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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1000)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

I'll just let our friends in the media sort themselves out. For the information of colleagues, there are two cameras here, and they are properly recording the meeting for, I believe, CTV, Global, and CBC. I just want to make everyone aware of that.

Again, it is a pleasure to welcome the Governor of the Bank of Canada, Mark Carney, and the Senior Deputy Governor, Tiff Macklem. It's for the governor's bi-annual report to the finance committee. It's always a pleasure to have the governor and the senior deputy governor here.

You were last with us in August, before going to India. We had a very interesting discussion at that time, and we look forward to your comments today on the Bank of Canada's monetary policy report and on all of the recent goings on in the global economy.

Mr. Carney, I'll let you begin with your opening statement. Welcome to the committee, and thank you for coming.

[*Technical difficulty—Editor*]

● (1000)

(Pause)

● (1005)

The Chair: I call this meeting back to order, the second time lucky, I hope.

Again, it's a real pleasure to welcome the Governor of the Bank of Canada, Mr. Carney, and the Senior Deputy Governor, Tiff Macklem, pursuant to Standing Order 108(2), for our study of the report of the Bank of Canada on monetary policy.

Mr. Carney, and Mr. Macklem, we welcome you here look forward to your statement and responses to our questions as members. Thank you so much for being here with us today.

Mr. Mark Carney (Governor, Bank of Canada): Thank you very much, Chair, and good morning, members. Tiff and I are very pleased to be with you this morning to discuss our October monetary policy report, which we published last week.

The global economy has slowed markedly, as several downside risks to the projection that we outlined in our July MPR have been realized. Volatility has increased, and there's been a generalized retrenchment from risk taking across financial markets.

The combination of ongoing deleveraging by banks and households, increased fiscal austerity, and declining confidence is expected to restrain growth across the advanced economies. The bank now expects that the euro area, where these dynamics are most acute, will experience a brief recession. The bank's base-case scenario, nonetheless, assumes that the euro area crisis will be contained, although this assumption is clearly subject to downside risk.

We welcome the agreement announced last week by euro area leaders on a comprehensive plan to address the ongoing challenges in Europe. We look forward to additional details on the modalities of the various measures announced, and to their implementation in the coming weeks.

[*Translation*]

In the United States, real GDP growth is expected be weak through the first half of 2012, reflecting diminished household confidence, tighter financial conditions and increased fiscal drag.

Growth in China and other emerging-market economies is projected to moderate to a more sustainable pace. These developments, combined with recent declines in commodity prices, are expected to dampen global inflationary pressures.

The outlook for the Canadian economy has weakened since July, with the significantly less-favourable external environment affecting Canada through financial, confidence and trade channels.

Although Canadian growth rebounded in the third quarter with the unwinding of temporary factors, underlying economic momentum has slowed and is expected to remain modest through the middle of 2012.

[*English*]

It is projected that household expenditures in Canada will grow relatively modestly, as lower commodity prices and heightened volatility in financial markets weigh on the incomes, wealth, and confidence of Canadian households.

Business fixed investment is still expected to grow solidly in response to very stimulative financial conditions and heightened competitive pressures, although it will be dampened by the weaker and more uncertain global economic environment. Net exports are expected to remain a source of weakness, owing to sluggish foreign demand and the ongoing competitiveness challenges, including the persistent strength of the Canadian dollar. Overall, the bank expects that growth in Canada will be slow through mid-2012 before picking up as the global economic environment improves, uncertainty dissipates, and confidence increases.

[*Translation*]

The weaker economic outlook implies greater and more persistent economic slack than previously anticipated. The Canadian economy is now expected to return to full capacity by the end of 2013. As a result, core inflation is expected to be slightly softer than previously expected, declining through 2012 before returning to 2% by the end of 2013.

The projection for total CPI inflation has also been revised down, reflecting the recent reversal of earlier sharp increases in world energy prices, as well as modestly weaker core inflation. Total CPI inflation is expected to trough around 1% by the middle of 2012 before rising with core inflation to the 2% target by the end of 2013, as excess supply in the economy is slowly absorbed.

● (1010)

[*English*]

There are several significant risks to the inflation outlook in Canada.

The three main upside risks relate to the possibility of stronger than expected inflationary pressures in the global economy, stronger momentum in Canadian household spending, and the possibility of a faster than expected rebound in business and consumer confidence, due to more decisive policy actions in the major advanced economies.

The three major downside risks relate to the sovereign debt and banking concerns in Europe, the increased probability of a recession in the U.S. economy, and the possibility that growth in household spending in Canada could be weaker than expected.

Reflecting all of these factors, last week the bank maintained the target for the overnight rate at 1%. With this target rate near historic lows and our financial system functioning well, there is considerable monetary policy stimulus in Canada. The bank will continue to monitor carefully economic and financial developments in the Canadian and global economies, together with the evolution of risks, and will set monetary policy consistent with achieving the 2% inflation target over the medium term.

Finally, permit me to say a word about an issue this committee recently raised, the renewal of the bank's inflation control agreement with the Government of Canada. This is central to the bank's mission, and we very much appreciate the committee's interest in it.

Since 1991, inflation targeting has proven its worth in both tranquil and turbulent times. Even so, we are always looking for ways to improve the framework. At the time of the last renewal, almost five years ago, the bank committed to continuing its research into potential improvements that might build on the success of the current framework. A concerted and ambitious research agenda focused on evaluating whether two specific changes—first, targeting a lower rate of inflation, or, second, targeting a path for the level of prices—could provide significant net benefits to the Canadian economy and Canadian households. Subsequently, the experience of the global financial and economic crisis prompted the bank to add a third item to its research agenda, asking to what extent monetary policy should take into account financial stability considerations.

Since 2008, we've had three major conferences for our staff and external researchers to present work on inflation targeting and the monetary policy framework and on these questions. The most important of these research papers have been published in three special issues of the *Bank of Canada Review*. Related studies by bank staff have been published as working papers, and as well, governing council members, including me, have spoken regularly and publicly about these issues.

We've been pleased to answer questions before this committee in the past on the progress to date towards renewing the inflation target, and Tiff and I would be happy to answer further questions on these issues today, as well as, of course, questions regarding the Canadian and global economies.

With that, Mr. Chair, I turn it back to you.

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

We'll begin members' questions with Mr. Julian for a five-minute round, please.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much, Mr. Chair.

Thank you, Mr. Carney. I'm a new member of the committee, and so I welcome you here. I was looking over the transcript of your August 19 appearance before the committee, where you paid tribute to federal stimulus that "provided important further support to domestic demand, contributing significantly to Canadian economic growth through 2009 and 2010."

I know that most recently you have projected Canada's growth rate dipping to as low as 0.8% in the last three months of the year. So I'd appreciate any comments you might have about that dilemma or choice between continued fiscal stimulus as opposed to austerity measures, and looking at other tools aside from monetary tools that we as a finance committee might recommend to the government to get through this period of slower growth.

Mr. Mark Carney: Thank you, and welcome, I guess, to the committee. It's not my place to welcome you, but thank you for having me.

The comments of August 19 relate to, as you know, the important contribution that the stimulus did make to GDP during a very difficult time in the global economy. Up to one-third of the growth in 2009-10 was contributed by direct government spending. Of course, that is from all levels of government—federal, provincial, and municipal—as there were sizeable stimulus programs put in place at all levels of government. They were timely and they had an impact.

Obviously, there are medium- and longer-term requirements for fiscal sustainability. We are seeing that around the world. Those constraints are binding, in many cases, in many advanced economies. In fact, in most advanced economies there are greater constraints on fiscal flexibility than there is actual or de facto flexibility.

I would note that when we look out to the projection, our expectations for the contribution of government are for quite mild fiscal drag. So the actual government spending, the actual program spending, the net spending of government, takes off about 0.1% of GDP growth in 2012. So while there is a drag, it is not the determinative factor in terms of the slowing of the Canadian economy relative to our previous projection. What is determinative is the global situation that is putting additional pressure on exports, which, in our view, is having an impact and will continue to have an impact on the confidence of households and on the margin of confidence of business and, therefore, on household and business expenditures, particularly investment by businesses. So it's within that context that we see the slowing, as opposed to a rapid slowing in direct government expenditure in this country.

● (1015)

[*Translation*]

Mr. Peter Julian: Thank you.

You talked about household debt. I would like to know your thoughts on Canadian household debt levels, which are very high.

In this context, you talked about the fact that spending is likely to increase modestly. How do you see Canadian household debt and its evolution in the coming months?

Mr. Mark Carney: The Bank of Canada has noted increased Canadian household debt on several occasions. In some cases, it is extremely high.

We expect the growth in household debt to continue to slow down. The growth rate of Canadian debt will slow down during the projection period. The growth of household spending will decline in relation to the rate of wage increases and household income levels towards the end of our projection.

This has to do with the measures taken by the government to bring in tighter mortgage market conditions. Debt levels will also have an impact.

The Chair: Thank you, Mr. Julian.

Mrs. Glover, you have five minutes.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you for being here today, Governor Carney. It is always a pleasure to have you here at our committee.

[*English*]

I'm going to ask you about two things, if I get enough time to do so.

First and foremost, something that we've often heard with regard to trade is the need for Canada to diversify its trading relationships, especially when we're considering the prolonged downturn or slowdown in the economy of our largest trading partner, the United States. You've spoken about the critical importance of this issue before, and especially with regard to the rise of emerging markets. There are still people here who believe, contrary to our belief, that perhaps there is no need to become more globalized in the trading area. And some have even suggested that we actually try to go towards some protectionist measures.

I think you've been pretty clear about that, and in fact I'd like to refer to a speech you made at the Saint John Board of Trade in late September, in which you said:

> To put it bluntly, the U.S. economy can be expected to be relatively weak for some time as households repair balance sheets and governments wrestle with deficits. ...Canada will have to look elsewhere to grow our exports. Emerging markets already account for almost one-half of the growth in all imports over the past decade. ...We will need to take advantage of such opportunities.... If we do not develop new markets and if we do not improve productivity, the cumulative loss of income from slower potential growth could be almost $30,000 for every Canadian over the next decade.

Can you share your views on why Canada needs to engage more aggressively in emerging markets? And what would be the implications if Canada actually stopped pursuing trade diversification?

● (1020)

Mr. Mark Carney: Thank you very much for your question.

Let me say two words on the U.S. first. In the MPR, as I think members know, there is an analysis of this household debt situation that looks specifically at the scale of wealth that U.S. households would need to rebuild. There's a technical box in here, but it gives one a sense of the length of time it's going to take for the households to return to something approaching the levels of wealth they had prior to the crisis—not to the peak prior to the crisis, but something approaching average levels of wealth.

That dynamic, as you suggested with the quote, is going to mean, in our opinion, that the U.S. economy will be more like a 2% growth per year economy than a 3% or 3.5% growth per year economy, the type that Canadian businesses and Canadians have been familiar with virtually all of our working lives. Over time that is a big difference.

To simplify things, we've been making the point that while the U. S. is a large market, it is more of a market-share game to export into the United States. You have to look to grow market share as opposed to participating in the growing pie, if you will. That's possible but that's probably not the best alternative. As you also note, if one looks at the major emerging economies, the growth rate in these economies—in high single digits in real terms, and mid double digits of 13% to 15% in nominal terms—means there is tremendous opportunity. We are under-represented in those markets. They not only account for one-half of the growth in all imports, but emerging markets today also account for one-half of all capital good imports, full stop, to give a sense of the scale of the adjustment there. So there is a big opportunity.

The BRIC countries' share of our overall exports has actually been halved in about the last 10 years.

So when we meet in this backdrop of uncertainty in Europe and the ongoing issues in the United States, we can look at the advantages this economy has and where we are under-represented, which is in major emerging markets, and where the true growth opportunities are going to be for the next five to ten years. And the perspective of the bank—and, of course, we have the luxury of being at a very high level—is that those are the best opportunities, on the whole, for Canadian business.

Now what does that mean? It means that in order to realize them, to the extent to which there can be bilateral, multilateral, or regional trade and technology deals that would open up opportunities for Canadian business, they should be pursued. There are other considerations, but they should be pursued.

There is a need for a degree of reciprocity in this process, which means not just inbound trade liberalization but also foreign investment liberalization, because that goes hand-in-hand.

I'd better stop there, given the time.

Mrs. Shelly Glover: Am I out of time already?

The Chair: You're out of time, unfortunately. Thank you, Ms. Glover.

We'll go to Mr. Goodale, please, for a five-minute round.

Hon. Ralph Goodale (Wascana, Lib.): Thank you, Mr. Chairman.

Governor, and Mr. Macklem, it's very nice to see you again. You are off very shortly to the G-20 meetings later this week. I'm sure on behalf of all of us, congratulations and good luck. We look forward to seeing you return in a larger capacity after those meetings in Europe.

In your statement today, you talked about the economic troubles in Europe, the anticipation of a brief recession, and some hope coming out of the agreement that was announced a week ago by European-area leaders. But today there is news that Greece is now said to be holding a referendum or plebiscite with respect to how it will react to EU policy. I wonder if you would comment on what that potentially means for this anticipated recession in Europe. Could Greece possibly remain in the EU if it were to vote no to the proposition? And is there any conceivable role that you could anticipate for the Financial Stability Board in trying to facilitate some solution vis-à-vis Greece?

Secondly, I'll ask my other question, and leave it for your response, on issue of the inflation targeting agreement and the possibility of changes that you are researching. When you speak about the necessity or the value of some greater flexibility, going a little bit beyond the careful language in the statement, would that include taking into account, beyond inflation, issues like employment, job creation and job preservation, depending on the economic circumstances affecting the world at any given time, and issues such as the health or not of average disposable household incomes, and the preservation of a healthy, successful middle class in the Canadian economy?

We've all seen the articles about the middle class being under great pressure in current circumstances. That pressure has both economic and democratic consequences, and I'd be interested in your perspective on that.

Thank you.

● (1025)

The Chair: If you can do that in two minutes....

Mr. Mark Carney: Okay, perhaps we'll come back to some of these issues.

First, in terms of the Greek measures, obviously in times of difficult structural adjustment—major fiscal austerity, and the tough decisions that governments, such as the Greek government, are contemplating—it is imperative that there be widespread support, broad democratic support, for those measures, because they will unfold over a period of time. And if it's the judgment of the Greek government that this is the best approach to validate that support, we fully respect that. Obviously, it's Europe's decision about the future there.

Let me say one thing, though, in terms of the role of the FSB or Canada. The European decisions were important decisions. They are higher-level decisions, though, and there still are, as I reference in the statement, more details to come about the modalities of how they're going to be put in place, both in terms of the structure of the EFSF and the mechanisms for raising bank capital, or deleveraging the banking system across Europe. And there are technical aspects to those where the broader experience of some members of the FSB, whether through that mechanism or only bilaterally, could be relevant to help European partners, if they're interested. It's their decisions. Obviously, they are very sophisticated, but we stand ready to help, as appropriate, as they define the details in order to have maximum impact from the decisions.

Quickly on the bigger issue of inflation targeting, our experience has been that targeting 2% inflation is the best contribution that monetary policy can make to low unemployment and to a stable, growing employment market. The experience of pre-inflation and post-inflation targeting, as you're aware, is that of a dramatic fall in unemployment, a reduction in volatility in the economy and of unemployment and inflation.

I'll say one thing about the household debt issue, and then we can come back. When we look at flexible inflation targeting, which is what we've been practising, we have to take into account some of these bigger issues in terms of the time horizon over which we return inflation to that 2% target. And there is some variability in that time horizon, depending on the scale and nature and persistence of various shocks, which could be related to household debt, could be related to Europe, or could be related to the United States, both positively and negatively. And that's part of our core job.

I'll leave it there.

● (1030)

The Chair: Thank you. Thank you Mr. Goodale.

We'll go to Ms. McLeod please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Chair, and also welcome. It's always a pleasure to have you here. It's always a great session.

I'd really like to focus on the area of business investment. Certainly, that's been critical for our sustained economic recovery, so it was with great interest that I noted in your October monetary policy report business fixed investments continued to recover strongly in the second quarter. That certainly seems like a very good sign. There are links with the trade issue as I look at my riding, where a mill that was shut down then invested $25 million and now has many products going over to China. So there is some good news.

If you look at John Manley with the Canadian Council of Chief Executives, he has said that 50 companies, in responding to a council survey, indicated they "plan[ned] to invest close to $110 billion between now and 2013." To put that in context, that's twice what the federal and provincial government combined spent on stimulus during the recession. So this is important, and this is why our argument is that governments don't need to go out and sprinkle fairy dust all over the country. They should get their fiscal situations in order, as the private sector will take up that slack. That's where we're going to grow out of this.

So I'd like you to speak to what you've seen with regard to business investment in the economy in Canada, and what trends you anticipate going forward. How important is increased private sector business investment for Canada's sustained economic recovery?

Mr. Mark Carney: Thank you, Ms. McLeod. It's a very important question.

Let me first back up to the experience during the recession, where business fixed investment fell sharply in this country. It fell more sharply than it did in the United States—and particularly, I'm speaking about investment in machinery and equipment. It wasn't entirely clear why that was the case, because the financial system was functioning better here, and the direct impact of the crisis was obviously somewhat derivative. We were affected by a crisis somewhere else, as opposed to being directly in the United States. As you suggest, over just about the past year and a half, business investment has picked up importantly in this country. In fact, the relevant slide is chart 30 in the MPR , which shows how sharp that decline was relative to previous recessions. It is now stronger than it had been in previous recoveries at this point.

We are just at a point where the level of business investment is back to the level it was before the crisis. We've just come back to that point, so this is really the crucial moment or the crucial coming quarters and years for whether we're going to sustain our businesses, as Mr. Manley suggests, who are going to sustain that pick-up in investment and are going to start to build the productivity that we will need in a tougher global environment.

We would say that despite the global uncertainty, all the other conditions are there, as per Ms. Glover's question about emerging markets and those opportunities. Our financial system is functioning very well. This is a fact, not just a slogan. It is true. Our businesses have balance sheets that are in tremendous shape. So there's the ability to invest. We think there's a need to invest, because of the productivity challenge as well as the opportunity in emerging markets. We expect that there will be continued levels of investment, albeit at a slower pace than over the course of the last year. The reason for that is partly because of the global uncertainty that is, on the margin, slowing plans a bit. It's still positive, and it's still central to the forecast, but it is not quite as aggressive at this stage as it was previously. That's one of the reasons why a resolution of the European crisis will ultimately matter for Canada.

The Chair: You have 30 seconds for a very quick question.

Mrs. Cathy McLeod: A quick piece that you didn't get to answer in response to Ms. Glover's question is what would happen if we stopped work in the area of those trading relationships. It was part of Ms. Glover's original question.

Mr. Mark Carney: I would just underscore that continued positive momentum in broadening and deepening our trading relationships, particularly in the faster growing parts of the global economy, such as emerging Asia for example, would appear to be a priority from our perspective—and certainly from the perspective of continued business investment and, ultimately, export-led growth in this economy.

● (1035)

The Chair: Thank you, Ms. McLeod.

Monsieur Mai, s'il vous plait.

[*Translation*]

Mr. Mai, you have the floor.

[*English*]

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

Governor, I'm sure I can speak on behalf of the whole finance committee in saying that you have our support in becoming the head of the Financial Stability Board.

[*Translation*]

I have a brief question. During your presentation, you said that household confidence has diminished. You also said that household debt—in other words, debt relative to family income—has increased to 150%.

This is having an impact on people. We see this with the Occupy movements, which you have supported, such as Occupy Montreal and Occupy Canada.

If we also look at the persistence of household borrowing, we see a trend. What risks are Canadian households exposing themselves to, in your opinion? What risks could the Canadian economy face as a result?

Mr. Mark Carney: Let me begin with the risks for the Canadian economy as a whole. This situation is creating one of the biggest downside risks for the Canadian economy. In the short term, there is still an upside risk, for it is possible that Canadian households will continue to accumulate debt at the same pace.

However, considering the level of Canadian household debt, it is possible that Canadian households would react more strongly to a shock than before, whether it be housing prices, an economic shock, a shock in terms of employment, or any other shock. This could lead to the paradox of thrift. The Bank of Canada is taking that into consideration at this time. In that case, we would have to create a shock within the Canadian economy, but there is none at this time.

We are working very closely with the Office of the Superintendent of Financial Institutions and the Department of Finance to change mortgage insurance rules in Canada. The rate does not necessarily need to be lowered, but at the very least, the household debt levels of the most vulnerable do need to be reduced.

What was the first part of your question?

Mr. Hoang Mai: I was asking about excessive debt and the risks those households are exposing themselves to.

Mr. Mark Carney: The most obvious risk, in the medium term, remains a possible interest rate hike. That is only normal during economic expansion. In this fragile climate, some households will have more difficulty.

Mr. Hoang Mai: You also mentioned that the growth of household spending could decline because of certain tools the government has implemented. We know the government is currently privatizing the CMHC, in a certain sense, by opening up the market to competitors offering a broader range of services. Could that not lead to greater household debt or the possibility that families will be forced to default on their payments?

As for the CMHC, its role is opening up somewhat. The market has been opened up to competitors that offer additional services. We have seen this, of course, and that is why the CMHC—

Mr. Mark Carney: I understand. That is, in fact, one of the advantages of Canada's mortgage insurance system. There are rules, minimum standards for mortgage insurance. And the government has already tightened those rules, even for private mortgage insurance providers.

You raise an important point.

● (1040)

The Chair: Thank you, Mr. Mai.

[*English*]

We'll go to Mr. Jean.

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

Thank you for your attendance today and congratulations for your great work on the Canadian economy.

I'm a very old person. I grew up in the sixties, seventies, and eighties in Fort McMurray. I saw what the national energy program did during the eighties, in particular in relation to over-inflation. My questions are in relation to inflationary targeting and the agreement of 1991, and what happens if we do have over-inflation. I remember 22% to 23% interest rates on loans and most companies in Fort McMurray going bankrupt during the late eighties.

Most industrialized countries have some form of inflation targeting agreement, except for the U.S. and Japan. Is that correct?

Mr. Mark Carney: That is correct, yes.

Mr. Brian Jean: The U.S., and Japan in particular, take that into consideration in their fiscal policy.

Mr. Mark Carney: In the United States, the Federal Reserve has a dual mandate for both inflation and employment. In recent years, the Federal Reserve has interpreted that mandate a little more closely to be an inflation targeting mandate, effectively through the members of the Federal Reserve identifying what their medium-term objective is for inflation.

In Japan, there is a level of inflation at a bit less than 1%, which is the central objective of the members of the board of the Bank of Japan. It's somewhat similar, but it's not as explicit. One of the advantages of an inflation targeting framework is the clarity that it provides. When we come in front of this committee, you know what we're supposed to have done on the monetary side.

Mr. Brian Jean: There's also the flexibility of the agreement, as well as the ability to continue with reforms in the financial sector globally. Those things all help us manage our economy. Is that fair to say?

Mr. Mark Carney: It is fair to say. One of the jobs of the Bank of Canada in managing inflation targeting is to explain where the economy is today, and the nature of the shocks hitting the economy. These can sometimes be positive, sometimes negative. At the moment, they feel a little more negative from outside, but we also get tailwinds from time to time. We need to explain those and give a sense of what the optimal horizon is to return to that 2% inflation target.

Mr. Brian Jean: I agree. I liken the managing of the economy to a fire. You put in too much wood, it burns too much, and you get rid of all the wood. You have to manage a camp-fire just as you manage the economy. You put too much in and it over-inflates and nobody has any wood left, which means everybody has spent his money, because they can't afford the interest rates. It burns too rich.

I've often thought of that in regard to infrastructure investments. Sometimes the opposition calls for $20 billion or $30 billion in continual investment in infrastructure. But if we borrow too much money, if we have interest rates that are too high, if we have over-inflation, those things can destroy an economy. Is that fair as well?

Mr. Mark Carney: Any economy that is running above its potential, whether because of an excess of household expenditures, business investment, government activity, or a combination of all three, will have greater inflationary pressures, which will have the knock-on effect of raising interest rates and also—

Mr. Brian Jean: And borrowing too much money will do the same thing?

Mr. Mark Carney: It will in extreme cases. There is not a direct link between borrowing and the inflation rate. It's the activity that's brought it about. Ultimately, there is the risk that some of that debt would be monetized by the central bank. But that has never been the case in this country.

Mr. Brian Jean: Long term, that would have a disastrous effect if it were done on a continuous and significant basis. Would that be fair to say?

Mr. Mark Carney: There are many advantages to long-term fiscal sustainability, yes.

Mr. Brian Jean: I have a quick question. The C.D. Howe Institute suggested that other factors like financial stability should be taken into consideration when setting interest rate targets. Would that be helpful?

Mr. Mark Carney: It's an important issue. One of the challenges is that considerations of financial stability tend to have a different time horizon from the reasonable time horizon for inflation targeting. We tend to centre on returning inflation to target within around six to eight quarters, but from time to time we go as long as 10 or 11 quarters and sometimes we go to six, depending on the shocks.

The financial vulnerabilities can build up. Success in fiscal policy, in monetary policy, and in general financial stability policy can actually start to trigger behaviour that builds up a vulnerability. And the question is how you address it.

What we have favoured are good regulations, micro-regulations, starting with the Superintendent of Financial Institutions. In addition, we have favoured selected macro-prudential tools such as the government has used in the mortgage market. Only after those have been used to their maximum impact, and if there's a generalized issue, is there a role for monetary policy to play within a flexible inflation targeting framework. But that has to be clearly explained and it has to be sequenced in the manner I just outlined.

● (1045)

Mr. Brian Jean: Thank you.

The Chair: Thank you, Mr. Jean.

We'll go to Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Well, thanks, Mr. Marston.

Some hon. members: Oh, oh!

Mr. Wayne Marston: That's how distracted I am today.

The Chair: We're almost related.

Mr. Wayne Marston: Almost.

Good morning, sir, and welcome.

In your presentation, you spoke about the diminished capacity of households, and I would suggest that the high level of household debt has to be concerning to all of us. But the external pressures we're seeing now because of the euro crisis certainly have to be very, very concerning as well, especially if they continue.

Should these roll out further, what do you see as the consequences for the Canadian economy?

Mr. Mark Carney: Well, let me say two things. First, embedded in our projection is that we do expect a recession in Europe. We have highlighted that. The issues—both the scale of the fiscal adjustments that many countries are having to make in Europe and a process of de-leveraging of the banking system that is picking up in that economy—in our view, are going to lead to a brief recession in Europe. That's the first thing.

Second, our expectation for the measures that are being taken by European authorities is that they will contain the crisis, but that's different from resolving the issue. Resolving the issue is going to take years, and there may need to be additional steps even in the near term in order to ensure containment. But containment gets to the issue, in terms of the effect on Canada. Our trading relationship, our direct link with Europe, is relatively modest and so the principal channels to the Canadian economy are two.

First are financial conditions as a whole. Now, again, our banking system does not have a lot of exposure to the European financial system as a whole, so when we talk about financial contagion, we're talking about a generalized reduction in the price of risky assets, such as we're seeing today in financial markets, which of course tightens overall financial conditions, makes it more expensive for Canadian businesses and households.

Then second are confidence impacts, because of the knock-on effect of what's happening in Europe on other economies and through to Canadian business and Canadian households. That's why one of our upside risks is actually that there be more decisive policy actions taken in advanced economies. We think it's fair to say that the overall level of confidence in the ability and willingness of policy-makers in the major economies to take the necessary steps in a timely manner to right their economies and help the global economies has been somewhat diminished by events over the course of the last year.

Mr. Wayne Marston: Well, it's been so prolonged; I think that's one of the reasons for it.

The other question I have is this. What do you feel is the level of risk to Canada's banks and our economy, because we're tied so closely to the U.S. and because of the exposure of U.S. banks to what's happening in Greece, in particular, and the impact that could have on them?

Mr. Mark Carney: Well, part of what we look at when we look at Canadian bank exposure is not just at the direct link to the European system but, as you suggest, the second-order effects. In other words, what is the impact on the U.S. and therefore what is the impact back into Canada?

There is not a significant exposure of the U.S. system to Greece per se. I think we all need to remember that Greece is very important for the Greek people, but it is 1.5% of the European economy. So the scale of the issue in Greece, from a global perspective, is quite modest. More important, from a global perspective—and it's more important for some institutions than others—is that it's an important indicator of how well the overall process is being managed to solve a range of issues within Europe. We would suggest that.

In terms of the health of the Canadian banking system as a whole, I think we're all aware of the experience in 2008-09 and how well our system performed. Since those years, the liquidity position of Canadian financial institutions has dramatically improved; in other words, they're much more liquid than they were then, at a time of a liquidity crisis. So they're in even better shape now, and this has more than doubled, in terms of the overall liquidity position. The capital position of the Canadian banks has further improved and, in addition, their risk management—which was strong in our opinion and, I believe, in the opinion of the superintendent—has further improved, because we've been going through stress tests and other analysis of these exact types of situations.

We can never be complacent about these issues, and we will stand ready to do what's necessary to keep the system functioning. The system has strengthened at a time when maybe some of that strength might be called upon because of global events.

● (1050)

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

We'll go to Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair, and again, welcome to the committee.

It's always great to hear you talk, Mark. It's really interesting for me, coming from Saskatchewan. We're still having trouble finding electricians and plumbers and in locating people. To think there's possibly going to be an impact in Saskatchewan from something going on in Europe or in Greece has a lot of people in my constituency wondering just how that will be the case. Why would it ever impact us? Of course you explained the global economy and how important trade is, and that end of it.

Concerning some of the comments you made about deleveraging in the U.S. and how that's going to have an impact on our economy here in Canada, the joint select committee on deficit reduction in Congress is going to have a report in about a month, talking about trillions in government spending cuts. How will that impact us? Will it impact us? Again, is this the cod liver oil that we have to take right now to be healthy as we move forward? Are we moving through the economic crisis in different stages? Are we at another stage that we're going to progress through until we finally see the light at the end of the tunnel? Where are we on that stage, the period of time in which this drag will affect GDP?

I'll stop there and give you time to answer.

Mr. Mark Carney: In terms of the overall deleveraging process in the United States, it will be centred first and foremost on the household sector, as we've indicated. There has been a double-digit percentage reduction in the level of household debt in the United States. Unfortunately, it's been done the old-fashioned way; by and large, they defaulted on the debt. It's been more that than the actual build-up of financial assets. That asset build is starting.

In terms of our expectations for the U.S. economy, we expect U.S. household savings rates to be in the neighbourhood of around 5%. You'll see that we believe the U.S. household savings rate was lower than that in the most recent quarter, and that's one of the reasons we see a little less momentum in the U.S. into 2012, as household savings go back to working through deleveraging. Without question, though, what the federal government in the United States does will have a material impact on the economic outlook.

To explain the way our projection is working this time, we are not including any of the provisions of the American Jobs Act in the forecast for the U.S. economy. So there's a little more than 1.2 to 1.3 percentage points of potential growth next year in the U.S., if all aspects of the American Jobs Act were to be passed by Congress. We're including none of that. So one of the things to watch in terms of where the U.S. goes next year is what, if anything, gets passed through that process.

Further on the spending side, as I think you're aware, the spending cuts that are part of the budget deal, including the 50% on the military, we're including because they have been passed. That's legislation until it changes, so we're not trying to read the tea leaves of Congress and adjust accordingly. We will adjust the forecast if there are changes to the spending reductions, and there could be changes that would be net economically positive, less draconian spending reductions—not in the amount, but in the composition of how it's reduced. So we, with others, wait and see.

There is some upside on the fiscal side in the short term for the U.S., depending on how these discussions go in Congress, but we are not counting on them. So for the people of Saskatchewan, if we see budget deals coming out of the U.S., there may be a little more growth that comes from that—but still in the context of overall deleveraging, particularly on the household side.

Let me say one other thing, which goes back to the deleveraging point. One of the issues that can have the biggest impact on the deleveraging side is anything that further facilitates the adjustment to mortgages, the level of—and here I don't want to say the foreclosure process necessarily, but—reworking of the mortgage burden of American households, around a third of whom have negative equity in their homes. This is one of the aspects of that deleveraging that would speed things up and get the U.S. back on its feet sooner. We don't anticipate major moves there, but if we did see something, then it would be material across the country, including Saskatchewan.

● (1055)

The Chair: Thank you, Mr. Hoback.

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

[*Translation*]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you for coming today, Mr. Carney.

At present, the main goal of your institution is still controlling inflation. However, the current climate of economic stagnation in Canada suggests a few problems, specifically, a major deficit in the balance of payments, low productivity, a lack of investment, higher unemployment, marked by a drop in the participation rate of the population. Finally, debt levels are so high that they limit the possibility of consumer growth. All of this information indicates that we must continue to support and even stimulate the Canadian economy.

Paradoxically, other central banks have introduced additional policy measures to provide monetary easing and promote economic growth. In this regard, I would like to know your thoughts on such interventions to promote economic growth. Could you give us any advice regarding fiscal policies to promote investment? This is a really important factor in addressing many of the problems facing the Canadian economy.

Mr. Mark Carney: I am going to ask Mr. Macklem to answer your question.

Mr. Tiff Macklem (Senior Deputy Governor, Bank of Canada): With regard to other countries, it is important to note that one of the major advantages of a flexible exchange rate is that we can have a monetary policy that is right for our country. As we have already mentioned, when the global recession hit, Canada fared much better than anywhere else. Nevertheless, it was a major recession. Our monetary policy consisted of lowering the key interest rate as much as possible. The government also provided significant fiscal stimulus.

As we stated in our monetary policy review, when we look at the current situation, there is still considerable monetary policy stimulus in Canada. We expect this to allow us to achieve the 2% inflation target. In other words, we think we are on the right track.

Furthermore, it is important to note that keeping our inflation target at a low, predictable and stable rate is the best thing our monetary policy can do right now. History has taught us that when we try to target things directly, such as the unemployment rate, in the end, we wind up with a higher unemployment rate and higher inflation. That is what happened in the 1970s.

It is also important to note that our inflation target is flexible. We take factors like debt levels and the unemployment rate into account when adjusting our inflation target.

For instance, let's look at a few simple figures. The unemployment rate has gone down since we last targeted inflation. It is more stable. If we look at other indicators, such as the labour market, we see that many of them have improved considerably.

Thank you.

● (1100)

Mr. Alain Giguère: Do I have another minute?

The Chair: You have 30 seconds.

Mr. Alain Giguère: Oh, dear. This will be brief.

I would like to talk about the exchange rate for the Canadian dollar against the U.S. dollar. Many manufacturers have told us that it is a major problem. Some are saying it was the determining factor in the loss of 300,000 jobs in the manufacturing sector, jobs that we cannot get back at this time.

Could you suggest any possible intervention strategies for bringing the exchange rate back to a more reasonable level?

The Chair: Please answer very briefly.

Mr. Mark Carney: Clearly, the persistent strength of the Canadian dollar is a serious challenge for the Canadian economy. As we said in our report, it poses a risk for the Canadian economy.

The Bank of Canada and the Canadian government have an intervention policy on foreign exchange. This policy is very clear and applies to extreme situations. It is up to the Governor of the Bank of Canada and the Minister of Finance to determine whether a situation requires intervention.

The Chair: Thank you, Mr. Giguère.

[*English*]

We'll go to Mr. Van Kesteren please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair, and thank you, Mr. Carney and Mr.Macklem, for appearing again before the finance committee.

I want to talk about two things. I'll get my questions out of the way and I'll let you answer them.

First of all, there has been a clamouring again for a new financial transaction tax. We hear it pretty loudly in Europe. As a matter of fact, I think when I served in industry there were some parties that were advocating for it in Canada as well. I want to know, Mr. Carney, what your thoughts are about that and whether that tax would be able to do the things its advocates claim it would do.

The second thing that concerns me is something that we've touched on briefly with a number of questions, and that is the danger of ongoing deficits. The previous questioner asked about stimulus spending and whether we should be spending more money. What would be the consequences in this country if we engaged in a policy of ongoing deficits? We've targeted 2015 as the time we would wrestle that to the ground. We are now looking 2014. What would be the consequences if we had a policy that allowed for continued deficits?

Those are the two questions, you could say.

Mr. Mark Carney: In terms of the financial transaction tax, I think it's always a little difficult answering that question, for two reasons. First, the prospect of a global financial transaction tax is extremely low. In fact, I would say that it's null, so we're into the realm of the hypothetical. The second reason it's difficult is that the proponents' reasons for a financial transaction tax are varied. Sometimes it's a revenue exercise for a very worthy objective, but it's a revenue exercise. Sometimes it's to stop certain types of bad behaviour or perceived bad behaviour.

Let me try to address the second one. What are some of the reasons you would have with a financial transaction tax? What are you trying to get at? The first is to raise additional revenue, obviously, from the financial sector, feeling that the financial sector as a whole doesn't pay sufficient sums. That's a political decision. Different countries will come to different views.

There are better ways to tax banks. Taxing the profits of banks is the most effective way to do it. It causes the fewest distortions. It will raise the most money.

We had a long experience in this country of taxing the capital of banks, which was a terrible idea, because it, of course, discouraged them from having adequate capital, which we've learned from the last crisis was not a good idea. That was phased out over the course of the last decade, and I commend various governments for having done that.

If it's to raise money from the sector, we would advocate taxing the profits, as is done. The banks, as Mr. Goodale and others know, are large payers into the federal fisc.

The second reason one might have a financial transaction tax is to reduce so-called wholesale funding of banks. In other words, it is not the retail deposits that everyone around this table and your constituents put into banks; it is borrowing in the markets. That type of borrowing, particularly if it's short term, is riskier than retail deposits. It can move quickly away from an institution that's perceived to be in trouble, and those perceptions can become reality. So sometimes there is a desire to use a tax to reduce that type of behaviour.

Again, there's a better way to do it, but it doesn't raise revenue. It's through various liquidity standards that actually encourage institutions to have longer-term borrowing rather than short-term borrowing, and borrowing that more closely matches their assets. It is part of the Basel reforms, the so-called Basel III reforms, that are being put in place now through to the end of this decade. They are actually being implemented. There are liquidity standards, both short- and long-term liquidity standards, and they will dramatically change the incentive of financial institutions to borrow too much in the short term.

The third reason you might have a financial transaction tax, from a policy perspective, is to reduce “speculation” and churning in the markets, or actual market behaviour. The strategy there is to adjust the capital requirement for the trading books of banks. As part, again, of the Basel III reforms, the capital requirement for the trading book of a financial institution—the capital you put against all those people who are sitting in those dealing rooms and what they are doing—has tripled. That is being put in place from the end of this year. And that will significantly increase that requirement, which is going to, on the margin, reduce this type of activity.

The last point, just to go back to where I started, is that the reason it is not going to come into place, in our view, is that there is significant opposition to it, because it is the second, third, or fourth best way of addressing various issues. Unless everybody does it, activity is going to flow to those jurisdictions where they don't do it. The experience of Sweden and others, who had variants of this tax in the eighties and nineties, has been that they lose money in net terms, because the level of activity that goes abroad is so significant that it overcomes any [*Inaudible—Editor*].

I missed the second bit.

● (1105)

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

We'll go to Mr. Adler, please.

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

I'd like to also welcome the Governor and the Deputy Governor to the finance committee.

I want to begin by saying that you and the finance minister have for a while now been talking about the dangers of high consumer debt, especially with regard to the housing market. On my way back to Ottawa last night, after taking my kids out trick or treating, I read with great interest the NDP platform from the last election. In one provision, they were calling for consumer credit card interest rates to be capped at prime plus 5%, which I think, had that been implemented, would have exacerbated the consumer debt crisis. You also note in the October monetary policy report that there's been somewhat positive information emerging in terms of household credit and the debt rate slowing down a bit.

As you know, the government has taken numerous steps to help Canadians enter the housing market, and also to strengthen Canada's housing market by reducing maximum mortgages to 30-year amortization and significantly reducing the interest payments Canadians have to make on the interest on their mortgages. But the government has also done a lot to encourage broader improvements in financial literacy—and this is where I'm going on this—including a task force on financial literacy headed up by Don Stewart of Sun Life. Now the government is working to implement its recommendations. In fact, even our esteemed chair of the finance committee has put forward a motion in the House on financial literacy.

I want to ask you: can you speak to why improving financial literacy, particularly among our youth, is an important goal?

● (1110)

Mr. Mark Carney: We certainly welcome broader efforts to improve financial literacy. We play a modest role in that, or we try to play a role in that, through our outreach efforts, through our website, and through our museum. We're going to continue to enhance our explanations of how the economy works, how money works, and elements that I think would be consistent and broadly supportive of this effort.

When explaining these things to youth or any age group of Canadians, part of the issue is that sometimes we all take the recent past as indicative of the future. As you know, past performance is no guarantee of future performance, which is why we focus so much on the economy and achieving our inflation target, and we keep working at that. We don't take it for granted.

In terms of this issue and the household debt issue, one of the great risks in the current environment is that Canadians take low interest rates—very low, extremely low, historically low interest rates—for granted. They construct their financial affairs with very long-term liability, such as a mortgage, on the expectation that interest rates will basically stay at these levels over the life of that mortgage. What we have tried to counsel is the very basic point that, in taking on a longer-term debt, people should look at their ability to service it at a more normal rate of interest. We supply on our website all the rates of interest going back through the last decade, the nineties, the eighties, and back to Confederation, so the Canadians can make their own judgments about what normal is—but it's considerably higher than where rates are today.

That's a very basic important fact. The other basic fact for younger Canadians is the benefit of compounding, even at low rates of interest, and the value of starting some element of savings early on, particularly in a society where the vast majority of Canadians are saving for their own retirement. If you start early and build over time, even in periods like the present when there is extreme volatility in markets, the value of compounding will overcome that volatility over the lifetime of your building up a nest egg for a home, for retirement, or for your children's education.

If I may, Mr. Chair, I would say the final thing is that there are a variety of programs and tax advantage programs to enhance savings for Canadians. Just being aware of those programs and using them is incredibly important.

The Chair: Thank you, Mr. Adler.

Colleagues, we have time for one more round of four colleagues, so we're going to ask you to be very brief.

We'll start with Mr. Julian, please.

Mr. Peter Julian: Thank you, Mr. Chair.

I'm a little surprised that Mr. Adler was reading the NDP platform last night, given that it was Halloween. It would have been more appropriate to read the Conservative platform, because that's scary.

Mr. Carney, since this is our last round I have a number of questions for you.

Mr. Jean put a question to you about our overall level of financial sustainability, which I think you answered very effectively. We in the NDP believe fully in financial sustainability, of course. For the last 20 years the ministry of finance has said that NDP governments were the most fiscally and financially sustainable of all party governments.

I think you were making the point that in the current context there is some room for fiscal stimulus within a sustainable framework. That's what I understood, so perhaps you could come back to that point.

Second, on page 12 of your report, you mention the impact of fiscal austerity measures in Europe as one of four factors contributing to a mild recession in the euro area. Perhaps you can speak to that.

Third, in your third technical box, you speak of the relationship between crude oil and gasoline prices. We know the impact of energy prices on the average family budget as well as on inflation. There has been increasing concern about speculation in the energy industry. Are you concerned about the volatility of gas prices and how that could contribute to inflation? Do you favour measures that might rein in that speculation?

Fourth, Canada's balance of payments deficit in terms of the current account is estimated by the IMF to be among the worst of industrialized countries for next year, at -3.8%. That's worse than Spain, Italy, and France. Are you concerned about that, and do you see that as perhaps a byproduct of what many on this side feel is a failed export strategy by the government?

● (1115)

The Chair: Governor Carney, you have three minutes to answer, but if you want to follow up with the committee you can do that as well.

Mr. Mark Carney: This is a test of public sector productivity. I'll try to meet it.

First, fiscal decisions are for the Minister of Finance, so we'll defer to him on those and not provide advice. We'll take those decisions as given and adjust monetary policy accordingly.

Second, we want to avoid, in the extreme, being in the situation of European governments, where the scale of fiscal austerity being required of a large number of countries is now materially affecting the growth outlook in those countries and, furthermore, is not yet having the effect on confidence.

I'll make the general point that the measures that have already been enacted by the Spanish and Italian governments are in the order of magnitude consistent with long-term fiscal sustainability in those economies—and here I refer to enacted measures, not announced, muted, or debated ones. Just as Canadians learned with difficulty in the 1990s, you don't get credit for announcing measures and passing the budget. You only get it when you actually implement them. Even then there's a lag. So the tough measures are taken. You're getting a slowing in those economies. You'll get further slowing because of these measures, but not the credit in terms of market confidence or market interest rates. That's an important point to recognize, and that's part of our dynamic there.

On crude and gas prices, I'm glad you raised that technical box. As you know, we're trying to draw out how the relationship between Canadian gas prices has changed from an historic one. One would usually have looked to WTI oil prices and a margin off those for Canadian gas prices. The fact is that WTI used to move quite tightly with Brent crude. Depending on where you live in Canada, are you getting refinery oil that's a blend of either Brent or WTI, or out in Alberta? It's a very different feedstock into the refineries. Because of supply constraints in the United States—which, in part, some pipelines might help alleviate—a bigger differential has grown between WTI and Brent. So even though WTI has come down, as we've all seen, Canadian gas prices have not come down as much as they historically would have. Some of it is margin expansion, which goes to your question, but a large part is this actual dynamic, which I hope is relatively well explained in the box.

On the balance of payments and the current account, we obviously watch this. The current account deficit has increased. A large part of it—not all of it but a large part—has been due to an increase in investment in imported machinery and equipment. So that is a good current account deficit. If you're going to have a current account deficit, you want to be importing investment machinery and equipment that will ultimately make your businesses more productive—and one expects to build exports over time to pay back that deficit over time. But it is something we watch, and we'll be happy to have further discussions on that in subsequent meetings.

Thank you.

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

I want to take the next round, Mr. Carney. I want to raise two issues with you.

First of all, obviously Canadians are well aware of the strength of our financial system and the strength of our financial institutions. Two of the main factors are our capital ratios and our leverage ratios in terms of the policies that we've adopted in Canada.

You mentioned the Basel III accord, and that there are going to be both higher quality and higher levels of capital. There have been international concerns, American concerns, raised about both, which I think you've responded to very well. In terms of some of the Canadian concerns that I'm hearing, the institutions here are not concerned about the level unless they're asked to do it on an asymmetrical basis. If other countries do not adopt the Basel III levels but Canadian institutions are forced to, how will that impact them? That's one concern.

The second is with respect to the quality. Frankly, they say they're at or near the required levels now, but they do have a concern in terms of whether what they have now in capital is of the same type of quality or how that will be impacted. That's an issue.

A second issue is with respect to core inflation and the 2% target. Most people I talk to do not quibble with the 1% to 3% range or the 2% midpoint, but some do raise concerns with respect to what is actually included in core inflation. Gasoline, natural gas, fuel oil, and mortgage interests are just a few of the variables that are not included in core inflation. So these people ask the question.

Obviously at the bank, you regularly debate what should be in core inflation and what should not. Could you give us some background as to whether you're looking at that specifically now with respect to your core inflation target, or is this something we should look at changing?

● (1120)

Mr. Mark Carney: Thank you, Chair.

I'm going to answer the second part first and then ask Mr. Macklem to answer the question on the bank capital.

To be absolutely clear—and I'm glad you raised the question—the bank does not target core inflation. The bank's target is for total CPI inflation, which includes gasoline and all food prices. I hope that's absolutely clear.

We have a target of 2% total CPI inflation because that's the representative basket of what Canadians consume. That's what Canadian households have to go out and spend. Of course it would be folly to suggest that Canadians don't put gas in their cars, or eat, or any of these things. We have to achieve—and we have achieved over the target's lifetime, including over the course of the last five years—2% total CPI inflation through tough and easy times.

What we do use with core inflation, or the difference between core and total CPI, is that we take out the eight most volatile items from total CPI. What core inflation is useful for—it's reported by Stats Canada, and I referenced this in my opening remarks—along with a number of other measures, is as an operational guide for where total CPI inflation is going to be.

Take the example of gas prices. They spike up because of conflicts in the Middle East, supply constraints in the United States, and other factors. They spike up. They're at a high level. We're aware they're at an elevated level. But unless they continue to increase, it's not additional inflation. We have to take into account what's happened to gas prices in terms of Canadian incomes and activity. The better guide of where inflation's going to be one year out, or one and a half years out, tends to be measures like core inflation and other measures, such as mean standard deviation and weighted means, all of which we report.

Just to be clear, we do not target that and we would not recommend that.

The Chair: I appreciate that. That is a question we get often.

Mr. Mark Carney: I'm glad you raised it because we need to be absolutely clear about it.

Mr. Macklem will answer the Basel question, please.

Mr. Tiff Macklem: The first part is also a very important question. Clearly, the first step was getting the new capital, the new liquidity, rules agreed to, including a limit on leverage. That's been done. Now emphasis is increasingly focused on implementation. Obviously, rules are only as good as their sound implementation. As you stressed, what's important is both the full implementation and the consistent implementation across jurisdictions. Let's face it, while we certainly think the rules before the crisis were inadequate, one of the problems was that even the rules that were in place were not being followed in all jurisdictions. We have to get to a world where there is consistent implementation across jurisdictions.

What are we doing about it? Through the Financial Stability Board, which is the coordinating mechanism, both the standards setters.... So in the case of capital and liquidity and leverage, it's the Basel committee. The Basel committee, together with the FSB, has recently put out a couple of documents outlining how this will be done. The Basel committee has put out a document that outlines how they will verify that countries are living up to their commitments, looking first at whether the rules in each country—in some countries it's legislation, in others it's through regulation—are fully consistent with the new Basel III standard. The second part is whether those rules are being implemented in a consistent fashion across jurisdictions. The key issue there is to make sure the risk weighting is being done on a consistent basis across jurisdictions.

The FSB—

● (1125)

The Chair: Unfortunately, my time is up, because I cut everyone else off. But if you want, you can briefly wrap up.

Mr. Tiff Macklem: I'll just say a few more words. The Financial Stability Board, as the coordinating mechanism, has put out a document describing how the FSB is going to work together with the standards setters to ensure rigorous implementation.

The Chair: Thank you very much for that.

We'll go to Mr. Goodale, please.

Hon. Ralph Goodale: Thank you, Mr. Chairman.

I have two brief points, I hope. With respect to the European plan to deal with vulnerable countries like Greece and others, you mentioned earlier that the modalities, the details, are yet to come, and it will be probably after the G-20 meetings, not before. I wonder if you see any risk of slippage there, delays that would allow the problem to just go on into never-never land.

The second question is on a totally different topic. You have spoken frequently and very effectively about the need for trade diversification—and that's been discussed around the table today—especially into emerging markets, especially Asia. You've also on occasion spoken about the need for sustainable resource development, because perceived unsustainability is not only an environmental issue, it is also an economic and market access issue.

On that last point, is there anything directly within the purview of the bank that comes to bear on that issue, or is that purely a matter for government policy to deal with? Are there ways the bank can influence the long-term sustainability of Canadian resource development, or is it something that is entirely dependent upon government policy?

Mr. Mark Carney: Thank you for that.

On the first question with respect to Europe, what we have said, and it's still relevant, is that we expect the measures to contain the situation, but there are clear downside risks to that assumption. When we first said that we didn't have the actual plan, but we expected to have something similar to what was announced. But we need the details and then, obviously, we need implementation. There are always risks around both those aspects.

I'll be slightly more specific. With respect, for example, to the recapitalization of the European banking system, where the objective is to raise the capital ratio of that banking system, we would advocate that a component of that be met through new capital, so that it is not all met through a reduction in assets. I say that because it's a reduction in assets that's going to intensify the pressures on financial conditions, not only in Europe but elsewhere in the world, and it's going to displace new credit creation in Europe and elsewhere as assets are sold. If there is a better opportunity for a financial institution to buy an asset out of a European bank rather than make a new loan, that's going to have an impact, for example in the United States, if it's a U.S. dollar asset. So we would put emphasis on at least a component being met through new capital. There are ways to do that relatively efficiently, including with contingent capital that would reduce the dilution of existing shareholders, given current trading levels.

So, yes, we're monitoring this closely and we're in close discussion with our European colleagues. There will be meetings later this week, through the week and early next week, as part of the normal course, in Basel and other places, but this will clearly be one of the issues there.

As to your question about sustainable resource use, it is a very important one. I would say that from the bank's perspective, these are issues that ultimately go to the medium- and longer-term potential growth of the economy, on which we have to take a very cold-eyed, objective view and adjust our perspective of where that potential growth can go, because that is ultimately one of the key determinants of how fast we can run the economy without generating inflationary pressures.

We have reduced our outlook for potential growth in the last couple of years. We have re-confirmed it in this projection. These issues will have an effect. It was referenced earlier. Both in Fort McMurray and Saskatchewan, you see some of the pressures that do come on when paces of development becomes too large.There are broader issues around this, though, which have to do with national balance sheets, and other issues that we don't have time to get into.

● (1130)

The Chair: Okay. Thank you very much, Mr. Goodale.

A final round by you, Ms. Glover, please.

Mrs. Shelly Glover: Thank you Mr. Chair. I don't envy you your job having to cut these fine people off, but you may have to cut me off as well because I have lots to say.

From listening to the questions put forward by some of my colleagues across the way with regard to page 12, I want to make it very clear that on page 12 you cite a variety of reasons that may lead to a predicted recession in the euro area at the end of 2011. For whatever reason, some of my colleagues across the way want to selectively hear only a small portion of what is listed there, namely what you've said about austerity measures. Then they also offer an alternative perception and interpretation of what it means in terms of stimulus.

I'd like you to confirm, Mr. Governor, that we are not Europe, that we do not have the same pressures or the same situation, and neither do we have the same economic view as the rest of the world. We are seen as leaders economically in the world, of course.

I'd like you to be very clear about what may cause the brief recession you are predicting for Europe, and then talk about stimulus in Canada, which is a whole other bowl of wax. TD Economics had said very clearly that stimulus spending right now is not a good idea. They have said, and I say the same thing, that timing is everything. We need to be very cautious right now in Canada.

What would the consequences be of prolonged deficit spending here in Canada? Again, it's a very different situation here from that in Europe.

So please clarify the first issue and then explain what the consequences would be of the second.

Mr. Mark Carney: To explain the difficult situation in Europe, one has to go back to the functioning of the European Monetary Union. In effect, a number of countries in the so-called periphery, although they are some of the affected countries—particularly Portugal, Greece, and Spain specifically—ran very large current account deficits within the monetary union. Part of the reason they ran those deficits is that the relative rise in unit labour costs in those countries was quite high, of the order of magnitude of 20% to 30% higher than at the Franco-German core of Europe.

So they lost a lot of competitiveness over the course of the first 10 years of monetary union, and the challenge that these economies face is to regain that competitiveness. This is not a good place to be in, but one of the advantages of a flexible exchange rate is that the exchange rate does some of the work for you in regaining that competitiveness. The other alternatives are large structural reforms to improve or build productivity and product in labour markets, and other aspects. They're the right things to do, but those take time to pay off—over the course of several years at least. And then second is to reduce wages. I don't mean stagnant wages, but outright reductions in wages so that unit labour costs come down, which, of course, in and of itself reduces demand and has a self-reinforcing aspect on any slowdown. That means a direct hit to confidence, and lower spending. And then, because of lower spending, higher unemployment, etc., will result.

That is the situation these economies find themselves in. The lower growth further worsens the fiscal positions of the countries, which forces additional austerity. Because they face budget constraints, the markets are only willing to lend them certain amounts of money, and that is amplifying the downturn. So you have more severe recessions in an increasing proportion of the eurozone, which in our opinion is now going to result in an overall recession in Europe.

Mrs. Shelly Glover: So anyone who leaves this room stating that a recession in Europe is likely caused by governments not spending on stimulus is grossly misinformed and not understanding this situation. Am I correct?

● (1135)

Mr. Mark Carney: I would say that there are deeper fundamental causes of the situation in Europe that have built up over a number of years that can only be resolved over a number of years. That is why the measures that the European authorities are putting in place must have that time horizon, so they can facilitate those adjustments in those economies, while at the same time the Europeans reconstruct or “re-found”, to use our terminology, the monetary union and how it works, so that they don't fall back into this situation a decade or two decades hence.

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

Thank you very much, Mr. Carney and Mr. Macklem for being here. As you can tell, the members of this committee very much appreciate this discussion. Thank you so much, and we look forward to continuing our conversations.

Colleagues, I will suspend for a couple of minutes, and we'll bring our next guests forward.

● (1135)

(Pause)

● (1140)

The Chair: I call this meeting to order. I apologize for the lateness. We had some technical difficulty this morning in getting the microphones working, which is why our previous session went over time.

I want to thank all of our witnesses for coming in to participate in our pre-budget consultations for 2011. We have seven organizations presenting to us during this panel.

We have first of all the Assembly of First Nations, the Canadian Public Works Association, the Canadian Restaurant and Foodservices Association, the First Nations Tax Commission, the Inuit Tapiriit Kanatami, the Professional Institute of the Public Service of Canada, and YWCA Canada.

Thank you all for being with us. You will have up to five minutes for opening statements. As we have a very full panel, I will ask you to keep to that five minutes, and then we'll have members' questions after that. We'll start with the Assembly of First Nations.

Mr. Richard Jock (Chief Executive Officer, Assembly of First Nations): Thank you, Mr. Chair.

Our presentation is called “Structural Transformation and Critical Investments in First Nations on the Path to Shared Prosperity”.

First nations communities and individuals are poised to make ever-increasing contributions to the overall economic prosperity of Canada and to their own economies. Fundamental structural change is part of the uncovering of the full potential of these individuals and communities.

Investments in first nations continue to make sense, especially in a climate of fiscal restraint and reductions. Accordingly, AFN recommends that the Government of Canada transform the fiscal relationship through examining existing funding mechanisms and to move forward to change those, based on a set of shared principles: that there be critical investments made in education, infrastructure, and skills development in order to increase productivity and participation in the future economic opportunities; and that there be investment made in safe and healthy communities through supporting overall infrastructure, housing, and health care.

I have some comments on transforming the fiscal relationship. The current mechanisms for funding are inadequate, unsustainable, and too unpredictable to allow for any long-term planning, and also to encourage any long-term investment by external banks and organizations. First nations are the only governments in Canada whose budgets for core and essential services are discretionary and subject to unilateral or arbitrary change. In fact, since 1996 an arbitrary 2% cap has been applied to funding for first nations' core services. Therefore, stable and predictable fiscal transfers, with built-in escalators related to population and inflation, should be used for first nations governments, as they are for other governments. For example, provinces and territories receive a guaranteed annual growth of 6% per year for health services, but that's not the case for first nations.

With regard to investing in first nations education—just by way of background—in Budget 2010 there was a commitment to achieving comparable education outcomes for first nations students. In our view, achieving comparable outcomes requires, at minimum, comparable investments. A funding framework is needed based on real costs, indexation, and appropriate treatment for northern and remote communities, with such a framework being used for a permanent allocation of resources based on standards and real costs. The estimated outcomes of this, as related by the Centre for the Study of Living Standards in 2010, are such that achieving a comparable education outcome could save the government $1.9 billion in a single year by 2026.

In transforming the approach, any action taken should be founded on the set of principles that I mentioned earlier. Those principles would be equity, fairness, security, stability, predictability, and accountability. I want to emphasize appropriate authority, relative autonomy, flexibility, and also an opportunity to have access to external capital.

In terms of opportunities for change, within the current context of the strategic operational review, there are some important considerations that we feel should be borne in mind, especially if we're looking at aligning programming and services across government. We feel that basic services and the elements and costs affecting health and safety should take priority. We also feel that another principle to be included is that community-based services be set as a priority and be guaranteed a sustainable rate of growth in funding. Redeployment of resources should be done in areas of greatest need, and there should be a rebuilding plan to look at refocusing resources and to enable investment in areas of greatest need.

In our view, transforming the approach and doing the critical investments I talked about will achieve both short- and long-term savings, and it will also result in changing the nature of the relationship.

Thank you. Those are my opening comments.

● (1145)

The Chair: Okay. Thank you very much, Mr. Jock, for your opening comments.

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

Mr. Darwin Durnie (President, Canadian Public Works Association): Thank you, Mr. Chairman.

Good morning. My name is Darwin Durnie, and I'm the president of the Canadian Public Works Association. I'm delighted to be here representing our 2,000 members. I'm Alberta-based, and I represent our chapters from sea to sea to sea.

I'm joined in the audience today by Mr. Peter King, the executive director of the CPWA, and also the executive director of our sister organization, the American Public Works Association.

By way of brief introduction, the CPWA represents the men and women in every community across Canada who plan, build, repair, and maintain our communities. From sustainability planning through to waste collection, snow removal to disaster response, our practitioners deliver services to the communities of our nation 24/7, thus providing liveable communities that are the envy of the world.

We appreciate the challenge ahead for the members of this committee. Economic realities and global pressures will require a delicate balance between continuing the good track record that has been achieved with infrastructure renewal and investment while ensuring that Canada's economy continues to recover and lead on the world stage.

Our submission focuses on two areas that we believe present great opportunities to protect our existing infrastructure and develop a comprehensive plan for the years ahead.

The Government of Canada committed last year to undertaking a comprehensive review of the current approach to financing first nations infrastructure. We support that review and recommend that CPWA work in partnership with the first nations communities and the federal government to provide training, certification, and membership programs to first nations public works employees through a pilot project. This will leverage the vast resources we have developed and are in use throughout North America and that have been applied to linear infrastructure, such as roads and bridges, and vertical infrastructure, such as schools and recreation centres.

CPWA members have lifetimes of knowledge that can be shared through mentorship. There are new opportunities for employment now, as current public works employees near the end of their careers. CPWA knows that now is the time to put the skills and knowledge transfer opportunities in place to ensure that young people are able to take advantage of these opportunities. As well, the benefits of well-trained first nations members maintaining their own community infrastructure are both personal and economic. The jobs and economic boost to the community are clear, as is extending the life cycle of existing assets.

CPWA members have already collaborated with American Public Works members to develop an accreditation and certification program that is portable throughout Canada and the U.S.

In working together with the first nations, we can ensure that these programs are adapted to the unique challenges of first nations while providing training and credentials that will allow employment opportunities on and off the reserve.

Our second recommendation is simply to continue the best practices that were developed during the rollout of Canada's economic action plan. We encourage the Government of Canada to allocate funds to allow for continued consultations between government and the infrastructure community, with the goal of developing a framework of basic principles for the next generation of infrastructure programming.

This should include, as a goal, the evaluation of the current state of key infrastructure assets. This could also include the integration of the tools that we have developed for use in Canada, and also those we have developed in partnership with the American Public Works Association, through the Institute for Sustainable Infrastructure's model that evaluates linear infrastructure.

We witnessed the benefits achieved when all stakeholders came together during the early stages of the action plan.

We're very pleased to be able to present today, and we look forward to any questions.

Thank you, Mr. Chair.

● (1150)

The Chair: Thank you very much for your presentation.

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

Mr. Garth Whyte (President and Chief Executive Officer, Canadian Restaurant and Foodservices Association): Thank you, Mr. Chair.

The Canadian Restaurant and Foodservices Association represents the nation's $61-billion restaurant industry, one of the largest industries in the country. We're pleased to have the opportunity to put forth some recommendations that will advance the committee’s goals of high levels of job growth and business investment, with a view to ensuring a shared prosperity and a high standard of living for all.

We have many recommendations. For example, we favour eliminating the $40 million in credit card fees on sales taxes, but I'm just going to talk about two recommendations.

First, our overarching recommendation is to establish a private and public sector task force to study the central role of restaurants in Canada and to make recommendations to promote and grow this industry. This recommendation would have limited cost implications, but would create an opportunity to break down the agriculture and tourism silos in Canada and unleash the potential of one of Canada’s most important industries.

Our second recommendation concerns reducing the burden of profit-insensitive, job-killing payroll taxes, which has always been a priority for the labour intensive restaurant businesses.

Our proposal is for the introduction of a $2,000-a-year basic exemption, YBE, modelled after the YBE in the Canada Pension Plan, as the most efficient and effective way to deliver payroll tax relief to the groups most affected—the entry level workers and labour intensive businesses. It's estimated that a $2,000 YBE would reduce EI revenue by approximately $1.4 billion per year.

With respect to the restaurant industry task force, during the recent federal election, food and agriculture policy received a great deal of attention from all political parties. Although the economic and employment contributions of restaurants exceed those of agriculture and all supplier groups, the restaurant industry is treated as secondary in food policy discussions.

Similarly, over 50% of the jobs in the tourism industry, by far the largest component of tourism jobs, are restaurant jobs. Yet the restaurant industry is an afterthought in Canada’s tourism strategy. Canada’s restaurant and food service industry is one of the largest industries in Canada. We employ more than a million Canadians, making our industry one of Canada's largest private sector employers. The industry’s workforce represents 6.4% of the country’s employment, more people than agriculture, forestry, automotive manufacturing, mining, and oil and gas extraction combined. An additional 250,000 Canadians are indirectly employed by the industry as suppliers, distributors, and consultants.

A Decima poll commissioned by Kraft Foodservice Canada showed that the industry is the number one source of first jobs for Canadians, and that 80% of Canadians recognize restaurants as a vital source of employment.

Every $1 million in restaurant sales creates nearly 27 jobs, making our industry one of the top four job creators in Canada. The diverse nature of our industry means the benefits are felt in every community, not just in major centres.

The industry is much more than a huge contributor to the Canadian economy and a major job creator. It is at the heart of what Canada is about—food, youth, multiculturalism, agriculture, health, and community.

We're faced with some daunting challenges. The high Canadian dollar relative to the U.S. dollar and weak economic conditions internationally have discouraged visitors from coming to Canada and have significantly reduced tourism. A full 74% of the respondents to our restaurant outlook survey indicated that rising food costs are having a negative impact on their business; two-thirds said that rising labour costs are having a negative impact; and one of four operators said that they are struggling to find qualified labour. Given the competitive nature of the business and the price sensitivity of restaurant consumers, it's difficult for operators to pass on higher costs.

In recent years, the federal government has focused resources on capital- and resource-based sectors, which are a fraction the size of the food service industry, together with the agriculture and tourism sectors. We're not asking for grants or handouts. We're just saying the government should recognize the significant social and economic contributions of the food service industry and its growth potential. Since food service is a touchstone for so many government priorities, it's important that the government take a more holistic approach to this industry, beginning with the establishment of a task force to study it and make concrete recommendations to promote and grow Canada's restaurant and food service industry.

Second, on payroll taxes, we want you to consider—

● (1155)

The Chair: You have five seconds, Garth.

Mr. Garth Whyte: Okay.

We want you to consider the $2,000-a-year basic exemption, YBE. It will help low-income earners. It will help employers. We see it as a win-win proposal that will really help job creation. Thank you.

The Chair: Thank you for your presentation.

We will now hear from Mr. Jules.

Mr. Clarence T. Jules (Chief Commissioner and Chief Executive Officer, First Nations Tax Commission): Mr. Chairman, members of the committee, for over 20 years I've been working with first nations to implement taxation, build infrastructure, and improve services.

There are about 140 first nation tax authorities, and since 1990 they have generated at least $800 million in local revenues. The first nations tax authorities have used local initiatives and development of local capacity to bring jobs and business opportunities to their communities and regions. We are proud of what has been accomplished and were pleased to be able to demonstrate this to parliamentarians by hosting them in Kamloops last year. I must note here that the committee members were very interested in our work and, in particular, our proposed first nations property ownership act.

The First Nations Tax Commission and tax-collecting first nations have achieved a great deal. However, much more can be done. First nations are still tremendously disadvantaged. The investment market does not work as well on our lands as it does elsewhere. Our infrastructure is still inadequate. We need to change this.

First nations are the fastest-growing component of the Canadian workforce, and also include Canada's most under-employed people. If we can change that fact, we will create jobs, improve the fiscal balance, and go a long way towards improving the quality of life, even in the face of an aging society and global fiscal challenges.

The key to changing this is to allow the market to work on first nations lands by using local capacities to create sustainable infrastructure systems. Today the First Nations Tax Commission is putting forward two initiatives that will help these goals.

The first initiative is our first nations property ownership act. We are asking the government to expedite this development and the passage of this act, and to commit itself to providing the resources necessary to implement it and ensure its success. Ten first nations have confirmed their interest in implementing this act. The passage of this act would allow them to own their own lands, to put an end to the paternalism of the Indian Act, where a land is described as "a tract of land, the legal title to which is vested in Her Majesty, that has been set apart by Her Majesty for the use and benefit of a band...."

This would be a significant step forward in dismantling the Indian Act, which is seen as a relic of colonialism. It would end the injustice my father described 43 years ago when he said, we don't even own our own lands.

However, the first nations property ownership act is much more than a symbolic act. The passage and implementation of this act would allow the market to operate more effectively for these first nations. It would allow us, as my father said in 1968, to move at the speed of business. The first nations property ownership act would allow these first nations to bypass the cumbersome bureaucratic processes regarding land use. First nations would assume responsibility and authority over their lands just like any other government. The end result would be lower costs of doing business, improved reporting requirements, and less bureaucracy.

The first nations property ownership act would also allow participating first nations to create the same property rights used in real estate, credit, and investment markets elsewhere in the country. These rights would be registered in our Torrens system, which is recognized as the best form of land title system in the world. As a result, people conducting business would be able to draw on the same bankers, lawyers, and real estate professionals for these types of transactions as they would elsewhere. Investors would be able to make commitments with the same confidence that they do anywhere else. Businesses would be able to work at the same speed with first nations, using this act as they do in any other market. First nations people and their governments would be able to access credit on the same terms as others in Canada.

Second, we're asking for a new approach for infrastructure tailored to meeting the needs of taxing first nation communities. And we'll work with you on implementing it.

Thank you.

The Chair: You can finish up, Mr. Jules, or we can come to it during question period.

● (1200)

Mr. Clarence T. Jules: We can come to it during questions.

The Chair: Okay, thank you very much for your presentation.

We'll hear from Ms. Simon, please.

Ms. Mary Simon (President, Inuit Tapiriit Kanatami): [*Witness speaks in Inuktitut*]

Thank you, Mr. Chairman.

Thank you for the opportunity to speak with you today.

I have requested an appearance here today because I am convinced the government has an opportunity to address the real needs of Inuit, as well as offer a real return to Canadians in its upcoming budget.

First, let me say that all Canadians could benefit from gaining more insight into the cost-benefit dynamics between economic and social development among Inuit people. Federal budget planners and all Canadians would benefit from additional analysis on two vital questions. First, what kind of new investments need to be made to deliver a realistic chance of closing the gaps in material living standards between Inuit and other Canadians within one or two generations? Second, knowing that the Canadian economy will be increasingly impacted by the contributions of young aboriginal peoples, what will be the predictable cost to Canadian society of not closing such gaps?

My first suggestion is that the Minister of Finance direct his department to carry out an objective examination of the two questions I have posed and to report back to this committee with the results of that examination.

My second suggestion relates to the proposed changes to Canada's criminal justice system that could result in a very large increase in the number of persons serving time in correctional facilities, of which a hugely disproportionate number would be aboriginal. Inuit are abundantly aware of the suffering caused by crime.

Compared to other Canadians, we see more crime in our communities; and compared with other jurisdictions, rates of violent crime are not in decline. But there is no evidence that steering federal expenditures into a massive expansion of the prison system will bring about safer communities. The fact that huge sums of money will not be available to invest in the prevention of crime and the reform of criminals, mental health programs, substance abuse programs, special education needs programs, and youth counselling will result in more blighted and broken lives. A lot of these are related to intergenerational broken lives and grief.

I recommend that the government consider amending its draft legislation to redirect a substantial portion of those budgetary resources to the enhancement of crime prevention activities, with a particular focus on young people, education, training efforts, and health programs within existing correctional facilities.

Finally, Inuit have an urgent need in three specific areas. I urge the committee to consider funding the following: first, $10 million over five years as seed money for the implementation of the national strategy on Inuit education, contained in *First Canadians, Canadians First*; second, $15 million over five years for expanded mental health programs in the four Inuit regions of Nunavut, Nunavik in northern Quebec, Nunatsiavut in northern Labrador, and the Inuvialuit settlement region of the Northwest Territories, which comprise our homeland called Inuit Nunangat; and third, $300 million for a concentrated two-year program of new housing construction in the four Inuit regions, over and above what has already been approved.

These ideas have also been described in the letter I sent to Minister Flaherty this spring.

Thank you for your attention.

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

We'll hear from Ms. Bittman now, please.

Ms. Shannon Bittman (Vice-President, Professional Institute of the Public Service of Canada): Thank you.

My name is Shannon Bittman, and I'm a vice-president at the Professional Institute of the Public Service of Canada. Thank you for inviting me to appear before the committee this morning.

The institute represents almost 60,000 professional employees of the federal public service. These are the people who provide a wide range of vital functions to the Canadian public—scientific research, food inspection, tax audits, and more.

Our economy appears to be once again on the brink of a recession. Canadians are faced with massive unemployment, low levels of corporate investment despite low interest rates and tax breaks, and general market insecurity. Our message today is that the solution does not lie in further tax breaks for corporate Canada or heedless cuts to the federal public service.

A swift and sustained recovery from the recent global financial crisis has been, and still is, heavily dependent on the retention of core public servants for the provision of critical government services. Public service job cuts are not the answer to increasing government revenues, and will only add risk to an already fragile economic recovery.

Furthermore, labour cuts will only produce marginal, short-term gains and not the long-term, sustainable efficiencies that the government is looking for. Use of such overly simplistic strategies as cutting through attrition, or making indiscriminate, across-the-board cuts of 5% or 10% as mandated by the deficit reduction action plan, will leave serious labour shortages in areas of much-needed expertise. In fact, departments such as Environment Canada are already having trouble fulfilling their mandate of ensuring the health and safety of Canadians. Just as troubling is the fact that Canada is falling behind other OECD countries in its ability to conduct scientific research. These reductions will only serve to make Canada even less competitive with these countries in today's global and knowledge-based economy.

It is the institute's position that instead of cutting public service jobs, the government has the opportunity to achieve the efficiencies and savings it is looking for by reducing its reliance on outsourced contracts. As we have outlined in our written brief, research has shown an average gap of 350% between an initial bid price and the final tab paid by the government for third party delivery. This government has shown a growing dependency on outsourcing since 2005, with costs rising from $600 million in 2005-06 to over $1.2 billion in the 2009-10 fiscal year.

The institute would also like to voice its concern regarding the PricewaterhouseCoopers report, which was commissioned by this government, detailing an implementation strategy for the new federal department Shared Services Canada. This report, which we have submitted as evidence to the committee, sets out a series of recommendations, including one to outsource 54% of the government's workforce to third parties in the private sector.

Ultimately, this government needs to refocus its attention away from arbitrary budget cuts and address ballooning outsourcing costs if they hope to achieve sustainable reductions in costs over the longer term.

Our government needs to be careful not to repeat the mistakes of the nineties during the last round of unilateral public service cuts. A lack of proper succession planning then left major gaps in the senior ranks of many federal departments. These consequences are still being felt today.

The Public Service Commission's 2010-11 annual report also shows a troubling trend of shrinking numbers of young people within the public service. It is critical that the public service remains an attractive employment option. Recruitment and retention of employees aged 35 or less will have a high impact on the quality of future service delivery to all Canadians.

Canada's current troubled economic state causes us to ask questions about the government's desire to shrink the public administration and the services it provides. There's been much discussion regarding the government's ability to remain flexible should we sink into another recession and stimulus is required. Such flexibility will thus require retention of those who actually deliver stimulus—public service employees.

● (1205)

The recent workforce adjustment announced at the Atlantic Canada Opportunities Agency—

The Chair: Please wrap up.

Ms. Shannon Bittman: —seems to fly in the face of this supposed commitment to flexible fiscal policy. We ask that the government bolster its commitment to fiscal policy strategies in the next budget.

Thank you.

The Chair: Thank you, Ms. Bittman.

We'll go to Ms. Decter, please.

Mrs. Ann Decter (Director, Advocacy and Public Policy, YWCA Canada): Thank you, and thank you for the opportunity to speak to the committee.

I'm here representing the YWCA Canada, as director of advocacy and public policy. For over 100 years, YWCA Canada has advocated for policies and programs that improve the lives of women and girls. As the country's oldest and largest women's multi-service agency, our 34-member association raised and spent over $190 million last year, providing services in communities in nine provinces and two territories.

Our perspective is grounded in first-hand knowledge of the life experience of tens of thousands of women, girls, and families who use our programs and services every year, from Victoria to Iqaluit to Halifax. With over 140 years of history, we are Canada's largest provider of shelter for women and children fleeing violence, and of employment services for women, and the second largest provider of child care.

We welcomed the government's June 2011 throne speech commitment to address the problem of violence against women and girls. Over the last decade, we have conducted extensive research on responses to violence against women and girls, culminating in our 2009 policy report, *Life Beyond Shelter: Toward Coordinated Public Policies for Women's Safety and Violence Prevention*, with recommendations for federal government action and documentation of promising practices across the country.

We urge the government to review the recommendations of *Life Beyond Shelter*, with a view to reducing violence against women, and the billions it costs Canadians every year. The strongest recommendation of this report is for policy coordination at all three levels of government. To implement the government's throne speech commitment, Budget 2012 should commit the federal government to leading a process, with input from the women's service sector, to coordinate pilot policies on violence against women at all three levels of government, to ensure women's safety.

Since the 1970s, Canada has developed a mature system of emergency shelters for women fleeing violence, largely violence in the home perpetrated by intimate partners. Initiated by women who set up safe houses in their communities, this community-based response in most of the country has evolved over three decades into a professional social service sector, accessible to women post-violence. However, research has identified crucial gaps in this system. To ensure that all Canadian women who need it have access to emergency shelter as protection from violence, the system needs further development for rural women, women in the northern territories, women with disabilities, and it needs improved cultural and language competency in service provision.

In addition, the housing crisis in all three northern territories profoundly impacts women with children who are trying to escape violence. Housing in the three northern territories has been seriously disadvantaged by the lack of federal social housing funding. Budget 2012 should initiate an annual grant fund administered by Status of Women Canada to address the identified gaps in provision of emergency shelter to women fleeing violence.

YWCA Canada continues to encourage the federal government to take steps to ensure access to child care services for all families that seek it. More than 30 years of uninterrupted increases in women's employment has given Canada a labour force that is virtually gender-balanced, the result of an incremental, but relentless upward trend in women's employment since 1976, which has doubled the number of women employed in Canada. The employment rate of women with children has followed a similar upward trend, from a 27.6% employment rate for women with infants and toddlers in 1976 to 64.4% in 2009.

● (1210)

The Chair: You have one minute left.

Mrs. Ann Decter: Two-thirds of the mothers with their youngest child in preschool or kindergarten were in the workforce in 2009.

Women's increased labour force participation has been supported by a multi-decade trend toward increased attainment of higher education. Women have risen from 32% of young graduates in 1971 to 60% in 2006. With provincial governments investing in full-day kindergarten, the federal government has the opportunity to engage provincial and territorial governments in discussion on developing early learning and child care. Investment in child care for low-income families has been shown to yield a substantial financial rate of return for every dollar invested. Such investment would support the federal government's efforts to eliminate the deficit and return to a balanced budget through economic growth. Early learning and child care are fiscally smart investments.

Thank you.

The Chair: Thank you very much for your presentation.

We'll begin members' questions

[*Translation*]

with Mr. Mai for five minutes.

● (1215)

[*English*]

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

Thank you to all the witnesses for being here and for your briefs. They are very interesting. We have so many questions, but there is so little time.

Yesterday the representative of the National Aboriginal Caucus was here telling us about the fact that they wanted to get rid of their 2% cap, because they want the youth to study and learn to be lawyers and doctors so they can be role models. We had members opposite saying “Well, no, you should go into the trades directly”. That let me understand their negotiating position, when we have a government that's more paternalistic and is not negotiating nation to nation and is not fulfilling the treaties.

I just wanted to know, and maybe you can all respond, about the promises made to first nations in the 2010 budget. We talked about millions of dollars being promised. Was that money funded to the first nations?

Mr. Richard Jock: Thank you. I'll give a brief answer, and others may have something to contribute.

My understanding is that there was a commitment to achieve educational improvements but not the resources to implement them. What we are calling for in this budget are the resources to accompany those interests. That's really an essential and important next phase. So no, those additional dollars have not been committed to first nations.

Mr. Hoang Mai: But they were promised. They were in the budget.

Mr. Richard Jock: I don't think there was a specific financial commitment contained in the budget. It was more on the principle of improving that educational attainment interest.

Mr. Clarence T. Jules: One of the problems with the responsibilities of your committee and government is that you need to change the philosophical approach to dealing with aboriginal people as a whole. In my opinion, it should be about creating economies. The problem with the moneys being expended right now is that the vast majority go into social welfare programs. When you maintain that kind of approach within government, it will all stay the same. You have to change the focus to begin to help us help ourselves, and that means creating economies.

I don't believe we can force on anybody the kinds of choices they make, even though I feel that we have enough lawyers.

Some hon. members: Oh, oh!

Ms. Mary Simon: Just to add to what Mr. Jock was saying, we too have been involved with the Minister of Aboriginal Affairs over the past two years in coming up with a national education strategy for Inuit, which some members have copies of. There is a commitment to work with us, but as of now, there hasn't been any funding allocated in the budget for this initiative.

Mr. Hoang Mai: We've been really pushing for investment in infrastructure. We've been telling this government that it's an investment. We know that there's a deficit. Obviously, we can look at some of the situations where you don't have running water or you have problems with water. You have problems with infrastructure.

Can you tell us what type of infrastructure....? I mean, it's so basic. For the government not to invest in that, and not to understand it has to be done now.... Can you give us some examples?

Ms. Mary Simon: Yes, I'll give an example related to health issues.

Right now there's a lot of news that the suicide rate among Inuit in the Arctic is seven times higher than in the rest of Canada. There's a reason for this. Not only are they dealing with trauma and addictions, but there are also no services in most of our communities. We're asking the government to start putting in infrastructure so that people who need support and counselling, and the doctors who will diagnose them, will have access to that. These services are not available at this point, so we're seeking funding from the government so that we can provide services that other Canadians in southern Canada pretty much take for granted. We don't have any mental health services in the north, or very, very few.

● (1220)

Mr. Hoang Mai: Thank you very much.

The Chair: Be very brief, Mr. Jock, and Mr. Jules.

Mr. Richard Jock: Thank you.

We have done a detailed pre-budget submission, and I would refer the committee to it. But I would say that there has been a clearly identified gap in the need for water. I believe it's $6.85 billion. It was done through a very detailed engineering report. An additional 85,000 homes are also required to clear the backlog.

I would say that, increasingly, items such as general infrastructure and emergency services should be seen as core supports to the community, and we're seeing increasingly that there is a need to be able to respond effectively. We have provided some detail on that and see that transforming the relationship over a long period is also —

The Chair: I'm sorry, but we're way over time, and I want to give Mr. Jules a chance.

Mr. Clarence T. Jules: Right now the present system is on a rationed basis, and that has to change. We're proposing a focus on the fiscal administration and capacity that will allow first nations to be responsible for planning, financing, building, operating, maintaining and, ultimately, replacing infrastructure. The dependence here is just like the aid that is given to other countries: it fosters more aid. What we need to do is to build the capacity within first nations to sustain and build infrastructure on their own.

The Chair: Thank you.

Thank you, Mr. Mai.

I'll just gently remind colleagues that if they ask a really good question, you should leave time to answer that really good question.

I'll go to Ms. McLeod, please, for five minutes.

Mrs. Cathy McLeod: And, of course, all our questions are really good questions.

The Chair: They're awesome.

Mrs. Cathy McLeod: I would like to focus my questions to Mr. Jules, with a bit of a preamble because there are many new members on this committee.

Sometimes a picture is worth a thousand words. We had the opportunity last year as part of our travels to hear from a number of chiefs in the interior of British Columbia, to see what some of the aspirations were and what was happening in a couple of those communities. It was a really great opportunity.

I'm going to ask Mr. Jules if he can talk first of all in a little more detail about this first nations property ownership act and the fact that it's voluntary. What is it actually going to look like? What would it mean for the communities that decided...? First of all, if what you're proposing as legislation goes through as proposed, what would it actually look like in terms of the communities and their future?

Mr. Clarence T. Jules: First of all, what we're proposing is specific legislation that would optional, so that communities could choose to opt into it. What it would do is to transfer the ownership. Right now, the federal government.... Try to imagine what it would be like if Canada tried to build an economy with no individual private property rights; it just couldn't be done. What we're proposing is the transfer under the Indian Act of ownership from Her Majesty—I don't think Elizabeth would object—to first nations, so that we in turn would be able to have the underlying jurisdiction and title to those lands. Also, individuals would be able to have and enjoy, like every other Canadian, individual property rights so as to be able to build and own their own home.

To give you an idea, I served as an adviser to the Auditor General. In the 2004 report, she said the backlog in 2004 was between 20,000 and 35,000 units, growing at 2,200 units annually. If Indian Affairs had built 2,300 units annually from 2004 onward, reducing the backlog by 100 units a year, at that rate it would take 200 to 350 years to reduce the backlog. So again, you're throwing water on a bonfire.

It just isn't enough to wish these problems away. What you have to do is to create the fundamentals of building an economy. The fundamental economy builder in this country is individual private property rights. With those we could can enter into partnerships with our friends at Public Works to build the infrastructure, and we could work with our friends in the restaurant industry to build restaurants within our communities. In other words, we want to be able to empower the individual, but also to create government institutions so that we can be accountable and be part of the fiscal and governmental makeup of the federation of this land.

● (1225)

Mrs. Cathy McLeod: Thank you.

There are two things. One I'd like to note is that the Tk'emlúps Indian Band has, I think, 70% of its own revenue now, which has really reduced its reliance. And significant infrastructure projects have gone through with federal government support, but also band support, to deal with some of the lands that were used for commercial development.

You have a second part of your proposal that you didn't get a chance to speak to. Could you do so quickly?

Mr. Clarence T. Jules: Yes.

One of the problems with the government's rationing of funds for infrastructure is that it doesn't take into account the overall infrastructure needs to build an economy. Without infrastructure you can't adequately build an economy. Right now the focus is on the local needs, which doesn't allow for the size of pipe that's required to facilitate economic development and growth.

What we're proposing is that we use not only real property tax, but also other areas, particularly the first nations goods and services sales tax, as part of the local tax revenue base so that we can use the First Nations Fiscal and Statistical Management Act to facilitate greater issuance of bonds and debentures to put in infrastructure. This again would be a new way of trying to tackle the infrastructure deficit that first nations have, and would provide a model that other first nations would be able to utilize.

Mrs. Cathy McLeod: Thank you.

The Chair: Thank you, Ms. McLeod.

We'll go to Mr. Cuzner, please.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): Thank you, Mr. Chairman. It's a pleasure to be with you and the finance committee as you try to sort through issues in preparation for the presentation of the budget.

As a gesture of my appreciation, I'd like to share with the committee a report that was tabled by the National Council of Welfare on September 28 this past year. The council is an advisory council to the minister of HRSDC.

The report, called *The Dollars and Sense of Solving Poverty*, loops into what Ms. Decter and Ms. Simon were saying.

I wouldn't want to quantify this—there are some great recommendations from all presenters here today—but, certainly, Ms. Simon, your points are very concerning and compelling, given the way the government has decided to go with the crime agenda, with its disproportionate impact on first nations, Inuit, and those who suffer week to week from poverty. There's a disproportionate burden that is going to be shouldered by these groups.

One quick example, which loops back to the presentation by the YWCA, is of a woman in Calgary being incarcerated at a cost of $1,400 a day because she can't pay a $150 fine. If we were to attack the problem and invest in the problem of poverty and look at providing shelter for women such as those you talk about, there would in fact be a savings to the government over the long run.

I encourage all members of the committee to secure a copy of that study and have a look at it.

Let me go to Ms. Simon. Speaking to that point, when we look at the millions to be spent incarcerating your people, where should the money be invested instead?

Ms. Mary Simon: Mr. Cuzner, thank you for your question, which is extremely important to us.

As I said in my presentation, the investment should be targeting the mental health services infrastructure. It should be targeting the education of our children, who are not getting through school. It should target housing, which is a very serious problem in the four Arctic regions, not just in the territories. In fact, in my region of northern Quebec, the housing problem is most severe—although Mr. Charest has said that through Plan Nord, they're going to build some housing. I'm not sure how that's going to go.

But it's clear that the current health infrastructure is not sufficient to address the problems that our young people especially are facing. If a person has a mental health issue, they commit petty crimes. Violent crimes are on the increase in the Arctic, and putting the perpetrators in jail is not the answer. The answer is to build the prevention side and give them the services they need to get better in terms of their mental wellness.

● (1230)

Mr. Rodger Cuzner: Thank you very much.

The Chair: Mr. Jock wanted to comment.

Mr. Richard Jock: Yes, I just have a brief comment.

Education is very clearly one of the primary determinants of well-being, and that's why one of our areas of emphasis is for investments to be made in education and skills training. That will pay off many times over. if you look at what the cumulative savings would be if those kinds of social elements were reduced and if the gaps were eliminated in terms of social well-being, there would actually be savings of $14.2 billion a year by the year 2026.

Mr. Rodger Cuzner: I'd like to get in one more question if I can.

The Chair: You have 30 seconds.

Mr. Rodger Cuzner: For Mr. Whyte if I could, when we look at 19% unemployment among young people in this country, when we look at new Canadians seeking that first experience, it's usually in your sector where they gain that.

You say that the income tax is a job-killing tax. Could you elaborate a bit more on the recommendation that you made?

Mr. Garth Whyte: We're talking about the year's basic exemption. It's applied to QPP and CPP, and we'd like it applied in EI.

Currently an employee who makes less than $2,000 can apply for an EI premium refund, but many of those employees that make just a dollar more can't apply. Even those who do apply, only two-thirds of them get it, and employers don't get it. So we're trying to propose something that's easy to implement, that parallels CPP—

Mr. Rodger Cuzner: So you don't have to set up another regime.

Mr. Garth Whyte: Yes. It makes it easy. It's going to spur that first-time job credit.

Many of these people never ever claim EI; they have no hope of claiming it. Often they're students, and it's a first-time job. We are the number one employer of people in first-time jobs.

The Chair: Thank you, Mr. Cuzner.

We'll go to Mr. Hoback, please.

Mr. Randy Hoback: Thank you, Chair, and again thank you to everybody for being here today.

Mr. Jules, you're a breath of fresh air, I must say. As I drive though some of the local reserves in my riding and I see the problems, I think that if these don't break your heart, you don't have a heart. I think that's reality. Where I get really conflicted as a member of Parliament is when we look at that situation and look for solutions within the existing structure. I say this because I just don't see these being there. When you hear people say, throw more money at it, and you talk to the individuals, they come back to you and say you can do that. So I still don't see the benefit of throwing more money at it. It's always about the efficiency of that dollar being used. Does it actually achieve the intended results?

I look back at my farm. When I expanded my farm, I could actually take my land and leverage it. I could take that leveraged money and buy more land and grow my business, my farm. When I look at my friend whom I went to school with, who lived on a reserve, he had no assets to leverage. He had nothing to put up for collateral or security. Right off the bat he's at a disadvantage when he gets out of grade 12. He can have the exact same education, but the opportunity isn't there because he doesn't have that ability to leverage his assets that he utilizes.

When you talk to some of the elders about this situation, they say they don't want to see that land being given up for leverage. They don't want to see that land ever leave the band per se.

How do you address that question? How do you move this file forward addressing the concerns of the elders yet still recognize that what we're doing now isn't working, so it needs to change?

Mr. Clarence T. Jules: That's right. There needs to be a fundamental change and shift in the philosophy of how first nations fit within the Canadian federation, and that means true governance.

When you look at the underlying title, that's the fundamental thing to address. The title has to be transferred from the federal government to the first nation. It's like somebody purchasing a piece of property in British Columbia; it doesn't make it Ontarian. The same would be true for these bits of property. They would always remain under the jurisdiction and territorial jurisdiction of the first nation, but the first nation individual has to be able to operate within a free market system. He has to be able to be bonded. Right now under the Indian reserve system, an individual cannot be bonded, and if you can't be bonded you can't get into business. Those kinds of fundamentals have to change.

We come from a trading culture. All of us—the Inuit, the Métis, the first nations—lived on this land with our own economies. What I'm proposing is that we recreate something that's been hibernating, and that's the entrepreneurialism that flourished on these lands that were clearly once under our jurisdiction. That's what I'm proposing. The fundamental thing to do is very clear: the title has to be transferred to the individual first nation. That will always be the case. Individuals have to be able to have private property rights enjoyed by every other Canadian.

● (1235)

The Chair: Mr. Hoback, and Mr. Jock, do you want to comment as well? I don't know how much you want to—

Mr. Richard Jock: I want to point out that the plan or proposal by Mr. Jules occupies a certain percentage of the spectrum and that there are other possibilities within the First Nations Land Management Act, which would also accomplish similar or equivalent benefits. There are different ways and different paths forward, and there really is no one-size-fits-all solution in looking at how first nations approach things.

I think the issue of land certainty is also important. It takes several years to put up an additional piece of land for a reserve, some of which creates the void or lack of economic development, especially if those places are in strategic areas next to cities and if the could be of economic benefit. So moving much more quickly on additions to reserve and land certainty matters are also important parts of any forward movement economically.

Mr. Randy Hoback: Thank you for that, Mr. Jock. That's a regulatory thing, an administrative thing. It's not going to cost any more money if we do it over seven years or one year, but it makes a big impact.

I appreciate your bringing that forward.

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

We'll go to Mr. Julian, please.

Mr. Peter Julian: Thank you, Mr. Chair.

Thanks to all our witnesses.

I'll start with Ms. Bittman. You talked in your brief about government R and D activities, and in the last few weeks we've certainly received a strong indication of a failure of investment in R and D. What we've seen is that, among industrialized countries, Canada has the lowest direct investment in R and D; the lowest success rate in terms of producing Ph.D. students, which is in part coupled with the lack of access to post-secondary education; and also one of the worst rates for patent development among industrialized countries.

The government's response has been to throw more money at this via tax credits, but we've seen falling levels of business investment in R and D. So that hasn't worked either.

Because I have other questions, I was wondering if you could comment briefly on the failure to promote a robust R and D sector on the part of the Canadian federal government.

Ms. Shannon Bittman: My initial comments would be that the action plan that the government is following right now in reducing the number of our scientists and meteorologists is only going to further contribute further to this problem and our lack of competitiveness across the board.

As you said, the government does offer lots of investment tax credits with respect to R and D, but one has to question whether money is being funnelled to the appropriate places. There needs to be extensive research or a re-look at how the Canada Revenue Agency, for instance, farms out investment tax credits for research and development.

We need to make sure that the tax credits are going to areas that are going to create innovation and competitiveness in the future.

Mr. Peter Julian: Thank you very much for that.

I'd now like to go to Ms. Simon, Mr. Jules, and Mr. Jock.

On January 1 the government is planning to throw more money into corporate tax cuts, with another $4 billion in spending thrown to very profitable Canadian companies.

You have each been very eloquent about the investments that are needed. When going to northern Canada, I've seen that myself and how appalling the housing situation is there. Yesterday we heard testimony from the Canadian Federation of Students in regard to the PSSSP that about a third of aboriginal students who apply for supports to get education and training to take that next step are denied because there's inadequate funding.

We've seen a wide variety of very compelling arguments about increasing inequality in this country, the record levels of inequality among aboriginal people, new Canadians, people with disabilities, youth, and older Canadians. I'd like you to address the issue of what the cost is of not acting.

If we look to austerity measures rather than taking a balanced approach that includes substantial investments, so that first nations can improve their housing and have access to educational programs and provide more services for their communities, what is the price of not acting?

● (1240)

The Chair: Could we get a very brief comment from each of you. Ms. Simon.

Ms. Mary Simon: Thank you for that question, Mr. Julian.

What is the price of the loss of lives and poverty that our people are experiencing? I came here to talk about bread-and-butter issues. These things are taken for granted every day in a country as rich as ours. But in the Arctic, these issues are not being addressed, and they are tied to mental health, education, and housing. They are interlinked.

A mentally healthy child who hasn't had any help from the mental health sector is not going to complete her education and won't be employable. Our population is over 50% younger. Newborns to those of the age of 25 are over half the population in the north. If they don't get that education, they won't become the workforce, either up north or in Canada, and that's a big loss.

The Chair: Unfortunately, you're out of time, Mr. Julian. We can come back to that question in the next NDP round, if the NDP chooses.

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you, Chair, and my thanks to everybody for appearing.

I have a clarification to make on Mr. Julian's point. The government has increased funding to SR and ED and to the granting councils. The money has flown to universities. It is true that the government agencies have been taking less, but that money has increased every year. I think that's a point that needs to be considered.

Mr. Jules, it is refreshing to hear what you're saying. I don't think there's a Canadian who would object to giving more money to first nations, if they thought it was going to work. It's interesting that at Foreign Affairs, we're looking at aid effectiveness in Africa in the same way. You're absolutely right that we've been doing this since 1964 and it's not working. So I commend you and I want to have a chat with you later, if we get the opportunity.

Ms. Bittman, I want to direct something to you. I'm listening to what you're saying and I appreciate your concerns. But I have six sons—three of them are policemen and three work in our family dealership. My youngest son is an OPP officer who just became a first class constable.

I realize that you are don't represent this issue, but it more or less states the problems that we're having.

God bless him, I'm happy for him, and I'm proud of all my sons. He's going to make $84,000 as a first class constable. However, my other three sons can only dream about making that kind of salary, never mind benefit from the pension plan and all of the other benefits that come to a public servant. And I don't think there's anybody who faults the son of mine who is a policeman, a job in which he risks his life. Policemen have a tough job and when I talk to my sons, nobody would fault them for making a good salary. But in the private sector, there is an inequity that's beginning to loom large.

I understand that you would come here and make some...well, I don't know if they are recommendations. But we have a problem. We have a problem in this country and I think everybody here appreciates it. We see the fine work that's done by public servants and we see how important it is. However, there has to be wealth generated. That's the long and short of it, and I think that's what Mr. Jules was saying.

I would like to see some concrete recommendations. We have to recognize that we all participate in the marketplace. Whether we work for the government, in a factory, or in a restaurant, we're participating in the marketplace. I think the time has come for all parties to come to the table and admit that we have some serious challenges. We need to address the fact that only so much is being generated. I'd like to see this as part of a dialogue between government and your association. We need to recognize those things and become part of the solution, instead of just criticizing where the government's going, because we are really trying to just....

I know I haven't asked much of a question. Do I have time left, Mr. Chair?

● (1245)

The Chair: You've got 30 seconds. Do you want to let Ms. Bittman respond to that?

Mr. Dave Van Kesteren: I want to get Mr. Jules's take on it.

How do you see that as part of the solution?

Mr. Clarence T. Jules: One of the things that we've created very successfully within first nations communities is bureaucracies. What I want to be successful at is creating economies. We must have a good public sector, but fundamentally we need to have an economic base. If we don't have entrepreneurs who can compete globally, we're going to condemn yet another generation to poverty.

The Chair: Unfortunately, Mr. Van Kesteren is out of time.

I want to remind colleagues that the reason I'm so harsh on time is to give every colleague an opportunity to ask a question. Again, if you have a question, please state it, and we'll try to leave some time for everyone to respond.

We'll go to Mr. Marston, please.

Mr. Wayne Marston: I'll be as succinct as I can, but it's going to take a bit of work.

Ms. Bittman, I appreciate the analysis you have in your document, and I want to say I agree with one statement you made in your presentation, about the nineties when the Liberals of the day did their cutting.

I worked at Bell Canada, and in 1995 Bell Canada executives put 10,000 jobs up on a wall and said cut them. In fairness to Bell, they gave people a reasonable package to people to leave. In fact, I was one of them at the time. But they woke up one day and said they'd lost 80% of their expertise and couldn't do business, and they hired a good number of them back on contract.

When we look at your analysis, I think of the following. Day in and day out in this place, we hear from people with genuine, honest needs. We have 90-some presenters who are coming before us.

On your first page, you say that “Analysis shows that corporate tax cuts have neither stimulated economic activity, nor resulted in increased business....” And then you go on to quote the Parliamentary Budget Officer.

In your analysis, can you find any place where the business community, which has benefited from these corporate tax cuts, has reinvested back into the economy? We're being told that right now there's something like $500 billion being held by corporations, but I'm curious as to your analysis. Have you seen any evidence of that?

Ms. Shannon Bittman: Quite honestly, we haven't seen any evidence of the corporate tax cuts being invested in the economy and, therefore, creating positive impacts.

● (1250)

Mr. Wayne Marston: Thank you.

The Chair: Mr. Whyte would like to make a comment.

Mr. Whyte, briefly.

Mr. Garth Whyte: We represent the fourth largest sector. We represent ma and pa, all the way up to big corporations.

I was just down in Washington and met with a lot of key people. A lot of the people in the States mention that there's a lot of uncertainty there and would like to invest in Canada. One major company alone spent a billion dollars in infrastructure this year.

Mr. Wayne Marston: Well, I was really referring to the companies within Canada. There's a concern in the business community that because of the fragile situation and the banks withholding credit, they weren't getting involved that much.

Mr. Durnie, I will turn to you. We were recently in Whitehorse and heard about the infrastructure problems there. The transmission lines there are 50 to 60 years old. You mentioned IT. I would point out that their broadband is collapsing around them. So it's very clear that locations like that can't afford to sustain and maintain their own infrastructure.

We've been saying to this government that there's a balance between corporate tax cuts and how deep they run, and the needs we see day to day in this place.

We've moved substantially and are now in the middle of the G-7 as far as tax cuts go, and there's the resulting loss in fiscal capacity. They're trying to find $2.8 billion. All they have to look at doing, as Ms. Bittman has indicated, is stopping the next tax break and they've got that money right there.

But in response to that need for investment across our country, I am wondering if you could comment.

Mr. Darwin Durnie: Thank you.

With respect to the core infrastructure needs of particular areas of Canada, I was very recently in Whitehorse as well, and whether it's Corner Brook, Newfoundland or wherever, yes, I agree there is aging infrastructure

I think with the resource extraction opportunities—perhaps it's power generation by the private sector—part of the deal, not unlike a private developer building a new subdivision, is that industries are going to have to help augment those communities to increase and bolster their core infrastructure and become part and parcel of the communities they serve.

Mr. Wayne Marston: My suggestion is that there's a role for government in that, as well.

Mr. Darwin Durnie: Perhaps there is, as a facilitator. But the role might also be as navigator to make sure that the industries are paying their fair share.

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

Ms. Simon did want to comment.

Mr. Wayne Marston: Certainly.

Ms. Mary Simon: Thank you.

I just wanted to add that we also have to look at infrastructure that doesn't exist. Is Canada going to invest in the Arctic where infrastructure doesn't actually exist but is needed?

Mr. Wayne Marston: Thank you.

The Chair: Thank you.

Before I go to Mr. Adler, I want to check with our witnesses. We have four members who want to ask questions. Can we impose on your time to about a quarter after? Is everyone okay with that?

Okay. I want to thank you very much for that.

We're going to go to Mr. Adler.

Mr. Mark Adler: Thank you, Mr. Chair.

I want to thank all the witnesses. This is a very interesting discussion.

I want to direct my first question to Mr. Whyte.

The one advantage you have over every other witness who has appeared before us is that everybody you speak to, including the members of this committee, probably started at one time or another in the food service sector or worked in that sector. So some of us have a bit of knowledge about working behind a counter or as a waiter, or whatever.

But I want to ask you this. This government clearly has a low-tax plan to promote the competitiveness of the Canadian economy over others, and to create jobs and to strengthen our economy. How would you and your members view an increase in corporate taxes? What would that do? Given the tight margins you're operating under right now, what would that do to your membership?

Mr. Garth Whyte: We're on very tight margins, and it would be devastating. It would be very difficult, and that's why we're proposing this task force. It would be a death by a thousand cuts.

We're part of the solution here. We're a solution for investment, employment, agrifood, health, immigration, tourism, and community development. And we want to ask how you harness that and work into it.

We always get hit by one-off policy decisions. The classic was the HST harmonization in B.C., which was going to increase the sales tax on our industry by 7%. And we got nailed. Well, there was a consequence. Not only was it bad policy; it was bad politics, as I think people are finding out. That's a good example. You have to think it out. We want to pay more than our fair share—we do. But I think we have to think it out, rather than looking through just one policy lens.

● (1255)

Mr. Mark Adler: Just to reiterate, your industry is the fourth-largest employer in Canada.

Mr. Garth Whyte: Yes.

Mr. Mark Adler: And you're saying that an increase in corporate taxes would be devastating for your members and for the fourth-largest sector in the Canadian economy.

Mr. Garth Whyte: It would stifle any growth we'd be looking at.

Mr. Mark Adler: Thank you.

My next question is for Ms. Bittman. Nobody around this table would question the professionalism and the expertise of the Canadian public service, about which there's no doubt. I think it stands head and shoulders above any other public service around the world. But you said a couple of things, and I have questions about them.

You're saying that we're not at the point of a recession just yet, and there's no need to sink any more money into stimulus at this point. Correct me if I'm wrong, but it seems that your solution to not ending up in that predicament would be to expand the public service, to hire more people. That would solve the issue, and we wouldn't have to go into stimulus? We wouldn't have to go down that road?

Please clarify.

Ms. Shannon Bittman: No, as a point of clarification, what we're saying is that indiscriminate cuts to the public service are not going to do anything to help or sustain the economy. You need strong federal public service jobs in outlying regions of the country to sustain the local economy. You need strong public service jobs to, quite frankly, sustain the middle class.

Our opinion is that the government can find the savings and the efficiencies it's looking for by reducing the amount of money it spends on outside contractors. So the bottom line is that you only have to look to the nineties when there were widespread cuts to the public service and, ultimately, there were not a lot of dollars saved because the money, in turn, went to outsourcing.

Mr. Mark Adler: Thank you. You can stop there. I understand all of that.

Let me ask you about redundancies. You have to admit that within government there are certain redundancies. Would you be in favour of cutting those redundancies?

The Chair: Make it a very brief response, please.

Ms. Shannon Bittman: The institute has frequently offered to work with the government to help identify cost savings and efficiencies in government. We agree that the public service needs to do things smarter, just like everyone else.

Mr. Mark Adler: Thank you.

I have a yes or no question.

Was your union one of the sponsors or advertisers at the recent NDP convention?

Ms. Shannon Bittman: No.

Mr. Mark Adler: Okay.

Thank you.

[*Translation*]

The Chair: Thank you.

Mr. Giguère, you have five minutes.

Mr. Alain Giguère: We have received numerous submissions from aboriginal communities. They have informed us of many difficulties that, unfortunately, few people see or talk about. It is very unfortunate because, clearly, there is a serious problem. It seems to me that Canada, as a whole, does not see the problem and does not want to hear about it.

If people in any Canadian town or city were being poisoned by unsafe drinking water, the situation would be fixed immediately, Mr. Chair. If we were facing social problems linked to unsanitary housing, we would tackle the problem immediately. It has become clear that some people do not want to spend the money to help Canadians who are different from them.

The first thing to do when one makes a mistake, when one does something wrong, is to apologize. Many governments have already issued apologies to aboriginal communities.

The second thing to do is to tell them that they are loved. When one loves a friend, they do what it takes, no matter what the cost. It is a matter of public heath. People are suffering, some are dying, and all we can say is that it is unfortunate. We must stop saying that and do something to correct the situation.

I would like to hear from the witnesses. Please tell us how much you need, how we can finally reach out a helping hand and stop seeing suffering as an intangible thing.

● (1300)

[*English*]

The Chair: I think we'll start with Mr. Jock, then Mr. Jules, and Ms. Simon.

Mr. Richard Jock: Thank you for the comment.

I would make a couple of follow-up points. One is that, in recognizing the situation that exists, part of what is required is transforming the relationship. That's what we're suggesting, as well, in terms of the fiscal relationship. But it's also about transforming the overall relationship. That will be an important part of the interest, but it will also address the inequity. That's why, in our discussions and in our call for actions, we have suggested, first, that we deal with the gap in education, that we address that gap immediately.

We've also pointed out the other areas within our pre-budget submission that require investments. The amounts of $85,000.... The gap in housing and the need to deal with infrastructure needs are all documented in our pre-budget submissions. We have a series of these.

But transforming the relationship is a key part of it, and introducing stability will also enable us to work in partnership and not simply to be at the table asking for more all the time. I think it is important to do that.

I would like to thank you for the question and to say that education and those key elements will be key investments that will in turn also help Canada. I say this because we do have the fastest growing population and do have a lot to offer in terms of the future labour force, and we are also situated next to most of the resource development opportunities envisioned for Canada over the next 10-15 years.

The Chair: I do want to give some time to Mr. Jules and Ms. Simon.

Mr. Jules.

Mr. Clarence T. Jules: Thank you very much for the question.

When we think about our role in the development of this country and its proud history and the future, I don't want to repeat what's happened in the past. When I look forward to the 21st century, I don't want to build our first nations on 19th century models. So that has to be one of the first things.

I do agree with Mr. Jock that we need to be part of the fiscal makeup of this country. A number of years ago, we undertook a study to look at first nations as an eleventh province. It took into account own source revenues, transfer payments both from federal and provincial resources extractions, etc.

So there has to be a new way of looking at how we fit into the economy. There have to be institutions built that facilitate our being part of the global economy.

The Chair: I'm sorry to cut you off.

Ms. Simon, can you be very brief as well?

Ms. Mary Simon: Thank you very much for your question.

It's very hard to put a figure on a life. I did put out some figures on education, housing, and mental health. When you look at the suicide rate among the Inuit, you will see that it is seven times greater than the Canadian rate. So for every suicide in Canada, there are seven in Inuit communities. So if you think of those equations, it's very obvious that we need the infrastructure and the services for mental health. There's a reason for these suicides. We are in a crisis situation.

I have asked the Minister of Health to intervene on this crisis. If it were happening in the rest of Canada, there would be an intervention. But we haven't had an intervention. We also want a first ministers meeting on aboriginal education. Everybody says it's an important issue. Let's have a ministers meeting.

Thank you.

● (1305)

The Chair: Thank you.

We'll go to Mr. Jean, please.

Mr. Brian Jean: Thank you, Mr. Chair.

[*Member speaks in Chipewyan*]

I'm specifically from northern Alberta, as I said, Fort McMurray. I grew up there, so you can imagine 23% of my riding is aboriginal, Cree and Dene. Most of my family is Dene, from four different bands, including the Janvier Indian Band and the Paul Cree Band, which of course was one of the signatories of Treaty 8. He's actually the great-grandfather of my best friend and my nephew.

I'm not from downtown Montreal or downtown Vancouver. I'm from where the reserves are, many of them in northern Alberta. I'm very proud of that. I'm also proud of a couple of other things, including the first budget we ever had as a Conservative government here. We had $400 million for on-reserve housing, and $400 million for off-reserve housing. We've cleaned up a lot of the water issues that were from the 1990s. We're very proud of that. I would say that overall, there's a lot more work to be done.

But I have to tell you Mr. Jules, I love what you're preaching. I'm not so sure about the Torrens land system. It's going to be interesting to see something from south Australia come over to Canada and go into the reserves, but I think it's fantastic.

My question the other day—which Mr. Mai alluded to—was in relation to what's going on in Fort McMurray. We have a shortage of workers. I will tell you this: the competitive advantage of aboriginals in this country is their ability to learn very quickly and to have jobs that pay a lot of money, especially in northern Alberta, including heavy duty mechanics, pipe fitters, and power engineers. I can go on and on. There are welders, too. They make good money. Syncrude has a 15% hiring policy. They have about 1,000 aboriginals working for them that are status Indians. With Suncor, it's the same.

Why are you not here today pushing for substantial training in these areas? This is the future of Canada and this would guarantee employment for aboriginal Canadians and take them out of poverty.

Ms. Simon, I do want to say this too, and I don't want to make a speech, although it might appear that I am, in regard to Bill C-10. I was very concerned about it, until I read some of its specifics. Bill C-10 specifically allows treatment. If people go to treatment for drug or alcohol problems, the minimum mandatory sentences can be avoided. That was one of my concerns specifically in relation to aboriginals who make up the majority of prison populations. So if I were you, I would take another look at it. I'd be happy to meet with you and go over the specifics.

But my question is, why can't we push the federal government for more money for training? Portage College has a great trailer system that goes from reserve to reserve, and I think it's just the future. I really do.

The Chair: I have three people again.

I would ask you to please be very brief. I do want to get in a round here as the chair.

Mr. Jock, please.

Mr. Richard Jock: We're saying that education from kindergarten to grade 12 is the foundation for that. We think that's important, and then, as we said in our pre-budget submission, skills training and development certainly are key parts to this, as is post-secondary education. Without the base, though, you really are limited in terms of achieving success in the latter.

We are very much in favour of the kind of development you've talked about. That is our interest here.

The Chair: Mr. Jules.

Mr. Clarence T. Jules: I did have it included as part of my presentation, but given the lack of time....

I created the Tulo Centre of Indigenous Economics, and part of our focus is to try to transfer the necessary private entrepreneurial knowledge to individuals, including all the skills needed in Fort McMurray and, indeed, in any place where you need resource extraction. The area around Kamloops is rich in mining, and we're trying to set up a centre for mining excellence with the first nations in that area.

So the education and training part is critically important, but not to create more people whom we can't actually use in building an economy. We need engineers as well.

The Chair: Ms. Simon.

Ms. Mary Simon: Thank you for your comments. I'd be glad to meet with you on this.

I have to agree with Mr. Jock that training itself can't answer all of the educational needs of our people. They are not completing kindergarten to grade 12, and that's why I emphasized to a great degree the need to get our kids through high school. Then they'll be more able to go through the training you're talking about. The regulations and all of that stuff require a certain level of education.

● (1310)

The Chair: Thank you, Mr. Jean.

I'll just take the final round as the chair. I do sincerely appreciate your all staying for the extra time.

Mr. Whyte, I just wanted to follow up on one of your comments. It's true that your industry goes from ma and pa right up to large corporations. You see the whole gamut in your industry.

If you look at the two federal corporate tax rates, the 11% for the smaller business and then the 16.5% for larger ones, and then you add provincial tax rates on top of those, there are a lot of medium-size enterprises that are in fact paying the higher rate, because that higher rate kicks in at $500,000 of net business income.

Can you talk about that? I know you were responding to Mr. Marston on that, but I think you had more to say on the impact if we start raising those rates, or if we don't enact the reductions that are in fact planned for. Most of the businesses that have talked to me say, “James, we've already actually booked that into our business plan going forward, so if in fact you don't enact that, it will in fact be an increase, not a decrease.”

Do you just want to respond to that?

Mr. Garth Whyte: Well, you're right. I was listening to Governor Carney, and part of what he brings to the table is certainty. My point is that when we were down in Washington, a lot of people were looking to invest up in Canada because of the certainty here, knowing that they weren't going to be blindsided by different types of taxes. That was a big deal.

Likewise, between small-, medium-, and large-size enterprises, there are these notches where you say, “Well, I don't know if I want to go to the next level, because I'll get up to this other level of tax.”

So there are a bunch of things here—the issue of certainty, the issue of the overall.... They're within such tight margins that just increasing the rates will change the plans they've been making for a year or two, and they'll just say, “Okay, we'll stop it.” They're teetering. Some of our members are charging ahead, and for others there's uncertainty. You can almost pick it by province.

The Chair: Okay. I appreciate that.

Just in my remaining time, I know I did cut off a couple of the witnesses, so I wanted to return to them.

Mr. Jock, and Mr. Jules especially, perhaps I can get you to flesh out your comments.

In particular, Mr. Jock, I'd like to get the AFN's reaction to Mr. Jules's proposal. My understanding is that the AFN is calling for a transformation of the relationship. Chief Atleo has been very progressive, I think, on the education file, but also in terms of saying that we need to get beyond the Indian Act and need to look at a new relationship.

Do you see Mr. Jules's proposal as being at least part of the solution towards transforming that relationship?

Mr. Richard Jock: Certainly, the intents and interests behind that are common. As I say, I think there need to be a few different paths forward for it, but certainly there is no argument about the basic interest. That's part of it.

The other part is the transformation of the relationship has very practical terms as well. If you look at the approach right now, it's really one of trying to track accountability and to get reports. It's been estimated that there are up to 2,000 public servants that are really just monitoring all of these contribution agreements. It seems to me that those 2,000 person years could be much better focused on things that will really pay off for the communities that need the services.

I think there are a lot of elements to transforming this relationship. The fiscal part of that is an important part of it.

Also, if long-term arrangements are possible, that would also make it possible for banks and other groups to be part of those investments. Land certainty is part of it. But also, the economic certainty of 15- to 20-year agreements or an understanding of what the level of these agreements will be will actually make it possible for the marketplace to participate in the first nations economy. There are lots of elements to that. I think it's an exciting part of the dialogue going forward that the national chief really wants to stimulate and to put into motion.

The Chair: Thank you.

I'll give my remaining 30 seconds or so to Mr. Jules to respond.

Mr. Clarence T. Jules: The challenge facing your committee is how do first nations, individuals, governments and, for that matter, all aboriginal people fit within the federation and the global economy? We've all got huge resources at stake. Indeed, the future of the country depends on our active participation in federalism as well as the economy.

● (1315)

The Chair: I appreciate that.

For Ms. Simon, I just wanted to highlight that I agree with your comment about high school education. I don't know if you're working with Eric Newell, the former chancellor of U of A and head of Syncrude, who is from Brian Jean's area. He's working very actively, at least in Alberta, and wants to expand high school education for aboriginals across the country. I'd encourage you to connect with him on that point as well.

I want to thank all of you being with us here today, especially for staying over time. We did have some technical difficulty at the beginning, which caused the first meeting to run late.

Thank you all for your input, presentations, and responses to our questions.

Thank you, colleagues.

The meeting is adjourned.

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