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Chair

Mr. James Rajotte

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● (1130)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Welcome, everyone. Thank you so much for coming in. We had an unexpected vote this morning, so we apologize for beginning late.

This is the tenth meeting of the Standing Committee on Finance of this session.

According to our orders today, pursuant to Standing Order 83.1, this is the start of pre-budget consultations 2011 for next year's budget.

We want to thank all of you for coming in this morning.

We have with us Monsieur Marc Lavoie, *professeur titulaire, Département de science économique, Université d'Ottawa*; from BMO Capital Markets, Mr. Douglas Porter, deputy chief economist; from the Canadian Labour Congress, Monsieur Sylvain Schetagne, *économiste principal*; from the Conference Board of Canada, Mr. Glen Hodgson, senior vice-president and chief economist; and from Laurentian Bank Securities, Monsieur Carlos Leitao, *économiste en chef*.

Bienvenue. Thank you all for coming in.

We will have about five minutes from each of you for an opening statement, and then we'll have questions from members.

[*Translation*]

We'll begin with Mr. Lavoie.

Mr. Marc Lavoie (Full Professor, Department of Economics, University of Ottawa, As an Individual): Good morning, Mr. Chair.

I should first of all point out that I'm not a forecaster. What I'm going to tell you is based on my feelings, my experience and my understanding of the laws of macroeconomics.

Basically, there is no doubt in my mind that we are heading toward an economic recession or, at the very least, toward a period of almost zero growth. I think that we are going to see what I would call the "Nipponization" of the western economy, meaning that we would have close to zero growth or negative growth for several years.

For several months now, we have seen that all the large agencies are revising their forecasts on economic growth downward. Based on the consensus of the economists, the Department of Finance announced in the budget presented in March and in June a growth rate of 3% for this year and next year in Canada and the United States. When we read the most recent forecasts of the International Monetary Fund, we see that it has now gone from 3% to 2% for Canada, and 3% to 1.5% for the United States.

But we know that the forecasters are generally still too optimistic when the economy is spiralling downward. To give an example, as you know, the Lehman Brothers fell on September 15, 2008. Well, on October 13, 2008, the consensus forecast was still that Canada was going to grow at a rate of about 1% for 2008 and 2009, while in reality, Canada's growth rate in 2009 was negative 2.5%. For the United States, the consensus forecast for 2009 was that the growth rate would be 0%, when the United States' growth in 2009 was actually negative 3.4%.

But we have been going through a period of uncertainty, which is very similar to the one we had in 2008. In fact, every week we hear at least four or five news items that are stupefying or concerning. The United States economy is not really recovering. The budgetary consolidation plan that the American government wants to adopt is going to slow down economic growth, if it hasn't done so already. And the new recovery plan under President Obama has little chance of being implemented. So there is little hope there.

What's more worrisome is the situation in Europe that everyone has been talking about, particularly the sovereign debt crisis for countries using the euro. In May 2010, the European Central Bank stepped in and, for the first time, purchased government securities, something it had refused to do for the first 10 years it existed. A European Financial Stability Facility was created, but it is clear—and was already clear then—that it was too little too late. The crisis in Europe seems to be irreversible, especially since the European politicians think it would be better to focus on fiscal constraint policies. As the example of Ireland and the United Kingdom shows, these policies are not going to have the desired effect. I think there is a structural crisis for the euro zone. In fact, it was created on the hypothesis that there would never be a crisis and that the financial markets were always right. Now we know that the financial markets aren't always right and are in the middle of a crisis.

To conclude, Canada will not be able to magically escape the financial crisis when it is happening in Europe. When there is an earthquake in Europe, we in North America—the United States and Canada—will be hit by a tsunami.

● (1135)

Obviously, given our trade with the United States, we are going to be affected by this situation. So I think that the Canadian government must give up on its goal of balancing the budget for 2014-2015; it must give up on budget cuts that were already announced; and it must now implement a new recovery plan for infrastructure.

The Chair: Thank you, Mr. Lavoie.

[*English*]

Next we'll go to Mr. Porter, please.

Mr. Douglas Porter (Deputy Chief Economist, BMO Capital Markets): Thank you, Mr. Chairman.

Thank you to the members for inviting me here today.

There's no doubt that the world economy has been faced with numerous challenges since the start of 2011. It started this year with the crisis or the unrest in the Mideast that led to a spike in energy prices. Of course that was followed by Japan's trio of disasters that created supply chain problems globally. Then, in the summer, we were faced with the U.S. debt limit debate, which sparked turmoil in the financial markets more generally. Rumbling beneath all of these challenges has been the ongoing European debt crisis, which is probably now the single biggest risk to the global economic outlook.

All of these factors have in their own way conspired to no doubt darken the economic outlook. Through one channel or another, they have hit consumer, business, or investor confidence.

While we continue to believe that Canada and the U.S. will manage to claw out some growth over the next year, it looks to be very modest at best. We've recently revised our GDP forecast down to 1.5% to 2% for both Canada and the U.S. in 2012. That's not significantly different from the problem-plagued, underwhelming environment we've seen in 2011. It is down about a percentage point from where we would have seen both Canada and the U.S. as recently as four months ago.

Given such subdued growth, I would say that it would really only take one more negative shock to basically tip the economy over into an outright downturn—for instance, a serious policy error in one of the major economies, or something akin to the Lehman Brothers shock we suffered back in the fall of 2008.

For Canada specifically, we have consistently outperformed the U. S. and most of our global counterparts for the last five years. On average, the Canadian economy has grown by about half a percent faster than the U.S. economy, but I would stress that it really is only a difference of degree and not direction. The reality is that if the U.S. and the broader global economy got into significant difficulties, then Canada would unfortunately only be a step behind.

Even from Europe, there are a number of different channels through which a problem in the European economy can be transmitted to the Canadian economy. There is the direct export channel. Admittedly, Europe is not a huge destination for our exports, but they do still absorb about 8% of our total exports, which is by itself significant.

There is also the financial market channel. Much as we've seen in recent weeks, global equity markets are more interlinked than ever before. Whenever we suffer serious downdrafts, even in European equities, that can directly affect Canadian equities that very day.

There are the financial linkages through the banking sector. If European banks get into serious difficulties, that can affect the North American economy.

Finally, there is the indirect effect of commodity prices. We've certainly seen that in recent weeks. Concerns over the global economy can translate into much weaker commodity prices. We've seen that quite clearly in recent weeks, where we've had a huge step back in commodity prices. Of course, as a significant commodity producer and exporter, a significant drop in commodity prices at this time too can affect the Canadian economy.

In other words, even if we do everything right, even if we get every policy right, we can still be obviously quite clearly affected by a problem in the global economy.

As well, the Canadian dollar is vulnerable to a pullback in commodity prices, as we have seen in recent weeks.

For policy-makers, I'd suggest that in this kind of environment, caution really is the watchword. Certainly from the monetary policy front, we have seen the Bank of Canada on hold for the last year. Our view is that the Bank of Canada is likely to keep interest rates unchanged right through to the end of 2012. They will remain quite cautious in this kind of environment.

For fiscal policy, I think the important thing at this point is to be flexible. I don't think things have deteriorated to the point where we need a change of tack at this point, but I think policy-makers have to be cautious in this kind of environment where there are quite serious tail risks. I mean, right before our eyes we see the risks playing out in financial markets. It's almost as if we're having a day-by-day debate in the financial markets on whether we're headed for another global recession or whether or not the global economy will continue to turn out modest growth.

In that extremely uncertain environment, I think fiscal policy basically has to remain flexible. That's my main message.

Thank you.

● (1140)

The Chair: Thank you very much, Mr. Porter.

[*Translation*]

Mr. Schetagne, you have the floor.

Mr. Sylvain Schetagne (Senior Economist, Social and Economic Policy Department, Canadian Labour Congress): Thank you, Mr. Chair.

On behalf of the 3.2 million members of the Canadian Labour Congress, I want to thank you for affording us the opportunity to present our views on the Canadian and world economy, and the next federal budget.

Economists—including bank, OECD, International Monetary Fund and ILO economists—are increasingly gloomy about the economic prospects of all the advanced economies, including Canada.

The United States, Europe and Canada could slip into a technical recession soon, and even if this was avoided, we are almost certainly in for a long period of very sluggish growth and continued high unemployment. Why? We've talked about many reasons for the problems with the world economy. I am now going to quickly touch on five issues that are at the source of the problems we are now experiencing.

First, all the government investments have run out. During the recovery period of 2008-2009 after the great recession, these investments helped lessen the effects and restore the economy. Unfortunately, these public investments are running out or have already run out, which is Canada's situation. What we are seeing more and more is a shift by governments to austerity and spending cuts, instead of maintaining public investments to support the economy.

The second significant problem we are seeing at the international level is putting off fundamental reforms—often through the G8—that our financial system needs to rectify the situation and prevent the type of problems we encountered in 2008. Not having these reforms means that the large banks and hedge funds continue to speculate on the markets.

The third issue that is very important for us and that explains the current problem is the matter of very high household debt, particularly housing-related debt, mortgage debt. As we know, this resulted in a mortgage crisis in the United States, as it did in England and in other countries.

Today, increasingly, total household debt means that spending is weak and, as governments are turning to austerity policies, governments are also contributing less to economic growth.

The fourth problem that we are seeing is more fundamental and is one we don't often deal with: it's the issue of trade surpluses among countries. Some countries have very large trade surpluses—I'm thinking of China and Germany—and, because of their policies, prevent wage increases and importing, so that they should import more products and services from countries that have large trade deficits and high unemployment.

So we are seeing that many developing countries are continuing to grow, notably China, but that others, like the United States, Canada and part of Europe, are having difficulty with exports and with the recovery of their manufacturing sector.

The last main fundamental problem, one we do not discuss much, is one that existed prior to the crisis in 2008: constantly rising inequality, rising profits and soaring incomes for the very rich. Combined with stagnant wages for the working people, this creates a number of problems.

The main problem is that the growth before 2008 essentially came from the growth of household debt and speculative bubbles, as opposed to a preferred growth based on real investment in a balanced economy, an economy that creates jobs, an economy of sustainable development that creates real investments and that increases productivity, which is then linked to rising wages and so on.

There are five major issues that are more fundamental than simple short-term and long-term problems.

In Canada, it is very clear that the economic growth is slowing very quickly. This year, the first quarter was positive, but that was mainly linked to a build up of inventories. The second quarter was negative. The third quarter is also expected to be negative.

As for the total number of jobs in Canada, during this time we found ourselves in a situation where we've recovered to pre-recession levels. The unemployment rate remains high at 7.3%, compared to 6% before the recession. The number of unemployed workers is a quarter of a million higher than before the recession. At 14%, the youth unemployment rate is twice as high as that of workers aged 25 to 54. The real unemployment rate, which counts workers who have given up looking for jobs and involuntary part-time workers, is about 11%.

As for the labour market this summer, there was no job creation. What's more serious—and I am stressing this—real wages have begun to fall.

● (1145)

The Labour Force Survey for August showed that average hourly wages were up by 1.4% whereas inflation was 2.7% in July, 3% in June and 3.7% in May. So we can see that real wages have been dropping. We believe that, if real wages continue to fall, it will have negative effects on consumer spending in the short term. Consumer spending played an active role in maintaining our growth during the economic crisis. But given that real wages are falling, we are likely to see a fall in consumer spending and, as a result, a fall in the Canadian economy.

So what is the way out? We are faced with the following situation: for the Canadian economy to continue to grow, there are basically three options. We could increase our exports and reduce our imports; businesses could invest more; and we could invest more through public investment. Given that Canada is an exporting nation, we know that business investment is closely linked to exports. And since our clients are not necessarily buying our products, things are not looking good. So what is left? We have the last option, meaning public investment.

At the moment, the Government of Canada can borrow through 10-year bonds at a 2.5% rate of interest. It is a very low rate. Canada's debt is also low at 33%, which is half of the OECD average. We have the means to borrow in order to be able to focus on public investment. That is not expensive. Our recommendation is to continue with public investment in infrastructure. That includes bridges, trains, and so on, but also our social infrastructure with child care and care for the elderly.

Thank you.

● (1150)

The Chair: Thank you very much.

[*English*]

We'll now hear from Mr. Hodgson, please.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): Thank you very much, Mr. Chairman.

I basically have three points to make as opening remarks.

First of all, on the global context, we're in the midst of a crisis of confidence right now, which is really a function of an inadequate policy response to what's happening in Europe and arguably to the fiscal position and the recovery in the United States as well. I won't go into great depth on that, but I think it really points to the need to build confidence as a critical purpose of the committee meeting today and indeed of the whole design of Canadian economic policy going forward. This should be all about restoring the confidence of Canadians as consumers, as investors, as people who actually believe we have a strong economic future.

I could go into great depth on what the solution is in Europe, for example, but I won't do that. I did spend the first ten years of my career at the Department of Finance and another three and a half years at the IMF, so I've actually lived through this. I feel like I'm watching a bad movie the second time around, and it's very tragic, but there are solutions; it's not a hopeless circumstance. But it's also going to be very painful, in particular for taxpayers in a country such as Greece, which is nowhere near the bottom in terms of its adjustment. So confidence is the critical anchor.

Secondly, on our economic outlook, the Conference Board actually had one of the weakest forecasts in the pre-budget round of forecasts. We came up with a forecast in the first quarter of this year of growth of 2% this year and a little bit stronger in 2012. I know we're at the lower end of the range, and unfortunately we think the future is turning out that way. We revise our forecasts each quarter and have just finished the revisions for Q3 and are now forecasting growth in Canada this year of 2.1% and about 2.5% for next year. The trouble is that this forecast is not symmetrical, in that I don't think the array of risks around it are even: I think there's a lot more risk of things happening on the downside, of bad things happening, than having upside potential. That means you really have to build a note of caution into the fiscal forecasts going forward, because I think growth is really being hampered right now. Growth in our economy is below the normal track that we felt we were on nine months ago. Exports, for example, are probably about $30 billion to $40 billion below what they could be if our economy were performing at potential. And of course nominal growth is the key driver for government revenues. Therefore, we shouldn't be at all surprised if government revenues are a little bit below the path Mr. Flaherty set out in his budget, because of slower nominal income growth.

That brings me to the third and final point, which is on the design of fiscal policy right now. These are exceptional circumstances. Rebuilding confidence should be our anchor point. That's the key objective of the budget going forward. For me that means being prepared to make course corrections along the way, being very pragmatic, building prudence into the outlook, and not being wedded to one view, because the circumstances clearly have changed outside our borders and we have to find ways to adapt to that change. That doesn't necessarily mean more stimulus, because in fact we don't have enough data right now to really reach a conclusion on whether the economy has slowed down—nor does it mean stepping on the brake.

I think, for example, with slower nominal income growth, if we have to move the target of balancing the budget out by a year or two —a very common-sense adaptation—we should be prepared to make that adjustment. If the economy needs more stimulus at some point, we should be open-minded about that—but certainly that's not the Conference Board's view right now, that we have to add anything exceptional. So it's not just a matter of staying the course; it's being prepared to make common-sense course corrections along the way, depending upon the needs of the economy.

Mr. Chairman, I'll make two more points.

I had a commentary on tax expenditures that was run in about half the newspapers in the country about a month ago. As the federal government thinks about reviewing overall government spending, let's not forget the fact that tax expenditures represent about a $100 billion revenue sacrifice for the federal government. We have 190 separate exemptions now within our personal income tax system. So let's at least be open-minded about considering tax expenditures as part of any overall review of spending, because there could be interesting sources of revenue there that would preclude the need to have quite as much spending contraction on the spending side.

The other point I would make, and here I'll echo what other speakers have said, is that infrastructure is the best form of adding stimulus to our economy. We did a series of studies for various governments across the country during the recovery period, and if there were a desire to add a little bit more horsepower within the structure, even within the current level of spending, then shifting spending towards infrastructure spending would both provide stimulus to the economy and address a real need. Any of you who cross the Champlain Bridge in Montreal know exactly what I mean in terms of the crying need for investment infrastructure in this country.

I'll stop right there, Mr. Chairman.

● (1155)

The Chair: Okay, thank you very much, Mr. Hodgson.

We'll go to Monsieur Leitao, *s'il vous plaît*.

Mr. Carlos Leitao (Chief Economist, Laurentian Bank Securities): Once again, thank you for inviting me to appear before this committee.

I have the pleasure of being last, so I'm not going to repeat a lot of what was said. I agree generally with the fact that the global economy has indeed slowed a lot. Economic growth is now much weaker both in the United States and in Europe, as well as globally, than we thought it would be only two or three months ago. We have to adapt to that.

A recession in 2012 is possible. It's not part of our forecast. We still think it can be avoided, but certainly one needs to realize that it is indeed a possibility. However, unlike 2008, which really did hit us hard and almost unexpectedly, this time around we can see it coming. The reason I think that a recession is not inevitable is that policy-makers in the United States and in Europe know very well what needs to be done to avoid such an outcome.

Now, democracy is messy, as you all know, and it's not always possible to do what needs to be done right away, but I wouldn't dismiss the capability of the European governance mechanisms to address the situation. It will take time. They will probably push it to the last possible second, but I think they will be able to avoid a major, messy default of Greece, for example. It is very serious and it is very risky, but I am not ready to assume that it is necessarily going to collapse.

Now for Canada. Of course, as was said before, this time around if there is a recession outside our borders, we are not going to escape it. That's obvious. I'll go even one step further. Last time around, in 2008-09, we did escape most of the impact of the recession for two basic reasons. One was monetary policy: interest rates came down very quickly. Secondly, fiscal plans were put in motion by the federal government and the provinces to address those issues.

This time around, we won't be able to do the same things. Interest rates are already at very low levels. I don't think they can go any lower. I don't think the Bank of Canada will cut the overnight rate; I don't think it will serve any purpose. Market rates are very low. Ten-year yields are actually now at 2% or thereabouts. This is very low, historically speaking, so we've done that.

As for consumers coming to the rescue as they did in 2008 and 2009 by massively borrowing, by getting mortgages and what not, again, given the high levels of household debt at this point, I think that's a place where we should not go. We should not try to push that elastic any more.

So that leaves us with exports and business investment. On private business investment, there are perhaps ways that governments can think of to stimulate and to favour private business investment. Public investment is also welcome at this point, and I think that we, as a government, should be prepared to perhaps accelerate some projects. However, I also wouldn't also put a great deal of emphasis on those projects.

Glen, you mentioned the Champlain Bridge. It's something that needs to be done, so if we decide to rebuild the bridge it's because we need to rebuild the bridge, not because we need to stimulate the economy. That's a big project. It's $1.5 billion or something like that, but it wouldn't do much for GDP growth in the first quarter of 2012. But it needs it to be done and interest rates are very low, so this would be a good time to do something like that.

Finally, when it comes to fiscal policy, when we think of the upcoming budget we need to be flexible, because we're not quite sure what's coming down the line. We need to be able to think in terms of rebuilding confidence, of stabilizing consumer confidence and improving business confidence. To me, those are the keys. Also, if we need to boost confidence, perhaps there are measures that can be done very quickly and can put money in people's pockets. Indeed, incomes are low and wages are weak, so we should think of measures like that.

Thank you.

The Chair: Thank you very much for your presentation.

I'll just remind our witnesses and our colleagues that we have a very short time for questions and answers, so we'll ask that both be brief, please.

We'll start our questions from members with Ms. Nash, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you very much to the panellists for being here today. You had very interesting presentations. We certainly appreciate your experience and your expertise.

I hear similarities in what each of you is identifying as the problem. I hear some differences in terms of what Mr. Schetagne and Monsieur Lavoie are saying about how they feel it's probably very likely we're going to be in a recession. Others of you are saying that it's unclear and we should remain flexible.

We have had significant debate in the House and in this committee about the value of austerity at this point in time, which has been the government's approach, versus the value of investing in the economy through infrastructure investments. Each of you has mentioned this in some way.

My question is, could we be further damaging our economy by pursuing a path of austerity at this point, which we are doing by taking out $4 billion a year and cutting services? And should we instead be investing in building needed infrastructure now, rather than waiting for a further crisis to hit? Should we not be preventing problems down the road?

● (1200)

[*Translation*]

Let's start with you, Mr. Lavoie. Do you have any comments?

Mr. Marc Lavoie: When a government follows policies that lead to deficit, there is an immediate positive effect from a strictly macroeconomic point of view. If the government puts more money in the economy, it is as if consumers and businesses were putting more money in the economy.

The only reason why a reversal of the policy of fiscal restraint might have negative effects is the psychological factor. Some of my colleagues mentioned the idea of trust. Of course, if consumers and businesses think that a higher government deficit could have a negative effect on the economic, this sort of expectation could be self-fulfilling. But from a strictly economic perspective, if we didn't have this psychological factor... At any rate, under the current circumstances, this is clearly the only way out.

Some have said that consumer spending in Canada cannot really go up because Canadian households are already carrying debt. Business investment in Canada is at a standstill. Nothing is happening. So our exports are going to drop. Things are not going well in the United States and they are not going well in Europe either. So the only thing left is public spending.

[*English*]

Ms. Peggy Nash: Merci.

If there are others who would like to comment, I would welcome them.

The Chair: Monsieur Schetagne.

[*Translation*]

Mr. Sylvain Schetagne: I agree with that analysis. I would even take it a step further.

First, what is behind the federal government's situation in terms of balancing its books? There is a drop in revenue not only because there is a drop in economic activity, but also because there is a drop in tax rates. As a result, the government is losing out on revenues.

So we have to see what can be done about the revenue we are depriving ourselves of. What decisions can we make? We have the following two choices.

First, we can give more money, in the form of corporate tax cuts, to companies that make a profit. We now know that these companies do not invest in the real economy. When they do invest, what is the outcome? Where do their investments go?

Second, we also have the choice of keeping or getting that money back and investing it in infrastructure programs, which create jobs. Numbers show us that $1 billion invested through corporate tax cuts will create 3,000 jobs whereas $1 million invested in public and social infrastructure programs will create 17,000 to 18,000 jobs.

What should we do as a corporation? Create jobs across the country and address needs, since more jobs are needed in order to restore the confidence of consumers, workers, and so on. The answer is clear to us. In the current climate, there should be no cuts; we have to invest more and create more and better jobs across the country.

[*English*]

The Chair: Merci.

Ms. Peggy Nash: If there's any more time, Mr. Hodgson could answer.

● (1205)

The Chair: You have about ten seconds, Mr. Hodgson.

Mr. Glen Hodgson: Mr. Chairman, I think we're kind of driving down the road right now, and we should avoid putting a foot on the gas or a foot on the brake. We have to gather more information. It would be inappropriate to take more stimulus out of the economy through fiscal contraction, but I don't think this is the time to be adding exceptional stimulus either. You can always move money around within a quarter-trillion-dollar federal budget.

The Chair: Thank you, Ms. Nash.

We'll go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair.

I'd like to thank all of the witnesses for their appearance here this morning.

My question is to Mr. Porter.

Even going back to May 2, the number one issue during the federal election was the economy, as well as maintaining a prudent course. People chose to elect a strong, stable, national Conservative majority government for which the economy was the number one issue. Canada has been recognized as the strongest economy in the G-7 by a number of international economic organizations, from the IMF to the World Economic Forum to the Economist Intelligence Unit.

From your vantage point, in light of all of these factors, how would you assess the economic leadership of the Prime Minister and our finance minister?

Mr. Douglas Porter: I would say that compared to policy-making in the rest of the world, Canada's economic policy-making has been exemplary. I don't think there's been a significant misstep in recent years.

I guess the one comment I would make—and this goes back somewhat to the previous question—is that when we look at the messages the financial markets are sending us right now, I think the main focus of the markets is a concern over the weakness of growth. It's not a particular focus on the U.S. budget deficit or the Canadian budget deficit. It's not a concern about inflation. It is a concern about the weakness in growth that is potentially facing us and the global economy. Any time you have long-term government borrowing costs of about 2% in both Canada and the U.S., as well as in Germany and the U.K., in an environment where inflation is close to 2%, that suggests that the bond market will see very little growth in years ahead. I do think that is really the overriding challenge for policy-makers globally at this point.

The Chair: You have two and a half minutes left.

Mr. Mark Adler: Clearly there are a number of dangers that are lapping at our shores. Would you agree, in light of your remarks, that the Canadian policy-makers have left enough flexibility in their tool box to deal with any impending contingencies that could occur?

Mr. Douglas Porter: I think there certainly is more flexibility in Canada at this point than in almost any of the other major industrialized economies. On the monetary policy front, there are still things that can be done, of course. Interest rates can be cut. I think there's a very high barrier before we'll actually see the Bank of Canada cutting interest rates, but there is some room to go there. Even when we get interest rates down to zero—and the Bank of Canada has talked about this before—there are still options. There are things the Bank of Canada can do.

On the fiscal front, I would agree wholeheartedly with Glen's comments. I don't think there's any need for change at this point. Our triple-A credit rating is not in question. In a very bad case for the global economy, there is some room for Canadian policy-makers to move on that front.

Finally, I think the reality is that in any kind of a global downturn, we are going to see the Canadian dollar weaken, which will lend some support to our manufacturing sector and our tourism sector. That's not something we can control directly, but I think that would be a natural by-product of a downdraft in the global economy if it came to that.

The short answer is I do think there is some flexibility here, which is not the case in many other major economies.

The Chair: Thank you, Mr. Adler.

We'll go to Mr. Brison, please.

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

Thanks to each of you for appearing before us during these troubled times.

One of the things that helped Canada get through the last downturn was fairly consistent demand for commodities. That helped us during that period and since then during the recovery. With China having just reported a third month of contraction in the manufacturing sector, is there some fear that China will not be able to aid in Canada's recovery or that there will be separation from our trading partners in terms of their trends versus ours at this time?

● (1210)

Mr. Glen Hodgson: We don't do a formal forecast of China, but we look at the consensus forecasts. The view of other forecasters around the world is that China will still be able to grow by about 8% this year, plus or minus maybe a half a percentage point. It's absolutely true that manufacturing has pulled back in the last few quarters by virtue of the weakened demand globally.

China's biggest challenge right now is shifting from almost an over-reliance upon external sources demand—meaning export—to learning how to grow a stronger consumption base within the country. There are risk factors everyplace. You could look at the housing bubbles in Shanghai, for example. You could look at the fact that the Chinese have an underdeveloped financial system and are still developing instruments. But for the most part, most forecasters believe that China will still be able to sustain growth, not in the double digits any longer but at something like 8%. For me, that means chronically strong pressure on commodity prices, because we have a whole new source of global demand now, added through China.

Risky? Absolutely. China is going to have to go through a transformation internally, but we still build it into our thinking as a positive force on commodity prices.

Hon. Scott Brison: You've said that the government must not implement spending cuts at this time.

Mr. Porter, you've said that caution is the watchword and that there shouldn't be a change now in terms of cutting government spending at this time.

Mr. Schetagne, you've said that now is the wrong time to cut.

Mr. Hodgson, you've said several times “don't put on the brakes” and have said “no fiscal contraction”.

Mr. Leitao, you've said the same thing.

Further, Sherry Cooper, your colleague and the chief economist at BMO Nesbitt Burns, has described it thusly: “the misplaced belief that the road to economic prosperity is paved by near-term fiscal tightening, as espoused by...Prime Minister Harper...shows that we've learned nothing from Herbert Hoover's response to the Great Depression”.

Is it safe to say that all of you believe that now is not the time to cut government spending in Canada?

Mr. Carlos Leitao: Certainly. However, when we talk about fiscal austerity and we see what is going on in Greece, Portugal, and the U. K., and possibly in the U.S., the kind of fiscal austerity that is coming down the pipeline in Canada is fairly mild compared to that. We will still have a deficit next year in this country, a modest deficit, and there are some realignments in how the government is spending money, but overall, Canadian fiscal policy is still not as austere and not as restrictive as that in other countries.

What some of my colleagues have pointed out is that we still have the flexibility, if need be, early in 2012 to reverse some of that. We could do that. But I wouldn't put Canadian austerity in the same league as Greek austerity.

Hon. Scott Brison: You would make a good politician in some ways.

Voices: Oh, oh!

Hon. Scott Brison: Is now the time to reduce government spending in Canada, given that we're seeing, potentially, contagion throughout the European bank sector, seeing sovereign debt crises in Europe, and political and fiscal incapacity to deal with the situation in the U.S.? Is now the time to reduce government spending in Canada and change course?

The Chair: A brief response, please.

Mr. Carlos Leitao: To change course? No. To have massive spending cuts? No.

Mr. Marc Lavoie: I would say that the prudent policy now would be to increase government expenditures, forget about “sound finance”, and move forward with an expansionary fiscal policy. It would be prudent, given all these negative signs around us.

● (1215)

The Chair: Thank you, Mr. Brison.

Unfortunately, his time is up. We'll have to move on to another round.

We'll go to Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Thank you all for coming here this afternoon. I apologize for the late start because of the vote, but still it's great to hear your comments on the economy and what Canada should be doing.

I come from Saskatchewan, where the unemployment rate is about 4%. Our economy is booming. If you talk about recession or possible recession, people look at you cross-eyed. It's hard for me, in a lot of ways, to talk about spending or not spending, especially when we're looking at a budget that's going to come out in February or March next year. I guess what I'm trying to do is to find out some facts and things that we can actually say “Okay, what's concrete at this point in time that we can take forward?”

Most of you talked about being flexible, cautious but flexible. Basically it sounds to me as if there's an endorsement of what we're doing right now, that we should be ready or flexible in case we see things get worse. We don't have crystal balls, and I think the Prime Minister and the Minister of Finance have always talked about there always being flexibility with something moving forward. But there are things that we can do as a government regardless, to make us more competitive, to increase our productivity. I think the one area on which I'd like your comment is on the kinds of barriers or regulations that could or should be removed anyway.

I know, Mr. Hodgson, you talked about a bridge, I believe, in Montreal, the Champlain Bridge, that should be replaced not because of stimulus but because it needs to be replaced. Is there anything in government right now that should be replaced just because it needs to be replaced, whether it's regulatory or programs that no longer meet the demand or are no longer relevant? Have you identified any of those things, whether regulatory burdens or stuff like that we should look at?

Maybe, Mr. Hodgson, I'll start with you.

Mr. Glen Hodgson: Thank you very much.

We actually wrote a brief about three weeks after the election to give free advice to the new majority government, and it was a fairly comprehensive brief. We covered macro policy, which we're talking about today—that is, fiscal policy and the form of that—but also some of the micro adjustments required. I say this because our research program at the Conference Board is fully aligned around boosting Canada's real potential, raising productivity and prosperity for the country. It's a fairly long list. It's things like expanding our horizons when it comes to free trade and entering free trade negotiations with other parts of the world. We've made great progress in Latin America and we're now talking to India and the European Union. I'd like to see our being part of the trans-Pacific partnership, for example. Unfortunately, we have this thing called supply management that precludes our sitting at the table. That's the kind of barrier that's actually preventing Canada from seizing its full potential when it comes to free trade.

We believe we're severely under-invested as a country in infrastructure. We haven't done the numbers, but others have, including engineers and the Federation of Canadian Municipalities, and I think their number going back five years was of a deficit of about $130 billion in terms of infrastructure investment. That tells me there is huge scope for realigning government spending priorities and making sure we're making adequate investments in roads, ports, and bridges to ensure that the Montreal economy, for example, works well. Could you imagine if the Champlain Bridge actually broke and you could not have commerce between the south shore and downtown Montreal? That would be a huge loss to Montreal's GDP and to Canada's GDP.

So with things like that, reform is possible on many fronts. Maybe I can share the brief with you and we can have discussion about that in detail. It's on our website, by the way, but I will share it, perhaps with the clerk to share with the committee.

Mr. Randy Hoback: It's interesting, because you talk about the bridge in Montreal. I have a bridge in my own riding in Prince Albert that's in similar shape, where we only have two lanes of traffic and normally have four lanes.

Again, there are things that have to be replaced just because it's time to replace them or they need to be replaced because they need to be fixed. It's not necessarily a stimulus package, just the reality of running a day-to-day operation of a good government.

I guess what I'm looking for is on the regulatory side of things, for example, having a consistent securities office across Canada. There are some things like.

Would you have any comment on that, Mr. Hodgson?

Mr. Glen Hodgson: Certainly. We're on the record and have been for some time now that there should be a single national securities regulator. That's not popular in at least two provinces; it's not welcome in Quebec and Alberta. That's why our finance ministers keep talking about a plan B, the passport system, things that would look like a national regulatory body.

We're on the record, though, talking about the need to eliminate barriers in many forms between provinces and to have much closer alignment between the federal government and the provinces when it comes to a whole variety of regulations. I could point to something like environmental regulation, for example, where we actually have processes that often run federally and provincially on the same project, when clearly the right outcome is to have a Canadian standard and one process that's much more efficient and yet protects the environment at the same time.

● (1220)

Mr. Randy Hoback: Would you probably say the same thing about skills assessments, so that a plumber in Quebec would be recognized as a plumber in Saskatchewan?

Mr. Glen Hodgson: Absolutely. And workers who live in Quebec should be able to repair routes in Ontario. There have been discussions between provincial governments on that, but the more we can do to bring alignment between federal and provincial practices and across the country among provinces the better, because that's a natural way to boost productivity.

The Chair: Okay. Thank you.

We'll go to Monsieur Mai, *s'il vous plaît*.

[*Translation*]

Mr. Hoang Mai (Brossard—La Prairie, NDP): First of all, thank you for being here.

More specifically, I would like to thank Mr. Hodgson and Mr. Leitao for talking about the Champlain Bridge. The bridge is in my riding. I am the member for Brossard—La Prairie, and I am working very hard to get the government to invest in this matter.

As we have seen, reports show that Montreal's economy could lose some $740 million. Also, there could be a loss of $1.3 billion in productivity because of traffic issues.

This question is for all the witnesses and economic experts. Is there an economic reason not to invest in the Champlain Bridge right now?

Mr. Carlos Leitao: There is neither an economic reason nor a logical reason. I don't see what the reason is. I don't understand why this is being delayed.

Once again, I feel that this investment is important, not as a way to stimulate the economy, but because it has to be done. It is a very important link for the regional economy.

Mr. Hoang Mai: That is exactly right.

Let's talk about job creation. In terms of the current state of the Canadian economy, the government keeps saying that the action plan from a few years ago is still valid and that no specific changes need to be made.

Without mentioning the stimulus, I would like to use Mr. Porter's words in the article from yesterday's *Gazette*:

[*English*]

> Governments shouldn't be aggressively cutting spending when the economy is gasping for air. That's certainly the wrong prescription.

Are those your words?

Mr. Douglas Porter: I missed part of that. Sorry.

Mr. Hoang Mai: Basically you're saying that governments shouldn't be aggressively cutting spending when the economy is gasping for air, that it's the wrong prescription.

That's basically what Sherry Cooper, your chief economist, said in another article, that the economic policies advocated by Prime Minister Stephen Harper and others in response to the European debt crisis could lead to another global recession and financial crisis.

Do you believe that it's now time for the government to roll out a new plan that would at least set out the objectives, and maybe the priorities, if we're talking about infrastructure? Do you think we should do that now?

Mr. Douglas Porter: As I indicated in my earlier comments, I think it's early to change tack. Having said that, we could have a rather dramatic change in the economy in the months ahead. I do believe the U.S. economy is in danger of a renewed downturn. The one thing I would say is that in a lot of the most recent data we've seen, the most pronounced weakness is in things like sentiment and confidence in the financial markets. In terms of what people are actually doing and buying and producing in the U.S., it has not meaningfully cracked yet. So the U.S. economy still looks like it's growing slowly, no question about it, but it doesn't look like it has actually tipped into an outright downturn yet when you look at the absolute spending and production numbers. And it's similar story here in Canada.

So I still do believe it's too early to change tack. As for my comment about aggressive spending cuts, I don't believe we're seriously considering aggressive spending cuts in Canada. That comment was really aimed more at the U.S. economy, where some are advocating that the answer to their woes is a major contraction in the fiscal situation. I just don't believe that's the right answer in the U.S. at this point.

[*Translation*]

Mr. Hoang Mai: My question is for Mr. Schetagne.

We hear that the current government wants to cut taxes for large corporations using the excuse that this creates jobs. You talked about this.

Could you tell us how will the tax cuts affect major corporations when it comes to creating jobs? Is this really the way to go?

Mr. Sylvain Schetagne: The answer to your question is no. This is not the way to go because those tax cuts are essentially for the benefit of companies that make profits. The less taxes these companies pay, the more profits they make. Are the profits then reinvested to create jobs? We are now seeing that these businesses are not really doing that.

We say that we have to make a choice. Do we give $1 billion to corporations in tax cuts in order to create roughly 3,000 jobs, based on our calculations? Or do we take this billion and use it to create 16,000 or 17,000 jobs, be they in infrastructure or employment insurance reform? It is clear to us that this billion would be better invested in targeted policies tailored to the current job situation.

I will quickly mention something else. We are wondering whether it is time to implement a new plan in the event of a recession. We believe that there will be a recession and that there are mechanisms that should kick in automatically when a recession starts. A well-known mechanism is employment insurance. Today, we could and we should look at the EI program and take steps to reform it so that it does its job when the recession strikes.

Right now, only 39.6% of the unemployed are entitled to employment insurance. That's a problem.

● (1225)

The Chair: Thank you.

Thank you, Mr. Mai.

[*English*]

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

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

Thank you, panel, for coming.

What do you think, Mr. Hodgson? Do you think we should impede companies from making a profit?

Mr. Glen Hodgson: Oh, absolutely not.

Voices: Oh, oh!

Mr. Glen Hodgson: I mean, we're on the record as saying that we thought the business tax adjustments undertaken over the last three years were really important to help companies adapt to the fact that we are now trading with a very strong.... We've become the Switzerland of North America when it comes to the exchange rate.

Our view is that the Canadian dollar is going to stay a strong currency for a long time to come, driven by the commodity prices that Mr. Brison talked about. We think the sales tax harmonization, elimination of capital taxes, and reductions in corporate income tax were a critical piece in helping Canadian companies adjust.

Now, revenues have to be made up someplace. We're also on record as saying that Canada should have a national carbon tax to support what provinces are already doing with carbon taxation.

But thinking about tax reform, I'm a big advocate. I'd love to come back and talk with you further about this.

Mr. Dave Van Kesteren: But you would agree.... I was always under the impression that we generate most of our revenue from the government from profitable companies, so it's kind of important that our companies remain profitable, and it's a good thing that they're profitable.

Mr. Glen Hodgson: Yes. I think Canadian companies really need an overall environment to be as competitive as possible right now. The dollar adjustment was probably the biggest shock they've experienced over the last five years, having to adapt to a strong dollar. For many companies, they really have had to fundamentally rethink their business operations if they're going to stay in business in Canada.

Mr. Dave Van Kesteren: I want to just switch over to trade for a second. We're a trading nation. This is the first time we've ever dealt with something as a global situation, where we're all in this together.

So how important is trade? We've instituted a number of trade deals with a number of countries. Are we on the right track? Do we want to keep moving in that direction? Do we need to make more of these?

Mr. Glen Hodgson: In one word, yes: I think more free trade is good. It gives us access to other markets. It increases competition at home, which is also good for our economy. It forces companies to sharpen their pencils on an ongoing basis. It really is allowing Canadian companies to take advantage of what are called global supply chains or global value chains as they change their business model.

Again, we are on the record as strongly supporting bilateral, regional, or multilateral free trade however you can accomplish it. I think Canada benefits from access to more markets around the world.

One of the good things that happened after the financial crisis was that we saw very few trade barriers put in place, because under globalization, firms and national economies are more and more integrated. People understand that by doing a Buy American clause, for example, you just shoot yourself in the foot. You actually hurt your own economy by putting a barrier in the way.

I could only encourage the government to pursue more free trade, in Asia and.... I mentioned the trans-Pacific partnership. That will require us to address some barriers at home that are actually preventing us from having full access to free trade.

Mr. Dave Van Kesteren: Well, I don't want to keep picking on you—

Mr. Glen Hodgson: Oh, I don't mind.

Mr. Dave Van Kesteren: —but you did say that we need to be flexible. Being flexible, though, would you think that it would be prudent for us to spend more money, aside from being flexible, for instance, on needed infrastructure projects? Is it a good policy of the government to get further into debt, to just spend more money and spend our way out of this thing?

Mr. Glen Hodgson: I think it's very important to have an anchor, a medium-term anchor, in terms of rebalancing the books, not just getting the debt-to-GDP ratio under control. You know, you can actually run a deficit and have a falling debt-to-GDP ratio. I don't think that's good enough; I think it's hard to explain to people, for example.

Having an anchor point is really important, whether it's 2014, 2015, or a year or two later. By virtue of the fact that global growth has slowed down, that has hit us in terms of nominal income growth, and that's where I would suggest maybe rethinking the track to get there.

I don't think the economy needs more fiscal stimulus right now, but I wouldn't close my mind to it either, in the event that circumstances turn out much worse in Europe and the U.S. than we're foreseeing right now.

● (1230)

Mr. Dave Van Kesteren: Would you agree, Mr. Leitao?

Mr. Carlos Leitao: Generally speaking, yes, but I would add that there are ways of building bridges without necessarily adding to the national debt. You can also think in terms of how you finance the building of that bridge. There are all kinds of partnerships that can be put in place.

God forbid that you have to put in place a toll booth—oh, my God—but those things should also be considered.

Mr. Dave Van Kesteren: Thank you.

The Chair: Thank you, Mr. Van Kesteren.

We'll go to Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Mr. Chair.

Welcome. Sorry again for the delay in getting here. We had a vote to take care of.

Mr. Hodgson, you were talking about the tradespeople movement throughout the country. Are you familiar with the “red seal”? The red seal is where you keep a certain standard level of training for all of the trades. The last thing we need is some kind of dumbing down of the quality tradespeople that we have. But that's more of a comment than a question.

My real question for you is this. The Conference Board recently published a report detailing rising inequality in Canada. It was a very good report. I'd like you to comment on the way in which this inequality is not only bad in social justice terms but also bad for the economy. It affects consumption and affects demand. If you could expand on that, I'd appreciate it.

Mr. Glen Hodgson: Well, it sounds somewhat like a rhetorical question, but thank you for acknowledging that work.

We do a report card on Canada's performance called “How Canada Performs”. It's entirely on our website. We did look at inequality in the major OECD countries over the last 20 years.

As part of globalization, sadly, inequality is growing in most countries around the world. In Canada the rate of growth of inequality as we measured it was actually greater than in the United States, which is a bit of a surprising result. We didn't do detailed analysis on the economic impacts of that, but I think we're starting to highlight them. They are things like how, if people with lower incomes aren't keeping pace with income growth across the economy, that takes away from potential demand in your economy. Often they're buying locally made goods. They're not importing BMWs, although there's nothing wrong with BMWs.

We were asking whether we're doing enough as a country to ensure that all Canadians are benefiting from economic growth. Whether we're talking about the lack of job security or about people retiring with insufficient incomes, ongoing poverty is kind of a festering sore within an economy, and I think it does drag down your ongoing growth potential.

It's something we're going to come back to in further research, because we didn't really go deeply into the causes, but I'd like to do that in our future research.

Mr. Wayne Marston: I think it's important that you're keeping an eye on it. I appreciate that.

Mr. Porter, right now we are hearing that there's $500 billion of business money just sitting there. It's not being invested, and we have a situation in which the private sector has withdrawn.

From our standpoint, having public investment is critically important. I understand you were quoted just yesterday in *The Globe and Mail* and you said that suggestions by Mr. Harper for global austerity are the wrong medicine at this time. Would you like to expand on that a bit? Because to my mind I would tend to agree with you that it's time for this government to invest. It's not time for the government to withdraw if the business community has already withdrawn.

Mr. Douglas Porter: My comments were aimed more at the global economy generally and specifically at the U.S. as per my earlier comments. My concern now is that the U.S. not focus too much on controlling their budget deficit, given the fact that their economy is gasping for air and they've had very little employment growth in the past year or so.

In terms of the buildup of cash levels at the corporations, I guess the one thing I would say is that's a bit of an unfortunate although understandable by-product of the financial crisis that we went through in 2008-2009, when cash was absolutely king and for all intents and purposes the financial markets had a virtual heart attack in the fall of 2008. In order to guard against that kind of extreme hunt for cash, we've seen, not just in Canada—this has really happened around the world—that corporations believe they have to build up these higher defence walls, and they believe they have to essentially keep more ready cash on hand. As I said, that's one of the unfortunate by-products of the financial crisis.

In terms of business investment, I would point out that it has been one of the stronger areas of the economy in the last year. We actually have seen quite a pick-up in capital spending in the last year.

● (1235)

Mr. Wayne Marston: Okay.

Mr. Schetagne, I understand that the CLC is promoting a policy of investment in seniors. We've done the same thing in the House for over two years, talking about raising the guaranteed income supplement. We have seniors living in poverty in this country, and we've had a modest increase of $50 a month. We're saying that increase should be closer to $200 a month. I'd like your comments on that, please.

Mr. Sylvain Schetagne: Yes, I will give them quickly.

We have to think about the short term, but also about the long term and about building up capacity in order to retire in decent living conditions. Maintaining your purchasing power is something we are concerned about, and we should take a look at it right now, because in order to build up that saving, you have to take a look at it right now. We are proposing two things. The first thing, of course, is increasing GIS to take care of those seniors living in poverty today. What has been done is not enough. It's not going to move all the seniors out of poverty. More should be done.

The second thing we have to think about are those workers today who are in debt and who are not saving enough for their retirement. In order to do that, we're proposing to double CPP.

The Chair: Okay, thank you.

Thank you, Mr. Marston.

We'll go to Ms. McLeod, please.

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

I'd also like to thank the panel.

To summarize in broad terms what I'm hearing, it's a softening from original projections, but certainly not below negative. Also, I'm hearing that we need to be very watchful. I've heard in general a suggestion that we need to be pragmatic and flexible. I think I also heard that debt in the long term is a big problem and that we do need to get back to balanced budgets. I think that was certainly an important piece.

If you look at where the government is going in terms of its reduction in government spending, I actually looked at the numbers, and I think we are looking at 0.02% of GDP, so really, we are looking at $4 billion and at government and how they are spending.

So I guess I would certainly say to Mr. Hodgson first, and maybe to Mr. Porter, that 5% of what might perhaps be inefficient spending in different areas of government expenditures seems quite feasible and doable to me, with a very modest impact. So government should be looking towards not spending money on programs that aren't efficient any more.

Comments?

Mr. Glen Hodgson: Well, there's an issue around structural spending, but I'm going to start with your first point. The track for nominal income growth, because that's what government actually taxes, is below what we were forecasting 18 months ago.

With my colleague Matthew Stewart, who was here, I talked about the government's capacity to actually balance the books by 2015, which was the conversation at that point. We said that it was quite doable. We are below that growth track now, not by a huge amount, but by a few billions.

This means that in our forecast the government will be able to balance its books in 2015-16 now, and I don't think that's necessarily a bad thing to be going out one year longer. It's not going to add much to Canada's overall stock of debt. As well, we have to be mindful of the ratio.

But I would not counsel withdrawal of stimulus. So don't just stick to the plan because you have a plan. Think about the plan in the real world context, where we're having these extraordinary shocks from outside, and then do a course correction with the end plan still being in sight.

Mrs. Cathy McLeod: That is what I believe we've heard the Prime Minister and our minister state: that we have a plan right now, but we do have to watch. We need to be flexible and pragmatic. But I think it's perhaps always good practice for governments to review how they spend taxpayers' dollars and to make sure they're efficient and effective.

Mr. Porter, do you have any comments?

Mr. Douglas Porter: In terms of the broad fiscal plan, I thought it was quite reasonable as of and up to the second budget in early June. As I indicated in my opening comments, I do think the global economic landscape has shifted—and can potentially shift a great deal more—in the last four months or so, but again, I think it's too early to significantly change tack at this point.

I may not agree with all the micro moves beneath the surface, but I think that in terms of the broader plan it was quite reasonable.

Mrs. Cathy McLeod: Thank you.

We've also talked about tax reductions and how they can be very important in terms of businesses. What we did hear is that some businesses with money are sitting on the sidelines. In addition to—or perhaps besides—the issue of taxes, what would you say are some things the government can do to encourage the businesses to be putting their money on the table?

Mr. Leitao.

● (1240)

Mr. Carlos Leitao: Well, as has been mentioned several times before, there's extending free trade with other countries to gain access to other markets. One of the things we realize now, unfortunately, is that we are still highly dependent on the United States, with 75% of our exports still going to the U.S. On that basis, looking to other markets and pursuing free trade is a good option.

Also, there are internal barriers to the circulation of goods and workers. Canada is a federation, and this federation is not exactly ideal in the way it allows goods and services to flow within the country. We should also try to look at those barriers to make things flow a little better.

The Chair: Thank you.

Very briefly, Mr. Schetagne.

Mr. Sylvain Schetagne: Very briefly, we also could focus on the manufacturing sector and provide income tax credits to companies investing in new machinery and equipment and research and development, as well as the training of workers. This is a sector in need. It has been deeply affected in the last ten years and it needs help.

The Chair: Thank you.

[*Translation*]

Mr. Giguère, you have five minutes. Go ahead, please.

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): I would like to thank you all very much for coming to share your views with the Standing Committee on Finance.

This summer, Statistics Canada announced that private companies have assets of around $500 billion. This is money that companies are holding at the moment. The Bank of Canada's financial system review indicates that these funds are not being invested. Investments are increasing very slightly, but the increase is not enough by far.

At the same time as all of that money is being accumulated, we have seen a loss of 300,000 manufacturing jobs in Canada in recent years. Our productivity is declining. Our research and development work is declining. Those high-paying jobs are being replaced by lower-paying jobs. This explains why, although 600,000 jobs have been created, we are seeing the situation in Canadian households deteriorate greatly. Their financial situations have become critical. Statistics Canada tells us that the average debt level in Canadian households is 147%. There are massive regional inequities. In some parts of British Columbia, 80% of people's salary goes to pay the rent or other costs of housing.

Could you tell me how tax cuts will allow Canada to benefit once more from the mass of unused capital, to regain our industrial base and to see an end to the drop in the real value of our incomes?

My question goes to all the witnesses.

Mr. Carlos Leitao: There are a number of aspects to your question. As for the excess cash currently held by companies, it seems to me, as my colleague said earlier, that the situation is in part temporary. It arises because of a huge amount of uncertainty, especially in Europe, where the banking system is undergoing the same kind of stress that we in North America went through three years ago. So businesses are being extremely careful, but it is temporary. Once this acute phase of the European financial crisis subsides—and I think that will happen in the next few months—businesses will be a little more ready to invest.

How to get the manufacturing sector back? That is complicated. It is a global phenomenon that has been happening for a long time. In Canada, we were somewhat sheltered from it for a number of years because our currency was too low for too long. That is an old argument. So it overshadowed the major trends a little, and the adjustment happened very quickly in recent years. The government could take steps to support the manufacturing sector, of course, but you always have to bear in mind that we are part of the global economy. There are things that can be done and other things that the government does not have the luxury of doing. It is certainly a major issue that deserves debate.

● (1245)

Mr. Marc Lavoie: To answer your question, I would say that the situation is not exactly temporary in the sense that, for a decade, Canadian businesses have been making more profits than they have been investing. You might say that businesses have been lending money to households for a decade whereas normally you would expect households to be lending money to the businesses.

As for the manufacturing sector, I'm going to go back to the subject of free trade that was mentioned just now. In my view, free trade is a good thing when we have full employment but not necessarily a good thing when we don't. In fact, it has led to the inequities we were discussing earlier.

Here is one suggestion for increasing productivity in Canada—a matter that government MPs should be very interested in. It seems to me that, if real wages were raised, the minimum wage, that is, it would force businesses to be more productive in order to preserve their profits.

[*English*]

The Chair: Merci, monsieur Giguère.

Ms. Glover, please.

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

[*Translation*]

I would like to welcome all the witnesses joining us today.

[*English*]

I have three quick questions, and I'm going to try to get them in within my five minutes.

I listened closely, Mr. Leitao, and I would like to know whether you agree that the current economic turbulence Canada is facing is due to shocks beyond our border. Is it fair to say that this was not a made-in-Canada problem?

Mr. Carlos Leitao: I would agree with that, yes.

Mrs. Shelly Glover: You would agree with that. Thank you.

Mr. Hodgson.

Mr. Glen Hodgson: I agree.

Mrs. Shelly Glover: You agree.

Mr. Schetagne.

Mr. Sylvain Schetagne: There are issues, such as the trade imbalance between countries and the way we've been trading, that have impacted us. Those have to do with the way we interact with other countries, so it's not entirely beyond our borders.

Mrs. Shelly Glover: Mr. Porter.

Mr. Douglas Porter: I would agree with you.

Mrs. Shelly Glover: Monsieur Lavoie.

Mr. Marc Lavoie: I also agree.

Mrs. Shelly Glover: You agree. Thank you.

I have another quick question. To be clear, some in the opposition have suggested strongly that Canada's economy will shrink this year and next. Is anyone here projecting negative growth this year or next?

Monsieur Leitao.

Mr. Carlos Leitao: For this year, I am not. Anything is possible, but I don't think so.

Next year, 2012, there's a risk that if the global economy—particularly the United States, which for us in terms of direct links is much more important than Europe is—did slide into recession, Canada would follow.

Mrs. Shelly Glover: And if it doesn't...?

Mr. Carlos Leitao: If the U.S. doesn't slide, then we'll stay with economic growth in the 1.5% to 2% range.

Mrs. Shelly Glover: Very good.

Mr. Hodgson.

Mr. Glen Hodgson: We're forecasting growth of just over 2% this year, and about 2.5% next year, but within a very wide band because of the extraordinary risks we're facing in the global economy.

Mrs. Shelly Glover: Very good.

Mr. Porter.

Mr. Douglas Porter: We're forecasting growth of just a little above 2% this year and a little bit below 2% next year. We're attaching risks of a recession at about 35% over the next year, which is higher than normal, no doubt about it.

Mrs. Shelly Glover: I know I'm running out of time, so I'm going to go to the third question.

We're actually looking at inefficient programs in part of our review. I've heard some talk about the need for government to maybe be flexible and cut spending. Is there a good way to cut spending or is there a bad way to cut spending? I don't understand why we would keep inefficient programs that don't stimulate the economy and not use that money for something else. So the question tied to that is how inefficient programs support the economy.

Mr. Leitao.

Mr. Carlos Leitao: By definition, if a program is inefficient, it is not going to support anything. This is kind of micromanaging our government spending, and I don't have the expertise to do that, luckily, but I would just add one thing. When we talk about being flexible, we mean that the government should be prepared to accept a larger deficit if indeed we go into a recession.

I think something that was mentioned here is very important. If indeed we go into recession, government spending will automatically increase, and at that time I don't think it will be at all appropriate for the government not to loosen up the employment insurance program. That will be a very important program if the economy does slide into recession. The deficit will go up, and it shouldn't be fought. It should be allowed to go up.

● (1250)

Mrs. Shelly Glover: Right. But getting back to the issue of programs, we believe there are programs that are not giving value for the taxpayer dollar. It would be irresponsible for a government—and I'm asking whether you agree with this—not to review those programs and cut them if in fact they are not providing value for dollar, particularly in this tough economic time. Would you agree with that statement?

Mr. Carlos Leitao: As a taxpayer, I do. I think that should be a permanent feature of government. You should always be reviewing programs. And if something doesn't make sense now, then it should be stopped.

The Chair: You have one minute.

Mrs. Shelly Glover: Thank you.

Mr. Hodgson, can you comment on the same issue?

Mr. Glen Hodgson: As a first principle, I agree with Carlos, but I would add tax expenditures to the agenda, because that's a net loss of $100 billion of revenue for government, and value for money applies on the tax expenditure side as much as on the spending side. But as a first principle, a well-managed government should be regularly reviewing all of its spending to optimize value for money.

Mrs. Shelly Glover: Thank you.

And are you talking about cutting where it's inefficient?

Mr. Glen Hodgson: There should be cutting where it's inefficient, but we should also be mindful of the macroeconomic impact of the cuts. So when you do it is as important as what you do.

Mrs. Shelly Glover: Right.

Mr. Porter.

Mr. Douglas Porter: I would unequivocally agree with you.

Mrs. Shelly Glover: Thank you.

Mr. Lavoie.

Mr. Marc Lavoie: Well, I would say the first inefficient program that should be cut is the reduction of corporate income taxes.

Mrs. Shelly Glover: Very good, thank you.

The Chair: Monsieur Schetagne, a response?

Mr. Sylvain Schetagne: Briefly, I would reiterate that finding efficiencies in government is part of managing the government well, but finding efficiencies in order to balance the books as quickly as possible and then expanding TFSAs and income splitting as an outcome two or three years down the road is not necessarily the best or the most economically sound decision.

[*Translation*]

The Chair: Thank you.

Thank you, Ms. Glover.

[*English*]

Mr. Jean, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

Of course, when you increase taxes and mandate high wages, you lose corporations to other countries that are more competitive. I think you would all agree with me, Mr. Lavoie. But notwithstanding that, I noticed that Mr. Hodgson, I think it was, identified that the Federation of Canadian Municipalities had identified in 2006 an infrastructure deficit of somewhere around $123 billion. Our government's response to that and to this economic crisis, of course, was to invest somewhere in the neighbourhood of $47 billion, including all the programs, plus municipal and provincial money, of course. They were trying to leverage somewhere in the neighbourhood of $120 billion to $150 billion.

In fact I do want to remind the witnesses today that the program hasn't even ended yet as far as the outpouring of money is concerned. I would say that not all of it has actually been spent. In fact very little of it has, because the bills haven't come in, and I think the program actually continues until the end of next month.

It's fair to say, I think, that all economies are pendulums, and if you hit the pendulum or allow it to slide too far one way or the other you could run into problems such as overinflation or such as not stimulating the economy enough and having a downturn of fewer jobs. Is that fair to say?

Mr. Glen Hodgson: We don't use the word “pendulum”. We would talk about a business cycle, and the economy is going through cycles.

Mr. Brian Jean: I understand, but it's fair to say that if you stimulate the economy one way or under-stimulate it in another, that could lead to more problems in the future.

Mr. Glen Hodgson: If you're talking about poor economic management, absolutely, and that's an example of why Greece has ended up in the mess they're in right now. They had really poorly designed macro policies over a long period of time and it caught up with them.

Mr. Brian Jean: Absolutely. So in fact not just to remain flexible but to remain sensitive to what's going on in the world is the most important thing we can do as a government. Is that correct?

Mr. Glen Hodgson: Absolutely—being mindful of all those circumstances. That was the opening comment of many of us.

Mr. Brian Jean: One of the things Mr. Schetagne suggested was to encourage private companies to invest more and to stockpile less cash. Are there other things we can do on which the witnesses have ideas, such as, for instance, tax incentives for accelerated depreciation? That obviously worked in the oil sands and other areas across the country.

Have you any other suggestions, Mr. Schetagne, in relation to that?

Mr. Sylvain Schetagne: Yes. There are different ways to make our country more productive, of course, such as providing help to the manufacturing sector, as I said earlier, and investment credits, for instance, as I've said, for research and development, not only within corporations, but across the country through the university sector, for instance, as well as worker training.

There are some issues about worker training and the renewal of the workforce, although we did capture the issue about the red seal program and mobility between provinces, which I don't think is an issue. But we can go beyond this. Corporations benefit from the kind of infrastructure they have around them, so a bridge that is falling apart is not good, but having enough workers who have the skills and education needed in order to provide productive work is also needed.

There are other things we can do. For instance, in social infrastructure we are facing an aging workforce, and we would like to see more Canadians working. We would like to see more women and more aboriginals working. There are programs such as child care that we can put in place to allow more women to go back to work, to improve labour force participation, and to make sure that companies have workers when they need them.

So it's beyond helping corporations. There are things we can do in terms of public infrastructure that help us make—

Mr. Brian Jean: I understand, but to be fair, my question really related to getting rid of the cash that's in the bank accounts right now, and those are the things.... It's about how we can incent corporations to do that, because the money is already there and obviously it's the low-hanging fruit that we could identify in the near future. That was my question.

Mr. Lavoie, my final question is for you. You wrote a book called *Money, Income, Production and Wealth* in 2007. It's a book that deals with stock flow consistent method. Can you make money after reading that book? I'm just curious, because my stocks are going crazy right now and I can't keep track of things.

The Chair: You have about 45 seconds.

● (1255)

Mr. Marc Lavoie: The book was not about the stock market. Rather, it was about the distinction between flows, income and stocks, meaning debt, capital, and so on.

But to answer the question you put just before this, on trying to get firms to invest for the future, I would say that firms need to believe that there will be aggregate demand, that there is a demand for their products. If that demand is not forthcoming from consumers any more, then, as I said at the beginning in my presentation, it has to come from the government, because it's not going to come from our exports to Europe or to the United States next year.

The Chair: Thank you.

I know at least two witnesses have to leave sharply at one o'clock.

We've been having this debate about austerity and being in a period of stimulus and now being in a period of austerity, and I just wanted to clarify, so I pulled up the budget we passed in June. We have a temporary hiring credit. We have extension of the work-sharing program. We have extension of the accelerated capital cost allowance for the manufacturing sector. We have extension of the best 14 weeks in working for EI. We have enhancing the guaranteed income supplement. We have more money for health care workers in the rural areas. We have more money for the industrial research assistance program, more money for Canada excellence research chairs, more money for the federal granting councils. We have 6% increases for health care transfers to the provinces and 3% for education and social assistance for the provinces.

I know two of you are recommending more stimulus. Glen, I know that you are recommending that we stay along the path. But to the other two of you, is this austerity—6%, 3% increases, more money for R and D, more money for the manufacturing sector? Is this austerity?

Mr. Carlos Leitao: As I said before, when we are talking about government austerity, Mr. Brison said I would make a good politician. This is not the Greek style of austerity by any means.

The timing is also important. If indeed there is a risk that the global economy may slide into a recession in 2012, then at that time we will be well advised to do more of that, to spend even more.

The Chair: Mr. Porter.

Mr. Douglas Porter: From our perspective, this year was not a particularly austere year. To us, this year's budget, 2011, was really more of a transition from stimulus to restraint. So no, I wouldn't say that this year was particularly austere at all. We were expecting some modest restraint. I'm not sure that I would necessarily call it austerity.

The Chair: Can I then just put the two of you on the spot? Because I know where the other three stand.

With respect to the $4 billion out of the $80 billion of strategic review on fiscal policy, would you advise the Government of Canada to continue with its strategic review of that $80 billion to find $4 billion in savings over the next four years? Yes or no?

Mr. Douglas Porter: I don't have a problem with $4 billion in savings. I would suggest that if the global economy truly stumbles, we might want to reallocate that into something else down the line. But I certainly don't have a problem with finding savings where they can be found at this point.

● (1300)

The Chair: Mr. Leitao.

Mr. Carlos Leitao: Neither do I. No problem. But again, be prepared to spend more in 2012 if need be.

The Chair: If need be. Okay.

I want to thank all of you. I apologize again for the late start of the session. It was a very informative session and I want to thank colleagues and thank our witnesses for being here.

We will see you on Thursday.

The meeting is adjourned.

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