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Chair

Mr. James Rajotte

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● (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. It's my pleasure to welcome you all here today to the seventh meeting of the Standing Committee on Finance.

Pursuant to Standing Order 108(2), we are studying the current debt crisis and economic turmoil in the United States and Europe, and its potential impact on Canada.

Colleagues, we have two panels here this morning. On the first panel, we're very pleased to welcome the Minister of Finance, the Honourable Jim Flaherty, as well as two officials from the Department of Finance: Monsieur Benoît Robidoux, assistant deputy minister, economic and fiscal policy branch, and Mr. Doug Nevison, director of the fiscal policy division of the economic and fiscal policy branch. I understand that if need be, there are two other officials from the department available to members.

We have a short time period, an hour, with the minister and officials, so I am going to ask the minister to begin his opening statement, and then we'll proceed to questions from members.

Minister, welcome to the committee. Thank you so much for being with us. We look forward to your comments.

Hon. Jim Flaherty (Minister of Finance): Thank you, Mr. Chair.

[*Translation*]

Good morning, hon. members.

[*English*]

Thank you for the opportunity to appear before the finance committee today on the current economic situation here and abroad.

Before I continue, I would like to wish a happy birthday to the chair. I cannot imagine a more joyous thing to do on your birthday—

Some hon. members: Oh, oh!

Hon. Jim Flaherty:—than to chair the finance committee in August in Ottawa.

The Chair: I can't think of a more fun way to spend my birthday.

Hon. Jim Flaherty: Of course, the chair has established himself as one of the most well-regarded members of Parliament, partly through his exceptional leadership of the finance committee, and before that of the industry committee of the House of Commons.

Let me thank the chair and all of you for the pre-budget consultations that you're going to commence in the next few weeks. Along with my consultations as Minister of Finance, the finance committee's pre-budget consultations help to ensure that Canadians have the chance to make their voices heard. Recommendations flowing from this committee's hearings always inform and influence the ultimate budget document.

[*Translation*]

I am especially heartened to hear the committee explicitly chose to emphasize the importance of the return to balance as a theme of this year's hearings—and is encouraging ideas on potential cost savings.

[*English*]

I would also strongly suggest that the committee urge Canadian businesses this fall to grow and invest in Canada. As I've said before, to ensure that our economy grows and creates jobs to support a sustainable and long-term economic recovery in Canada, we need strong private sector investment in productivity-improving machinery, equipment, hiring, and more.

Today I will talk about three key issues: first of all, the current volatile global environment; second, Canada's economic and fiscal strengths; and finally, the future.

[*Translation*]

As we have emphasized repeatedly for the past few years, we are in a period where the global economic recovery—especially in the U.S. and Europe—is fragile and growth will be modest.

[*English*]

At the outset, it is important to have context, and the context is that the global economy is in fact largely growing, albeit slowly.

The situation has been compounded recently by questions surrounding the political determination in certain countries to address the structural problems underpinning weak growth and unsustainable fiscal situations. That underscores one major difference between now and the fall of 2008. At that time, we saw an international credit crisis largely triggered by a loss of confidence in international financial institutions; the current situation is largely a problem of confidence in efforts of governments to move forward with credible medium-term solutions to reduce their deficits.

Earlier this week I co-wrote, along with fellow finance ministers from the United Kingdom, Australia, South Africa, and Singapore, a joint op-ed that appeared in the *Financial Times*, *The Globe and Mail*, and other publications around the world. That op-ed called for a new global response to support a sustainable recovery based on credible fiscal consolidation in countries with large deficits, matched by a rebalancing of global demand in order to support growth. As my colleagues and I noted, we must address these global challenges decisively and commit now to fundamental medium-term reforms. I repeat that call here today.

● (0905)

[*Translation*]

Clearly, resolving the problem will require difficult and bold action—primarily in the United States and Europe—to instill confidence in a prolonged recovery.

[*English*]

Mr. Chair, last week and again yesterday we saw extreme swings in global markets reacting to ongoing events, fiscal challenges, and concerns about the pace of the global economic recovery. Canada is a trading nation with exports representing about one-third of our economic output, and the U.S. is our largest trading partner. As such, global economic turmoil in the U.S. and Europe will inevitably impact our existing trading relationships and our economy.

That's why Canada has been a strong voice globally in calling for action to address current concerns, especially credible fiscal plans that set the path to budgetary balance and sustainable public finances.

[*Translation*]

Indeed, that is what our government is doing—providing a good example of a government that has its economic and fiscal house in hand for others to follow.

[*English*]

Colleagues, in Canada our economic and fiscal fundamentals are sound and sustainable. We have experienced seven consecutive quarters of economic growth, almost 600,000 more Canadians are working today than when the recession ended in July 2009, and both the IMF and the OECD forecast that our economy will be among the strongest in the G-7 this year and next. Recently, Moody's renewed Canada's AAA credit rating, based on Canada's "economic resiliency, very high government financial strength, and a low susceptibility to event risk".

Canada has by far the lowest net debt burden among G-7 countries, and we're on track to balance the budget. As the IMF declared recently, Canada has "a sound and credible plan to return to budget surpluses".

[*Translation*]

But Canada cannot and is not resting on our laurels—we are cognizant and prepared for the challenges ahead.

Recent indicators suggest that global economic growth was uneven in the first half of 2011 both here and abroad.

[*English*]

Indeed, while Canada experienced greater than expected growth in the first quarter of this year, that is expected to be balanced out by a softer than anticipated second quarter, as witnessed in other G-7 countries.

Colleagues, the government adopted prudent planning assumptions in Budget 2011 by adjusting down the level of nominal GDP growth projected by private sector economists by $10 billion. As a result, fiscal results to date have been broadly consistent with the conservative 2011-2012 projections set out in Budget 2011.

I should note that we continue to monitor developments closely and will, as usual, provide an update to Canadians on the economic and fiscal outlook later this year as part of the fall economic update. Our government is squarely focused on the economy and jobs.

● (0910)

[*Translation*]

We are focused on creating the right conditions for businesses and individuals to succeed for long-term, sustainable economic and job growth by staying the course with the next phase of Canada's Economic Action Plan.

[*English*]

The next phase of Canada's economic action plan contains several measures designed to contribute to a positive growth environment for our economy and Canadians, such as providing a temporary hiring credit for small business to encourage additional hiring by this vital sector, supporting the manufacturing sector by extending the accelerated capital cost allowance rate for investment in manufacturing or processing machinery and equipment for two years, new resources to support leading-edge research and development, and much more.

The plan ensures sound public finances designed to achieve substantial savings for taxpayers through greater efficiency and effectiveness in government. Once it is fully implemented three years from now, the deficit reduction plan will achieve four billion dollars in annual savings and allow the government to return to budget balance by 2014-15, one year earlier than previously planned.

[*Translation*]

This is a responsible and prudent approach, consistent with the careful management that has been the hallmark of our government's approach to public finances and taxpayers' money.

[*English*]

We are also staying the course with our plan to make Canada a low-tax jurisdiction for both families and businesses. Our low-tax plan is working and the world is increasingly noticing. Indeed, only this past Sunday, on the American news program *Meet the Press*, the Governor of Iowa, Terry Branstad, lamented the impact of Canada's competitive business environment. He said, “The Canadian government has reduced their corporate income tax. I've had companies that I've called on to come to Iowa say, 'We like Iowa, but if they don't change the federal corporate income tax, we're probably going to go to Canada.' Now, that's a tragedy when now Canada is beating us”.

May I say, with all due respect to the Governor of Iowa, it's not a tragedy up here.

The next phase of Canada's economic action plan will preserve this country's advantage in the global economy; strengthen the financial security of Canadian workers, seniors, and families; and provide the stability necessary to secure our recovery in an uncertain world.

Before I conclude and invite questions from the committee, let me again reassure Canadians that our government remains squarely focused on the economy. We are continually working to implement the next phase of Canada's economic action plan to support the economic recovery and jobs.

We are closely and constantly monitoring global developments and I remain in frequent and regular contact with my global counterparts. While we should not understate the risks, Canadians can be confident that our country is well positioned to face global economic challenges, as we have done successfully in the recent past.

With that, I invite the committee's questions.

Thank you, Chair.

The Chair: Thank you very much, Minister Flaherty, for your remarks.

We'll begin questions with Ms. Nash, for five minutes, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you very much, Mr. Chair, and happy birthday as well.

[*Translation*]

Thank you for joining us in the middle of summer, Mr. Minister. We really appreciate the opportunity to ask you questions about the government's plan to ensure the financial security of Canadians.

[*English*]

We wanted to invite you here—and others, by the way—because of the global situation. As you mentioned, we have seen the wild stock swings, the sovereign debt crises in Europe, and concerns about another potential recession.

In spite of your reassurances, though, our economy has been underperforming. We have inadequate demand to generate economic activity and investment that would put money in the pockets of Canadians and their families so that they can spend and further boost the Canadian economy.

We have, as you know, 1.7 million Canadians who are out of work or have stopped looking or are underemployed, and their lost wages alone cost our economy about $80 billion. Companies are sitting on about $500 billion of cash that they've been using to pay down debt and pay dividends. It's almost enough to pay down our entire debt in Canada, yet this government's looking at giving them a further corporate tax cut. Consumers are tapped out with very high personal debt levels, and our export deficit is growing.

Clearly, there are concerns about the U.S., where 70% of our exports go, so we can't be complacent as a country. We can't be rigid or inflexible. Your government has chosen to attack the fiscal deficit by cutting spending, thus taking more money out of the economy and increasing unemployment.

My question is, why not attack the jobs deficit? Why not create jobs that will keep the economy moving and also reduce the fiscal deficit through growth? With interest rates at near-record lows, is it not irresponsible for the government to be less proactive? Why not make strategic public investments to serve the people of Canada, create jobs, improve retirement security, boost growth, and through that ultimately lower Canada's debt?

● (0915)

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

The member is advocating more spending now in the current environment. That actually is the problem in Europe: too much spending and accumulated deficits. It's exactly what we should not do if we want to maintain the fundamental fiscal health that we have in Canada. Needless to say, it's the fundamental problem in the United States. Spending has gone out of control, and accumulated deficits have resulted in an unwieldy public debt. That, in my view, is precisely the wrong direction to go.

It was the right direction to go in the economic action plan back in 2009 when the world economy was in a recession and we had to do some major infrastructure spending in Canada. The NDP, the member's party, voted against those initiatives back in 2009. It was wrong then, and I dare say it's wrong now, when they advocate more spending at a time when we need to keep our economic house in order in Canada.

Ms. Peggy Nash: Mr. Minister, going into the last economic downturn, the government was sleepwalking into a recession. It insisted that all was fine and that we were going to have balanced budgets. We ended up with the largest deficit in our history, a deficit of $54 billion. What we need is, in fact, a counter-cyclical measure and approach right now that takes advantage of low interest rates and helps make our economy more competitive.

Why wouldn't we take advantage of low interest rates, put Canadians to work, upgrade our infrastructure in urban transit, get clean water into all first nations communities, or create a national broadband structure? Why wouldn't we do that now to put Canadians to work and counter the softening economy that we're facing around the world?

The Chair: Minister, please give just a brief response.

Hon. Jim Flaherty: It's important to strike the right balance. We have those on the left in Canada and elsewhere in the world who would advocate more spending at a time when, really, fiscal consolidation and fiscal restraint are what is required, as well as governments with the courage to carry forward with medium-term plans to have balanced budgets.

There are also those on the right who would say that we should cut government spending dramatically and in a draconian way, and we're not going to do that, as we set out in the budget plan. We're trying to strike that right balance—and I think we have, quite frankly—so that we have modest economic growth but at the same time move back to balanced budgets in the medium term, which in our case is 2014.

The Chair: Thank you.

Thank you, Ms. Nash.

We'll go to Ms. Glover, please.

[*Translation*]

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

Once again, I would first like to welcome our minister and the witnesses who came here during the summer.

[*English*]

I want to continue with what we were speaking about, if you don't mind, Minister.

The NDP has been critical in recent weeks of our government's plan to undertake a review of spending, a review of how taxpayers' dollars are actually spent. Disappointingly, some in the NDP have dismissed such a review as “an ideological approach”.

As we know, our next phase of Canada's economic action plan lays out a plan to examine roughly $80 billion of direct program spending. The objective is to ensure that we are spending taxpayers' money as effectively and efficiently as possible and that we are reducing spending. I understand this involves ensuring that we are getting maximum value out of current operating expenditures, improving productivity in government, and examining the relevance and effectiveness of programs.

I think small businesses and moms and dads who also have to balance their budgets think it's prudent that we have this kind of review. They think it's reasonable and want to be assured that we are effective in using their money. That's why, unlike the NDP, I think we ought to proceed and I think that's why Canadians agree with us. The government is doing what is necessary, and I urge the government to continue in that vein.

That said, can you speak further about our government's plan to review spending? Could you also comment on how we expect to satisfy the priorities that Canadians are indicating?

● (0920)

Hon. Jim Flaherty: Thank you for the question.

Fiscal discipline is important. There's been a lack of fiscal discipline in a number of countries in the world and a lack of political will to correct it. That is the fundamental issue we are facing in Europe today, the political will to fix fiscal situations.

In Canada we're not faced with that. We created the economic action plan at a time of recession to protect jobs, families, and the Canadian economy. Part of the economic action plan was always to move back to balanced budgets, so we're staying the course and maintaining the balance that will take us to that good place of having a balanced budget in 2014-15.

We have a great advantage in Canada right now. That's why I encourage my colleagues on this committee, when they're out there in the next few months during the pre-budget consultations, to encourage business to invest. The balance sheets of corporate Canada are strong. In part they're strong because of our corporate tax reductions over the course of the past five years and continuing to January 1 of next year, when the federal corporate rate will drop to 15%. As you know, we've done this with the cooperation of most of the provinces, which have reduced their corporate tax rates gradually to 10% so that we will have a Canadian brand rate of 25%.

This is a great opportunity for Canada. We have the strongest financial system in the world, we have strong fiscal fundamentals in the Government of Canada, and we have strong business balance sheets. This is a chance to seize the Canadian advantage.

Mrs. Shelly Glover: Thank you.

I want to thank you also on behalf of the business leaders we met yesterday during our EI consultations. They reiterated how the economic action plan and the corporate tax reductions have actually helped them to progress and to create jobs, so I pass that along.

I agree with you, Minister, that Canada is in a much better situation than the folks who are unfortunately having to deal with some problems in Europe and the United States. Could you reiterate some of the comments made by the IMF and the OECD with regard to Canada in relation to other countries?

Hon. Jim Flaherty: It's important, obviously, to have balance in what we do. We are seeing quite modest growth—almost flat growth—in the European Union and the euro area, quite modest growth in the United States, and modest growth in Canada, but when we compare ourselves with other major industrialized countries in the world, as the IMF and the OECD do, Canada is not only leading the pack this year but will also do so next year.

Again, being realistic, there are risks in the world, and the growth we're seeing is modest. The unemployment rate in Canada, at about 7% right now, is much lower than the rate in the United States, for example, but it's still too high. That's why we've been moderate in what we've been doing. We're being flexible and pragmatic, continuing the infrastructure program until October, and proceeding with the program to help hiring by small business in Canada. We believe we're striking the right balance.

The Chair: Thank you, Ms. Glover.

We'll go to Mr. Brison, please, for five minutes.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Chair.

Welcome, Minister.

Minister, in your opening statement, you said that growth will be modest in Europe and the United States. That's your assumption, your expectation, yet we see a growing number of economists, both in Canada and internationally, who are predicting a full-scale recession in the U.S. and Europe. In fact, yesterday Morgan Stanley described the U.S. and Europe as being, in both cases, “dangerously close to a recession”.

If you're wrong and they're right, do you have a plan for Canada in the event of a U.S. and European recession, and if so, what is that plan?

● (0925)

Hon. Jim Flaherty: There are certainly risks, and some of the economists have been pointing out the risks. The view today of the economists is for, as I just said, very modest growth in the United States, and virtually flat growth—if there is such a term—or flatness in Europe.

If we were to see the global situation deteriorate in a dramatic way, we would obviously do what is needed to protect our jobs and our economy and families in Canada. We would act in a pragmatic way, as we have done successfully previously and recently.

Hon. Scott Brison: Minister, there is a disconnect between what is emerging as a growing consensus over a fear of a full recession in the U.S. and Europe and what you're saying here today. Earlier this week, on Monday, Conservative members of this committee refused to invite independent economists to appear before this committee. In fact, your parliamentary secretary said that they were afraid it might worry Canadians if independent economists were to appear before this committee.

Is that why your government refused to allow those independent economists to appear before this committee? Is it because of the delta between what they're predicting for the U.S. and Europe and what you're predicting here this morning?

Hon. Jim Flaherty: I leave it to the committee to do whatever the committee chooses to do, but I—

Hon. Scott Brison: We note that your parliamentary secretary is quite independent from your department, Minister.

Hon. Jim Flaherty: I can tell you for myself, as Minister of Finance, that last week I had my annual policy retreat, which included business people and economists, academics, and others from across the country. As you know, I meet regularly with Canadian economists. They're quite satisfied that they have access to the government and provide advice. I have an economic advisory council that I meet with regularly during the course of the year. We get lots of advice and we're open to listening. Quite frankly, some of the best advice I've received in the past more than five years has been from private sector economists, and I welcome their advice.

Hon. Scott Brison: Minister, this is like déjà vu. I remember that in the fall of 2008, when you first denied a downturn and diminished the expectation of what the impact would be on Canada, you refused to take action or to present a plan until you were forced to by opposition parties at that time.

Minister, a lot of Canadians watching you now are frightened because they fear you're going to make the same mistake you made in the fall of 2008. You have had an opportunity, and you still have an opportunity at this committee this morning, to present a plan in the event of a U.S. or European recession. None of us hope that is the eventuality, but we do hope that you have a plan.

Minister, again I ask: do you have a plan for Canada in the event of a U.S. and European recession? Do you have a plan, and will you share it with this committee and with Canadians?

The Chair: Minister, you have about 30 seconds for a response.

Hon. Jim Flaherty: Of course we have a plan. We presented it in the budget this year. We discounted the prognostications, the forecasting, by private sector economists by about $10 billion.

You haven't asked me if we are on track with our budget plan for this year. Yes, broadly, we are on track with our budget plan this year; even given softer growth, which was likely in the second quarter, we're on track for this year, and as I said a moment ago, if we were to see a dramatic deterioration internationally—in the United States, Europe, or elsewhere—in economic growth, then of course we would act in a pragmatic way to protect Canadians, as we have done before.

The Chair: Thank you very much, and thank you, Mr. Brison.

We'll go to Ms. McLeod, please.

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

I want to pick up on your opening comments regarding Canada as a trading nation in the global marketplace. Certainly our economy is heavily dependent on exporting Canadian goods and services to others around the world. We're especially dependent on trade with our largest partner, the United States, the consumer of the majority of Canadian goods and services. The benefits generated by strong international trade for the Canadian economy and individuals are clear to most, accounting for the majority of Canada's annual GDP and supporting millions of jobs. More trade means more businesses are able to hire more workers and increase wages and salaries, helping to improve the standard of living of Canadians.

In these recent years of economic turmoil in the United States, many Canadians have realized the need for Canada to diversify its trading relationships to other countries and markets. I know that our government, led by our Minister of International Trade, Ed Fast, has been quite active on that front recently. I also know that you personally have led many delegations around the world to build and increase Canadian ties with other markets. Your recent visits to China have been recognized as quite successful in opening doors to Canadian business and financial services.

I also want to note in regard to British Columbia that a recent report indicates that our trade in softwood lumber has gone up significantly and that Asia is now our biggest trading partner. Exports to Taiwan, South Korea, China, and Japan have increased quite dramatically, resulting in a $2 billion increase from the prior year. In British Columbia the softwood lumber industry is seeing significant results. In my riding, a local person sent his first crate off to China, so we are really delighted to see that partnership starting to work.

I'd like you to talk a little more about what we've been doing to diversify our trading relationships in recent years and why that's so important.

● (0930)

Hon. Jim Flaherty: There is good news here, as you know, not only in British Columbia but elsewhere. There was a lack of accomplishment with respect to free trade agreements before our government was elected in 2006. Since then, nine countries have signed free trade agreements with Canada—more agreements reached than by any previous government in Canadian history—including an agreement with Honduras last week, which the Prime Minister announced during his visit to Latin America.

We have very important free trade negotiations going on with the European Union and India, which are obviously very large economic blocs. We also have emerging growth in our trading relationship with China, including growth in access by our financial institutions to that market, which I have advocated for some years in my dealings with Chinese officials, who have been responsive to that idea.

It's not so much that we should trade less with the United States, as some would think. I'm all for trading more with the United States, but also for trading more with the rest of the world and seeing our trade grow around the world, which is a way of protecting Canada from economic weakness in some other parts of the world.

Mrs. Cathy McLeod: I'd also like to comment on the importance to the cattle industry of this growth, including in my riding. This industry has struggled verey much over the last few years as a result of the BSE crisis. It's been important to have had agreement after agreement signed to reopen markets for the cattle industry. British Columbia is certainly counting on the great work that we're doing in putting people back to work and making it reasonable to be in the business.

The piece that people often miss regarding our economic situation, which you mentioned briefly, is that we're in a good position regarding our debt and deficit ratios and have paid off significant dollars. Could you quickly share with us the position that Canada is in?

Hon. Jim Flaherty: Canada looks good around the world. This is a great opportunity for business and for Canadians around the world to seize the day, quite frankly, and to build on what we have. The rest of the world looks at Canada as a safe haven, as a very good place to do business. As I said, we have the strongest financial system in the entire world, with strong financial institutions at a time when financial institutions in some other parts of the world are facing challenges, and we are fiscally sound at the federal level. That puts us in a good place.

● (0935)

The Chair: Thank you, Ms. McLeod.

Go ahead, Monsieur Mai, for five minutes, please.

[*Translation*]

Mr. Hoang Mai (Brossard—La Prairie, NDP): Thank you, Mr. Chair.

Mr. Minister, thank you for being here.

In Canada's Economic Action Plan, the government has stated that investments in infrastructure provide stimulus to the economy. According to Quebec's premier, $14 billion invested in infrastructure are the equivalent of 100,000 direct jobs. Yet Canada has a striking infrastructure deficit.

The Federation of Canadian Municipalities estimated that the municipal infrastructure deficit reached $123 billion in 2007. There are urgent infrastructure needs: water treatment on First Nations, affordable housing, public transportation, roads and bridges, including the Champlain Bridge, just to give a few examples.

[*English*]

We welcome the investment made in the Lower Churchill project, but we would like to have other provinces benefit from such investment.

Mr. Minister, you've been referring a lot to the European debt situation. As you know, this is not Europe. We have the lowest debt-to-GDP ratio in all of the G-7. We also believe in balancing the budget and lowering the deficit, but it's important to make a difference between investment and spending.

[*Translation*]

In the current economic climate, and since it knows that investing in infrastructure encourages greater productivity for businesses, job creation, economic growth, and, as a result, debt reduction, not to mention better quality of life for families and communities, why does the government not announce major additional investments to rebuild our infrastructure?

Hon. Jim Flaherty: I thank the hon. member for his question.

We have to have a balanced budget in 2014-2015.

[*English*]

We have made very major expenditures in infrastructure. That's why we have a deficit of more than $30 billion right now.

We have to get back to balanced budgets. If we don't, quite frankly, we will be following the path that has been followed by certain European countries, and to a lesser extent by the United States, and that path leads to a bad place. That path leads to governments that cannot manage their fiscal situations and are put in positions where they have to make draconian cuts and have populations that are, not surprisingly, upset and alarmed by the draconian cuts that they must make in order to achieve fiscal balance again. We have avoided that situation in Canada by prudent fiscal management and we intend to continue to avoid it.

We will stay the course and we will balance the budget in 2014-15. We're making some modest expenditures as part of the second phase of Canada's economic action plan, particularly with respect to hiring and because of the concern with unemployment, but that's the plan, and we intend to stick to the plan.

Mr. Hoang Mai: We believe that the best way to grow our economy and address our debt is by putting Canadians back to work. Cutting spending to attack the deficit at a time when the economy is performing so poorly hurts families and communities.

We know that there is a need for investment in infrastructure. In my riding, where we have the Champlain Bridge, there are problems with traffic. We lose $2.1 billion a year in loss of productivity. I think that investing in infrastructure would help the economy, both in the short and medium term, and it would also create jobs.

Hon. Jim Flaherty: There is some continuing infrastructure spending in Canada. It is not stopping. We funded it over a period of seven years, and there are some continuing expenditures in the infrastructure area, including, as you know, major expenditures with respect to repairs to the Champlain Bridge in Montreal. These are important initiatives.

As I said, the private sector needs to step up to the plate now that they are holders of strong balance sheets.

With respect to the reduction plan, realize that this plan does not affect transfers to provinces or territories, and it does not affect transfers to individuals in Canada. We're not doing what the Liberals did in the mid-1990s, when they damaged health care and education by freezing and cutting funding to the provinces. We're not going to do that, but we are looking to save 5% of the operating budget of the government.

I've had business people say to me that it's nothing more than a modest reduction of government spending. It is necessary, though, if we want to get back to a balanced budget by 2014.

● (0940)

The Chair: Thank you.

We'll go now to Mr. Del Mastro, please.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chairman, and thank you, Minister Flaherty, for appearing here today and also for what I would call steady leadership during challenging economic times, especially recently.

I know that I speak for many Canadians of all political stripes when I say that sticking to a plan matters. This plan—Canada's economic action plan, a low-tax plan for jobs and economic growth—was forged against a backdrop of a potentially fragile global economy and a recovery that would be unbalanced. It was forged against this backdrop, and we're sticking to it.

Despite what Mr. Brison may say, I've got a note here.... I've written many prominent Liberals, but I would argue that we may see more unicorns here in the 41st Parliament. There may be more sightings of unicorns than of prominent Liberals.

That said, I did take note on the weekend that Warren Kinsella had written an article called “In grudging praise of Flaherty“. There's an editor's note that warns Conservatives they may want to immediately locate smelling salts and sit down on the couch before they read it, and another note at the end warning Conservatives not to operate heavy machinery after reading the column.

That said, Warren Kinsella said something I agree with wholeheartedly: “Flaherty has been a voice of calm and rationality. Through it all, the...finance minister has done what he should have done—he reminded everyone our economic fundamentals are rock-solid. Our banking system is secure. Our lending practices are sane.”

Mr. Kinsella went on to say, “We are in good shape...it can't be denied: Flaherty has been conducting our economic affairs with a certain degree of skill.”

Now I want to change gears a little bit.

Hon. Jim Flaherty: Why? Continue.

Mr. Dean Del Mastro: I could keep going.

Hon. Jim Flaherty: I thought he was excellent.

Mr. Dean Del Mastro: One of the great accomplishments that really wasn't written a lot about last summer was the G-20. You specifically went in with an agenda to oppose a global bank tax, and we're starting to hear calls for this financial transaction tax again. Indeed, NDP member Peter Julian talked about introducing a bill to impose financial transaction taxes on Canadians. We've heard rumblings of it again out of Europe.

I find these types of conversations troubling, especially when we see instability and markets looking to gain confidence. Can you confirm that Canada will continue to oppose any form of a global financial transaction tax?

Hon. Jim Flaherty: Yes, Canada will continue to oppose any sort of tax like that, for several reasons. One, it's punitive. Two, it's counterproductive, in fact, because it reduces the lending power of financial institutions, which we need at a time of relatively moderate economic growth. It is, in part, scapegoating. It doesn't address the issue.

The issue in Europe is the need for fiscal consolidation, which is a fancy way of saying getting back to surplus and paying down public debt. That's the issue. The issue isn't taxing banks or taxing financial institutions.

Wwhen we led the charge against the global financial tax, it's interesting who our allies were. Our allies were not most of the Europeans. Our allies were the emerging economies of the world in the G-20, who stood with Canada and said that it was self-defeating, that it was not something we ought to do. As I say, that alliance was between Canada, Mexico, Argentina, and other emerging economies in Asia.

Mr. Dean Del Mastro: Thank you very much.

I want to come back to Canada's economic action plan. You talked about the economic action plan and how we are on track to balance the budget by 2014-15. What do you think it says when we contrast Canada to our G-7 partners or our G-20 partners? What do you think it says to global investors when we can confidently say that Canada has a plan to bring us back to balance by 2014-15?

● (0945)

The Chair: Again, please give a brief response, Minister.

Hon. Jim Flaherty: As a government we're credible in saying that we can get to fiscal balance. We're a majority government now, as you know. We didn't make a plan that said we'd balance in 10 years or 8 years. We made a plan that will get us to balance within the term the Canadian people have seen fit to give us, and that adds to our credibility globally. As I say, our financial institutions are sound and our fiscal situation is sound. Our deficit reduction plan is modest in what it is seeking to do and is certainly capable of being accomplished.

The Chair: Thank you.

We'll go to Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Mr. Chair, and thank you, Minister. I wish to thank the other gentlemen for coming here today. It's a very important day for Canadians.

My critic area is pensions. I'd like to talk for a moment about the lesson that these wild market swings and their unpredictability has given Canadians. It's a lesson they can't ignore. It's very clear that retirement savings outside of public or defined benefit plans have once again vanished into thin air.

Minister, I'm sure you understand the government's new pooled pension plan does little to address the particular event risk. In fact, I would suggest it puts more of Canadians' savings into risky play than ever before.

I want to take you back to the end of the session in 2009. I asked you a question about the Canada Pension Plan. You stated at that time that you were looking at increasing the Canada Pension Plan, and it's my understanding that prior to your Kananaskis meetings, as many as six provincial finance ministers wrote to you asking you to do what Canadians clearly wanted, which was to increase their public plan. Stress on private plans due to international market turmoil has happened twice in just three years, and that has underlined for prospective pensioners and those saving for retirement what a roulette game contribution plans are.

Minister, will you remove the barriers to increasing the Canada Pension Plan? The defined benefit plan has lowest cost, it's the best saving vehicle, and it's owned by Canadians. Will you do that, sir?

Hon. Jim Flaherty: Let me say first of all that there is no consensus among the provinces and the Government of Canada on increases to the Canada Pension Plan at this time. We've had lots of discussion about it, and I'm not saying it will not happen in the future if there is a consensus among the provinces. As you know, the provinces and the federal government together govern the Canada Pension Plan, but right now there is no consensus.

There is a consensus to proceed with the pooled registered pension plan, which will help people who work for smaller businesses to have the same advantage as people who work for larger businesses, which have their own pension plans. People who work for smaller businesses will have a pooled pension plan that will give them the strength and investment advice obtainable in larger pension plans.

This isn't the time, in our view, to impose new financial burdens on employers. As your colleague was saying earlier, we have an unemployment problem and we want businesses to hire more people. We don't want to take funds away from businesses through mandatory contributions to an increased Canada Pension Plan because that would reduce their ability to hire people.

Mr. Wayne Marston: Sir, obviously you are going to have a minor disagreement; I know there's not a full consensus among the finance ministers and I agree with that statement, but a majority of those ministers were expressing their support for it.

Another thing is that you're talking about not putting pressure on employers, but with the low interest rates right now and the fact that many employers have to top up their existing pension plans, expanding the CPP, to my mind, makes good sense. It will take much of the future pressure off employers. I know you're looking at a long-term plan for the CPP, and those private pension plans are very hard pressed right now.

I really don't quite understand the delay. When we look back at 2009, we were talking quite optimistically, it seemed, when I asked you the question in the House. Suddenly we're now at a place where we're not getting action at the rate we were hoping for.

Hon. Jim Flaherty: One of the realities is that finance ministers across the country look at the relatively weak economic growth in the western industrialized economies and the moderate growth that we have in Canada and are hesitant to impose more financial burdens on business, especially the small businesses that generate most of the job creation.

We are going ahead. Ted Menzies, the Minister of State for Finance, has been meeting with finance ministers across the country this summer to advance the pooled registered pension plan idea, and I hope we'll be able to move ahead with that expeditiously.

● (0950)

The Chair: You have 30 seconds, Mr. Marston.

Mr. Wayne Marston: I'll reiterate that we believe that now is the time we should be investing in creating jobs for Canadians by way of investing in our infrastructure. We've heard about Montreal, the tunnel, the Champlain Bridge, and there are other major projects across this country we could be investing in. Getting rid of the deficit in jobs and generating that cash back into the economy would be one important step, along with others, at this point in time.

The Chair: Minister, do you have a brief comment?

Hon. Jim Flaherty: I appreciate the genuine concern that I know the member has with respect to pensions. This is a complicated area, and it's an area with respect to which we will continue to work. I welcome the comments and advice of the member.

The Chair: Thank you, Mr. Marston.

We'll go to Ms. Young, please, for five minutes.

Ms. Wai Young (Vancouver South, CPC): Thank you again for sharing your birthday with us, Mr. Rajotte.

Minister Flaherty, thank you again for coming today.

As mentioned in your remarks, our government is staying the course and staying focused on the economy, including implementing the next phase of Canada's economic action plan. I am pleased to note that this plan includes not only many measures to help support Canada's economic recovery but also initiatives to support Canada's families.

In my riding of Vancouver South we have many families. It's a very residential area. We have the highest ethnic diversity in Canada, as well as a disproportionate number of seniors. Many of these measures to support Canadian families are measures about which I've heard positive and glowing remarks, so I want to pass that on to you today, Minister.

I want to also note that in supporting Canadian families, this government has maintained the course in federal-provincial transfer payments. These payments have remained stable, and we have committed to increasing health care transfers by 6% every year. As we know, these are measures that support Canadian families in terms of education, health, etc.

Today I want to specifically mention my constituents' support for the new family caregiver tax credit, which is an impressive new credit. In our ethnic communities in Vancouver, many caregivers do provide care to our aging population, our seniors, as well as to youth who are perhaps in special-needs circumstances. I note that this new tax support for family caregivers is at 15% and for each family is $2,000. It will impact over 500,000 caregivers across Canada. In 2011-12 that is a $40 million investment to support our families, and it is $160 million for the following year.

I also note that we are continuing and extending our ecoENERGY retrofit homes program. As I mentioned earlier, in Vancouver South we are a very residential area, so this program is also welcomed by my constituents. It provides nearly $870 million over two years to address climate change and air quality. It provides homeowners with grants of up to $5,000 to make their homes more energy efficient, which will help reduce the burden of high energy costs. Again, this is a very welcome measure.

Finally, I want to touch upon seniors, because in Vancouver South we have a very high proportion of seniors. The enhanced guaranteed income supplement is going to benefit couples by $840 per year and single seniors by $600. This is a measure that will support families and seniors with up to $3 million per year, impacting 680,000 seniors across Canada.

I mention these measures because I and my constituents are very pleased and happy that in this next phase of the economic action plan, this government is continuing to support families across Canada, which I think is very important.

After talking about families, however, I want to turn a bit to the future and ask the minister to highlight some measures that the government is taking in the next phase of Canada's economic action plan to secure Canada's long-term economic prosperity. Could you specifically highlight measures in relation to innovation, education, and training?

● (0955)

The Chair: Minister, you'll have to answer that in approximately a minute, so be very concise.

Hon. Jim Flaherty: I thank the member for Vancouver South for her question, and of course I acknowledge the needs of Canadian families, which the members are well aware of. I include the children's arts tax credit, which I've heard about a lot as well this summer.

In terms of R and D, of course it's fundamentally important that we advance the R and D cause in Canada, the innovation cause, and we've been doing that in the course of the budgets since 2006.

One of the most successful things that I'll mention are the Canada excellence research chairs, particularly with respect to the digital economy. The universities and their presidents have been very kind in their words with respect to the fact that we have created new Canada excellence research chairs and have extended and expanded the Canada student loans program, not only for full-time students but also for the many Canadians who study part time in post-secondary education.

As well, we are encouraging skill certification by making examination fees eligible for tax relief for occupations, trades, and professionals. All of these things matter a great deal to the growth of innovation in Canada.

The Chair: Thank you very much, Ms. Young.

We have a very brief round with Monsieur Giguère to finish up.

[*Translation*]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you, Mr. Chair.

Mr. Minister, you said a little earlier that it is important to put public finances in order. The problem is that this does not only imply controlling spending, but also controlling revenue.

Clearly, Canada has a serious problem with tax havens and aggressive tax planning. That is being stressed in every budget. If we simply eliminated the possibility for aggressive tax planning, I have a feeling we wouldn't even have to think about fighting the deficit.

You also said that Canada is a safe haven for doing business. That is clearly the case since private companies have accumulated $500 billion. Our problem is that that money does not turn into investments. If only a fraction of the amounts accumulated by private businesses turned into investments and if, instead of asking them to make investments, we had legislation forcing them to make those investments, we could considerably reduce the number of unemployed, which is at 1.7 million. If those unemployed people had a job to go to, we would not have any deficit problems.

[*English*]

Hon. Jim Flaherty: Actually, we've closed some very substantial tax loopholes. I'll ask Mr. Robidoux to comment on the technical aspects of those loopholes.

The Chair: Please give a brief comment.

Mr. Benoît Robidoux (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Very briefly, in Budget 2011 we closed $4 billion of tax loopholes over five years, which was part of the savings measures we identified in Budget 2011. I don't have the numbers for 2010, but if my memory is not wrong, it was more than that in 2010.

The Chair: Thank you.

I'm hesitant to cut off the discussion, but we do have our next guest here.

Minister, I want to thank you and your officials very much for being with us here this morning, and for your presentation and your responses to our questions.

I will ask the media, if they have any questions, to ask them outside, and we'll bring Governor Carney to the table and proceed as quickly as possible. Thank you.

● (0955)

(Pause)

● (1000)

The Chair: I want to begin our second panel by welcoming Mr. Mark Carney, Governor of the Bank of Canada. We welcome him very much to our committee. I know he presents to our committee at least twice per year, which we very much enjoy at this committee. It is when we have some of our best discussions.

Also, we welcome back the senior deputy governor, Mr. Tiff Macklem. Thank you so much for being with us here this morning.

We have a very short time, Governor, so we'll get right to your statement. Then we'll go to questions from members.

Thank you very much. We look forward to your comments.

Mr. Mark Carney (Governor, Bank of Canada): Thank you very much, Mr. Chair, and thank you to the committee for this opportunity to appear this morning. We'll make a short statement and we'll look forward to your questions. Happy birthday, Chair, as well.

We'll start on recent economic and financial developments.

In recent weeks, several downside risks to the bank's July projection have been realized. The European sovereign crisis has intensified, the U.S. credit rating has been downgraded, and a broad range of data has signalled slower global growth.

[*Translation*]

The United States is in the midst of the weakest recovery since the Great Depression. This is not a surprise as history teaches that recessions involving financial crises tend to be more severe and have recoveries that take twice as long.

Recent benchmark revisions show that the U.S. recession was even deeper and the recovery from the trough has been even shallower than previously reported.

The bank expects that American household spending will remain subdued in the face of high personal debt burdens, large declines in wealth and tough labour market conditions. In addition, fiscal stimulus in the United States will soon turn to fiscal drag.

[*English*]

For well over a year, the bank has been concerned about the prospects for resolving internal tensions within the euro area. Some of these concerns are now being realized, as acute fiscal and financial strains in Europe have triggered a generalized retrenchment from risk-taking and could yet prompt more severe dislocations in global funding markets.

In response to uncertainties in Europe and the evidence of slowing global growth, equity and commodity prices have fallen significantly and financial market volatility has increased markedly. The spillovers to Canadian financial markets have been less pronounced, but are still notable. Importantly, Canadian financial stocks have considerably outperformed their peers in the U.S., the U.K., and Europe, and our core funding markets have remained orderly. This will help ensure an appropriate flow of credit to Canadian households and businesses.

Recent events serve as a reminder that in a world awash with debt, repairing the balance sheets of banks, households, and countries will take years. As a consequence, the pace, pattern, and variability of global economic growth is changing, and Canada must adapt.

In short, the considerable external headwinds that the bank has long identified are now blowing harder. For Canadian producers, the persistent strength of the Canadian dollar is compounding the sluggishness of U.S. demand. Largely reflecting such external factors, recent Canadian data have been consistent with minimal to slightly negative growth in the second quarter. At the same time, labour market developments and business investment intentions suggest continued strength in our domestic economy.

The bank continues to expect that growth will accelerate in the second half of this year, led by business investment and household expenditures. Ongoing strength in major emerging markets should also help maintain commodity prices at relatively high levels. However, relative to our prior expectations, we expect somewhat weaker economic momentum both globally and consequently in Canada, with attendant consequences for resource utilization and inflationary pressures.

● (1005)

[*Translation*]

Since the crisis began, the broad economic strategy has been to grow domestic demand in the face of these considerable external headwinds and to encourage Canadian businesses to retool and reorient to the new global economy.

In response to the sharp, synchronous global recession, the bank lowered our target rate rapidly to its lowest possible level. We almost doubled our balance sheet to provide the financial sector with exceptional liquidity. And we gave exceptional guidance on the likely path of our target rate, through our conditional commitment.

In tandem, federal and provincial fiscal stimulus provided important further support to domestic demand, contributing significantly to Canadian economic growth through 2009 and 2010.

[*English*]

Owing to the underlying strength of domestic fundamentals, particularly our resilient financial system, these policies proved highly effective. Domestic demand in Canada grew more than twice as fast as in the U.S. Canada has recovered all the output and about 140% of the jobs lost during the recession. Throughout, price stability has been maintained.

As the Minister of Finance has rightly emphasized and as recent events have reinforced, fiscal sustainability is fundamental. It is essential to maintain Canada's fiscal advantage with an appropriately paced fiscal consolidation plan that is consistent with the G-20's Toronto summit commitments.

Similarly, private credit cannot grow without limit. Canadians are now as indebted as the Americans and the British. In an environment of exceptionally low interest rates, we must be careful not to repeat the mistakes of others, who now face the challenges of lowering unsustainable public and private debt burdens simultaneously.

There are five ways in which the bank will continue to support Canada's economic expansion in this difficult external environment.

First, the best contribution that monetary policy can make is to keep inflation low, stable, and predictable. Monetary policy is guided by our 2% inflation target for total CPI inflation. This is a symmetric commitment; that is, the bank cares as much about inflation being below target as above. Since the crisis erupted, the bank has demonstrated its flexibility and nimbleness in the conduct of monetary policy. As Canadian recovery has progressed, we have emphasized that we would be prudent with respect to the possible withdrawal of any degree of monetary stimulus.

As we highlighted in our most recent MPR, our approach will always be guided by comprehensive, considered analysis and informed judgment rather than by mechanical rules. This is particularly important in the current environment of material external headwinds. To state the obvious, if the outlook for growth and inflation changes, the path for monetary policy will be affected accordingly.

Second, the bank will take the necessary steps to ensure that core funding markets remain liquid. In the event of a major systemic shock, the bank has a wide range of tools to provide exceptional liquidity, consistent with a principles-based framework. At the same time, central bank liquidity should not be a substitute for sound risk management by private financial institutions. Accordingly, the bank will continue to work with OSFI to guard against moral hazard by ensuring that private banks maintain adequate liquidity buffers.

Third, we must continue to build a more resilient financial system in Canada and globally. Recent events underscore the importance of implementing G-20 financial reforms, notably the capital liquidity requirements under Basel III. Given the leading positions of our banks and the consistency of the new standards with Canada's, now is not the time for Canada to move from the front to the back of the class. Moreover, it is in Canada's interest to ensure that others follow our example. This will reduce the risk that another foreign financial crisis sideswipes our economy.

Fourth, the bank will continue to work with its federal partners to monitor risks to financial stability and to develop appropriate responses. An example has been the measured approach to rising household indebtedness. Since 2008, the federal government has taken a series of prudent and timely measures to tighten mortgage insurance requirements in order to support the long-term stability of the Canadian housing market.

Finally, since the biggest risks to our economy come from abroad, the bank must work with its international colleagues as they tackle the twin challenges of reducing excessive private and public debt. This situation is most acute in Europe, where credible national fiscal plans need to be supplemented by broader changes to European economic governance and fiscal arrangements.

● (1010)

[*Translation*]

We are in constant, intensive discussions with our European colleagues bilaterally and through the G-7, the G-20, the Bank for International Settlements and the Financial Stability Board.

As the bank has stressed repeatedly, the core challenge is to rebalance demand between advanced and emerging economies. To this end, the bank is investing in current G-20 efforts to develop a framework for open capital flows, working with the FSB to devise and implement comprehensive financial reforms.

We are also collaborating with our colleagues in the Department of Finance to guide the G-20 framework for strong, sustainable and balanced growth. Rebalancing will require significant changes to fiscal, structural and exchange rate policies across a broad range of countries.

[*English*]

To conclude, the challenges in the current global economic environment are significant, but so too are the opportunities for Canada. Our corporations and governments have strong balance sheets, our financial institutions are among the most resilient in the world, and our economy can be geared to the future sources of global growth. To take advantage of these attributes, we will need continued heavy investment to improve productivity as well as sustained and innovative efforts to develop new markets.

For its part, the bank has a wide range of tools and policy options that it will continue to deploy as appropriate in order to ensure that Canadians can seize these opportunities in an environment of domestic macroeconomic and financial stability.

With that, Mr. Chair, Tiff and I would be pleased to take your questions.

The Chair: Thank you very much for your remarks, Mr. Carney.

We will begin members' questions with Ms. Nash, please.

Ms. Peggy Nash: Thank you, Mr. Chair.

Thank you very much, Governor Carney; it's good to see you again, and hello, Mr. Macklem. Thank you both for coming in over the summer months. We appreciate it.

You began speaking about the global situation and the potential downturn because of the political issues in the U.S. lthat led to the debt ceiling agreement. My question is about the outcome of the debt ceiling agreement.

We saw the downgrade by Standard and Poor's and the gyrations in the stock market. As part of that agreement, there are going to be spending cuts imposed by the U.S. government in exchange for the increased debt ceiling, which is going to be revisited in 2012. The United States is our largest trading partner, and 70% of our exports go there. Could you describe the potential impacts of those cuts on the Canadian economy?

● (1015)

Mr. Mark Carney: Thank you, as it is a very important question. Let me say three things, if I may, about the debt ceiling agreement.

The first is that it should be recognized that the process through which this agreement was arrived at contributed to the level of uncertainty in global financial markets, compounding a concern about policy processes in major economies in the U.S. and in Europe, although for different reasons in Europe, obviously. That process contributed to some of the uncertainty and volatility in financial markets.

The second thing, to go straight to your question, is the actual direct impact of the debt ceiling agreement. I'm going to add a caveat with a subpoint, but at first blush the incremental impact of the debt ceiling agreement on our forecast for the United States will be in the order of 0.2 percentage points off GDP growth next year and something similar in 2013. That's not the sum total of fiscal drag in the United States; as I said in my opening remarks, fiscal drag will be considerable on current plans—on all the other fiscal plans in place going forward from this point— but there is an incremental impact, and the devil is in the details here because, as you know, the specific spending reductions have not been decided. The bipartisan committee will make some of these decisions or recommendations, and the nature of those decisions could change that number. It could elevate that number and it's unlikely to reduce the number, so as that process unfolds, it will be very important that we monitor exactly what is decided.

The third point I would make on U.S. fiscal policy is that there is a countervailing aspect to it that will be part of this negotiation, that being whether some of the stimulus measures currently in place roll off in the United States. The most prominent example is the payroll tax cut, which is due to expire. The President indicated recently his desire to extend it. That would have a positive effect on U.S. output, but that's a decision for the American government to take.

Ms. Peggy Nash: Thank you.

I want to make two quick points. I notice that the CPI is 2.7%, down from 3.1%. I think it is the first time since February that it has gone below 3%. It should give the bank room to keep interest rates low, which I'm not expecting you'll comment on.

I have one other quick question. Certainly the eurozone crisis is of great concern, and it is a real debt crisis, unlike the situation in the U. S. or even Canada. My question is about the potential impact of the eurozone crisis on our economy.

Mr. Mark Carney: Let me say two things.

First, regarding the CPI number that came out today, both the headline and the core CPI numbers are consistent with our expectations in the monetary policy report.

Second, to your question on the eurozone, we've long identified the situation in the eurozone as one of the principal downside risks. Some of that risk has been realized, by which I mean the obvious volatility and the moves in financial markets as a result of the situation there. The other aspect of that risk is accelerated fiscal austerity in Europe as a whole, in part to address it, so related to the strains in financial markets are the constraints on the European financial system and its ability to extend credit. Both of those aspects will lower European growth, which is a major part of the global economy. It will have important spillover effects on the global economy and ultimately on Canada.

There is, then, the direct impact of the policy choices that have already been taken. The issue remains, though, as I said in my opening comments, that this is a very delicate situation that has not yet been fully addressed. Moreover, additional significant measures involving pretty fundamental changes to economic governance and fiscal arrangements as well as efficient use of the money that's been put aside already through the EFSF and other facilities are going to be very important in determining the ultimate outcome in Europe and, through both financial and real channels, the impact on Canada.

We've realized some of this downside risk. That's one of the reasons we think there's a little less momentum going forward, and elements of that downside risk unquestionably still exist.

● (1020)

The Chair: Thank you.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, Governor, for joining us this morning.

I want to shift a little bit and talk about some of the things we need to do. I want to talk about trade and the need to diversify our trading relationships.

We talked earlier this morning about the strong relationship we have with the United States and the emerging markets. You've spoken about that. I want to quote briefly from a speech you gave at the Canadian Club of Ottawa recently. You said:

> The financial crisis has accelerated the shift in the world's economic centre of gravity. Emerging-market economies now account for almost three-quarters of global growth—up from just one-third at the turn of the millennium.

That's profound. We've done a good job in this country with NAFTA in the western hemisphere. We've expanded that to the Central American and South American countries. We've seen our Prime Minister active in Brazil and in other emerging markets, such as India and China.

I would like you to share your long-term outlook for emerging markets with the committee. Especially, to what degree do you expect the shift to emerging markets to continue? What does that imply for the importance of Canada's pursuit of trade diversification?

Mr. Mark Carney: Thank you for the question. It's a very important question, and it goes to the heart of where growth is going to come from for this country over the medium to long term.

One of the main sources of growth is, in our opinion, going to have to come from this trade diversification. Now, let me say at the outset that the United States, for all its difficulties, is still the largest economy in the world. We expect there will be ups and downs, but the U.S. economy is still going to grow at a reasonable pace. It is not going to grow for some time at the formerly torrid pace that it used to, but it's still a good market for Canadian businesses. We have a privileged position in that economy, and obviously we should do everything we can to retain that position.

That said, the opportunities in emerging markets for this country are immense. The simplest and most straightforward opportunity comes through our commodities sector. Whether we trade directly with these economies or not, we feel the benefit of their demand for commodities that we export, from base metals and precious metals through to the energy complex. Emerging economies, and China in particular, are the main drivers of these commodity prices. We get the net income benefit of that.

While there is always going to be volatility around commodity prices, we expect that all things being equal, commodity prices are going to remain relatively elevated for the foreseeable future. In our opinion, that provides a degree of confidence in terms of further longer-term investments in that sector, which could include pipelines, geographic diversification, and other aspects that are being looked at very intensively.

The other aspects, though, are where we have a lot of room. Let's say the glass is half full. We have a lot of room to expand both in the manufacturing sector and in the export of services. We have lost market share in the major emerging markets in those areas in the last decade, so one of our messages is that these economies are accounting for more than half of global growth. It's three-quarters, as you referenced. It's actually probably 80% right now, unfortunately, with the drop in Europe and the U.S. They're accounting for more than half of the growth in manufacturing exports as well, and capital good exports, so there are real businesses that Canadians all the way through the supply chain can take advantage of.

It's not easy, in that it will take a sustained effort to develop these markets and to get into those new supply chains, but the secular trends here are fundamental. I'll give a couple of very quick examples and then stop, Chair.

Let's look at China and India. Every 18 months of urbanization in China and India equals the entire urban population of Canada. They house that many people every year and a half as they move to the cities. As well, globally there are 70 million people moving every year into the middle class from the major emerging markets. There is tremendous opportunity here. Government can obviously help with trade deals such as the deal with Colombia, which I know members of this committee supported, and with other important diversifications.

I have one last thing, which is that the flip side is also important. We need to recognize that these major emerging markets—particularly China, or the Asia complex, if you will—are major providers of long-term capital. We could take advantage of that for inward investment into Canada and use it to export higher quality products to these countries.

● (1025)

Mr. Tiff Macklem (Senior Deputy Governor, Bank of Canada): Could I just add one brief point?

The Chair: Please be very brief.

Mr. Tiff Macklem: I will just add that for some time we have been stressing the need for Canada to increase its exposure to emerging markets. I'm on my way to India this evening and will be meeting with senior officials at the central bank and in the government, as well as with a number of leaders of industry. We make a lot of trips to Europe; it is important that we also go and visit emerging markets.

The Chair: Thank you.

We'll go to Mr. Brison, please.

Hon. Scott Brison: Welcome, Mr. Carney and Mr. Macklem, and thanks for being with us today.

In your latest bank report, you cited Europe as the biggest downside risk for Canada, and since then we now see the very real possibility of contagion spreading through the European banking system. Do you believe that recent events have increased significantly the possibility of a full recession in Europe and the U.S.?

Mr. Mark Carney: Thanks for the question.

It's an important issue. The recent events in Europe, in our opinion, will reduce growth in Europe for the second half of this year and into 2012, and probably into 2013 as well, so it will have a long tail.

One of the advantages that Europe has is that its core, Germany in particular, is incredibly leveraged and exposed to the major emerging markets through manufactured commodities, precision instruments, and other very high-value-added products, so the multiplier effect that Germany and, through Germany, Europe gets is helping to support growth in that economy as a whole. The core of Europe has some very strong fundamentals; there are some difficult issues in the periphery.

With regard to the situation with European banks, there are challenges for the system as a whole in terms of the level of capitalization of those institutions. They need to continue to build capital over time in an appropriately paced fashion. They need to build capital in order to provide credit.

Since the events of 2008, some very important mechanisms have been put in place among the major central banks. I'm speaking specifically about U.S. dollar swap lines and other cooperative arrangements that have been put in place between central banks. These measures will help ensure that liquidity shocks will be mitigated. They can't be eliminated, but they can be mitigated, which should reduce some of the contagion from those events.

Hon. Scott Brison: You said in your statement that austerity measures in Europe would dampen growth in Europe. Would your assumption be that austerity measures or government cuts in Canada would have a similar effect?

Second, you also advocated heavy investments to strengthen productivity. Would you suggest that in the event of an economic downturn in Europe and the U.S., we should increase emphasis on those kinds of investments to strengthen productivity?

Finally, what kinds of investments are you specifically advocating to strengthen productivity?

● (1030)

Mr. Mark Carney: Central to our forecast in the July MPR, and an element of the forecast that still very much holds, is the idea that we expected a rotation in demand from the public sector to the private sector and from the housing sector to business investment during the period from the recession through to the initial recovery. Then one of the biggest question marks has been how the export sector would fare in a challenging global environment.

Consistent with the announced fiscal plans of the federal and provincial governments, we expected the contribution of government, which was very significant and helpful during the depths of the recession, to fall. That is what's happening, and it's entirely appropriate.

On the issue on investment, there is no question in our opinion that the private sector will need to sustain investment. In aggregate, we're still lagging behind where investment would be in a recovery. We expect it to continue to grow strongly. We do need to grow productivity, and that's central for the private sector.

Government can help with strategic investment. Those are decisions for governments, but government can also help by creating an environment that facilitates such private investment, including using foreign capital as effectively as possible for longer-term private investment that will not just have impacts on productivity but also help build export capacity in this country.

Hon. Scott Brison: I would appreciate it if you could again go back to the situation in the U.S. and in Europe.

Do you believe that the chances of a full-fledged recession in Europe and the U.S. are greater now than you predicted in your last report? The situation has changed. Has the possibility of a full-fledged recession increased since your last report?

Mr. Mark Carney: Our base case view contained in the report was for modest growth in the United States and Europe. Given recent events, including data revisions to U.S. numbers and tightening of financial conditions because of recent events in financial markets, our expectation for both of those jurisdictions is that growth is going to be lower. That is what—

Hon. Scott Brison: Is there a possibility of a contraction?

Mr. Mark Carney: No, that is not our expectation. Our expectation is that growth is going to be lower. I would not say that our base case view has been revised such that there will not be growth in those economies. That is not the case.

With regard to the very short term, I should stress that there was a big supply chain impact in both the United States and Canada because of the events in Japan on March 11 and afterwards. It was a hard hit for both of our economies, as well as on other economies, in the second quarter, but they're largely coming off that: the auto plants that were shut down have been restarted, and we're going to see a lift from that in both of our economies, at a minimum, among other factors.

The Chair: Thank you, Mr. Brison.

We'll go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Governor, for being here this morning.

I want to preface my question with two personal anecdotes. Before being elected to Parliament, I was head of the Economic Club of Canada. Last year we were looking at expanding on the international scene and went to Hong Kong. What struck me when I was there was the real interest in Canada among both private sector and public sector policy-makers. What was Canada's secret? Why was Canada doing so well in the financial sector? That was a real source of interest in Hong Kong. It was really striking.

As well, when I was going door to door during the campaign, the dominant issue among people was the economy. They were very impressed that our economy in Canada was doing so well vis-à-vis those of other countries around the world.

We have just heard from the Minister of Finance, who is in close consultation with his G-8 counterparts around the world. In fact, he just penned an article that appeared in a number of papers globally this week. As part of the response to the global economic turmoil, we have recognized the need for global international cooperation. These initiatives have been proceeding at a good pace in recent years, through Basel III and the Financial Stability Board. I know you're very familiar with these fora and initiatives.

Could you give us an update on these initiatives and why it's important not to lose sight of the objective of maintaining global financial stability?

● (1035)

Mr. Mark Carney: Thank you very much.

I would echo very much your first point in terms of the interest in the lessons from Canada's strength or performance in the financial sector. As Mr. Macklem references, he's in India—we're often in Asia—so that we can learn from each other, but candidly, we're also there so that we can add to the profile of the Canadian financial sector and encourage longer-term relationships to the benefit of our citizens.

In terms of the agenda, there is a very heavy reform agenda, and it can be sometimes mind-numbingly dull or complicated in all the acronyms. That is by design, by the way, so that nobody knows what we're doing.

Voices: Oh, oh!

Mr. Mark Carney: Let me try to strip it down. You referenced Basel III, and that's absolutely right. Basel III is the standard for how much capital and the type of capital that banks have to hold, and how much liquidity they should hold as well. The core of Basel III makes the world's banks look more Canadian.

There are some innovations to the way we did things in Canada as well, but basically we added on top of all the complexity a very simple test that will apply globally, which is how many assets you have over how much base capital. You shouldn't let that get too big, because there are limits to knowledge, and the things you think aren't risky tend to be the things that really do have a lot of risk. That was one of the core lessons of the financial crisis and one of the reasons we did well.

We've added some very common sense elements to the standard. We've stripped out a lot of financial engineering in the quality of capital so that equity is true equity and there is realy some loss absorption base there. The important thing is going to be to make sure that people implement it, and that they implement neither too quickly nor too slowly, but in a timely manner. The world's banks were shown to be woefully undercapitalized as a whole—not the Canadian banks, but the global banks—and that was part of the reasons for the crisis.

We don't have time to go into it now, but one of the things we're really focused on at the bank and through the financial stability board is making sure that all these great rules that have now been written are actually implemented, not just in Canada—where they will be, without question—but also in Europe, the United States, and our major partners.

I will quickly mention the second two things. There are a series of very complex initiatives that work on the plumbing of the financial sector. They work through the short-term repo markets, which are one of the core markets through which banks are funded, and the derivative markets. The point of those initiatives is to remove the types of risks that are still present in global markets in relation to how the failure of a certain bank would affect all the other players. There is still tremendous uncertainty about that. If you can neutralize that risk, then a certain bank can fail if it makes mistakes—and it should fail—but others can get on with their business. Then we won't have to have special sessions during August, although we're always happy to do them.

In terms of the repo market in Canada, we have made some serious changes that should be on stream later this year or early next year. Those changes will further improve our functioning in that area.

The last thing is the other big element of initiative. We have focused on the banking sector as a whole, "we" meaning the global community. Give or take, that is anywhere from a third to a half to a maximum of two-thirds of the financial sector in any given country. In Canada it is about one-half. What about the whole other side? Some people call it "shadow banking"; we prefer the term "market-based finance", because it's actually about having markets and having the markets working. We need to look at the interaction between markets and banks and ensure that they are resilient, so that we don't get effects from markets cascading back onto the banks and ending up affecting the ability of individuals, Canadians, to have a mortgage or to borrow for somebody's education or for a new business investment.

The Chair: Thank you, Mr. Adler.

[*Translation*]

Mr. Mai, you have five minutes.

Mr. Hoang Mai: Thank you, Mr. Chair.

I would like to thank the Governor of the Bank of Canada and Mr. Macklem for joining us today.

Despite the Canadian economy's relative strength compared to its main trading partners, our economic performance is still below its true capacity.

Could you comment on the difference between our current situation and our potential?

● (1040)

Mr. Mark Carney: First of all, I would like to welcome you to this committee.

You are right, the Canadian economy is not currently operating at its full capacity, which is normal after a recession. The gap between demand and our economy's full potential is still not nearly as wide as in the United States.

Every October, the bank releases a projection, or an estimate, for the potential growth rate of the Canadian economy. It is around 2% per year. It is the result of productivity and a growing workforce in Canada.

The gap between the potential demand and the level of the Canadian economy is currently at almost 1%. That is the bank's estimate.

Mr. Hoang Mai: We have heard that Canadian companies have about $500 billion at their disposal, but they are not reinvesting it in the Canadian economy. In your view, how does this affect Canada's ability to compete?

Mr. Mark Carney: That puts our economy at an advantage. The balance sheets of our companies are very strong; those companies have a lot of liquidity. As we were saying, there are many business opportunities on emerging markets. There are a lot of opportunities for us to increase our productivity.

It is crucial that Canadian companies stay the course. They started to invest in the middle of last year. At the moment, investments are very high in Canada. All indicators, meaning conversations, bank surveys, and so on, suggest that our companies are going to continue to make considerable investments in the future.

It is a necessity. They can use their liquidity. They can also borrow if they need to.

[*English*]

The Chair: We'll go to Ms. Glover, please.

[*Translation*]

Mrs. Shelly Glover: Thank you for being here.

[*English*]

Thank you so much for your presentation. It really was enlightening to some of us.

I'm going to try to sum up some of the things that I've heard.

Page 2 of your presentation states that "In tandem, federal and provincial fiscal stimulus provided important further support to domestic demand, contributing significantly to Canadian economic growth through 2009 and 2010."

I was glad to see that, because the NDP voted against the stimulus during that period.

Then, later, you said that it's now entirely appropriate to stop spending, yet here today the NDP is saying, "Spend".

On the other things that you've commented on, I'm trying to figure out why the NDP and the government are on two sides of this economic page. When you talked about jobs in your presentation, again on page 2, you stated that Canada, thanks to things like Canada's economic action plan, "...has recovered all of the output and about 140% of the jobs lost during the recession", yet the NDP continues to say that we should focus on creating jobs, something the economic action plan—which they voted against—was doing and is continuing to do as we move forward.

Then you said something very important. You said that trade diversification is at the heart of where growth will come from. We've seen our Prime Minister pursuing that and we've heard Minister Flaherty talking about trade in China. We have negotiated approximately 10 agreements. Given that we have just signed some last week, during the Brazil trip that the Prime Minister took, we have signed more than 10. We are negotiating 50 trade agreements. The Liberals only signed three over 13 years; we're only into our sixth year as government, so I think we're doing pretty well.

At the heart of that, you stated that a government can create an environment to allow the private sector to invest in growth and you pointed out how important it is to do that. Would you agree, sir, that things that we've done as a government, including implementing a hiring credit for businesses, lowering corporate tax rates, extending the accelerated capital cost allowance, and negotiating free trade agreements show that we're on the right track?

● (1045)

Mr. Mark Carney: Should I take that as a comment, or is that a question?

The Chair: You could deflect it to Mr. Macklem if you want.

Mr. Mark Carney: He's got a one-way ticket to India, and we won't be seeing him.

Some hon. members: Oh, oh!

Mr. Mark Carney:

I will say the following: as we've said in the past in terms of elaborating on the specifics of the contribution of the various measures of various levels of government, particularly last year in 2010 when they were most direct, about a third of the growth in our economy was a result of these measures and the multipliers that came from those measures. That was valuable, obviously, because it was at a time of extreme weakness abroad.

It also has to be said that there was a more tentative response of our corporate and business sector at that time than we saw in the U.S. or in Europe, which were at the heart of the crisis. There was more of an investment strike, if you will, at the time. On our business side that has now turned around, and it coincides with the withdrawal of some of the stimulus.

The government is continuing to spend, and smart spending will continue to be important. We've talked about the diversification of markets and the growing of markets as being absolutely essential, as is creating a constructive environment for foreign investment and long-term capital in Canada, as I've tried to emphasize.

Let me make this point: in general, this country is not going to have a problem having access to capital. The question is, what do we do with that access to capital? Do we all enlarge our homes, or do we build our productivity? Do we enlarge our export capacity? Do we consume it, or do we invest it?

There's a right mix, and individuals and businesses have to make those decisions. This is one of the issues that we should collectively be alive to, because in this global environment where capital is looking for a home, Canada is an attractive home; however, it's then incumbent on us and on Canadians to use that capital effectively for the long term.

The Chair: Thank you.

Thank you, Ms. Glover.

We'll go to Mr. Marston, please.

Mr. Wayne Marston: Thank you, Mr. Chair, and welcome again to our guests.

It's my understanding that since 2006, the reductions in corporate tax rates in Canada have removed about $45 billion from the Canadian government's fiscal capacity to address the needs of Canadians. We see this government relying on finding savings in government operations and in growth to address the deficit we're now facing.

Could you share with the committee the latest projections of the Bank of Canada in regard to growth and comment on the implications of those projections for inflation and interest rates in our country?

Mr. Mark Carney: Our most recent projection is the one contained in the July MPR. For the benefit of the committee, I could talk about the process and then ask Mr. Macklem to give some details.

What the bank does is provide full projections four times a year, coinciding with the publication of the MPR. Our next full projection will come out in October. We release that projection to all Canadians at the same time. Obviously, as events happen—positive or negative, domestically or internationally—we update our thinking constantly on where the economy is going. What we do not tend to do is provide a real time, three-decimal place updating of our projections for growth in Canada and growth abroad, etc. We give indications of where things are going, but we're not introducing added volatility from real-time monitoring.

As a last word of introduction, in our view the broader outlines of what we projected in our July monetary policy report, particularly with respect to the domestic economy, still hold. What's changed is that some of those external downside risks have been realized: there is weakness in the U.S., as we've talked about, and weakness in Europe, and there are other factors that will cause challenges on the export side. There is a little tightness in financial conditions as well.

Tiff, could you elaborate?

● (1050)

Mr. Tiff Macklem: I'll say a few words with respect to the dynamics.

In our July monetary policy report, we were already expecting a fairly weak second quarter, partly as a result of the supply chain effects relating to the earthquake and subsequent disasters in Japan. Also, looking back to the first part of the year, the fairly rapid run-up in gasoline prices was affecting people's budgets.

At the time, we expected the second quarter to come in at 1.5%. As the Governor indicated in his opening statement, given subsequent data, we are expecting the second quarter to be roughly flat, and possibly slightly negative. We continue to expect a recovery in the second half of the year, partly as the supply chain effects come back and partly because we do continue to see growth in the United States, although modest.

However, as indicated in the opening statement, we are seeing somewhat weaker economic momentum globally. That will no doubt affect Canada and, as the Governor indicated, we will be looking at all the incoming data and updating our projections. We have our next monetary policy decision in early September and our next full forecast in our monetary policy report in October.

Mr. Wayne Marston: Governor Carney, it seems to me that in today's climate of very low interest rates—some of the lowest we've had in a long time—it would make sense for the government to start to address the infrastructure deficit that municipalities have been citing for a while. In fact, the members of the NDP have also been calling for that to be addressed.

We've heard today that corporate Canada is sitting on about $500 billion in cash. Would it not be appropriate at this time for the government to take the lead in a robust way to start addressing the infrastructure issue? That may well require borrowing, but with the low interest rates we have now, would it not be an opportune time to do that, and possibly get cash from the corporate community as well?

The Chair: Governor Carney, I know a lot of this is about fiscal policy, which—

Mr. Mark Carney: I'll say that we look forward to reading the report of this committee on this important issue.

Some hon. members: Oh, oh!

The Chair: Thank you, and thank you, Mr. Marston.

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

Governor, I want to ask you a couple of broad questions. The first is on the impact on our inflation target of the decision by the chair of the U.S. Federal Reserve to set the target very low over the next several years. I know it's conditional, but it seems to me that their low target makes it somewhat more challenging for us on our inflation target and for the value of the Canadian dollar.

You talked about a third point in your opening statement, personal indebtedness, and I'm glad you did. The point has been made that in terms of raising our rates, we're obviously somewhat limited by the actions in the U.S., and when you keep rates that low, you almost incentivize people to borrow more and may thereby increase the problem of personal indebtedness. This is something you've warned about, and the finance minister has as well.

That's my first issue.

The second one was raised by Mr. Marston and the finance minister. The finance minister was very pointed in saying to this committee to advise businesses to spend more, and I'm glad he did so. A challenge here in Canada, and even more so in the U.S., is that in a sense companies are sitting on capital. What is your analysis as to exactly why they're doing that? Is there anything we should be looking at from a policy point of view to incentivize them to invest and to spend some of that capital?

● (1055)

Mr. Mark Carney: I heard three very important questions there, and I'll try to be brief.

First off, the decision of the Federal Reserve last week is positive for Canada in that the stimulus it provided, this form of conditional commitment, is something the bank did in the depths of the crisis. Once we got interest rates as low as they could go, we provided greater certainty to Canadians about where we thought the interest rate path would be in the near future, because there were exceptional circumstances. The Fed is in even more exceptional circumstances, obviously, and the guidance they gave last week had an important impact on interest rates further out on the curve, which is quite stimulative for their economy. I won't be overly precise, because it's not an exact science, but what they did is akin to hundreds of billions in additional quantitative easing, and it has been effective. It's slightly more complicated in that they have a dual mandate, which is a more complicated mandate than ours is.

Let me describe the impact of that in terms of Bank of Canada policy. What matters for the Bank of Canada is what happens in the U.S. economy vis-à-vis the United States. What matters is the impact of what happens in the U.S. economy, taken together with all the other domestic and international factors and their impact on the outlook for inflation in Canada. Then we set monetary policy appropriate for conditions in Canada.

We do not outsource monetary policy to the Federal Reserve, as you know. There have been times in the past when interest rates in Canada have been 200 basis points or more above those in the United States, and there have been times when interest rates in Canada have been 200 basis points or more below the policy rate in the United States. That's because that's what was appropriate to achieve our inflation target.

We will do what's right to achieve that target in Canada. There's no question that what happens in the U.S. matters tremendously for Canada, but the policy stance of the Federal Reserve is not the policy stance of the Bank of Canada, as you know.

Second, personal indebtedness is an important issue. This is a difficult time, period, through this crisis, because in the major global economies we have real economic outlooks and outlooks for prices that are broadly consistent with very low interest rates for a long period of time. That has knock-on effects on the overall level of interest rates, through arbitrage and other factors, here in Canada. We also are facing headwinds in this economy, so we've set interest rates at exceptionally low levels for a period of time, and we will use our policy appropriately in the face of those headwinds to achieve the inflation target. This creates stimulus for those who need it, but it also creates the possibility of people borrowing more than they ultimately will be able to afford to repay.

The responsibility does start with the individual and then goes to the financial institution that is lending them the money. However, as we point out, it is important to remember two things: one, interest rates will not always be at these exceptionally low levels, so think about your ability to service a mortgage, for example, over its full life when interest rates are at more normal levels; two, we don't have aspects of, for example, our mortgage insurance system that excessively encourage this type of behaviour.

As I referenced in my opening statement, the government has taken three series of very prudent and timely measures that are having an impact on excessive borrowing. We're not against borrowing, but there is a time and a place. There needs to be an element of prudence in people's personal affairs and a recognition that while we're in exceptional times, we're not always going to be in exceptional times.

The Chair: Okay.

Mr. Mark Carney: If I may, I have one last point on U.S. investment.

U.S. businesses have in fact invested; it may seem as though they've invested less because the commercial real estate sector in the United States has been severely damaged, but their actual investment in machinery and equipment has been much stronger than the investment in Canada in machinery and equipment. They are well above their pre-recession levels in that type of investment.

The Chair: Thank you for those comments.

[*Translation*]

Mr. Giguère, there is a minute left. You have time to ask a quick question.

Mr. Alain Giguère: Thank you, Mr. Chair, but I am going to take a little longer than a minute. I think the Governor of the Bank of Canada can give me five minutes.

Thank you very much, Mr. Carney.

The average household debt in Canada is currently at 147% of its income. There are also strong centrifugal tendencies in some regions. That percentage is actually much higher in some regions than in others.

We are now able to establish a link between the increase in household debt and the average increase in housing prices. Over the past 10 years, housing prices have gone up by nearly 100%, which is not even close to what happened to salaries. With this very high debt rate, what impact will a debt crisis have on the Canadian economy?

● (1100)

Mr. Mark Carney: That is an important question. Your numbers are correct; that is exactly what is happening in Canada.

It is one of the downside risks that the bank has already identified in its projections. A change in housing prices could actually have a huge impact on household spending. For example, a drop in housing prices could have a greater impact on Canadian household spendings than before because of the burden of debt. It is a major aspect in our projection. We have to look at our forecast as a whole. It is a base forecast that involves some risks, and this is one of the risks.

The Chair: Thank you very much.

[*English*]

Governor Carney, thank you so much for being with us here today. Thank you for your remarks and your response to our questions.

Mr. Macklem, thank you for being here as well. We wish you safe travel to India.

Thank you both.

The meeting is adjourned.

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