP, in 2009-10, to $652 billion, or 31.9% of GDP, in 2015-16.

[*Translation*]

Before continuing, I would like to clarify some issues regarding the forecasting processes used by Finance Canada and PBO. First, both organizations construct their fiscal projections using the average of the private sector economic forecasts compiled by Finance Canada. From this stage of the process onward, both PBO and Finance Canada use their own assumptions to translate the private sector economic forecasts into fiscal projections. I want to be clear—the private sector economists with whom the Minister of Finance consults do not prepare the fiscal projections presented in the government's budgets or updates. Both organizations produce their own budgetary projections and should be willing to provide, and defend, the assumptions used.

Based on Finance Canada's recent survey, forecasters expect the Canadian economy to grow faster than PBO's estimate of its potential growth, allowing the output gap to close by the end of 2016. The unemployment rate is projected to decline to 6.6% by 2015, inflation is projected to remain stable, and short- and long-term interest rates are projected to rise only gradually over the medium term but remain low by historical standards. PBO views this medium-term economic outlook as relatively favourable given the elevated level of economic uncertainty.

PBO has identified four key downside risks to the private sector economic outlook. First, global growth, particularly in the U.S., could be slower than anticipated. Second, the recent appreciation of the Canadian dollar could restrain the recovery in exports. Third, sovereign debt concerns could restrain the recovery in Europe and put upward pressure on global interest rates and finally, domestically, the high level of household debt represents a further risk to domestic demand.

Thus, on a status-quo basis, and given the risks and uncertainty surrounding the private sector economic outlook, PBO estimates that the likelihood that the budget will be in a balance or surplus position over the period 2010-11 to 2013-14 is effectively nil; and, there is only a 16% chance that the budget will be in surplus in 2015-16. These estimates reflect the historical forecasting performance of private sector economists and Finance Canada's fiscal sensitivities.

● (0850)

[*English*]

The PBO projects that the reduction in the budgetary deficit over the medium term largely reflects a cyclical improvement, with the economy reaching its potential by the end of 2016. That being said, a budgetary deficit remains. This means that a structural deficit exists, which the PBO estimates to be about $10 billion, 0.5% of GDP, in 2015-16. As a consequence, policy actions would be required to achieve a balanced budget.

While the PBO's estimate of the government's structural deficit is small on a historical basis, and likely significantly lower than other central governments, any structural deficit is a potential concern, given the demographic transition that is under way.

I would now like to highlight two key issues for your consideration in the context of the upcoming 2011 budget deliberations.

The first one is that Canada's major fiscal challenge is long term, not short term.

Canada's serious fiscal challenge is underscored by aging demographics and weak productivity growth. Our population is getting older. In 1971 there were 7.8 people at working age for every person over 65, which fell to 5.1 in 2008. And it is projected to be 3.8 in 2019 and 2.5 in 2033. Growth in labour supply will fall dramatically due to slower population growth and the retirement of the baby boom generation.

Productivity growth is trending down: 2.6% average growth from 1962 to 1976, 1.2% since 1976, and about 0.8% since 2000.

The bottom line is that Canada does not have a fiscally sustainable structure. There is a fiscal gap. This means that sustained fiscal actions are required to avoid excessive debt-to-GDP accumulation. Based on the PBO's 2010 report, assuming that the Canada health transfer grows in line with projected provincial-territorial health spending beyond 2013-14, which is projected to be approximately 4.2% per year on average, the fiscal gap is about 1% of GDP, or $20 billion in 2016.

Alternatively, if the Canada health transfer continues to grow at 6% per year, as currently assumed by Finance Canada, the fiscal gap increases to 1.9% of GDP, or about $40 billion, in 2016. Moreover, a significant delay in taking fiscal action substantially increases the required amount of corrective measures.

Budget 2011 should include a fiscal sustainability analysis.

In 2007 the government committed to producing long-term sustainability analysis. It should deliver on this promise. Furthermore, in its 2010 article IV staff report, the IMF called on the government to increase transparency and communication surrounding the fiscal challenges related to the impact of population aging. Parliamentarians may wish to consider reforming the budget process to ensure a more forward-looking assessment and management of the nation's finances. In my opinion, the current process and political climate gives too little weight to the fiscal impacts of current policies on future generations.

The PBO is committed to expanding its work on fiscal sustainability this spring to include all levels of government.

The second point is that Parliament needs more fiscal transparency and analysis, not less.

There is genuine concern that Parliament is losing control of its fiduciary responsibilities of approving financial authorities of public moneys as afforded in the Constitution. In the recent past, Parliament was asked to approve changes to crime legislation without financial information or knowledge of moneys set aside in the fiscal framework. Parliament was asked to approve authorities related to operational restraint without access to a government plan.

The PBO believes that the government should provide the strategy to achieve estimated operating savings in the 2011 budget and that the departments and agencies should outline their plans to achieve their respective three-year savings contributions in their 2011-12 reports on plans and priorities. It is our view that this would be similar to the approach the government took in its economic action plan, where the two-year stimulus strategy was outlined in the 2009 budget, including additional planned resources for government programs before Parliament was asked to provide financial authorities. The degree of transparency demanded by parliamentarians for stimulus spending should parallel those required for spending restraint measures.

The PBO also wishes to note that this government provided Parliament details on spending restraint by department and agency in 2006, prior to parliamentary approval of financial authorities, as did the previous government in 2005 on its expenditure review exercise. This raises the question of why the application of cabinet confidence with respect to restraint measures appears to have changed in such a short period of time. Further, the application of cabinet confidence has been used to withhold information regarding the assumptions used to translate the private sector economic forecasts into Finance Canada's fiscal projections.

● (0855)

New policy measures, such as the Afghan mission extension, and existing measures—for example, corporate income tax reductions—must be obtained and debated in an open and transparent manner with the information required for parliamentarians to assess their financial costs and risks.

Budget 2011 should provide a frank picture of the short and medium-term planning environment and budgetary constraints. Parliamentarians could benefit from having access to the government's estimates of the output gap, structural budget balances, and the quantification of risk and uncertainty.

Thank you for this opportunity to serve this committee. We would be honoured to address your questions.

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

We'll begin members' questions with Mr. Brison for seven minutes.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Page, and thank you to your team for meeting with us this morning.

I have some very specific questions about information that this committee is seeking from the government in order for Parliament to make decisions in terms of our support, or not, for government legislation. We've requested information on corporate profits from the government—projections of total corporate profits before taxes and projections of effective corporate tax rates.

I have some specific questions. How is this information used and shared within the federal government?

Mr. Kevin Page: For projection purposes, I would think most of the information for projections going forward on corporate profits would be kept within the Department of Finance, perhaps used to brief the finance minister and the Prime Minister in the context of these projections and a potential scenario analysis. I think in conversations with private sector forecasters as well, this information would be exchanged to better understand what the average private sector forecast is and how it changes from forecast to forecast.

Hon. Scott Brison: Would you agree that it's used by departments in ways that are not directly related to cabinet affairs?

Mr. Kevin Page: I would agree, yes.

Hon. Scott Brison: Given your experience in the federal public service, can you tell us if this type of information is routinely protected as cabinet confidence?

Mr. Kevin Page: In my 25 years or so in the public service, including many years at Finance, the Privy Council, and Treasury Board, this type of information was regularly exchanged among officials, and exchanged with private sector forecasts. In fact, our projections, our assumptions in the back of our table and chart package, do include information on wages and salaries, corporate profits, and other income components of the national income.

● (0900)

Hon. Scott Brison: Can you think of any instance in your 25 years of public service where projections of corporate profits were treated as cabinet confidence? Can you think of one instance?

Mr. Kevin Page: I'm not aware of short-term, medium-term, longer-term kinds of projection assumptions being treated as cabinet confidence. Certainly there could be cases of individual tax agreements with specific terms—how that may impact profits of a particular company—but certainly not in terms of general assumptions for planning purposes.

Hon. Scott Brison: We have requested also from the government the costs of 18 different justice bills, including incremental cost estimates broken down by capital operations, maintenance, and other categories; baseline departmental funding requirements broken down by capital, operations, maintenance, and other categories; and also total department annual reference levels and detailed cost accounting analysis and projections.

How is this information used and shared within the federal government?

Mr. Kevin Page: In the case of crime legislation changes, when this information is being discussed in a lead-up to a proposal—again on the executive side of government—the department would be asked to prepare financial projections along with the changes in legislation. There would be a policy proposal first put to a policy cabinet committee. This would include some financial information. If the policy was approved, then it would go to Treasury Board. Treasury Board would provide a front-end due diligence on the financial models, methodologies, and costings. Eventually it would become part of a budget, and then eventually Parliament would approve the appropriate financial authorities for the legislation.

Hon. Scott Brison: So once there's legislation presented to Parliament by the government...would you agree that this information is used in ways that are not directly related to cabinet affairs?

Mr. Kevin Page: Sir, I'm sorry. I'm not sure I understand—

Hon. Scott Brison: Once there is legislation that goes to Parliament, would you agree that the information is then used in ways that are not directly related to cabinet affairs?

Mr. Kevin Page: Well, I think if we're talking about information analysis of the nature of methodologies and assumptions, again, I don't see why parliamentarians should not get access to that kind of information before they're asked to approve financial authorities.

I mean, if we're talking about communications or some other aspect.... I'm not sure exactly where you're going with the line of questioning.

Hon. Scott Brison: In your opinion, the cost of government legislation is not routinely protected as a cabinet confidence.

Mr. Kevin Page: No, sir. I mean, if Parliament wants access to information—what the methodologies are and what the assumptions are behind any legislation, whether it's crime or something else—they should receive access before they approve financial authorities.

Hon. Scott Brison: Based on your 25 years of experience in the public service, would the information for these justice bills exist within the federal government currently? And if it doesn't exist, what would be the implication of it not existing?

Mr. Kevin Page: Well, sir, I think we assume that it does exist. Treasury Board policy is that legislation and policy would not be able to go forward without some kind of costing. Just to get the appropriate approvals from Treasury Board, which is also a cabinet committee, it would require due diligence on the numbers. So we assume that this information does exist.

Hon. Scott Brison: So it would be implausible that the government would not have this information.

Mr. Kevin Page: That would not be financially responsible.

The Chair: One minute, Mr. Brison.

Hon. Scott Brison: You raised the question of the aging demographic and rising health care costs being a factor as to why we don't have a lot of chance of getting out of structural deficit in the foreseeable future. We're now entering into the health care negotiations leading into a 2014 agreement, or a deadline for an agreement.

Last time, there was a federal cheque for $41 billion. With the current deficit, it's highly unlikely that it would happen again. I'd appreciate your reflection on the level of provincial debts juxtaposed with this negotiation and how much of a complicating factor it is going to be to reach a surplus once again.

The second question is, has the government provided a credible plan to get Canada back to balanced budgets?

The Chair: You have 15 seconds to answer those two questions. We may have to come back to one of the questions in a further round.

Hon. Scott Brison: You may choose to start with the second one.

● (0905)

Mr. Kevin Page: I don't think I can give just yes or no answers.

Is there a plan to get back...? With respect to whether you're looking at the Department of Finance deficit projections, the IMF's deficit projections for Canada at the federal level, or the PBO's projections.... We're seeing a declining deficit track. The deficit is falling.

We don't actually see the deficit coming all the way back to balance when you get out to 2015-16. We think more actions are required. We think there is structural deficit. The IMF says there is a structural deficit.

But again, we think the larger problem, really, from a fiscal perspective, is the problem of the aging demographic and low productivity, because that creates a fiscal gap in this country, which means that we don't have a sustainable fiscal structure, and that will complicate those discussions on federal transfer renewal.

The Chair: Thank you.

Thank you, Mr. Page.

I would remind colleagues to ask a brief question at the end so they allow the witness to answer.

Monsieur Paillé, vous avez sept minutes, s'il vous plaît.

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you, Mr. Chair.

I see that our Parliamentary Budget Officer's report still deals with a lot of access issues, with transparency and cabinet secrets. It's always the same complaint. I think you know that you can count on us to pressure our government colleagues to give you as much information as possible. By keeping things secret, they are realizing more and more that power lies in information. So, without information, there is no power. Since the Conservatives are in power, they control the information.

But you are saying that the likelihood that the budget will be balanced over the short term is nil. Your economic projections are for 2016 and you have identified the risks. Today is February 15 and there is in fact a fifth risk that has not been mentioned. It has to do with everything that is currently going on in the Arab world. This will all have an impact on the global economy. I don't want to dwell too much on this issue, but I would like to hear your opinion, if we have time.

I think you made a political choice. You are telling us that there is a long-term fiscal challenge and that the fiscal structure is not sustainable. On page 2 of your report, you say: “...Canada does not have a fiscally sustainable structure.” You are also saying that there are gaps in GDP. Then, you go into the Canada Health Transfer program. Before that, you clearly pointed out that the Canadian population is getting older. You reported that, in 1971, there were 7.8 people at working age for every person over 65, and that, in 2033, there will only be 2.5. We are lucky Mr. Wallace will still be of working age, but the working age population is in a steep decline.

You are sort of saying that the government should stop making transfers based on the provinces' needs. I am almost wondering what you are getting into. You are telling us that there is a problem with the fiscal structure, which we are well aware of, but this problem is not necessarily because of health transfers. I am wondering why you are scoring points against the provinces by saying that, if the federal government reduces health transfers to the provinces, its fiscal problem will be solved. That's all very nice, but the provinces will find themselves in a huge mess.

Why did you make this highly political choice?

Mr. Kevin Page: When you talk about structures, you are right to say that it's about all federal programs and revenues and not only about transfers to the provinces. It is important to clarify that.

In our 2010 analysis, we studied the fiscal sustainability. We looked at economic projections, the capacity level, productivity and the ageing population. We also looked at revenues and all expenditures.

In my presentation today, I focused on one issue in particular. Perhaps it was a mistake. It is important to say that negotiations will be held on all transfers within two years. So we have to start discussions now. The first step is to look at fiscal sustainability in general, but that doesn't mean that the only problem is the increase in health transfers.

● (0910)

Mr. Daniel Paillé: These are highly political choices, and you say so yourself. Policy measures are needed in the budget.

But, in terms of policy measures, we could have looked at all the army expenditures, for example. We might have agreed that we don't need all the army expenditures or that we should raise corporate taxes. We might have also agreed that we should raise taxes because Canada's fiscal capacity is not used to its fullest. However, from there to zeroing in on this program, there is a difference. You seem to agree with us.

I also have another question about this. On page 2, when you refer to the challenges of the International Monetary Fund—and you are doing a good job representing its view—you say that the current budget process and the political climate give too little weight to this issue. What do you mean by "political climate"?

You are saying that the political climate prevents us from giving enough weight to this issue. At the moment, where have you seen the political climate preventing us from discussing the issue? It is on page 2.

The Chair: You have one minute.

Mr. Kevin Page: I am talking about the importance of having long-term estimates and projections. At the moment, we don't have analyses on fiscal sustainability issues. Perhaps there is a link between a minority government and long-term issues that will have an impact on future generations.

In 2007, the government decided that it was necessary to do fiscal sustainability analyses, but it is not possible for us to get those fiscal analyses.

Mr. Daniel Paillé: In your view, the political climate simply refers to our current minority government, which, by definition, is a weak government. And since it is a Conservative government, it is even weaker by nature.

Okay. I understand your analysis.

Mr. Kevin Page: It is not a partisan issue.

[*English*]

The Chair: Mr. Page, I don't know if you want to comment on that.

Mr. Kevin Page: I wasn't making a partisan comment.

The Chair: No, I know.

[*Translation*]

Thank you, Mr. Paillé.

[*English*]

Ms. Glover, go ahead, please, for seven minutes.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

It's unfortunate that my colleague would reduce this meeting to that kind of gibberish, but nevertheless, I am glad to meet you. It's the first time we've had an opportunity to meet one another, so I was anxious for today's meeting.

I've really focused on the things you've said here this morning in your statement. I do note that you talk a lot about the long-term and not the short-term fiscal challenges. Yet when I look at some of the things you've said in the past...for example, earlier this year you told the *Toronto Star* that a Department of Finance study on economic stimulus indicated business tax cuts were not the best way to support job creation. You also note that the economic multiplier is not as strong as other types of stimulus. However, the Department of Finance study also said a number of things about long-term capability and sustainability. As you've said in your own presentation today, the long term is very important.

I think you've already said here today that you believe that policies have to support long-term economic growth. The Department of Finance's study indicated business taxes are one of the best policies to pursue over the long term. Would you agree with that statement that business taxes and the reform that's suggested are a good way to benefit the long-term economic growth of this country?

Mr. Kevin Page: Actually, I'm not familiar with exactly which Department of Finance study dealing with business taxation you are referring to. In the comments that you alluded to, I think you're talking about—

Mrs. Shelly Glover: I might be able to help you. Do you want me to quote it so it makes it a little bit easier? The Department of Finance study said the following:

> Corporate income tax measures have a limited impact on aggregate demand over the periods displayed in the table but have among the highest multiplier effects in the long run. This is because they increase the incentive to invest and accumulate capital, which leads to a higher capacity to produce goods and services.

Do you agree with that?

● (0915)

Mr. Kevin Page: Well, I agree in the context of an economy and a fiscal situation that is sustainable. I think when we look at taxation issues, particularly business taxation, what most economists will focus on is the potential impact on investment of reducing taxes and what the increase in investment would do to increase productivity and whether it would lead to future job growth.

I think when you do these sorts of studies it's important to balance out whether you have a sustainable fiscal structure. In the context of what we're talking about today—and the IMF has said this—we have a structural deficit. We do not have a sustainable fiscal structure.

Mrs. Shelly Glover: Please forgive me, Mr. Page, but I'm uncertain as to why you won't answer my question and you are bridging into something else. I'm asking a fairly simple question, and I'd really like an answer, rather than bridging to something else that you're more interested in.

Do you believe that corporate tax cuts will help us in the long run? It's a pretty simple question. It's regarding economic growth. That's what I'm talking about.

Mr. Kevin Page: Madam, when you frame that, are you assuming that we have fiscal balance in the long run? I need to know what your fiscal assumption is, because again, what we're talking about is trying to increase investment. You can increase investments by lowering taxes; I agree with that. You could also have a negative investment impact by creating a fiscal crisis by increasing your debt-to-GDP ratio, because you also have a negative impact on your capital structure. You need to balance.

If you're assuming we have a sustainable fiscal structure and we lower business taxes—is that good for investment?—the answer is yes.

Mrs. Shelly Glover: Thank you.

And that would be my argument, and not only my argument, but it's actually the argument of a number of economists that you rely on for information and that the government obviously relies on for information.

I want to go to a different question.

We've seen a lot of surprisingly strong economic data in recent weeks in Canada, and I'd just like to highlight that. Canada's merchandise trade surplus in December hit the highest surplus in months and months, with strong growth in exports. Employment increased by 69,200 in January, which is the strongest in months. Canada's GDP grew by 0.4% in November, which is the largest monthly gain since March 2010. And many economists have been revising their projections up because of this strength. Indeed, we saw last Friday that trade data was strong enough that the Bank of Montreal upgraded its fourth-quarter forecast for Canada to 3% from 2.3%, as well as next year's expansion, to 2.8% from 2.7%.

Since there have been some revisions upwards, I'm wondering if you plan to revise your projections up as well.

Mr. Kevin Page: Well, actually, Madam, we take our projections from the private sector forecasts. As I said in my opening remarks, we work with private sector forecasting. Just like the Department of Finance, we translate those economic assumptions into fiscal forecasts. We do monitoring with respect to the fourth quarter and the first quarter just for our own purposes.

We think the fourth quarter will probably turn out somewhere in the neighbourhood of 2.5% growth in overall GDP. I think what you alluded to in terms of the increase in exports is very positive to them, and we hope it will be sustained.

Mrs. Shelly Glover: Thank you.

I'm going to read through the lines again. Because everybody else is projecting up, you're anticipating you're going to be projecting up too, because you rely on what they say.

Mr. Kevin Page: Well, yes, we use the average private sector forecasts, just like the Department of Finance, and then from that we prepare fiscal projections and we do risk analysis around that. So if the average private sector forecast goes up because we saw a stronger fourth quarter, we will take those assumptions into account when we produce our fiscal projections.

But again, just on a deficit term, in our projections today, which we talked about, we're saying the deficit will come in just under $40 billion, well below $56 billion in 2009-10—so, again, a $40 billion deficit projection, just under, for 2010. The deficit is falling. When we look at the *Fiscal Monitor*—we have eight months' worth of information—the deficit is coming down. Even though we have a big stimulus package, it is coming down because the economy is getting stronger.

Mrs. Shelly Glover: As a new parliamentary secretary on this committee, I look forward to working with you. I do have a request, if you would allow me.

I was a spokesperson for the police service for some time. I found it very difficult, as a spokesperson, to have people release things to the media that involved my portfolio or my issue, and then I would get asked about it very quickly without even having access to whatever it was the media had access to. I would ask, as a courtesy, so that we can have a great working relationship, if you plan on releasing reports publicly, that you not release it through specific reporters first, because I'm going to get asked the questions quickly. If you could just release it publicly to everyone at the same time, that would make it very good as far as a relationship goes, and it would make it a lot easier to respond to questions once I've read the report.

So thank you for that.

● (0920)

The Chair: Thank you.

Thank you, Ms. Glover.

[*Translation*]

Mr. Mulcair, the floor is yours.

Mr. Thomas Mulcair (Outremont, NDP): Contrary to all expectations, I have to share some of my time with Mr. Page so that he can answer Ms. Glover. She said that Mr. Page did something, but he did not have time to answer yet.

Mr. Page, you can answer Ms. Glover.

Mr. Kevin Page: As to...

[*English*]

Mr. Thomas Mulcair: You can go ahead in English. My colleague just affirmed that you've been releasing documents to specific journalists.

Mr. Kevin Page: Yes. When we get requests from parliamentarians or committees to do work, we bring that work back to parliamentarians; we bring it to committees. For example, today we are releasing our updated fiscal projections. We're here today in front of you. We make it available to all parliamentarians at the same time. It's now posted on our website. It's made available to all Canadians at the same time. That way—

Mr. Thomas Mulcair: Thank you, Mr. Page.

That's on my time, and as a police officer who is on a leave of absence, of course, Ms. Glover should know that the presumption of innocence still applies, even to senior officers of Parliament. She shouldn't make affirmations with regard to what people have done.

Voices: Oh, oh!

Mr. Thomas Mulcair: I'm going to be talking to you about two different things today. The first one is with regard to the potential for inflation, and the second is with regard to the notion of sustainability.

On the potential for increased inflation, I'd like to know what your long-term forecasts are, because it seems to me that with the amount of money that's being printed, notably south of the border, as that money increases in velocity, it could be coming back into the economy a lot faster, and we sense there might be an upward trend in inflation. I want to know if you've done any measurements in that regard.

Mr. Kevin Page: We've not done any specific studies, though I think in terms of what underlies our fiscal and economic projections, I could say a few things. Private sector economists, the average private sector forecasts, the numbers that are in front of you today, suggest very moderate inflation, something in the neighbourhood of, at the consumer price level, 2% average growth per year.

Underneath that, I should say that when we estimate where the economy is vis-à-vis potential, we see a large output gap right now. There's a lot of slack in the economy. Notwithstanding the fact that we've had good progress in reducing our unemployment rate, there's still slack in the labour market. There's a lot of slack in capacity utilization in manufacturing sectors. That output gap I think will keep downward pressure on wages. We're not seeing any significant increases in wages.

Having said that, I think when you look beyond the short term to the medium term, and you look at some of these issues we're seeing now in terms of food price inflation, potentially some oil price inflation—we'll see where things go in the Middle East—it does create a concern that you'll see inflation, particularly in some of the emerging economies. Depending on where things happen over the short term for more developed economies, we could find ourselves.... It's certainly a risk to the fiscal framework: higher inflation, resulting in potentially higher interest rates, a higher cost of debt.

Mr. Thomas Mulcair: The second point I want to start developing is the notion of sustainability. I suspect we'll have a second round, and we might be able to get into it a little more. I actually find the choice of term quite interesting because usually it's used in the context of sustainable development, but here you're using it with regard to the viability of the fiscal framework as it's being put forward.

When you talk about sustainable development, you're looking at three things: you're looking at the economy; you're looking at social aspects; and of course you're looking at the environment. A blind, across-the-board tax cut—the one Ms. Glover refers to and the one she's trying to get you to talk about, whether or not in the long term they're a good idea—by definition, doesn't help a company that didn't make a profit, because it didn't pay any taxes. So if you have a manufacturing concern in Quebec or if you have a forestry operation in Ontario or B.C. that didn't make a profit, you didn't get anything from those across-the-board tax cuts. The money, the billions in question, goes to the ones that had the highest profits, the Encanas of this world in the oil patch and the Royal Bank and the other chartered banks that are making record profits.

With regard to the fiscal sustainability of what's being proposed, you've come to a simple, clear understanding. You say we've got an aging population, a demographic challenge, low productivity, an economic challenge, and we're going to have to increase tax revenue or reduce spending, otherwise it's not going to work, in the simplest possible terms. Isn't part of the solution to start using that fiscal space that we assume is there—because we're having tax reductions—and start targeting those areas of the economy that are the most productive, that are the most forward-looking, that are the most likely to create employment, and that are the most innovative? Isn't that what we should be doing, instead of giving more tax breaks to the oil patch and to the banks?

Mr. Kevin Page: Again, we're legislative budget officers. When we talk about fiscal sustainability, we talk about a calculation that looks at aging demographics and productivity and asks what fiscal actions will be required to maintain a stable debt-to-GDP ratio. We're talking about stabilizing the debt-to-GDP ratio, and in our calculation it is something around 34% at the federal level of GDP.

I think in the context where you're talking about across-the-board actions, whether it be corporate profits or personal income taxes, or whether you're talking about spending reductions to close a fiscal gap—we say we have a fiscal gap in this country—you need sustained actions. They need to be permanent. Again, temporary freezes won't do it. I should probably also say that everything is assumed in terms of legislated.... If there are legislated corporate income tax reductions, we build them into our forecasts.

But in terms of your question about productivity and the debate about productivity, again, it's highlighted in my remarks today. I think over the past ten years we've averaged 0.8% average growth in terms of labour productivity per hour, and it's well below what we've seen historically.

● (0925)

Mr. Thomas Mulcair: You've highlighted in past reports the fact....

[*Translation*]

I will continue in French.

You have already pointed out in your reports that we are in a situation like this because of the choices made by the Conservative government. You have often said that it wasn't just because of extreme circumstances, but it was also because of the government's deliberate choices. Ever since this government came into power, so for five years now, there has been a constant gap between the increase in the federal government's expenditures and the inflation rate.

Could you expand on the choices that have led to the structural deficit that you have described so clearly today?

Mr. Kevin Page: Certainly. This government actually chose to adopt a policy that would eliminate the fiscal gap. Is it better to raise taxes or reduce spending? The fiscal framework indicates that the increase in program-related expenditures is 1.5% per year for the next five years. There is not a lot of margin for error in a situation like that. In any case, I think that your question was intended to be very political.

Mr. Thomas Mulcair: No, I wanted an objective answer. I wanted to know what the increase in expenditures was compared to inflation. You can perhaps give me the answer in the next round. Your aides could have the figures ready for you. I know there's a difference between our roles. I always try to respect yours without drawing you into the political arena.

[*English*]

The Chair: *Merci.*

Do you want to respond briefly, Mr. Page?

Mr. Kevin Page: If the question is with respect to looking at operational spending in the government, I think the government is assuming it can maintain an operational freeze for 2010-11 and 2011-12 and 2012-13 on an amount of money that's approximately $55 billion worth of operational spending. We have no objections to the government trying to freeze operational spending, but we would like parliamentarians to have a plan, a top-down plan, as to how it might be able to achieve that freeze, and also a bottom-up plan from the departments on how that freeze will be allocated across departments.

In the absence of a plan, we have a higher assumption of inflation plus population for that particular period of time. That does contribute to our higher deficit projection at the federal level, for PBO versus Finance Canada.

The Chair: Okay. Thank you.

We'll go to Mr. Szabo for a five-minute round.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you.

Mr. Page, if a country doesn't have a stable fiscal framework, that's described as having a structural deficit. Is that right?

Mr. Kevin Page: There is a small difference. In the language we've used here today, sir, structural deficit or structural balance... that's terminology that economists will use.

What will be the fiscal balance in our case at the federal level when the economy returns to its potential? We're saying our economy is operating about three percentage points below its potential right now, certainly in the second half of 2010. We're saying it will get back to potential by the end of 2015.

When we look at the structure, we're saying there's a deficit now, and that deficit will continue to exist even when you get back to potential.

When you look at fiscal sustainability, you're really talking, in our case, of what it would take, what actions are required, to maintain a stable debt-to-GDP ratio. That's somewhat different.

While our debt-to-GDP ratio is going up, it will come down for a period of time as we move through the medium term. We're saying that it will rise dramatically as we go to the long term because of aging demographics.

Mr. Paul Szabo: Okay. Now moving through the period to 2015, what is your opinion as to the potential for corporate tax cuts to have a negative economic impact at a time when you have a structural deficit?

● (0930)

Mr. Kevin Page: We're not assuming that it has per se.

We built in these projections because these corporate income tax reductions are legislated. We've legislated the reduction from 18% to 15% over the next two years. We've actually built those projections into the forecast, like other private sector forecasts have.

We're not assuming there's anything negative per se, that a risk is being created. We've incorporated that assumption into our economic and fiscal projections.

Mr. Paul Szabo: Okay. In your January 2011 report on the operational budget freeze, the thing that really stood out was the fact that Corrections Service Canada did not respond. Their projected increases in personnel in fact offset all the reductions of all the other departments.

To the extent that Corrections Canada has not been able to respond fully to your information request, which you are entitled under the Parliament of Canada Act to receive, how could a cabinet possibly cost justice bills that are going to impact Corrections Canada operations?

Mr. Kevin Page: Well, sir, I think there are two issues at play there.

One, when we did the study looking at the operational freeze, which we released a few weeks ago, we went to ten departments. We selected ten large departments, including Correctional Service Canada, HRSDC, the Department of Fisheries and Oceans, etc. We looked at their RPPs, reports on plans and priorities. We got measurements of what's happening in terms of employment in those departments and their estimates over the next four years. So in the case that you alluded to, Correctional Service Canada, yes, it's true, they've been quite open, quite transparent, and they're talking about hiring 4,000 more employees over the next three years.

Then we asked the deputy ministers' accountability offices to see their human resources plans. We wanted to see what plans were in place to achieve operational strengths specifically. In that particular case, we asked ten departments and we got back eight. The two departments, including Correctional Service Canada, did provide their human resources plans to us subsequently. But we thought we had enough coverage, from a material perspective, to make the points that we made in that note.

Mr. Paul Szabo: My final question would then be, in your experience, how does a cabinet decide on legislation without having a baseline cost of the impact of introducing that legislation, which is part of the questioning that's been put to the House, about not getting the information from the government?

It would appear that this is very soft information if Correctional Service Canada can't answer the questions today in some detail with regard to the impact of creating new prisons.

How does a cabinet do it? How do you do it? How do you incorporate it into your projections?

The Chair: You've got about 30 seconds for a response—a brief response.

Mr. Kevin Page: Sir, we assume that cabinet did have access to financial information from Correctional Service Canada with respect to crime legislation and that they would never have approved legislation without access to financial information methodologies and assumptions from Correctional Service Canada.

I think our issue has been, should Parliament have access to that information? We think they should have access before they approve financial authorities.

[*Translation*]

The Chair: Mr. Carrier.

Mr. Robert Carrier (Alfred-Pellan, BQ): Good morning, Mr. Page.

Good morning, gentlemen.

It is quite refreshing to hear objective comments on our financial situation. I think comments like these are important for a democracy that wants to work well. But what I am hearing is that you are predicting a worrisome structural deficit and that there is little information or fiscal sustainability analysis of some of the government's decisions.

As my colleague said earlier, you described the political climate in one case. But you know from experience that, when we talk about the government, the decisions are inherently political. Regardless of the results of elections or the actual result of the measures taken by a political party in power, the government's job is to govern the country. Each budgetary or political measure that is established should include a long-term analysis, not only short-term, over a year for example.

Could you please tell me again about the importance of including this analysis in the projections?

● (0935)

Mr. Kevin Page: I think it's really important for the government. It is also the IMF's take on things. The government also declared three years ago that it was necessary to make long-term projections to address fiscal sustainability issues. We also talked in our speech today about the importance of carrying out structural analyses and analyses dealing with the quantification of risk, gaps in production and other things like that. It is important that all parliamentarians have a good debate on the policies that should be adopted, as Mr. Mulcair mentioned, to increase growth, productivity or other things.

Mr. Robert Carrier: In the document you submitted last January 20, you pointed out that the government will not be able to freeze its operating budget and that staff-related expenses will increase by 8.3% per year. The worst part is that decisions made in terms of the Correctional Service will cancel out all the progress that could have been made by other departments in order to reach those objectives. The fact that decisions like that cancel out the government's objectives is rather serious, in my view. The decision is not well thought out.

Is that the conclusion of your study?

Mr. Kevin Page: I think there are two major questions. First, there is the objective to freeze operational expenses for three years. Then there is the implementation of crime legislation. I think that if those laws come into force, the Correctional Service will need additional resources.

You are right to say that it is necessary to have a plan that deals with the allocation of operational restrictions, meaning to find out what the impact will be on other departments if there is an increase in the budget of a department.

Mr. Robert Carrier: Do I have time to ask a final question?

The Chair: Yes, I will allow it.

Mr. Robert Carrier: You pointed out that the government does not provide you with information easily and that it uses cabinet confidence as the reason for not sending it to you. I read that you obtained some information from the actual departments.

So your entire analysis, which is very important, relies on information that is perhaps truncated or incomplete. Do you think you can still make reasonably accurate projections or recommendations, given that you perhaps have not received all the information you wanted from the government?

Mr. Kevin Page: In terms of the changes to crime legislation, the only information we have received is public information, such as reports on plans and priorities and information from human resource plans. We don't have the methodology or the department's projections that would allow us to speculate, to do a good analysis and to determine whether the figures from Correctional Service Canada are reasonable. It must also be said that, when we look at the budget plan, there is no adjustment to provide for the changes to crime legislation, neither in the 2010 budget nor in the long-term economic and fiscal update. Lack of transparency is a major issue.

[*English*]

The Chair: *Merci*, Monsieur Carrier.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair, and thank you for coming this morning.

I have a number of questions. The first one from your presentation that struck me was that PBO is committed to expanding its work this spring on fiscal sustainability to include all levels of government.

Where are you getting the authority to look at all levels of government? Is that in your mandate?

Mr. Kevin Page: Yes, sir, it is.

In the act of Parliament, it says independent analysis on economic—

● (0940)

Mr. Mike Wallace: Is it on municipalities and on provinces?

Mr. Kevin Page: Sir, we transfer a large percentage of the other resources we bring in through the Consolidated Revenue Fund, through transfers, to other levels of government. It's very difficult to look at fiscal sustainability—

Mr. Mike Wallace: Mr. Page, were you not last year asking for more money because you didn't have enough bodies to do the job? And now are you not adding to your own workload?

Mr. Kevin Page: No, sir. When we provide planning frameworks for you—and again, we're providing this information for you, for all parliamentarians—we want you to have a good sense not only of what those projections are but of the assumptions behind those projections. Is there risk? Is it cyclical? Is it structural? Are there questions of fiscal sustainability, not just for one level of government but for all levels of government?

We provide this for you so that you can make decisions for the future.

Mr. Mike Wallace: Exactly on that point, Mr. Page, as the budgetary officer, I think you've correctly pointed out four key risk opportunities, if you want to call them opportunities.

Why do you not present it this way? I expect you to do the analysis: based on these assumptions, this is what the deficit will be; based on those assumptions, that will be the deficit. And you give us a range. We're not asking you to be right or wrong. We're saying that if those assumptions become accurate,whether that's the GDP, job growth, or all those other things, this is where the deficit will be in 2015 if the results are this.

Why is there not a range? Why is the glass, in your presentation today, in my view, completely half empty and not half full, when we are hearing good news on the economic scene?

Why are you not providing parliamentarians with an analysis instead of an opinion?

Mr. Kevin Page: Actually, sir, when we provide these projections—again, the projection is in front of you today—as I alluded to one of your colleagues earlier, we're saying that the deficit is $56 billion, or roughly 3.5% in 2009-10. We're saying that the deficit is going to be less than $40 billion this year. We're saying that the deficit is going to fall to $30 billion.

Sir, President Obama released their budget yesterday. If you provided those sorts of numbers to Congress, they would be quite happy.

Mr. Mike Wallace: My question, which you didn't answer, was whether you could provide that for us. Are we not giving you the right direction to be able to provide for us the kind of analysis we would be interested in? I could question you on the assumptions that show us reining in the deficit, the ones that don't, and the ones that make it worse. Could your office do that? Yes or no.

Mr. Kevin Page: Sir, yes we could. May I add one point?

Mr. Mike Wallace: No, you can't, because I have only five minutes.

I agree with Mr. Paillé. Would you agree that your job isn't to make political comment?

Mr. Kevin Page: Yes, sir.

Mr. Mike Wallace: So you picked on transfer payments for health care—which are based on a policy decision and a political decision—and where we're going with them. I actually agree with Mr. Paillé that maybe you should have had a broader approach.

There's a fair amount of politics in your statement today, in my view. For example, I have sent your office, numerous times, when there's been a private member's bill from the opposition, questions about how much funding it would take. I've asked you to tell me what it's going to cost, and you do a great job of letting me know, 90% of the time, that there isn't enough information, that the wording is so wishy-washy you can't make a determination, and that you would have to set up a whole new model and so on and so forth.

I don't see a comment about parliamentarians losing control over fiduciary responsibility. You're willing to comment on a motion by this committee on how economic information from departments, which we've declared is cabinet confidence, is an issue—

The Chair: You have thirty seconds.

Mr. Mike Wallace: —but you don't comment on whether the private members' bills that we keep sending you—which I think are part of your responsibility—are funded or have any background to them, which we also, as parliamentarians, have a responsibility for.

The final comment I'd like to make is that I do agree with you that we are losing a little bit of control here. But is it your mandate to comment, or is there something we need to do to get you to look at the settlement or estimate process so that members of Parliament do a better job of analyzing the actual spending?

The Chair: Mr. Page.

Mr. Kevin Page: There are a number of points there. I'll be quick.

When we provide these projections, we also provide risk analysis, so we provide these—we call them fan charts—probabilities based on historical track records of the average private sector forecast. What will this mean as we project, both for nominal income and for the fiscal balance? What will it mean going forward? These ranges are actually provided in your chart package today. That's how we deal with kind of the highs and the lows of uncertainties around an average private sector forecast.

If this committee gave us specific questions, such as, what if growth were one percentage point higher or one percentage point lower, could we translate that into a forecast, or what if interest rates were...? We'd be very happy to do that for you, sir.

Also, sir, I think it's fair to say we've done a lot of work for you and other members of Parliament, which is available on our website, on private members' bill costing. We don't write legislation, so we can only cost if the legislation is specific. In the same way, we can only comment specifically and provide tests of reasonableness on crime legislation or what have you if we see the methodologies and assumptions underneath it. Otherwise, we will provide an original data point.

● (0945)

The Chair: Thank you, Mr. Wallace.

We'll go to Mr. Pacetti, please.

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

Thank you, Mr. Page, for coming. I'd just like to remind Mr. Wallace that if there are any bills that require a monetary outlay, they require a royal recommendation, so I wouldn't be too worried about that.

Mr. Page, in English, on page 2, you talk about the fiscal gap. Specifically, you talk about the health transfer. Just so I get it right, you start by saying that the health transfer is projected to be about 4.2% per year on average, so that would mean a fiscal gap of 1%, but then you go on to say if it continues to grow at 6% per year, the fiscal gap goes to 1.9%.

Can you translate that into English, please? What does that mean? Why would it be 4.2% on average and then go to 6%?

Mr. Kevin Page: Certainly. In the work we did on fiscal sustainability, we did sensitivity analysis around certain key variables. Some dealt with immigration. Some dealt with productivity, and some dealt with specific spending components like health care. For health care, I think we ran three different scenarios. In one we assumed 6%, so what if health care transfers continued to grow at 6%? Again, we're talking about Canada's potential growth rate, because of aging demographics and weaker productivity, falling below 2% as we move out to the long term.

Mr. Massimo Pacetti: Sorry, our time is limited. So you're saying, just in a hypothetical situation, if it would go from 4.2% to 6%, you would lose about 0.9% as a fiscal gap?

Mr. Kevin Page: That's correct, sir.

Again, we also do calculations for...if you wait 10 years to take the fiscal actions, what will be the additional costs to close the fiscal gap?

Mr. Massimo Pacetti: So for the 2% just in health care, again, as my other colleagues were saying, why just specifically concentrate on health care? Assume the whole fiscal budget was increased by 2% above projected. What would that cost in fiscal gap?

Mr. Kevin Page: Sir, there's a direct link between aging demographics and health care. There's quite a bit of analysis that we did on fiscal sustainability. We did the same type of analysis for old age security—

Mr. Massimo Pacetti: No, I understand that, but I think the risk is not just in health care. As I was saying, I think it could be in other areas as well, in military spending or whatnot. It could be in immigration, as you said. So if we take an overall 2% risk factor, how much would that be for the fiscal gap?

Mr. Kevin Page: Sorry, I—

Mr. Massimo Pacetti: So I guess the amount spent is, what, about $200 billion or $230 billion?

Mr. Kevin Page: Sir, our current expenditures are about $250 billion, rising over the next five years.

Mr. Massimo Pacetti: Okay, it's $250 billion, so let's say we add an extra 2%.

Mr. Kevin Page: Two per cent to spending growth for health care?

Mr. Massimo Pacetti: The same way that you did the analysis for health care, where the projected amount went from 4.2% to 6%. Let's say there would be an increase of 1.8% on the total budget.

Mr. Kevin Page: Well, sir, I think implicitly that calculation is provided in our numbers. So you're basically moving the fiscal gap from 1% of GDP to almost 2% of GDP.

Mr. Massimo Pacetti: So it's a whole one per cent?

Mr. Kevin Page: It's a whole percentage point, so if you go five years out and you're talking about an economy and a nominal GDP in terms of about two trillion dollars, you're talking about $20 billion in terms of sustained fiscal actions to close that gap.

Mr. Massimo Pacetti: Okay.

Now, maybe for more of an economics lesson, when we talk about growth, we're talking about all these 0.5% numbers and 1% or 2%. But we see in the *Fiscal Monitor* that the revenues are up 7.7% in the last eight months. Why is it not 0.5% and why is it not 2%? Why is it all the way up to 7.7%?

Mr. Kevin Page: Well, sir, we had a significant, significant recession in 2009, when the overall economy collapsed by 2.5%. We're seeing a significant rebound on the revenue side, when you look at the *Fiscal Monitor* for the first eight months of the year. Again, that's a positive sign.

I think the deficit for the first eight months of the year is running at roughly about $26 billion, compared to $36 billion the year before. So the deficit is coming down, even though we're having—

● (0950)

Mr. Massimo Pacetti: But shouldn't it be correlated to GDP growth? Shouldn't it be correlated to the 0.5% or the 2% or a maximum 3%?

Mr. Kevin Page: Again, sir, I think most of the growth we're seeing in the *Fiscal Monitor*—for example, say, from November to March—is taking place in personal income and in corporate income. We are definitely seeing operating profits for certain companies come back quite significantly—

Mr. Massimo Pacetti: So that's happening by accident.

On the other side, the expenses are out of control. Going back to the example I was giving, even 1% or 2% in overspending is going to cause an additional burden on the fiscal debt, I guess. Is that what we have to be careful of? Is it on the expense side?

Mr. Kevin Page: Sir, if you look at...and we do this in our fiscal sustainability now; we look at revenue ratios and spending ratios. These are ratios relative to the size of the economy. I think because of tax reductions and different governments, if you go back to where we were and budgetary revenue as a per cent of GDP, in the late 1990s you were probably in the neighbourhood of 18%. We're down about 15% now.

So your total budgetary revenue as a per cent of GDP has come down significantly, and again, through different factors: mostly through tax reductions, different governments, but also a weaker economy, particularly in 2009 and 2010, but an economy that's recovering—

Mr. Massimo Pacetti: Well, if that's the result, then we have to keep an eye on the expense side.

Mr. Kevin Page: I think we need to look at both.

The Chair: Thank you.

Thank you, Mr. Pacetti.

We'll go to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

First of all, I have a couple of quick comments. Maybe you could respond, and then I have a more detailed question.

Certainly, I think it's important to go back to these corporate tax rates and the corporate tax rate issue. I think the choice between expansive revenue and lower rates or restrained revenue with higher rates.... We have Finn Poschmann, who says, “There is no reason to expect corporate income tax reductions to put any meaningful dent in tax revenue.” I've also noticed that we've tended to average 12.6% of government revenue over the year, and in 2010 it was 13.9%.

Within your projections you have taken into account the corporate tax cuts. I would assume that you also built into your projections that there is also some added benefit to those cuts, so it was not strictly a take-off to existing...that you also did some projections around how it would actually improve the revenue with new companies coming...? Is that accurate?

Mr. Kevin Page: Again, Madam, like the Department of Finance, we take the average private sector forecast, we take those key headline numbers, nominal GDP, real GDP, inflation, interest rates, labour market unemployment rates, and we translate that into a fiscal forecast.

Private sector forecasters, when they see the government reducing taxes or increasing infrastructure spending, will do their own calculations. Their models have these built-in multipliers. They will build those positive and potentially negative multipliers into the projections. We take those economic assumptions and we translate them for you into a fiscal projection.

Mrs. Cathy McLeod: I think it's probably accurate to say that you can't take—which I believe the opposition might be doing right now—a 1.5% reduction in the tax rate and immediately say the numbers are going to be $6 billion, or whatever they throw out.

Your comment is what I really want to focus on. One of the benefits of Parliament is that people come from many different backgrounds. Because health care has been chatted about...I actually come from a health care background. The provinces are as aware as anyone in terms of what's been happening, in terms of their expenditures, and I know the provinces are looking internationally.

They know there are countries that are doing much better jobs in terms of respecting the Canada Health Act, but also in terms of their outcomes and their expenditure. I've seen a lot of work within the Province of British Columbia in terms of their health care transformation and the improvements to their system.

I think we need to be reassured that they are trying to tackle that enormous growth rate, and we perhaps don't need to be as negative in terms of our perspective of what might happen over the next number of years. I can remember the deputy minister in British Columbia having these graphs and saying that we have to tackle this problem.

I'm quite optimistic that a lot of work is being done in the provinces in terms of that particular piece. I think that, of course, becomes very hard to capture on a macro level without the work in terms of health care transformation and the impact. Is that a reasonable statement?

Mr. Kevin Page: Actually, I think you made two points that I'd like to respond to.

The first is on the health care. As we do the broader analysis on fiscal sustainability, building on the work we did in 2010, we do, as in all of our work—to respond to Mr. Wallace—actually look at sensitivity. We'll show you different numbers. We have different scenarios for health care. If there are things going on in the development that we're hearing out of federal-provincial discussions, we could build some richer scenarios for you. We'd be happy to do that on health care. We could build that into these fiscal projections.

Just on the fiscal cost point of view, I think the Department of Finance does cost changes, up or down—personal income taxes, corporate income taxes. We do get information. We do model it. We don't get a detailed corporate income tax model. We do our own rough estimates using private sector models.

It is possible to say. We need to know, for fiscal due diligence purposes, what a 1% or 2% cut in corporate income tax will mean fiscally. There is a cost to it, notwithstanding that one of the economists you alluded to.... Even the Department of Finance assumes that if we reduce corporate income taxes, there will be a fiscal cost.

● (0955)

Mrs. Cathy McLeod: I come from an area that was particularly hard hit by the recession in terms of jobs. My community had huge opportunities through the economic action plan in terms of growth, the job opportunities program. I was disappointed with the comments about the economic action plan and growth. It really filled the gap for our community over this last year and a half or two years. In the last few months, two of our sawmills are reopening.

I guess those comments about it not being a benefit were disappointing when I know that probably this was duplicated.

Thank you, Mr. Chair.

Mr. Kevin Page: I think we did do some work. We did survey municipalities. Out of all the programs, one specific program we looked at was the infrastructure stimulus fund, a $4 billion program in a larger envelope of $16 billion worth of infrastructure.

We surveyed. We had 644 municipalities participate in this survey. They had a lot of positive things to say with respect to improving community welfare, with respect to reducing infrastructure deficit. I think it also said that a lot of the work that it was dealing with, with this specific program, was more “bringing forward” kind of work; it was renewal-related work. It had a modest job impact. That's what we heard.

I think overall we've not quibbled at the PBO with the Department of Finance's global estimates in terms of the output. If you have a $47 billion stimulus package, what will be the impact on output? What will be the impact on employment? I think it's important to realize that those estimates are model-based estimates based on historical experience. I think it is important when you have a big stimulus package and it's deficit-financed that you do policy evaluation on it afterwards. It may be quite as positive as you said.

The Chair: Thank you.

We'll go to Mr. Brison.

Hon. Scott Brison: You've requested costing information on a number of justice bills. As a committee, we've requested information from the government on the cost of 18 separate justice bills. Since you have not been given the information from the government on the costs or the methodology to determine these costs, in your projections for the fiscal framework of the country, have you included any costing for these justice bills?

Mr. Kevin Page: We've highlighted that we've not seen, either in Budget 2010 or in the 2010 economic and fiscal update, any change in the fiscal planning assumptions for crime legislation, including the one bill that we did spend a lot of time costing, Bill C-25, the Truth in Sentencing Act.

We have a different assumption than the government for operational spending. We're running a little higher, but it is a significant difference when you look to the medium term. We're showing a deficit of roughly $10 billion where the government is showing a small surplus. We don't know what the government assumed in this fiscal planning. For the most part, on the expenditure framework, unless we tell you, we assume the government's numbers will build it up to the voted appropriations.

Hon. Scott Brison: What do you estimate the cost of these justice bills could be? In a range, what do you estimate the cost could be? We know that up to 5,000 new public servants will be hired as part of the justice bills. Can you give us a range based on the information you've obtained?

Mr. Kevin Page: The only range I could give you would be based on the analysis we did, which looked at one bill, the Truth in Sentencing Act, which is now law. On a status quo basis, our numbers basically said, not assuming behavioural changes, and assuming that we would maintain current occupancy rates and presence, that you would probably be talking about $1 billion a year over the next five years. This would be split out to a little over $600 million in operations and about $300 million for additional capital construction costs.

What we've heard from the government is that it's prepared to look at double-bunking or extra bunking. So occupancy rates could move those numbers around significantly. In some cases, if the government is prepared to double- and triple-bunk, their numbers could seem quite reasonable to us.

● (1000)

Hon. Scott Brison: This legislation is also going to increase the cost to provincial governments, because it's a cost sharing. When you talk about the fiscal framework of the country at a time of rising health care costs, would you agree that the government's justice bills will reduce the capacity for provincial governments to invest in health care?

Mr. Kevin Page: In the case of the Truth in Sentencing Act, when we change the Criminal Code, it will have a large impact on the provinces. If we're talking about a number of roughly $1 billion a year, assuming the same occupancy ratios, and assuming we build additional prisons based on current occupancy rates, in the correctional system at the provincial level you're talking about a system where the head counts are ten times as large, where there are additional billings, and where the fiscal impact on them is at least as large.

Hon. Scott Brison: So the government's criminal justice agenda is going to reduce the amount of money provinces have to spend on health care?

Mr. Kevin Page: Well, how the provinces manage these operational restraints is up to them. We know the great public servants at Correctional Services will do the best they can to manage within the amount of moneys they've been given.

Hon. Scott Brison: Mr. Page, if corporate taxes were increased to 2010 levels, would Canada be able to achieve balanced budgets faster?

Mr. Kevin Page: We would maintain the corporate 18%—

Hon. Scott Brison: If we were to keep the 18%, if there were no other change to the fiscal policy of the country, would we achieve balanced budgets faster?

Mr. Kevin Page: We would still have a structural deficit, but the size of that structural deficit would be reduced. There's a costing of about $1.5 billion or $1.6 billion per point reduction in the corporate income statutory rate.

Hon. Scott Brison: So we would achieve balanced budgets sooner if we stayed with the 2010 corporate tax rate and didn't go through with a further decrease?

Mr. Kevin Page: Well, we're saying that you'd still have a structural deficit. You may actually achieve a balanced budget, but you have to have an economy that's operating above its potential.

The Chair: Okay. Thank you, Mr. Brison.

We'll go to Mr. Del Mastro now for a five-minute round.

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

Mr. Page, there seems to be a little bit of an apparent discrepancy in your remarks, and I just wondered if you could clarify this for me. You indicated that the federal debt is projected to rise from 34% of GDP to 31.9% of GDP. In other words, what you're saying is that it's rising in nominal terms, but it's actually decreasing in terms of serviceability. Ultimately, when the IMF and other bodies look at debt serviceability, what they look at is debt to GDP. So in actuality—we'll set the nominal aside—in real terms, serviceability is actually improving over the budget cycle. That's what you're indicating, correct?

Mr. Kevin Page: Well, the debt-to-GDP ratio, over the short to medium term, will fall, we're assuming, in terms of the average private sector forecast. You're correct, sir; nominal will go up. We often talk about debt interest charges relative to budgetary revenue. It's a slightly different concept.

Mr. Dean Del Mastro: Here's where the discrepancy comes in. I agree with you that debt serviceability improves. So against the measure by which all international governments will actually measure themselves, Canada is improving. Most of our trading partners are not, especially our major trading partner.

If we look at what you said later, this means that sustained fiscal actions are required to avoid excessive debt-to-GDP accumulation. That's not what you mean, is it?

Mr. Kevin Page: Again, we're talking about moving from the short and medium term to the long term. When we look to the long term, we look at aging demographics. Projecting forward, we're going to see a big change in the old age dependency ratios, as I said, over the next 10 to 20 years, in particular. So we're saying that the debt-to-GDP ratio, once you move through the medium term into the long term, will actually start to increase. Our operating budget balance would actually go into deficit. Right now, it's expected to go into surplus soon. That's the part that's not sustainable, so we need to take actions to deal with the long term, the same way we took actions with respect to CPP.

Mr. Dean Del Mastro: Sure. Okay. I think you're into a period of projecting well beyond the current budget cycle, which, frankly, I don't think is well understood in the room.

When you indicate on one side that the debt-to-GDP ratio, which is the international measure that measures the health of a government, is actually going down, but then later indicate that we have an accumulation of debt to GDP, I think that confuses the issue. In this case, it actually confuses it.

Mr. Massimo Pacetti: It confuses you.

Mr. Dean Del Mastro: No, it didn't confuse me at all, Massimo. I just thought I'd point it out for you.

● (1005)

Mr. Massimo Pacetti: Thank you. I appreciate that.

Mr. Dean Del Mastro: I'm also interested to note that your corporate income tax revenues increase between the period from 2010-11 to 2015-16. In fact, what's really encouraging is the amount of increase in personal income tax the government is slated to collect. I would think this is in two parts. One is because of the growth in the economy. The second is because of the medium-term stimulative effect of the corporate income tax reductions.

One of the things the opposition never talks about, and I think it's important to recognize, is that if you compare the corporate tax rates in 2000, when the dollar was around 63¢ U.S., where it bottomed out, and then you move that forward.... The international currency of business is the U.S. dollar, so when we talk about a dollar at parity, and we actually talk about the effective corporate income tax rate in Canada, although we've moved it down, it's only down slightly from where it was.

I think there are two important things to recognize. One, we have to compete globally, and two, within your own projections, you indicate that these medium-term stimulative effects are dramatically growing the economy and are dramatically growing personal income tax. Is that a fair assessment?

Mr. Kevin Page: Sir, again, I think it highlights why it's important for you to see not only our assumptions in terms of income shares going forward over the projection period but the Department of Finance's as well. It is so that you can understand what's happened to those underlying tax bases.

Just to underscore your point, sir, which is well made, what's happening, basically, over the short and medium term is that as the output gap closes in our economies, we get back the potential in the medium term. The IMF says 2014. The PBO says 2015. Those tax bases, as a percentage of the economy, will go back to their trend, and I think that's what we're seeing. We're seeing the output gap close now.

Mr. Dean Del Mastro: I'd just point out that within your own projections there are, frankly, a lot of balls in the air. You have to make a lot of assumptions when you're projecting out five years in the economy.

It seems to me that with the fiscal gap you've indicated, which is now down to only 3% of total expenditures, from about 20% at the peak, you wouldn't need to be off by very much on your GDP projections for the government to be in balance, would you?

Mr. Kevin Page: Again, sir, we're talking about budgetary balances in Canada at the structural level that are relatively small. We've provided a graph for you right now. So for the next five years we're talking about, relative to the size of the economy, even less than 1%. That's a relatively small structural deficit. We had structural deficits in the 4% to 8% range in the seventies and eighties. We ran structural surpluses of about 1% for about 10 years. Now we have a small structural deficit.

Why we highlighted, and I apologize, sir, if I sound Darth Vaderish all the time, is that you worry about running structural deficits as you move to the long term when you're dealing with an aging demographic issue, which is very real. These aging dependency ratios are going to create a lot of problems for finance ministers and prime ministers for the next 10 or 20 years, so that's why we highlight it.

The Chair: Thank you, Mr. Del Mastro.

We'll finish with Mr. Mulcair, please.

[*Translation*]

Mr. Thomas Mulcair: I would like to go back to the discussion we were having on your projections and the sustainable and renewable nature of the system we find ourselves in.

You already mentioned in the past the choices that were made and you said how they had more influence on the current state of the government's accounting records than any external factors. Let's go back to the issue of corporate tax cuts. That's part of our analysis of the situation. You must know about the Dutch disease or the Dutch syndrome, a term coined in the wake of what happened in the Netherlands during the 1960s, when major gas deposits were discovered off the coasts of the Netherlands. At the time, that had a significant impact on the value of the guilder, and the manufacturing sector was destroyed.

According to Statistics Canada, between 2004 and 2008, before the economic crisis, Canada had already lost 322,000 manufacturing jobs. This is still going on today. Are unfocused tax cuts, which by definition continue to benefit the companies that make the most money, meaning banks and oil companies, an accelerating factor? Is the shortfall you're talking about, the deficit—you are talking about a structural deficit—fed by this major trend?

● (1010)

Mr. Kevin Page: Absolutely. We said that a substantial tax cut has had some effects. Four years ago, it was around $40 billion per year. At the moment, it is roughly $30 billion per year. There are two reasons for that.

When we look at this period of time, we are talking about a generally much more reliable economy in a macroeconomic context. In addition, as you said, there are more structural issues in connection with some specific sectors of the economy. We noticed a significant reduction in the capacity of our manufacturing sector.

Mr. Thomas Mulcair: You have mentioned our choice in particular. Others might blame us for it. But I don't. You have pointed out that this is a major expense. In 2014, it will have to be renegotiated with the provinces. The NDP is the founder of Canada's free and public universal health care system. We are always going to strive to maintain it.

On your end, you have drawn a circle around the amounts that have to be transferred to maintain the increases in the health system. We have made this choice by emptying our budget envelope and this is currently affecting our ability to pay. So it is a matter of choice and priorities. It is not just about health being unaffordable, but health being unaffordable as part of a structure like this, with tax cuts.

Mr. Kevin Page: You are right, the structure has changed over the past few years. It is different now. We now have a structural deficit. Four years ago, it was generally balanced.

Mr. Thomas Mulcair: You often use the term "sustainability". The notion of sustainable development relates to basic cost internalization principles, such as the polluter-pays principle, the user-pays principle and the life cycle of a product. Seeing as how you have to consider these principles as a whole, why do you think that cleanup costs are not included in the price of bitumen extracted from tar sands and exported in bulk to the United States without being processed in Canada? In addition, this is clearly a missed opportunity to create jobs in the country.

We are accumulating a historic financial debt, a global environmental and social debt, and saddling future generations with it. Hundreds of thousands of people will retire without a pension. Would cost internalization reduce the rising pressure on the value of the Canadian dollar and make it easier to continue exporting our manufacturing sector products? Could this be part of the solution to the problem?

Mr. Kevin Page: Economists are concerned about the whole general cost issue. If certain elements are not included in this price, there is a problem, just as in the case of environmental issues. I think you're talking about a sustainability concept that surpasses our financial sustainability. You're talking about accountability for multiple generations. Analyses are being conducted on this matter, and our office might study such issues in the future. As things currently stand, it would be a stretch for us.

Mr. Thomas Mulcair: I invite you to conduct this study and look into this accountability because it's important. We are now talking about our obligations as elected officials and about figures, but this is also an intergenerational obligation.

Thank you so much for your being here. As usual, your input helps us in our work. Thank you very much.

Mr. Kevin Page: Thank you very much.

[*English*]

The Chair: *Merci*, Monsieur Mulcair.

Mr. Page, I do want to thank you and all of your colleagues for being with us here today.

As the chair, I want to highlight one issue that perhaps you would want to follow up with me and the committee, and that is your statement on productivity growth, which is very interesting. It's very worrisome about trending down 1.2% since 1976 and 0.8% since 2000. I would certainly appreciate some analysis as to why that is, what we should do to reverse that trend, and also an analysis of the measures that have been taken—particularly since 2000—that in my view should be reversing this trend, what has been the impact of those measures in place. I would certainly appreciate information resulting from anything you have done thus far or that you do in the future. I would certainly appreciate that, and I would share that with all committee members.

Again, thank you for being with us here today.

Colleagues, we will suspend for about two minutes.

● (1015)

(Pause)

● (1015)

The Chair: Colleagues, I will ask you to find your seats, please. We will begin our second panel right away.

We have two organizations. First of all, from the Conference Board of Canada, we have Mr. Glen Hodgson, who is the senior vice-president and chief economist.

We have two individuals from the Canadian Worker Co-operative Federation, Monsieur Alain Bridault, *président*, and Ms. Hazel Corcoran, executive director.

We have, as an individual, Mr. Ian Lee, the director of the MBA program, Sprott School of Business, Carleton University.

If I can ask each of you to give your opening presentations, we'll start with Mr. Hodgson for between seven and ten minutes, please.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): I thought you might do that, Mr. Chairman.

Good morning, everybody. *Bonjour, tout le monde*.

I am part of the circle of economists who get to meet with finance ministers across the country pre-budget. I thought I would start with a few comments, basically the same thing I said to Mr. Flaherty last week, because we are allowed to talk about what we said. So here we go.

I started by talking about the economic outlook, and you have the private sector consensus forecast in front of you. We're actually below the consensus, which is a bit unusual. We've been leading the pack to a great degree for the last two years in terms of our growth forecast. We're now forecasting growth of just under 2.5%, let's say 2.2% to 2.3%, so just below the consensus.

We see this as a year of deleveraging across our economy. In our forecast we expect governments to withdraw the stimulus they injected in the last two years. We expect households to rebalance their balance sheet. We've seen things like the shortening of mortgage terms. We know personal debt levels are very high, and we've had warnings from Mr. Flaherty and from the Governor of the Bank of Canada, Mr. Carney, that households really have to start managing down, and therefore we expect a positive savings rate of about 5% for households this year. That'll take a bit of steam out of the recovery.

The dollar, of course, is having an impact on our trade balance with the United States. Other forecasters seem to think our exports will recover. We're certainly forecasting a recovery, but we expect the trade balance to be negative for this year, and that puts a negative sign into our forecast.

So growth of 2.25% is not great, but I would say it's much better founded than the growth you find in a lot of other places. The U.S. is still relying very heavily on fiscal and monetary stimulus. We're now at the happy point of being able to withdraw that and get back to a more solid foundation based on private recovery of consumption and investment. That's comment number one.

Comment number two is as follows. I've been in the public domain talking about the fiscal balance going forward and offering the view that we think the federal government can get back to balance as planned in 2015, and maybe even a little ahead of that. That view was very much founded on our belief that nominal income growth is going to be a bit stronger than has been forecast by the department and the consensus of forecasters. Last year we saw stronger nominal income growth than was forecast in the budget. On a going forward basis, even though we're putting the withdrawal of stimulus into our forecast plans, we think the government can get back to a balanced budget position by 2015.

That brings me to point number three, which is stay the course. The government put in place what we think is a very strong and appropriate framework in the last budget. We're now going to be looking for the details to ensure that the plans are put in place to slowly bring down the deficit over the next three years and then get back into a balanced budget in 2015. We're very mindful, for example, that the government managed to manage its forward obligations into the previous fiscal year. We see the government a little ahead of plan this year. I heard Mr. Page say a number of about $40 billion is the deficit for this fiscal year. That's more or less in line with our thinking as well. In fact, we'd be a little bit ahead of that, hoping for a number like $38 billion as the end number for the fiscal deficit.

We think the commitment to get back to a balanced budget in 2015 is very important. We've seen what happens when bond markets lose confidence in governments around the world. That's what has happened in many countries over the last year. So we think that re-anchoring fiscal policy by a commitment to get back to a balanced budget is very important.

I'll stop right there.

● (1020)

The Chair: Thank you, Mr. Hodgson.

Mr. Bridault, will you be presenting on behalf of the...?

[*Translation*]

Mr. Alain Bridault (President, Canadian Worker Co-operative Federation): Good morning and thank you for having us.

I represent the Canadian Worker Cooperative Federation, and I want to remind you first that the UN proclaimed 2012 to be the International Year of Cooperatives. The UN accordingly recognizes the importance of cooperatives in economic development. I would also like to thank the federal government for supporting this UN initiative.

The Canada of today, especially rural Canada, owes much of its development to cooperatives. You may often hear about agricultural cooperatives, cooperative banks and credit unions, but we represent a third family of cooperatives, worker cooperatives.

First, I want to give you a brief explanation of what makes a worker cooperative, so that you can understand the difference between us and other cooperatives. Second, I would like to talk about the potential. Third—and this is especially important—I would like to talk about our focal point, the issue involving business transfer. About 200,000 companies will change hands over the next 10 years. The country will experience a shortage of business owners. In the regions, this could have disastrous results. However, the cooperative would be the ideal solution to this problem in the regions. This is a solution called for and encouraged by the European Commission in all the European countries.

I'll try to explain briefly what a worker cooperative is. Most people are not familiar with this concept. We, the cooperatives, share the same way of doing things. We are democratic businesses that operate somewhat like Parliament does: one person equals one vote.

However, the essential purpose might differ depending on the type of cooperative involved. For example, if a plant produces cedar shingles and is the property of private business owners who have invested in the company, the logic governing its management is that of maximizing profits in order to maximize dividends. That's the business logic at play. They strive to buy cedar—the raw material—as cheaply as possible, sell cedar shingles at the highest possible price and pay their employees as little as possible.

However, if this same company was the property of a forest cooperative—this could be the case in Quebec—the logic governing its management would be completely different. It would still be the same plant, with the same number of employees and the same equipment, but the logic behind its management would be to buy from wood suppliers at the highest possible price. So, they would always try to sell cedar shingles at the highest possible price and keep the payroll as low as possible.

If, on the other hand, this plant was located in Sweden or England, for instance, and was owned by a consumers' cooperative, the logic behind its management would be different yet again. The goal would be to ensure that consumers can buy cedar shingles as cheaply as possible. What all these cooperatives have in common is that workers are always losing out. In this case as well, the point is to pay the employees the lowest salaries possible and to purchase cedar wood as cheaply as possible.

This is where the worker cooperative concept comes in. Our cooperative is not a plant; we are professionals. However, if the plant were the property of workers, the logic governing its management would once again be different, as would its essential purpose. Its purpose would be to protect the workers' jobs, to provide them with the best working conditions, the best possible social benefits and the highest possible wages. To achieve this, the plant would try to buy the wood as cheaply as possible and sell cedar shingles at the highest possible price. The logic is somewhat different.

I'll now talk about the potential involved. I say and have often written that worker cooperatives can realize their full potential under modern and current economic conditions. Why is that? There are two major trends that are currently influencing the markets.

First, we, in the global north countries, have to work with salaries that are always higher than in the global south countries, the emerging countries. That's why we must always strive for high value-added products or products with high value-added intelligence. This absolutely requires very motivated workers who use all their intelligence in their work in order to succeed. This is a natural component of worker cooperatives, since they are owned by workers. They know that the profits belong to them. Consequently, it is in their best interest to remain constantly mobilized. A worker cooperative has the highest rate of potential productivity, which is especially favourable to the creation of what I call a smart business, which meets modern standards.

The second trend, which is currently not found in all regions but is in my region—I'm from Quebec City—is that we have been at full employment for years. Things are going very well, but the major issue is a manpower shortage. Tens of thousands of positions are not filled. We are experiencing genuine manpower shortages. The region is faced with the challenge of retaining and attracting workers. How does one keep and attract employees? Once again, the worker cooperative concept is very relevant, since it really enables employers to attract the most workers and retain them.

● (1025)

It works based on Maslow's hierarchy of needs. The basic personal needs, the psychological needs of self-fulfilment are satisfied within the worker cooperative. I could talk to you about this for a long time. I gave a 45-hour course on the topic. Regardless of that, I will stop here.

Before I yield the floor to my executive director, I will talk about the issue involving the transfer of 200,000 businesses. The Canadian Federation of Independent Business pointed out this risk almost 10 years ago. This unique phenomenon, which will manifest itself suddenly, will result in a bell-shaped curve. I am talking about business owners who will retire. It was assumed that the curve would peak around 2015, but I believe this will happen around 2017 or 2018.

There is currently a sufficient number of business successors, but within three or four years at the most, there will be a shortage. This will result in the closing of businesses. The situation will be much more serious in the regions because there will be few incentives there. The cooperative will be the only appropriate solution. The European community has understood this. The European Social Fund has been providing funding in places like France, Italy, Spain, Belgium and England for programs aimed at facilitating company takeovers and bail-outs by salaried employees.

This is basically what we suggest. The worker cooperative system could enable us to save jobs and businesses, and maintain the economic base in the regions.

I will now yield the floor to Hazel.

Mrs. Hazel Corcoran (Executive Director, Canadian Worker Co-operative Federation): Thank you for inviting us to appear before you.

[*English*]

Just very quickly, there are about 350 worker co-ops across Canada, and about two-thirds of those are in Quebec. Our organization, the Canadian Worker Co-operative Federation, is a national association. It started about 20 years ago for worker co-ops, multi-stakeholder co-ops, and worker shareholder co-ops. Services include support for start-ups, a newsletter, research, and an RRSP program so that our members can invest in their own businesses. Currently the program has over $14 million invested in it.

The relatively small worker co-op sector in Canada stands in contrast to the sector in Europe, where hundreds of thousands of people work in worker co-ops. In the U.S., about 10 million people are in employee-owned companies under ESOPs, employee stock ownership plans. So Canada is far behind members of the EU and the U.S. in terms of the size of the sector and in terms of employee ownership as a business succession strategy.

I'm going to present a three-point plan in terms of how the federal government can help address this succession crisis that's coming, especially in rural communities and in particular through using employee ownership. Some of these points are also relevant to other parts of the cooperative sector.

The three elements are, one, a cooperative investment strategy; two, to make the federal cooperative development initiative permanent and to expand it; and three, to expand that program that I'll call the CDI—the co-op development initiative—into the new area of conversions to worker co-ops. We believe these programs would be an important legacy of the UN International Year of Cooperatives in 2012.

To go into more detail on the first one, the co-op investment strategy has two prongs. First is a Canada-wide co-op development fund that has previously been proposed by the umbrella organizations the Canadian Co-operative Association, or CCA and le Conseil canadien de la coopération et de la mutualité, CCCM. It's been supported by our organization as well as the Credit Union Central of Canada and others before Parliament.

The second point in the investment strategy is a federal co-op investment plan that is modelled on the Quebec *Régime d'investissement coopératif*, which is a tax credit program for investing in worker and producer co-ops or farmer co-ops and so on. Both of these components were unanimously endorsed by the finance committee in your 2010 pre-budget report, but they did not make it into the budget.

So in terms of a few details on that, co-funded with the co-op sector, the co-op development fund would provide financing to new and existing co-ops. It would require a one-time federal contribution of $70 million, after which it would be self-sustaining. It would be a repayable loan fund and not a source of grant funding.

Investments would only be made based on an analysis of a cooperative's business plan and its capacity to pay back loans. An example of such a fund is the arctic cooperative development fund, which received about $10 million in 1986 from the federal government and has grown through serving the largely aboriginal co-ops in the north to a $30 million fund now, and it continues to serve those communities. So it would be a very similar situation.

In 2008, the cooperatives secretariat of the federal government commissioned PricewaterhouseCoopers to examine this fund as proposed by the co-op sector and they viewed it very positively. We are convinced that this fund would be an effective source of support for employee-owned co-ops as well as other types.

The federal co-op investment plan, as I mentioned, is modelled on the Québec *Régime d'investissement coopératif*. It would be a partnership between citizens investing their own money and the federal government. In the plan in Quebec, from 1985 to 2006, almost $400 million in total was invested by members and employees in eligible cooperatives. The plan at the federal level is estimated to cost $17 million to $20 million per year.

● (1030)

The Chair: Ms. Corcoran, can I get you to summarize, please?

Mrs. Hazel Corcoran: Sure, I will.

The federal co-op development initiative is a program that was renewed in 2009. It needs to be expanded from its current $4 million per year and made permanent. There's much more demand for the program than can be met.

In terms of the third point, which is the new CDI component for a program to convert enterprises into worker co-ops, this would be focused on rural communities, as Alain has spoken about, and the crisis that is coming there with business successions. We believe the employee ownership model is one that holds a lot of potential. In fact, there is lots of research I could quote, but I won't, around its success.

Thank you.

The Chair: Thank you very much for your presentation.

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

Professor Ian Lee (Director, Master of Business Administration (MBA) Program, Sprott School of Business, Carleton University, As an Individual): Thank you very much for inviting me again. I'm not allowed to present the slides, but they're reproduced.

I want to run through the disclosures first because I think they're important. I don't have any investments or consulting contracts of any kind anywhere in the world. I am a poor professor. No organization, corporation, NGO, or political party influences my views. I do an enormous amount of research, and I talk to myself a lot, but I am a tenured professor who is free to speak my mind without any influence from outside organizations.

I've also taught over 100 times in the third world. That's relevant because I'm going to be talking about protectionism today.

I was thinking last night and this morning about not providing a title to you for my presentation, but I've come up with one. I'm going to call it “Toto, we are not in Kansas anymore”. I'm referring, of course, to Dorothy and the Wizard of Oz and that we are in a brave new world, a rapidly globalizing world. There are major new competitors coming on stream—such as China, where I have been teaching every year since 1997—and we cannot pursue the policies of the past.

Although I agree with much of what the PBO said in the broad big picture, that the long-term threats are much more critical to Canada than the short term, I think we're very strong. I'm not going to get into the details because I don't have a database that the Conference Board or the Department of Finance or the PBO have. I do want to deal with some “big P” policy issues in my short time.

I do think we have the strongest economy in the OECD today; that's been endorsed internationally. I agree, again, with the PBO that the economies of the European Union and the U.S.A. are in great danger due to profligate and irresponsible indebtedness by some of those countries, especially in the States and in southern Europe. I also put the assumption on the table that economic growth is absolutely crucial to grow the jobs that pay the taxes to finance the social programs that we value.

What I really want to talk about today are what I believe are three threats or harms or risks to Canada and individual Canadians.

The first one is protectionism. I think we have to reframe this tired debate that has been discredited in the research literature. I refer you to the Institute for Research on Public Policy, January 2010, dispelling myths about foreign investment. It's an excellent summary of all the research, and it blows all those myths out of the water.

We have to reframe the debate from who owns the company to who is investing in Canada and creating jobs. In other words, a Canadian company that is not investing here, versus a foreign company that is, is in worse position, in my view—is not doing as much—than a foreign company that's investing here. In fact, the research is showing very clearly that foreign firms have higher levels of productivity and they pay higher levels of wages. That's an important point. We have to open up and not shut down our Canadian economy. Why? Because one-third of the boomers are aging.

This was supported unanimously at the November G-20 in South Korea. The OECD, the World Bank, the WTO, and the ILO opposed protectionism. I have these documents for the committee if they want them, and I can copy them off the laptop. This was “Trade and employment...Lessons for the future”. You have the bullets there, the quotes, saying that protectionism of any kind is terrible for the economy.

On number two, again, I just want to mention one thing. I realize I am from the research-based community, the world of scholarship, and I understand that some of the things I'm going to say today are going to upset some people. That's fine. I'm not a politician. I'm not elected; I'm tenured. You can't get rid of me and my president can't get rid of me. I can say what I want. And I'm going to support it with research—refereed, scholarship research—in the leading organizations, such as the OECD.

Let's turn to corporate taxation. I've followed the debate over the past two months, and I'm astonished at the debate. There has been no reference to the OECD, to their 10-year tax policy research branch studies. They have published dozens and dozens of studies that have concluded, irrevocably, without condition, that corporate taxes are the most harmful type of tax for economic growth. There is no ambiguity in the research—none, zip, nada. I know that's going to upset some people, but that's a fact.

Also on the incidence of taxation, who pays corporate taxes? There's this myth in Canada that the corporations pay taxes. Corporations do not pay taxes even when they pay taxes. I am a former banker. I used to lend millions of dollars in this city to small and mid-sized businesses. Tax is just another cost of doing business, like wages. It's like the plant and equipment. If you don't pay those bills, guess what? The bank or someone else shuts you down and puts you into insolvency.

A corporation is an intermediary and it passes on all its costs of being in business, including taxes, either through increased price of goods and services or through lower wages. There is excellent research coming out of the Federal Reserve Bank, the research branch in the U.S., showing it manifests in lower wages.

● (1035)

The third debate is on the reform to increase CPP. There are many people saying, “Oh, my goodness, Canadians are falling off the cliff into poverty. Our elders are just falling apart.” This is fatuous, empirical nonsense.

The OECD “Pensions at a Glance” has said on the record—and again I have this report here in my laptop to give to the committee—that we have one of the highest social safety nets in the world for elderly people, and less than 5% of our elders are in poverty, one of the lowest on the planet Earth. If we're going to do anything, we should be targeting that 5%, which is about 250,000 families, and not doing a universal increase that's going to drive up payroll taxes on employers.

In conclusion, the Canadian economy is extraordinarily strong. I believe it's one of the two strongest economies in the west, along with Germany. But there are great dangers ahead.

First, protectionism is a cancer that is metastasizing in our country. We've got to stop it now for those who care about this country and care about individual Canadians. As I said in an interview on CBC's *Lang & O'Leary* last Friday, protectionism produces poverty.

Second, we've got to at least reduce, if not eliminate, corporate taxes because they are taxes on workers.

And third, we shouldn't be increasing the CPP; we should be targeting that 5%.

Thank you.

● (1040)

The Chair: Thank you, Mr. Lee, for your presentation.

We'll begin questioning by members with Mr. Szabo, please.

Mr. Paul Szabo: Thank you, Mr. Chairman.

Let's start with the Conference Board.

Mr. Hodgson, you heard the PBO this morning cover a lot of ground. Quite frankly, I think for a lot of people some of the stuff he was saying was in terms that his office would understand but a lot of the people listening in probably didn't.

Other than saying that his projections are basically unchanged, what else did he say that caught your attention?

Mr. Glen Hodgson: The most acute area of difference is our view on nominal income growth over the next five years, which is why Kevin said there was a structural deficit in 2015. We don't think there is. Frankly, there's lots of room for debate amongst the economists because we're talking about a 1% or 2% difference in the growth line going forward five years. So that's an area of difference.

But in areas of agreement, I heard a number of things that I deeply agree with.

First of all, we're as concerned as anybody about Canada's terrible productivity growth performance. The chart in his presentation showing productivity growth rates dropping on a decade basis is very striking. It's an area where we're doing a lot of research. I, personally, have done a lot of research there. We have to really change the argument now.

To a great degree, as a national economy, we've relied upon a cheap currency to be competitive in the world for way too long, and it's now caught up with us. That started, really, in about 2003-04, as oil prices were rising—and I think they're going to rise further—and the dollar rose along with it because our currency is a petro currency. We really have to come back to the productivity point.

The other point that I was really struck by was his point on demographics, which is going in the other direction. We're kind of caught in a vice right now. On one side is poor productivity performance and on the other side is aging demographics, which is going to mean much slower labour force growth going forward.

That really does suck the life out of our national economy, because population growth is a key driver of economic growth. If we could deal with the productivity issue, we can actually substitute for the slowing labour force growth. But if we do nothing, we're going to end up as a much poorer nation. So I was very struck by his medium-term view, with which I very much agree.

Mr. Paul Szabo: We talk about structural deficit in terms of a sustainable financial framework. It's going down, or at least it's projected to go down, and we're going to reach a point of full potential. In terms of the timeline, though, do you have any level of confidence as to how we will be able to address that over the medium term?

Mr. Glen Hodgson: The Minister of Finance set out a framework in the last budget that took us back to a balanced budget in 2015. We think if we follow that framework path, we're going to get there. That's going to have to mean very tight control of spending. There should be some reconsideration of the whole nature of taxation in the country, but it doesn't automatically mean you have to increase taxes right now. I think a lot of the adjustment can happen on the spending side, knowing that there are going to be acute pressures for more spending down the road, particularly in health care. And of course the Martin accord runs until 2014.

We've assumed the status quo in our forecast going out beyond that, but that's one of the big policy debates that's going to happen in this country on a going forward basis. Fundamentally, we don't think there is a structural deficit. We think that Canada, at the federal level, can get back to a balanced budget by about 2015.

Mr. Paul Szabo: That's assuming that everything stays under control.

Mr. Glen Hodgson: Yes, there are a lot of assumptions built into that.

Mr. Paul Szabo: In the PBO's report on the operating budget freeze, there were some concerns raised about being able to deliver, particularly with regard to things like Corrections Canada and the cost of the justice bills, which will affect the prison populations, the attendant infrastructure, and indirect costs. We're talking tens of billions of dollars.

When the PBO and the Conference Board and others do these projections, they're not looking on a legislative-by-legislative basis. When you have 18 different justice bills that are going to affect the whole corrections/criminal justice sides, both federally and provincially, do you ever make any adjustments or factor in extraordinary shifts in public policy that will cost tens of billions of dollars?

● (1045)

Mr. Glen Hodgson: I think you captured my role accurately a bit earlier when you talked about our forecast being very much top down. I'm not analyzing across 150 federal programs totalling $225 billion annually. The advice I've given to Minister Flaherty from the time when I was at the Department of Finance is that good budget-making means you build in some prudence. You build in some operating reserves—$5 billion is the kind of number I like. You use prudent planning assumptions on a going forward basis. We could do that sort of bottom-up analysis, but I'd have to do it on a contractual basis.

Mr. Paul Szabo: Paul Martin used to have at least a $3 billion contingency in there. If the government were to incorporate that now in its projections over five years, we'd have another $15 billion that they're going to have to cut, or raise taxes to cover, to have balanced budgets by 2015. So it's going to take a lot of discipline, forgetting about providing contingency or prudence or productivity reserves.

Is there anything else that the committee should be concerned about—threats, risks, or even opportunities—that hasn't come out yet?

Mr. Glen Hodgson: I'll repeat what I said to Mr. Flaherty last week. I talked a lot about the heavy levels of public indebtedness in a lot of countries in Europe and the fact that Japan just went through a credit downgrade. There are a lot of aging, mature industrial countries that are severely over-indebted. I think Professor Lee referred to that in his comments. That's going to be a chronic risk. Right now, it looks fairly calm, but at any point, bond markets could lose confidence in those governments. I think at some point Greece will not be able to service its debts on time, and there will have to be a restructuring, or even a formal default.

We're in a world full of risk. We can see what's happening in the Middle East—this will destabilize petroleum markets, currency markets. So we have to plan within that unstable context.

The Chair: Thank you, Mr. Szabo.

Monsieur Paillé, sept minutes s'il vous plaît.

[*Translation*]

Mr. Daniel Paillé: Mr. Chair, I am wondering about the topic of our meeting. We were supposed to talk about the government's economic update and fiscal projections. However, I see that Mr. Lee and people from the Canadian Worker Cooperative Federation have instead provided us with budget advice. I must say that the credibility is not the same in the two cases.

I will now speak to the Conference Board of Canada.

You say that we should withdraw stimulus measures and that we will get back to a balanced budget position in 2015. We are talking about a deficit of $32 billion or $40 billion. We agree in saying that this is a statistical error. Regardless of that, you are not considering any other approaches. You are suggesting we remain very conservative and withdraw stimulus measures, but you seem not to want to talk about taxation measures. For instance, more taxes could be imposed on higher earnings. We could also take a look at exceptionally large bonuses, taxation of businesses, tax havens, and so forth.

Why do you suggest that, over the next few years, we should stay the course and not make any changes at all to Canada's taxation measures? It seems that some measures cannot be touched.

● (1050)

[*English*]

Mr. Glen Hodgson: The core purpose of the Conference Board is to be essentially the country's economic forecaster offering an alternative view. We have built tools that are very similar to what Quebec finance has, what Ontario finance has, and what the federal government—both the Bank of Canada and the Department of Finance—has, to provide a view to everybody on a fee-for-service basis. So we basically do a baseline forecast that's then available for everybody to subscribe to—governments, the private sector, universities, labour unions.

We can build scenarios quite happily into our forecast if we're engaged to do that, but we have to make an assumption to provide that baseline forecast. You'll often use the status quo assumption, although with a little bit of forward thinking, for example, in the case of Ontario. We know that Ontario is facing a very deep fiscal deficit. In fact, if there's a structural deficit in the country, it's in Ontario. We would factor that into our thinking in terms of their ability to pay ongoing increases to public sector employees in Ontario. In the federal government we have taken, basically, the status quo model, on a going forward basis, and then we'll make adjustments to the forecast, which we do every quarter, frankly. So as the facts change, we run the model again and come up with a different view.

We do many, many studies. We probably do 70 pieces of paid research a year, examining questions like the job impact of the federal stimulus package or the impact to different forms of public sector compensation on the economy.

So I could certainly do that work if there's an appetite to do it.

[*Translation*]

Mr. Daniel Paillé: So you are saying that any unused taxation measures that could be used more, or some expenditure adjustments, could do the job. The fact that our government's expenditure policy and tax policy are rather conservative does not mean that they are sacred cows.

Mr. Lee, another thing I want to point out before I move on to the Canadian Worker Cooperative Federation is that being at liberty to say what is on your mind does not mean that it is the truth. The MP representing Beauce thinks he is infallible. It would do you good to go to Hochelaga to see what real life is like beyond the findings stored in your laptop. Since I am a nice guy, I will stop there.

I will try to link this to today's topic, which is the government's fiscal projections. Regarding worker cooperatives, you seem to be saying that there is a very short-term problem related to the transfer of companies—two or three years is like tomorrow morning for companies. You say that the issue is new and that the only solution would be to transfer companies to work cooperatives. I may be in agreement with you on this issue.

Why caution people now, when the problem will only arise in two or three years? Do you have any data about this, data based on real life and not on the opinion of academics?

Mr. Alain Bridault: Yes. Academics also take real life into consideration. A major economic disaster could occur, especially in the regions that are already doing poorly, such as Gaspésie and the remote regions.

The MDEIE, the ministère du Développement économique, de l'Innovation et de l'Exportation du Québec, published a research paper three weeks ago. The paper focuses on the shortage of successors. This is the issue at hand. The problem will be less noticeable in urban areas, since people will move to larger cities. There won't be any problems in Quebec City and in Montreal, but the situation could become disastrous in the regions. This issue should be addressed before the situation becomes critical and not once companies are closing. Everyone is saying that, to save companies with no successors, those in charge should prepare three or four years in advance.

Mr. Daniel Paillé: You say that, if there are no successors, companies will close. This truly affects economic conditions, since the regional economy is at stake. However, I feel that, if a company is doing well, if it is earning profits or paying dividends to its owners, there will always be someone to take over.

Mr. Alain Bridault: This is the very issue I'm talking about. This is what is shown in the research conducted by the MDEIE, which is especially interested in Quebec. However, the situation is probably the same in all Canadian provinces. Research shows that there will be a shortage of successors. Even though companies will be available, there will be nobody to take them over. The only alternative—the European Commission is working on this—will be to have employees take over their own companies. However, this process requires a lot of guidance and preparation.

Right now, and for another two or three years, there is no problem, since there are enough successors. However, as we approach the peak of the curve...

You can already see this in some regions. I am involved in local development centres in Quebec. I was vice-president of the Quebec City LDC for a very long time. For example, over 50% of cases at the LDC of the regional county municipality of L'Islet are company takeovers. For the time being, there is no problem. However, panic is starting to set in because, in three or four years, there will be no one left aside from the workers.

We must implement an international mechanism, which will keep the economic costs of closures from skyrocketing. Basically, what the estimates are saying is that, if you are not careful, you will end up with a problem.

● (1055)

[*English*]

The Chair: We go now to Mr. Hiebert, please, for a seven-minute round.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you all for being here. I found your statements and your comments to be very interesting.

I want to start with Mr. Hodgson. You had some very interesting things to say about your forecast for the Canadian economy. You said you don't see a structural deficit in 2015, as Kevin Page does. I thought maybe it would be helpful if we could put this in context.

The federal budget is about, what, $265 billion a year? And we have four budgets between now and 2015. So there would be a total of over a thousand billion or a trillion dollars in expenditures between now and then. Kevin Page is saying that we're going to be $10 billion over. We're saying we'll be at balance. You're saying we're going to be at balance. Are we not talking about a very small amount of money here, less than 1% of the overall budget over the next four years? Is this not really rather modest and insignificant?

Mr. Glen Hodgson: It's a modest number. It's really not insignificant, because that's money we have to go out and borrow from global capital markets. So that adds another $10 billion to the federal debt load, as we're adding this year with a deficit of about $40 billion. I wouldn't want to trivialize the number, but you're right, for a trillion dollars in spending over a four-year period, we're talking about a difference of $10 billion. That means that every year you have a chance to adjust that path a little bit to take it back to a balanced budget.

For me the really important message is that you have to anchor. You have to have a hard target and know where you want to be at some point to ensure that your debt levels don't run out of control, as they've done in Ireland and Greece and Japan.

We did a very thorough analysis of the budget when it was released last year and we liked the framework we saw. There's always room for correction. We can have a big debate about tax policy, for example. But for the most part, we think the framework is properly set. Now the government has to take the next step and actually build out the detail and implement the plan.

Mr. Russ Hiebert: But you like the plan as it is?

Mr. Glen Hodgson: I think we gave it a high B, a B plus. I don't give many 10 out of 10s, though.

Mr. Russ Hiebert: That's pretty good. You're a tough marker, I see. There's no great inflation here, I guess.

Moving on to the Canadian Worker Co-op Federation, you talked about all the industries that will be, even in the next few years, looking at transitioning, either closing or maybe selling. Wouldn't these business owners, even now, be contemplating their succession planning, and would they not, if they're profitable, be looking to their employees and saying, “This would be a great model for you to consider. Why don't we start talking about this now?”

I guess the question I'm asking myself is why there is a need even for the $70 million fund. Would the national incentive not be there? They're going to make more by selling their business, either to someone or to their employees, than they would by simply shutting it down, and that might be their retirement bonus.

Mrs. Hazel Corcoran: It is their retirement, but this is the problem. It's the same force that puts a person into the position of putting off making their will. It's the same thing that has them putting off putting their succession plan in place for their business. It's an emotional thing, because this means they're going to be gone.

The other point, I guess, is that people often think they're going to be able to sell it to one of their children, and maybe they don't recognize that, number one, only about 30% of businesses that go on to children will actually succeed in the next generation, and by the third generation it's 3%, but number two, oftentimes these days the children don't want to take over the business, and they don't realize they need about 10 to 15 years to make that plan realistic. So someone might be thinking that they're 58 years old now and in seven years their child may be willing to take over.

I think there is a lot of wishful thinking going on, and maybe people don't recognize that this is what needs to happen.

In terms of why employees as a group can actually take it over much more easily than others as individuals can, they aren't business people, and not a single one of them would have the capital to do it, but you can help them as a group to become entrepreneurial and to do that through the cooperative model in a way they couldn't do individually. You're sort of making business people out of folks who wouldn't have been on their own.

● (1100)

Mr. Russ Hiebert: So part of your job is to educate these people to move beyond their wishful thinking and to set more realistic targets.

Mrs. Hazel Corcoran: Absolutely, yes.

Mr. Russ Hiebert: Mr. Lee, I was wondering if you could elaborate on some of your conclusions, particularly the comment you made at the end of your presentation that corporate income taxes are a tax on workers. Could you elaborate on that?

Prof. Ian Lee: I'll be pleased to.

I want to begin by responding to something that Mr. Paillé said. I don't want to leave the impression that scholarship has nothing to do with the problems of real people in the real world. I grew up on a farm in eastern Ontario. I dropped out of high school in grade 12 and I was on the wrong side of the tracks for a long time.

That is not an excuse to shut down or protect the Canadian economy. It means we have to come up with adjustment policies, like the workers collective and the ILO are talking about, to deal with people who don't have the skills for the new economy.

To deal with your question directly, there is a large body of research by distinguished scholars across the United States, Canada, and Europe. One of the leading scholars is Dr. Devereux at Oxford University, the Saïd Business School. He's the director of tax policy studies, and he's published extensively for the OECD. Another node of scholarship is the Federal Reserve Bank, which is the central bank of the United States, the counterpart of the Bank of Canada. There is also the Kansas City branch of the Federal Reserve—each branch has its own economist on the payroll doing all kinds of wonderful research that is available free of charge. They have done a lot of research on the so-called incidence of corporate taxation—who pays for it, how is it financed? I've always taken it that corporations don't pay taxes any more than they pay wages, because it's all passed on in the form of higher prices or lower wages. If you don't cover all your costs of doing business, you're out of business, so somebody is paying for those taxes, and it's not the corporation.

Then the question is, who's paying for it? The research coming out of the Federal Reserve branch in Kansas City—there have been several articles published by Alison Felix that I can provide to you—shows that in small, open economies like Canada, it falls on workers.

Mr. Russ Hiebert: More so than on consumers?

Prof. Ian Lee: Yes, and the effect is greater on smaller economies like Canada than on large economies like the U.S. This is the conclusion of this economist, who's on the payroll. She's not in the private sector, she's not a lobbyist; she's an employee of the Federal Reserve. It's as if she were working for the Bank of Canada. You're in the public sector; you're non-profit.

The Chair: Be brief, Mr. Lee.

Prof. Ian Lee: I'll be very brief. She has found that the incidence in small, open economies—Sweden and Canada—falls on workers. In economies like the States, it's passed on more frequently through the higher incidence of the cost of goods or services.

The Chair: Thank you.

Thank you, Mr. Hiebert.

Mr. Mulcair, *s'il vous plait*.

[*Translation*]

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

Mr. Hodgson, always a pleasure.

Mr. Bridault, thank you very much.

Ms. Corcoran et Mr. Lee, welcome and thank you for bringing so much input to our discussion.

I will begin with you, Ms. Corcoran. You pointed out an element that was underdeveloped when we were studying various economic projection scenarios with a view to the upcoming budgets. Very few people have presented matters in the same light you and Mr. Bridault have.

Since you ran out of time earlier, I would like to give you the opportunity to finish talking about the possibilities of this economic model in preparation for business takeovers. You brought up two elements in support of your argument: the demographic challenge and the international trade challenge. Someone mentioned L'Islet. We all know about what happened to Stryker Médical Québec.

In the past, a Quebec representative would serve on the Standing Committee on Finance, but there are no longer any Quebeckers on the Conservative side. That speaks volumes.

I would like to give you the opportunity, Ms. Corcoran and Mr. Bridault, to finish sharing your input on the topic, for the benefit of this parliamentary committee.

● (1105)

[*English*]

Mrs. Hazel Corcoran: Basically, what we are proposing is a plan that will enable that reflection to happen. First of all, the Canadian cooperative sector is substantial in size. Something like a third of the Canadian population are members of a cooperative. They have over $300 billion in assets, 150,000 employees. We believe they are part of the reason the Canadian economy has come through the crisis so well. The worker cooperative sector is quite underdeveloped. The program we're looking at here is to deal with the business succession crisis, which we think is putting something like two million to three million jobs at risk. We want a program to finalize a set of documentation on the potential of retiring owner succession using employee-owned co-ops. We want to carry out promotions so that we can go into all chambers of commerce, urban and rural, and economic development organizations, so that they will understand the potential and how it's done. We also want to start carrying out conversions to employee-owned businesses using co-op succession professionals.

The whole thing is just not known, so a big part of what we're doing is trying to get it known. We are trying to get the process out there and to start implementing.

[*Translation*]

Mr. Thomas Mulcair: Go ahead, Mr. Bridault.

Mr. Alain Bridault: I don't want to give you a course, but I wanted to point out that the global issue of businesses being handed over to workers has already been studied in depth. In some cases, we are not necessarily talking about workers. We could be talking about a small business, a small store with one or two employees. This is not necessarily a worker cooperative; it could be what we refer to as the *coopérative de solidarité*, a community multi-stakeholder coop. This has been developed through federal funding. There are many documents on the global issue. We have with us the French version of *Relais COOP* as well as the English version.

What I wanted to say concerns the research conducted by the CFIB, which sounded the alarm. Five per cent of the 200,000 businesses the research focused on are medium to large businesses with more than 20 or 25 employees. Everyone looking to cherry pick is targeting these companies. I am talking about accounting firms, banks, and so on.

However, 95% of businesses are overlooked because they are less profitable. Many of those businesses are in rural areas. These are the kinds of companies we are focusing on.

In the regions, a business owner who starts up a company with 20 employees is always proud of his business. These people don't want to simply sell and then go have fun in the sun without a care in the world. Their family reputation is on the line, since they live in the region where their business is based. This is our target. These are our main partners.

To complete the picture—and this is somewhat related to the question asked by Mr. Hiebert—business owners are not ready to let go. Ms. Corcoran talked about this. Research shows that 70% of business owners, who belong to my generation—grandpa boomers, rather than baby boomers at this point—don't want to think about retirement. They see their company as their baby. They are having a hard time thinking about leaving their company, so they are not preparing for this eventuality. The failure rate is huge when someone does not prepare.

That is why we were saying that people must prepare for this in advance. We must implement a system that will help prepare the aging business owners, raise their awareness, guide them and help them along in the process. We also need a financial system. That is why we were talking about the CIP and similar types of plans. A Canadian fund could offer loan guarantees so that workers can buy their share, invest in their company and buy it back.

Mr. Thomas Mulcair: I have only one minute left. Thank you once again.

I will now go to Mr. Lee.

[*English*]

Mr. Lee, you made a statement before, and I'd like to give you a chance to nuance your answer. You made a statement that the person you were quoting from the United States Federal Reserve worked in the public sector and you said it's like the Bank of Canada. The Bank of Canada is indeed a crown corporation; it says that right at the beginning of its act. Is it still your position that the Federal Reserve of the United States is the public sector?

Prof. Ian Lee: I define the private sector as firms that sell private goods for profit in private markets to private people. The Federal Reserve Bank of the United States does not do that.

Mr. Thomas Mulcair: That's not the question, is it?

Are they public servants?

Prof. Ian Lee: If you mean under their legislation, I haven't looked under their legislation, but I think—

Mr. Thomas Mulcair: Don't you think if you're appearing here as an expert, before stating that somebody works.... This was the key point that you were making. To prove the objective nature of the quote you were providing to this committee you said this person works for the Federal Reserve in the United States and that this is identical to somebody in the public service who works for the Bank of Canada.

● (1110)

Prof. Ian Lee: Correct.

I don't know anybody in the economics profession who suggests any central banker is not a public servant.

Mr. Thomas Mulcair: You're still avoiding it.

Prof. Ian Lee: I am answering your question.

Mr. Thomas Mulcair: No, you're not.

Prof. Ian Lee: They are public servants, as far as I'm concerned.

Mr. Thomas Mulcair: No, they're not, because the Federal Reserve has a completely different nature. I think this underscores the fact that you're here making statements holus bolus that support your preconceived notions about the economy and you can't even back them up with facts.

The Chair: You have 30 seconds.

Prof. Ian Lee: Mr. Mulcair, with respect, I quoted a lot of research today. You said that my opinions—

Mr. Thomas Mulcair: No, you quoted somebody from the Federal Reserve in the United States—

Prof. Ian Lee: That's correct.

Mr. Thomas Mulcair: —and then you went on to say that this was proof that this was objective information because this person was a public servant with no take. I put it to you that the Federal Reserve Bank of the United States is not the public service in the same way the crown corporation that is the Bank of Canada is, and I think your underpinnings for your own assertion are simply false—

Prof. Ian Lee: I simply don't agree with you.

Mr. Thomas Mulcair: —as are a lot of the other things you stated before this committee—

Prof. Ian Lee: I just disagree with you. I'm sorry.

Mr. Thomas Mulcair: You can't disagree with facts. You can't disagree with the law.

Prof. Ian Lee: I do disagree. They're part of the public service.

Mr. Thomas Mulcair: No, these are questions of fact and law. You're talking through your hat.

Prof. Ian Lee: We'll have to disagree, sir.

The Chair: Okay, we'll have to let that be a point of disagreement.

Mr. Pacetti, please, for a five-minute round.

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

Merci aux témoins.

Mr. Hodgson, going back to your statement, you're thinking that within, I guess, four or five years, eventually the government is going to have a balanced budget.

I asked a question of the Parliamentary Budget Officer, but we ran out of time. It looks as though the government is going to benefit from an increase in revenues. I think it lucked in, or lucked out, however you want to put it.

But it's on the expense side where I have a problem. The expenses have been going up just as much as revenues have, taking out the stimulus money. You seem to have no problem in terms of this government's being able to get its expenses under control. I don't see that. I don't see how it has been able to do it up until now, in the four or five years it's been in power, and how it's going to do it. It is so irresponsible; we can't even get projections. It's ashamed of its own projections. We can't get it to give us backup for small items such as spending on F-35s and prisons. So I don't see how you can tell me that you have full faith in this government's being able to keep its expenses under control for the next five years.

Mr. Glen Hodgson: I don't believe I said “full faith”. I believe I said that I liked the framework that was put in place in the last budget but will be looking for a detailed plan now, going forward over the next four years, to ensure those projections are actually met.

I was at the Department of Finance for 10 years. I know what it's like to actually do a plan and then not respect it. I was there in the late eighties, early nineties. So I've seen previous budget rounds.

I share your concern that if you put in place a budget that is very much founded upon expenditure control, you've got to do what you say you're going to do.

On the revenue side, I would agree that.... Over the last 10 years we've seen, frankly, an explosion of revenues at the high-income levels from both corporate income tax and, principally, personal income tax. The tax multiplier really changed over the last three to five years. We've had two exceptional years. Frankly, I expect that the multipliers Finance is using as its baseline are going to be a little bit conservative, that there will be some upside in terms of revenue intake. But that's still to be proven.

Mr. Massimo Pacetti: Again, on the revenue side, I think what happens is you go through cycles. When the cycle is up, we can all say they've done a great job. But the problem is when the cycle comes down, all of a sudden we just blame it on the recession and not on the fact that the government has probably made some bad decisions. That's my point.

You're downplaying the fact that, yes, you can say after five years there's going to be a trillion dollars being spent, but in the next five years there's accumulated deficit that's going to be happening. On the fifth year, if you are off by even 1% or 2%, you're going to be off by another $10 billion. So let's not trivialize the amounts. In the five years, that trillion dollars that's going to be spent.... It's not that $10 billion that's going to be lost on that fifth year. You're going to be accumulating deficits over the next five years. So the $10 billion is not the trivial part.

Mr. Glen Hodgson: I believe that in response to an earlier question I actually agreed with you. That $10 billion is a huge amount to add to a national debt. That's a huge burden to put on my kids to pay down the road.

On your earlier point, though, you have to separate between the structural and the cyclical when it comes to revenues. The cycle is what happened at the end of 2008-09, when we saw a collapse in both personal income tax and corporate income tax revenues, which added at least $20 billion to the—

● (1115)

Mr. Massimo Pacetti: Yes, but with that there was a decision to decrease the GST. That is also a factor. That, again, is a decision made by the government.

Mr. Glen Hodgson: The ability to reform the taxes was entirely in the hands of the government and, frankly, this committee. I'm on the record as offering a whole array of views on the kind of tax reform I'd like to see.

Mr. Massimo Pacetti: Thank you for that. That's why I'm going to ask the question of Mr. Lee.

It's nice that you have research, but in the end we have to make choices. It's nice to say that corporate taxes provide jobs. Mr. Bridault just said 95% of businesses out there are small businesses that are not going to be affected by these corporate tax increases or decreases, depending on your viewpoint. But we have decisions to make. So are you going tell me that corporate taxes should be at zero and we should just let these big corporations get a free ride?

The Chair: You have about 30 seconds, Mr. Lee.

Prof. Ian Lee: Well, they don't get a free ride, as I've already said, because corporations are intermediaries that pass on all of their costs, including wages, plant and equipment, transportation, distribution, and marketing. They are all passed on through either price of goods and services or lower wages. There's no free lunch.

Mr. Massimo Pacetti: What do you mean there's no free lunch? We can see with the corporate responsibility they've had in the last few years.... We just talked about it at the beginning—productivity. What have they done for productivity? We've reduced accelerated capital costs that they've asked us for. We've reduced corporate taxes. Meanwhile, productivity is not going anywhere.

Prof. Ian Lee: I'm glad you asked that question because I did not address that in my opening comments. Why I brought up protectionism and CIT was this. The dark and dirty secret about private firms is that they must be forced to compete. Because we have protectionism, pro OECD—I have a quote from OECD saying that we're one of the most protected economies in the west. We've embedded protectionism, which allows our corporations not to compete as aggressively. If we opened up our borders and made them more competitive and forced them to compete, that would drive up our productivity.

The Chair: Thank you, Mr. Pacetti. We'll have to leave that for another round.

[*Translation*]

Mr. Carrier, go ahead.

Mr. Robert Carrier: Good morning, everyone.

I will start with Mr. Hodgson. You represent the Conference Board, which, to my mind, is an important economic organization. Earlier, you said that your mission is to provide economic forecasts. I am disappointed that you have not submitted any documents to us. Words often slip away and are hard to hold on to.

Earlier, we heard the commitment made by the Parliamentary Budget Officer. I think that he has a responsibility. He provided us with a document we can refer to even after our meetings. I expected you to submit documents based on information you receive, you already have or you interpret yourself.

I will ask you a question about the document presented to us earlier by Mr. Kevin Page. He came to the conclusion that we have a structural deficit. I think that this is an important element when it comes to the budget. I wanted to hear what you think about that specific element. Do you agree with not controlling expenditures and not conducting any analyses on the long-term sustainability of political decisions? I would like to hear your opinion on this. Do you consider long-term projections more than you do annual forecasts that may be based on political uncertainty?

[*English*]

Mr. Glen Hodgson: Thank you very much for that.

It's a two-part answer.

First of all, before the Parliamentary Budget Officer position was created, we actually were doing a forecast for this committee. At one point, about three or four years ago, there were four independent forecasters engaged by this committee to give you a view on the fiscal outcomes. We were one of the four. If you would like to engage us, I'd be very happy to provide that service again. But as a not-for-profit organization, I don't have the internal resources to do things for free, to be quite frank, because then I'd be out of business. I think the comments from all four of us reflect that.

Secondly, in our forecast, though, which is available to subscribers, we see stronger nominal income growth in the early years. So we see stronger nominal income growth, which is basically the sum of inflation plus real economic growth, last year and this year, putting us ahead of the kind of track that Mr. Page has set out. And of course once you build that into your forecast, you have that as a permanent fixture going forward. So we see stronger nominal income growth.

Nominal GDP, by year 2015, will be higher in our forecast, and therefore government revenue will be higher, and therefore we have a smaller fiscal deficit, everything else being the same. That's basically the track we're setting out.

I would actually agree with Kevin, with his concerns on productivity and the demographic challenge we're going to face as a country. I think his analysis is very solid there, and it reflects all of our work.

A lot of our material is for free on our website, and I can provide that, but there are products that we have to do on a subscription basis because otherwise I can't pay salaries.

● (1120)

[*Translation*]

Mr. Robert Carrier: This is an important opportunity for us to meet with you and to get detailed and specific comments, which I think are lacking today.

I want to use what little time I have left to ask Mr. Lee a question.

When you talk about protectionism, you say that we must reframe the debate from who owns the company to who is investing in Canada and creating jobs. You say that we should open up and not close our economy. That is all very well, but I want to hear what you think about tax havens and tax evasion that can take place in those havens when insufficient information is exchanged. I think that this is a key element in terms of the income Canada is losing. There are many agreements signed by the government that do not include this information.

Do you not think that this is a constraint we should impose on the government when it comes to freeing up revenues, which is supposedly productive?

[*English*]

The Chair: Professor Lee.

Prof. Ian Lee: Thank you for the question.

Yes, I agree that tax evasion should always be forcefully and vigorously prosecuted. The Government of Canada set up FINTRAC, which my university business school has placed some people at. I haven't studied FINTRAC, but I understand from all accounts that it's doing an excellent job at ferreting out and tracking down laundered money and money that's being illegally transferred.

I can't speak authoritatively on the degree of corruption that you're suggesting.... I can quote Transparency International, which is a non-profit NGO in Berlin, funded by the United Nations, and which last year—2010—ranked Canada sixth out of I think 219 countries, which means we're the sixth most ethical, least corrupt, and most transparent country in the world. We are at the top.

By the way, this organization has been reporting for 10 to 15 years. We're always in the top ten. The Scandinavian countries are always just ahead of us: Sweden, Denmark, Finland, and so forth.

The Chair: *Merci*.

We'll go to Ms. Glover, please.

Mrs. Shelly Glover: Thank you, Mr. Chair.

I'm going to try to make this quick. I'm very disappointed that Mr. Mulcair isn't here. It's unfortunate that he would treat witnesses the way he did. I want to suggest to the analysts and the clerk that perhaps they can educate Mr. Mulcair with regard to the Federal Reserve and the fact that the government in the United States actually appoints them, much like we do here. I certainly heard something different than what Mr. Mulcair heard, and it would be nice if he'd let the witnesses finish when he's speaking with them.

I'd also like to bring to the attention of the clerks that there are examples of when Kevin Page has in fact released information to reporters prior to releasing it publicly. Although Mr. Mulcair wanted to dispute that fact and name-call—

Mr. Daniel Paillé: *Monsieur le président*—

Mrs. Shelly Glover: —I'd like for you to prepare perhaps some information that can go to Mr. Mulcair so he's better educated and perhaps not as quick to judge others.

The Chair: Order.

We have a point of order.

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: Mr. Chair, I would like to believe that, in Mr. Mulcair's absence, we're not at liberty to say anything we want. I also don't think that people from across the table should be lecturing us about document leaks. Ms. Block knows a lot about this. I just wanted to bring everyone back to order, please.

[*English*]

The Chair: Okay. That's not a point of order, but I would encourage members to address their questions and comments to the witnesses, please.

Mrs. Shelly Glover: Thank you, Mr. Chair.

If I might continue, it's Thomas Mulcair's choice not to be here, as it is Scott Brison's—

The Chair: Order, order.

Mrs. Shelly Glover: —who refused to listen to these witnesses.

In any event, I have some questions. I found what you said very interesting, Mr. Lee, about the fact that when corporate taxes are actually in place, corporations look to recoup those taxes, either by doing what you've already indicated—raising consumer prices—or by affecting workers' wages. So although the Liberal Party wants to raise the corporate tax from the 16.5% that it's at right now, and they want to raise it immediately to 18%.... That's what they've indicated, and if they don't see it in the budget, they're going to vote against our budget and launch us into an unnecessary election. I want you to tell me how that affects our families, because they're claiming they need to raise corporate taxes by $6 billion to help families.

Well, if consumers and workers are the ones affected, as you say, by the increase of corporate taxes, tell me how that is going to hurt our families, our moms who are shopping for their kids, and the workers who are trying to make ends meet for their families? How is that going to hurt our families?

● (1125)

Prof. Ian Lee: Thank you.

I should disclose, in full disclosure, that I'm in the middle of writing an op-ed right now—although I'm not sure who is going to publish it, but I hope the *Globe* or the *National Post* will—on this very issue, wherein I lay out the evidence from the scholarship, from the OECD and other organizations, such as the Federal Reserve, that have published on this. As I said, the record is crystal clear. There's no ambiguity in the scholarship, and I encourage every member of the committee to go and read the scholarship. I'm going to provide it to the clerk of the committee—on a stick if you wish it, as they're all PDF files.

The scholarship is unambiguous. An increase in taxes is merely a disguised tax on workers or consumers. That's all it is. There is no—

Mrs. Shelly Glover: So what's it going to do to our families?

Prof. Ian Lee: It's going to raise prices or cause wages to go down—

Mrs. Shelly Glover: Is it going to hurt our families?

Prof. Ian Lee: —according to the research, not according to me.

I want to respond to Mr. Mulcair, if you'll give me one moment.

Mrs. Shelly Glover: Absolutely.

Prof. Ian Lee: He said that I was saying the research is legitimate because they're in the public sector. If I inferred that to you, I want to correct that. The research is legitimate because it's peer reviewed. Somebody like Glen Hodgson, who's not in the university, can publish—and has—through the peer-reviewed process. So it's legitimate because it's peer reviewed, not because they're from the public sector or the private sector.

People in the private sector are every bit as legitimate as people in the public sector, so I don't want to leave the idea, as Mr. Mulcair did, that only people in the public sector are legit and that people in the private sector are somehow, I don't know, illegitimate. That's not true, and I've worked in both the private and the public....

To answer your question, I'm obviously opposed to the policy, because the research is very clear. It harms...I don't think everybody heard the whole explanation. The OECD research for 10 years, across many, many scholars, has found that income per capita goes down. Or you can put it in reverse: the lower the corporate taxes, the higher the income per person. The scholarship is very clear on that.

So I'm answering your question: if corporate taxation goes up, income per capita will go down.

Mrs. Shelly Glover: I note that in the fiscal outlook Kevin Page provided, in some of its columns, there's actually a reflection of what we're saying here about income taxes. It shows that personal income tax—and he's taking into account the lowering of our corporate taxes—between 2010 and 2015 grows by almost 50%. Corporate income taxes are also going to grow. Non-resident income taxes are going to grow.

It shows that families, the workers, are actually going to either make more money or there are going to be more people working because of corporate tax.

Prof. Ian Lee: The scholarship shows that indirectly.

Mrs. Shelly Glover: Even the PBO's own document reflects that.

Thank you.

The Chair: Thank you, Ms. Glover.

We'll go to Mr. Szabo, please.

Mr. Paul Szabo: Thank you.

Mr. Lee, I'd like to ask you a couple of questions. If you don't mind, could you just relax and sit back in your chair and get away from the microphone. They're very sensitive, and you're popping ears.

You have some interesting things to say. Let's just have a conversation here for a couple of minutes. In your third area—and that really gets down to the pensions issue—you make the point that Canada's poverty rate is, relative to the OECD average, actually very good. So, don't worry, it's not as bad as you think.

Is Canada's target just to be better than average? Oh no, sit back.

You know what? We have union people who turn them on. You don't even have to touch that.

Prof. Ian Lee: I'm sorry. You threw me off with that last.... What was your question again? Just the summary question.

Mr. Paul Szabo: It's about the average.

Prof. Ian Lee: I'm sorry. Yes. I've had this debate with the—

Mr. Paul Szabo: Could you just sit back? Just have a conversation. Forget the mike.

Prof. Ian Lee: Sure.

I've had this debate with the director at the Rotman International Centre for Pension Management. He came to Ottawa and argued that we want to be number one, not number three or four, in the world. I said we were really quibbling when we are two-thirds below the OECD average, and the OECD are the 30 to 33 wealthiest countries in the world, out of 220 or so countries. We are really quibbling about whether we want to be number four or number one. The differences are trivial.

Much more importantly, it comes back down to social return on investment. Do we want to put more money where it's not needed, or do we want to put more money into poverty? Jack Mintz has talked about this in his op-eds, that there's a much bigger problem with single-parent poverty, single mothers, than there is with elders in Canada.

I'm worried, because, like Glen, I have children, and I've even used this comment about greedy baby boomers, and I'm very conscious as a person in the public sector.... And, with respect to Mr. Mulcair, I do believe the university is in the public sector. I have a very generous pension, and I don't think I should be getting more money.

● (1130)

Mr. Paul Szabo: Yes. Poverty is a big issue in Canada in terms of the discussion, and it's bigger than what we can handle right now.

Prof. Ian Lee: Mr. Szabo, I don't know if you remember my comment in my presentation. I said there are 5%, per OECD; it's about 250,000 families, and I'm not suggesting they should not be targeted.

Mr. Paul Szabo: Certainly. I'm sure that is the case, sir. Let's see if we can get at least one point settled on the corporate taxes. I suppose virtually all the expenditures that a corporation makes, other than the dividend cheques, are the cost of doing business. You have to inflate things.

Some businesses provide goods or services to virtually every Canadian, and some provide them only to those who can afford the products, because they're targeting consumers who have disposable income.

One of your diagrams says that a corporate tax is a tax on workers. I guess that's not exactly true, is it?

Prof. Ian Lee: That's actually a paraphrase of a comment from the woman at the Federal Reserve. I was actually paraphrasing her, and it's a pretty close paraphrase. I don't remember her exact words, but essentially she concluded that in small, open economies it is a tax that falls on workers.

Mr. Paul Szabo: Are we done? I see I have one minute.

The Parliamentary Budget Officer suggested that if you have a structural deficit, if it's not a sustainable financial position, corporate tax cuts in fact could have some negative economic impact. Did you understand that point? Do you agree with it?

Prof. Ian Lee: Yes, I understood it very well. The OECD has actually modelled this, and again, it depends. I'm sorry for putting all these caveats on it, but it depends on the economy you're studying—how big, how small, and so forth. I'm now saying this very tentatively, but I think the evidence suggests that the economy adjusts in the medium term and will generate higher growth that will offset it. But I leave that up to you and your colleagues, because now we're really getting into forecasting the impact of a reduction.

As I said, the OECD has modelled this, as has Dr. Devereux at Oxford, and I think their research is suggesting that the economy will compensate by generating additional growth greater than the amount of the taxes cut.

Mr. Paul Szabo: Good for you. I appreciate it.

The Chair: Thank you, Mr. Szabo.

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

I wanted to follow up on the issue of productivity that Mr. Page raised in his presentation to the committee.

Mr. Lee, you mentioned foreign investment and some of the protectionism within Canada through Canadian policy. I want Mr. Hodgson, perhaps, to expand on it.

If you look at the 0.8% growth in productivity since 2000, it's a very worrisome trend. But if you look at a lot of the policies introduced by governments since that time, a lot of things have been done that were advised by groups in terms of addressing the productivity issue. A lot of measures have been put in place by governments to address productivity: the reduction in business taxes; the reduction in capital taxes, both at the federal and provincial levels; investments in research and development through granting councils and other initiatives; the generous R and D tax credit; the national child benefit by a former government; and the working income tax benefit. And you look at the solid financial sector. If these figures are correct, they've had a negligible impact. In fact, things have gone the other way relative to what the intent was.

Perhaps you could expand on why the trend is going that way. What should we do to reverse the trend? And why have these measures not had the impact that people who advised them to put them in place thought they would have?

Mr. Glen Hodgson: As a starting point, I agree with you. I said the same thing to our board last week. To a great degree, our governments have done the right thing in terms of tax reform: getting rid of capital tax, which for me is the dumbest tax you can imagine, taxing capital accumulation; reducing corporate income tax; harmonizing sales tax in the provinces, and on and on. There has been investment in everything from university chairs to the heavy public sector investment in Canada in R and D.

So I think our governments have largely done the right thing. The truth is that we probably went 25 years in Canada during which, because of the structure of our taxation system, we encouraged firms to underinvest. We did a piece of research last year, for example, looking at investment in human capital versus physical capital, and the track record is very clear. We have fallen behind. It takes time to catch up. I'm seeing that a little turning point event may be occurring right now. We've seen investment in machinery and equipment accelerate in the last three quarters—but this is only three quarters—which is what should be happening. Private firms should be investing now, when they can import technology at a much better exchange rate than they could for the last 25 years and when they have a very strong incentive, because they're not as competitive in the U.S. market or around the world, by virtue of the strong dollar.

So we may be at a turning point. The trouble is that our track record is so poor. We gave Canada a D in innovation for the last 10 years in our report card on Canada. We're doing that again now. It will be out in the next, say, six weeks to two months. My fear is that we're going to keep getting a D, because we really have not had to build a culture in Canada of innovation. I think that's maybe the critical piece.

So you're absolutely right, Mr. Chair, that the ball is being passed from governments, who have done their bit, to the private sector. Maybe we're seeing the early signs in terms of their investment behaviour, but maybe not. I'd like to look for more signs that firms actually appreciate that with globalization, in a very different world, we have to change our behaviour. We have to take business models apart, be prepared to relocate parts of our production, frankly, offshore, where it can be done more cheaply, and then focus on the high-value, high-wage jobs within Canada. But that's not automatic, by any means.

We're actually thinking of creating a new research centre at the Conference Board around this whole theme. I've spoken to some major corporations about that, and there's an appetite to invest in that kind of research, because it's the big challenge facing Canada: how to boost our productivity growth.

● (1135)

The Chair: Go ahead, Mr. Lee.

Prof. Ian Lee: I'll be very quick. I agree with everything Glen just said. In March 2010, Governor Carney gave a speech on productivity. It was an excellent speech. I have it on my laptop, of course. He identified the same things Glen did: underinvestment in machinery and equipment and ICT, which is technology.

But his third explanation was very interesting. He said that on multi-factor productivity, we are doing very badly, and this is because we are not using our capital properly or adequately or strategically. And that is the hook or the basis for me to argue that it's because there is insufficient competitiveness. We don't have enough competitors forcing our firms to compete. If we did, they would go up the machinery and equipment curve and up the ICT curve, and those that didn't would go bankrupt and new firms would step in.

The Chair: I have a quick question for both of you then. Would you keep in place the accelerated capital cost allowance that was put in place in 2007 for the purchase of machinery and equipment?

Mr. Glen Hodgson: That's an excellent question, because I look at firms trying to adapt to the strong dollar, to the coming labour force shortage that we're anticipating within two or three years. I think the answer is probably yes. I don't want to make it a permanent crutch for our business, but I do think we're going through a transition period where that's the kind of innovative thinking around tax policy that's probably required.

Frankly, I would see that as more important than an ongoing reduction of corporate income tax, but business is already planning for that. I think we should be looking for ways to do more to try to accelerate investment.

The Chair: Okay. My time is up, so Mr. Lee, just very briefly.

Prof. Ian Lee: Again, I agree completely with Glen. I wouldn't prioritize it. For me, protection is the number one issue facing our country. We've got to get more competition in to force our managers to compete.

The Chair: Thank you.

Mr. Pacetti, please.

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

Just quickly, Glen, why wouldn't you make the accelerated capital costs permanent?

Mr. Glen Hodgson: I don't like building permanent crutches into our tax system.

Mr. Massimo Pacetti: It's not necessarily a crutch. Sorry to interrupt you, but the accelerated capital cost—we call it accelerated, but it matches the useful life.

Mr. Glen Hodgson: It may well reflect the useful life of capital now, so you're right. It's not something we studied in great detail. We like to operate based on hard analysis. A quick response off the top of my head is that's probably one area we could look at to encourage more ongoing investment in machinery and equipment.

Mr. Massimo Pacetti: Thank you.

Mr. Lee, just getting back to what we were talking about, at one point there's got to be a break-even when corporate taxes are not advantageous. I don't think anybody's opposed to having low corporate taxes, but there's got to be a point where it doesn't make a difference. It's a moot point. It doesn't really matter because you're not going to attract any more investment, and the companies that do have investments here should be paying part of the cost. If you look at corporations in Canada versus other jurisdictions, in Canada they obviously benefit from having a medicare system that's paid for through the state.

Then you have the whole choice...the government has to decide whether they're going to subsidize social programs. There is a social safety net there.

There's got to be a point...you can't just blankly say that corporate taxes should be at zero.

We're just saying it's not the right time right now.

● (1140)

Prof. Ian Lee: Believe it or not, I'm not trying to get involved in a partisan debate.

Mr. Massimo Pacetti: But you are involved.

Prof. Ian Lee: I'm saying what the research is saying.

Mr. Massimo Pacetti: You've got to tell me what your research says, so don't be uncomfortable.

Prof. Ian Lee: I'll answer your question.

In the OECD studies, and they have some great graphs showing this, the average level of taxation has declined in every country in the OECD for the past 20 to 30 years. This is a long-term trend. It's just going down. Where will it bottom out? Nobody knows because we're not there yet.

To answer your question directly, embedded in your question was the assumption or premise that corporations pay taxes, and I don't accept the premise. They don't. They pass it on.

So what we're talking about when we talk about income taxes is disguised. It's indirect taxation on those individuals as consumers or workers. Corporations don't pay anything. Everything is passed on. If they don't recapture all their costs, they're out of business.

Mr. Massimo Pacetti: But again, the state does provide some services, and the state has to find a way for corporations to pay the taxes.

Ireland tried it, and now they're under pressure to put back some of the corporate taxes.

It's nice that you don't believe corporate taxes should exist, but they do exist. It's a form of taxation. Yes, sure, they pass it on, but in the end, big corporations don't really exist, right? It's a shareholder or the guys at the top who control it. It's six of one, half a dozen of the other.

Again, at what point do you make choices as a government that you want corporate taxes to be at a certain level? At what level should they be?

I don't see what is wrong right now in keeping or maintaining the rate of corporate tax as it is right now. And I don't see any studies that indicate we should reduce it.

Prof. Ian Lee: It can be done.

If Parliament votes, that's what will happen.

I'm saying that it's misleading, because all they are, are disguised taxes on individuals. That's all I'm saying. They are passed on to consumers indirectly.

Mr. Massimo Pacetti: Thank you.

Glen, just a quick question. We didn't speak about the vulnerability of interest rates. If interest rates were to go up even a quarter of a point or half a point, is there any risk out there? Obviously under household debt—

Mr. Glen Hodgson: I don't think a small increase like that is going to have a lot of bite in the economy, but personal debt levels are now the highest they've ever been in Canada. They're at about 140% of income—higher than in the United States now, by the way. That's why Governor Carney and Minister Flaherty have been quite rightly warning Canadians about levels of personal indebtedness.

Rates are rising. We've seen five-year mortgage rates, for example, start to rise.

What we would expect to happen, with more pressure on financial markets, is now starting to happen. Individual Canadians have to be very aware of their own capacity to shift money out of consumption into debt service.

Mr. Massimo Pacetti: Will it have an impact on the government?

Mr. Glen Hodgson: Clearly, as government rolls over debt, the higher interest rates that we're seeing—maybe not for a year, but certainly two, three years down the road—are going to have an impact on—

Mr. Massimo Pacetti: But it will increase bankruptcies and mean less money coming into the government coffers. Would that happen?

Mr. Glen Hodgson: Probably not. I would separate it, but in terms of pure debt service, we're all going to pay more for debt.

Mr. Massimo Pacetti: That's only normal.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Pacetti.

I want to thank our witnesses for being here and for responding to our questions. If you have any further information you want to present to the committee, please do so through the clerk.

Colleagues, I just need to move the operational budget request.

All in favour?

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: Thank you, colleagues.

The meeting is adjourned.

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