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Chair

Mr. James Rajotte

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● (1530)

[*English*]

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

This is the 25th meeting of the Standing Committee on Finance, pursuant to Standing Order 108(2), the study of economic and fiscal outlook.

We're very pleased to have the Parliamentary Budget Officer with us here today, Mr. Kevin Page, and officials from his office.

Mr. Page, welcome back for your at least biannual report to this committee. We look forward to your comments, and I know members are anxious to ask you questions.

If you would introduce your officials to the committee and then make your opening statement, we'd appreciate that very much.

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

By way of introduction, with me is Chris Matier, our senior economist, who provides us with our economic and fiscal analysis; Dr. Mostafa Askari, our assistant Parliamentary Budget Officer for economic and fiscal analysis; and Sahir Khan, our assistant Parliamentary Budget Officer for revenue and expenditure analysis.

Thank you.

Good afternoon, Mr. Chair, vice-chairs, and members of the committee.

[*Translation*]

Thank you for inviting me and my colleagues to speak to you about Canada's economic and fiscal outlook in the context of your consultation leading up to the 2012 budget.

Yesterday, as you know, PBO released a report examining the short- and medium-term outlook. On September 29, 2011, PBO released its 2011 Fiscal Sustainability Report, which examines Canada's fiscal structure from a longer-term perspective. The Parliament of Canada Act instructs the Parliamentary Budget Officer to provide independent analysis to the Senate and the House of Commons about the state of the nation's finances and trends in the national economy.

The PBO's objective is to provide you with analysis of the planning environment to support your debate about policy priorities and directions, and as members of the House of Commons, your power of the purse role in holding the government to account with respect to the prudent management of public finances.

In an effort to provide you with a rich planning environment, PBO provides you with an independent view on the economic and fiscal outlook in a fully transparent manner. In addition we provide you with analysis to support your work.

We provide you with analysis of how the economy is projected to perform relative to potential output—the size of the so-called output gap.

We provide you with analysis on the nature of our fiscal balances—what proportion of our federal deficit is cyclical and will go away when our economy returns to its potential level, and what proportion is structural.

We provide analysis on uncertainty—what does the history of private sector economic projections relative to outcomes mean for confidence intervals around projections for nominal GDP and budgetary balances.

Finally, we do not lose sight of the long term. We provide you with estimates of the fiscal gap to inform you on the sustainability of current fiscal structures and the size of actions required to stabilize debt relative to the size of the economy in light of aging demographics and other underlying long-term cost pressures.

In the budget plan tabled in June 2011, the government committed to balancing the budget by 2014-2015 through reductions in expenses that will be determined and implemented in Budget 2012. This budget must also set up the framework for negotiations with the provinces and territories to be held in 2014 on federal transfers, which represent 30% of federal program spending.

● (1535)

[*English*]

I wish to highlight three challenges in the context of your deliberations on priorities and policy directions leading up to the 2012 budget.

One, relative to the 2011 budget planning framework, the outlook is weaker. Two, the fiscal outlook over the medium term is highly uncertain. Three, the challenges of long-term fiscal sustainability stemming from aging demographics and other cost pressures are real and need to be recognized and addressed.

The outlook for the Canadian economy has weakened in the eyes of virtually all forecasters, reflecting a less optimistic external environment. The negative impacts of de-leveraging, fiscal austerity, and declining confidence underscored by financial market turbulence are largely behind the softening of growth projections.

PBO projects Canadian real GDP to grow by 2.2% and 1.5% in 2011 and 2012 respectively. The weakness in near-term growth pushes the economy further below its productive capacity—a widening of the output gap—resulting in an increase in the unemployment rate. As a result, PBO expects the Bank of Canada to maintain the overnight rate target at 1% through the third quarter of 2013 before gradually raising rates over the remainder of the projection period.

Underlying the outlook is the assumption that the European sovereign debt crisis will be contained and the U.S. fiscal restructuring will take place in an orderly fashion. PBO is projecting a weaker short-term outlook than the average private sector outlook. PBO judges that the balance of risks to the private sector outlook for nominal GDP is tilted to the downside, reflecting a more sluggish near-term U.S. recovery, with real GDP growth of 1.6% versus 2% in 2012 for the average private sector forecast; a larger impact from the recent decline in commodity prices—we have GDP inflation in our forecast of 1.1% versus 2% in 2012 in the average private sector forecast; and the high level of Canadian household indebtedness that will likely restrain growth by a larger amount in the near term than appears to be factored into the average private sector forecast.

The PBO outlook for the budgetary balance on a status quo basis has the deficit declining from $37.3 billion in 2011-12, which is roughly 2.2% of GDP, to $30.5 billion in 2012-13, or 1.7% of GDP, and eventually to $7.3 billion in 2016-17, or 0.3% of GDP. These magnitudes remain significantly better than the projected outlooks of other G-7 countries and are consistent with targets set out by the G-20 in Toronto in 2010 for deficit reduction. The progress reflects reduction in both cyclical and structural balances over the medium term. The significant reduction in the structural deficit partly reflects the planned restraint in direct program spending.

Over the 2011-12 to 2016-17 period, PBO is assuming that direct program expenditure will grow modestly at 1.6% annually on average, which is significantly slower than observed over the five years preceding the downturn of 6.1%. Over the long term, PBO is projecting the structural deficit to rise on a status quo basis due to the impact of aging demographics and other underlying cost pressures.

PBO's 2011 fiscal sustainability report concluded that Canada does not have a fiscal structure at the federal and/or provincial-territorial government levels that will stabilize the debt-to-GDP ratio over the long term. We are undergoing a major demographic transition that will slow economic and government revenue growth and put upward pressure on spending. PBO estimates that restoring sustainability would require permanent policy actions to improve the operating balance amounting to 2.7% of GDP. That is 1.5% at the provincial-territorial level and 1.2% at the federal level.

While the amount of policy action is significantly less than the restraint measures implemented in the 1990s, it will need to be sustained over the longer term. These actions do not need to be taken immediately while the economy is operating below its full capacity; however, long delays in taking action would increase the amount of corrective measures significantly.

The challenges of the planning environment raise important considerations for parliamentarians regarding Canada's fiscal policy directions, targets, credibility, and sustainability.

● (1540)

Parliamentarians may wish to debate the policy merits of a staying the course fiscal policy reflecting the weaker outlook. Projected output losses in Canada relative to potential associated with the ongoing world financial crisis are more severe relative to the economic downturns in the mid-1990s and early 1980s. The output gap is now projected to close in 2017.

Given economic uncertainty based on accuracy of the average private sector forecast over the past 16 years, PBO analysis on balanced budget outcomes indicates the probability of fiscal balance under status quo policies is approximately 10% in 2014-15 and 25% in 2015-16.

In the context of a relatively large and persistent output gap over the medium term, uncertainty about the fiscal outlook over the medium term, and emerging fiscal pressures over the longer term, parliamentarians may wish to debate the pros and cons of further stimulus or restraint measures as well as the achievability, relative merits, and priority trade-offs associated with a fiscal target of budgetary balance in 2014-15.

While many other countries are experiencing market pressure to strengthen their medium-term fiscal plans, parliamentarians may wish to use Canada's better fiscal standing to reinforce the credibility of its medium- and longer-term fiscal plan.

A former Deputy Minister of Finance, Scott Clark, has recently written a paper highlighting four criteria for credible fiscal policy. Credible fiscal policy, he says, must be realistic, responsible, prudent, and transparent. According to Mr. Clark, credible fiscal policy should be based on a balanced view of challenges, prospects, and risks, and not be based on a rosy or unrealistic view. For example, a recent international paper by economist Jeffrey Frankel, published by the National Bureau of Economic Research, has highlighted the tendency across countries to use overly optimistic forecasts. This has facilitated complacency and contributed to tax cuts and increases in government spending.

From this perspective, the projections underlying Budget 2011 are no longer realistic. Parliamentarians may wish to consider whether the recently updated average private sector forecast represents a realistic view or they may recommend that the Department of Finance provide an independent economic outlook.

Responsible fiscal policy means the government will establish a medium- and long-term fiscal plan that is sustainable, whereby debt will not grow faster than the economy. Parliamentarians may wish to request that the government provide longer-term fiscal sustainability analysis, as promised in 2007.

Prudent fiscal policy means the government may wish to provision against forecast error and missed fiscal targets due to unforeseen events. Given high levels of uncertainty, parliamentarians may wish to debate the merits of contingency reserves and prudence allowances around the establishment of medium- and long-term fiscal targets.

Finally, transparent fiscal policy means full disclosure of analysis, information, and risks. Parliamentarians may wish to ensure full disclosure of the measures covered by the strategic and operating review to be implemented in Budget 2012, as well as in the annual reports on plans and priorities, with the same level of detail afforded in the 2009 fiscal stimulus plan.

Similarly, parliamentarians may wish to request that the government provide full disclosure of departmental plans associated with Budget 2010 operational restraint measures and the adjustments to the fiscal planning framework associated with the government's crime agenda.

● (1545)

[*Translation*]

Thank you for the opportunity to speak to you today.

[*English*]

We look forward to your questions.

[*Translation*]

The Chair: Thank you for your presentation.

We will start with Mr. Julian.

You have five minutes.

[*English*]

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

Thank you, Mr. Page and your associates, for coming here today. You play a vital role in giving parliamentarians the straight goods on what's happening with the nation's economic outlook and finances. We appreciate your accurate and very timely projections.They are as disturbing, though, as the projections yesterday that we heard from the Governor of the Bank of Canada—that we are going into a slowdown.

I want to quote from your report yesterday:

> The weakness in near-term growth pushes the economy further below its productive capacity resulting in an increase in the unemployment rate.

I see that you see a sharp spike in unemployment in 2012. I'd like to start by asking you how that translates into the number of families who will lose a breadwinner because of unemployment over the course of the next period, and whether you see measures the government could be taking, investments the government could be making, to ensure this slowdown is as least harsh as possible on Canadian families.

Mr. Kevin Page: Thank you, sir.

I think it's fair to say, whether it's our forecast or the average private sector forecast or the International Monetary Fund or the OECD, which recently released some numbers, that most forecasters are saying sluggish growth in the short term.

By sluggish growth in our forecast for real GDP, we're talking about 2.2% this year and something as low as 1.5% next year. If we get that type of forecast largely driven from an external outlook, that will, as you said, push us significantly below our potential. That weakness in output will translate into higher unemployment. In terms of moving annual averages from about 7.4% to 8%, we're talking a little over 100,000 additional unemployed people on average through the year to 2012.

Mr. Peter Julian: So another 100,000 Canadian families will lose a breadwinner. That's an important fact to mention.

I'd like to move on to the issue of forecasting. You estimate that the likelihood of realizing budgetary balance or better is approximately 10% in 2014-15. That's a significant change from what the government has been projecting.

Earlier in your paper you mention policy action that may affect budgetary revenues. You then express concern that the general corporate income tax rate will fall to 15% on January 1, 2012. Have you done projections that indicate what might happen if that additional corporate tax cut takes place? If it's stopped, would there be an increased likelihood of a budgetary balance occurring sooner, particularly if that money is diverted to investments that lead to the creation of jobs and prevent another 100,000 Canadian families from losing a breadwinner over the next few months?

Mr. Kevin Page: Sir, we have not done a specific scenario analysis that looks at the potential fiscal or economic impact of the corporate income tax change legislated for 2012. But roughly, a percentage point in fiscal terms for Canada at the federal level would be a 1% reduction, which would be about $1.5 billion in fiscal losses. So that would accumulate over a number of years. As to whether that would improve our chances of getting to a budgetary balance in 2014-15, we'd have to recalculate those estimates.

Mr. Peter Julian: The current account deficit for the balance of payments is estimated by the IMF for 2012 as being one of the worst among industrialized countries—worse than Spain and France and Italy. I didn't see reference to that here. Is that something you're concerned about as well, that Canada's stalled exports or failed export policy by this government is contributing to that deficit? Is that something that you follow and analyze?

● (1550)

Mr. Kevin Page: We haven't provided you analyses on the trade balance. But the analysis we've provided to you today will imply that we will get weaker export growth. In this weaker external environment, I think this is implicit in all the downward revisions of forecasts. So we'll have less contribution growth over the short term from net exports. I think that's pretty much true. It's certainly true for Canada and it's going to be true for other countries as well. I think it's just the impact of the global slowdown.

The Chair: Thank you, Mr. Julian.

We'll go to Ms. McLeod.

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

As a fairly new member to the finance committee, I have to look at the challenging situations that economists are finding right now. Revising forecasts is a fairly common experience, especially during these unprecedented times.

I notice that you say we may want to consider whether the recently updated private sector forecasts represent a realistic economic outlook. Knowing that we base our forecasts on 17 private sector economists, I would ask what you actually mean there. I note you're at 1.5% and the Bank of Canada is at 1.9%. Are you saying their forecasting is not solid?

Mr. Kevin Page: No.

You're absolutely right that there's significant uncertainty both economically and fiscally, and this has to be taken into account when you consider various policy options.

In respect of the forecast, it's true that we are below the average private sector forecast, which puts the average growth for next year at 2.2%. The bank is showing 1.9% real. The IMF is around that number. The OECD is 1% and we're 1.5%.

When we look at the average private sector forecasts, it's considerably higher than what we're carrying. We're thinking growth in the United States will be about 1.5%. It's our judgment call, in the context of providing realistic projections to you.

We forecast this in the context of significant declines in net worth in the U.S., significant problems in the housing sector, significant indebtedness, as well as the need to address fiscal balances. That's going to constrain growth in the U.S., and if it constrains growth in the U.S., it will have an impact in Canada.

Mrs. Cathy McLeod: Thank you.

My only thought is that we have a number of different people already providing forecasts, and I'm not sure another forecast would provide additional value.

My next area of focus is really getting back to balanced budgets. Certainly, people talk about things being very different from 2008 and the situation in Europe being very much a sovereign debt crisis. I think I'd like to clarify one piece in your report. On one hand you note that the likelihood of returning to budget balance is low for the next few years, but then you say, "...fiscal actions required to achieve sustainability do not need to be taken immediately" and can be "delayed until the economy has fully recovered".

Am I right in saying that the low probability of returning to balance in the next few years, which you predict, may in fact be appropriate?

Mr. Kevin Page: From my point of view, it's important to think of both the medium term and the longer term. In the medium term, I think we are heartened that if we get the kind of growth that's projected, even in the average private sector forecast of PBO, we have a declining deficit pattern in this country. So we talk about a deficit going from $37 billion this year to something like $7 billion five years out. That is a healthy projection. It's also consistent with the closing of an output gap over that period of time.

I think when we talk about delay of actions...what we provided to you at the end of September was a detailed analysis on something called fiscal sustainability. We basically look for what the impact of aging demographics is on our fiscal structure. Do we have a sustainable structure? There we're saying we will have to take measures, as we look at the long term, to deal with aging demographics in order to reduce the gap that we think is inherent in this structure right now.

So it's only in the context of dealing with the longer-term challenges. We're saying do not take these larger measures right now when the economy is weak. You can delay those actions until the economy gets back up to its potential.

● (1555)

The Chair: A brief question.

Mrs. Cathy McLeod: I think I would now like to focus on the plan to get back to the balance. Certainly, on the issues of deficit, you talk a lot about the numbers and timelines, but I'd like you to talk about real-world consequences for Canadians if our government does not go through with their deficit reduction action plan and get Canada back to balance.

I could give a number of quotes, but because of the time constraints I'd really like you to speak to Canadians and tell them what it would mean to our day-to-day lives if the government doesn't get moving on plans to get back to balance.

Mr. Kevin Page: I think we do have a fiscal consolidation plan in this country that gets us toward balance in the medium term. Again, with all this uncertainty, we don't know, plus or minus $5 billion, $10 billion, $15 billion, whether or not we'll actually achieve that. Again, we're talking about an economy of roughly $2.1 trillion in 2016-17, so we have a healthy plan. I think we're in good shape. As highlighted by Minister Flaherty, with the stimulus now being off and with modest spending constraints as we move out to the medium term, if we get the growth that's built in these projections we'll be very close to balance. In fact, we will have fiscal balance.

Then the bigger question becomes, are we setting ourselves up for the longer term? Then you're dealing with the issue of aging demographics and other cost pressures on Canada's economic growth, revenue growth, and spending growth, and that's an important issue.

The Chair: Thank you, Ms. McLeod.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Chair, and thank you very much, Mr. Page, and to your colleagues for appearing before us today.

Your projections are, I think you said, assuming that the sovereign debt crisis in Europe and the U.S. will be contained. There are a lot of moving parts in that equation, and even this week we've seen the situation in Greece in terms of the decision to have a referendum. Would you agree that if the wheels come off this and the sovereign debt crisis is not contained, that will have a material impact on Canada's capacity to meet your projections?

Mr. Kevin Page: If the sovereign debt crisis unwinds unfavourably and we get risk of financial contagion, I think most people would see...we assume we would see, basically, a significant recession in Europe, likely to be followed probably by a recession in the United States. If that large amount of the world economy goes into recession, as we experienced in 2008-09, it would mean a recession in Canada as well. I see that would pretty much eliminate chances—simply because of the pressure it would put on government and revenues, and actually upward pressure on spending as well—of getting back to balance in the medium term. But it would be a cyclical issue.

Hon. Scott Brison: Minister Flaherty sometimes discusses the $10 billion adjustment for risk built into Budget 2011. In your report, you downgraded your projections for the Canadian economy quite significantly, as has the Bank of Canada and the IMF. What is left of Minister Flaherty's $10 billion risk adjustment from the June budget?

Mr. Kevin Page: In our numbers, sir, and if you look at nominal GDP, which has affected the way we look at the tax base, over the medium term we've basically downgraded nominal GDP again, which is about $1.7 trillion in the Canadian economy today, by roughly about $50 billion. Again, in that context, the prudence provision that was put in the 2011 budget, roughly of $10 billion... we now are talking about a downgrade, in our forecast anyway, as a result of real GDP and lower GDP inflation certainly next year of $50 billion. It is a significant movement down.

Hon. Scott Brison: Should we include in budgeting practice the type of rainy day fund reserve that Liberal governments previously incorporated into budgeting as a practice?

Mr. Kevin Page: We think it's a good thing that the government has established a fiscal target, and of course when one establishes these targets—a budgetary balance in 2014-15, and we know it's impossible for economists to nail down precisely what the economy is going to look like in 2014 and in the time between then and now, particularly in a world of great uncertainty. I think you can make a strong case that if you're going to establish a target, you build prudence around it.

But again, it's a policy choice the government has to make. It is setting aside contingency reserves, or economic prudence. It may mean less public spending to deal with other issues. For us, it's a political choice.

Hon. Scott Brison: The government's crime bills not only will have significant costs for the federal government but also will impose significant costs on provincial governments, and we've heard the Government of Ontario and the Government of Quebec opine on these costs this week.

Have members of Parliament, your office, and the provinces been provided with the full and detailed costing of these crime bills?

● (1600)

Mr. Kevin Page: Sir, as you know, we have done some work on crime legislation. We focused specifically on the Truth in Sentencing Act earlier. Now I'm looking at the costs of the omnibus crime bill, and it's clear that, depending on the bill, there are costs both at the federal level and at the provincial level.

When we did our work on the Truth in Sentencing Act, we weren't aware, and we were discussing with provinces that they had done detailed analysis of what the cost would be. We were surprised, which didn't allow us to actually do our work. We couldn't establish a baseline because they had not actually established a baseline for themselves going forward.

We're not aware actually that there has been a lot of work done. We haven't seen it from the federal government, to answer your question explicitly. We're not aware that the provinces have actually provided these sorts of estimates as well on what the impacts will be.

The Chair: Please make it a brief question and answer.

Hon. Scott Brison: What impact will the projected EI premium increase of 5.6% in 2012, a $1.2 billion increase, have on jobs in Canada? What level of drag will that have on job creation?

The Chair: Give a brief response, please, Mr. Page.

Mr. Kevin Page: I don't have a job impact for you, but I could tell you that we are assuming an increase on our revenue side, starting next year, of 10¢ per year right up to 2017, so effectively a 50¢ increase. We could tell you that in our revenue projections it's bumping up revenues in 2016-17 by roughly $7 billion, so that's a big part of the revenue increase we're building into our forecast going forward. So that's implicit in our deficit track.

The Chair: Thank you, Mr. Brison.

We'll go to Mr. Hoback, please.

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

Thank you all for being here this afternoon. Mr. Page, its good to see you here with your staff.

I must say, I'm really looking forward to working with your staff as you come to a way to develop the private members' bill costing. In talking with your staff, I think we have some ideas on how to move forward on that. It will be a positive for all members of Parliament, and I look forward to your cooperation on that.

My questioning this morning is on the stimulus package, and the idea that the opposition parties keep throwing on the floor that we need another stimulus package. I have a hard time with that. When I was back in my riding at the last break, talking to my mayors and towns and communities, I heard that they all have infrastructure needs over time, but when I talk to them, I find they don't have the ability to actually find the labour and the people to do these infrastructure projects.

Of course, I come from Saskatchewan, where we're looking for plumbers and electricians, and anybody with a trade who can hold a shovel can have a job, basically—and a good job. So I find it bewildering when we start talking about economic slowdowns. But when I go back home everybody is talking about building—another potash mine here, another potash mine there, more oil being developed, more gas being developed, uranium and mining being developed. I have to take everything I hear with a grain of salt, both here in Ottawa and back in Saskatchewan.

TD economists put out a report last week saying additional fiscal stimulus at this time in the Canadian context is not appropriate. I will quote them:

> With enduring costs associated with stimulus and only temporary benefits, the bar dictating the need for additional support should be set fairly high.

Do you agree with that comment, “should be set fairly high”? By setting it high, what would be the measurement? How would we measure the time or the appropriate place to say that we need to transition from the track we're on now to a track where we need to borrow a pile of money and go into further deficits and start a stimulus package?

Mr. Kevin Page: It's a very interesting policy question, and there are all kinds of trade-offs that I think go way beyond our mandate but that I think are important issues for members of Parliament.

I think I can start by saying that when this government introduced stimulus in 2009-10, it was in the context of a significant weakening of the economy, again with significant uncertainty going forward, but knowing that the economy was going to operate well below its capacity. So in our terms, when economists talk about an output gap, in 2009 we're talking about an economy operating at close to five percentage points below its potential. Now we're saying, to update this context to 2011, we're operating somewhere in the nature of just below 3%, or two and a half percentage points below our capacity. And we're saying as you go forward, we don't really know.... I don't think it's fair to say there is just massive uncertainty, as expressed on both sides of this table, about what will happen in Europe, about what will happen in the United States, but we know that will have an impact on Canada.

We're saying that in our situation this will widen the output gap further, so we'll see a little bit of a dip in the output gap, something similar to what we saw in the 1990s, before it comes back up and closes.

Again, whatever decision is made by the government and whatever advice you provide...I think first as economists we want to give you a sense of where we think the economy is operating vis-à-vis its potential. This is significant. We're talking about—and I'm sure you heard this from Mr. Carney as well—a context of a world financial crisis, growth operating below its potential for a long period of time.... So in that context, any stimulus package has to be in the context of what it will do in terms of helping closing that output gap.

The government said that with this $47 billion package it could add an additional two percentage points to GDP and an additional 200,000 jobs.

I think for the most part, in our analysis, when we looked at those numbers they seemed reasonable from the point of view of our economic models. I think the IMF as well has been relatively supportive of the government's efforts in that stimulus package.

But going forward it's a judgment call you have to make. What are the risks of literally seeing a recession in Europe and potentially the United States, and what would that mean for Canada vis-à-vis the kind of growth forecast you're getting, mostly from PBO, from the average private sector forecast, the IMF—just sluggish growth. Even with sluggish growth, you have an economy operating below its capacity for a long period of time. Then you get into questions of design. How do I design a package for that kind of experience, and what would be the appropriate tools?

So it's a recession or a period of weakness that's very different from what we saw in the early 1980s, which was a very steep recession. You're talking about something longer. You'd have to design it in that kind of context.

● (1605)

The Chair: Make it very brief.

Mr. Randy Hoback: I think it would be fair to say that what we've seen in 2007-08 and what we reacted to...it is totally different now from what we were reacting to in 2008. Our businesses weren't prepared for this type of dip. Our banks were in a good situation, but a lot of banks in the U.S. weren't prepared for this type of dip. But now, if you look at our businesses, a lot of them have socked away some capital. So it's not fair to compare what happened in 2008 to what we're seeing today. Is that fair to say?

The Chair: A very quick answer.

Mr. Kevin Page: There's still significant uncertainty. We've had a stimulus package. We're now talking about a debt-to-GDP ratio in Canada of 35% vis-à-vis where we are hoping to be at 25%, and other countries have experienced the same thing as a result of this recession. So it is different. The context is different.

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

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

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

First of all, thank you very much for being here. I can't say enough how great the work is that the Library of Parliament has done. You've helped us a lot. Being a new member, there are a lot of things I can learn thanks to you. You've been doing great work regarding the F-35 and Bill C-10 and everything.

Just from my understanding, and for budget purposes, you know there was a motion brought forward by members opposite, and it was adopted here, to have the PBO automatically always provide the committee with detailed and comprehensive costing analysis of a private member's business item. Our concern was...we know you're busy, but maybe you can tell us how that will affect you in terms of the PBO, and if that will be possible or not. If it is possible, how will that affect other work you're doing?

Mr. Kevin Page: Thank you.

First of all, it is part of our mandate to provide costing for private members in the context of private members' bills. We've found, just in the various work that we've done in the past—it's up on our website—that we've actually learned a lot, and we've really appreciated the kind of engagement we have had with members of Parliament. So we look forward to that kind of work.

It certainly will put capacity pressures on us. It's fair to say that not just PBO but other departments are looking at restraint. We're trying to restrain our spending. We're having discussions within the Library of Parliament on how to restrain our expenditures to potentially shrink our budget, how we would deal with it. So it's one of those issues where, literally, if we were to absorb a 5% cut, we would almost like to come back to you to say, here's our mandate; we need some advice as to where you'd like us to focus.

So we would probably need some type of interaction. But again, we look forward to doing the work. It's certainly a consistent part of our mandate, and we've learned a lot by doing the work.

Mr. Hoang Mai: Thank you very much.

Regarding your report, we're concerned with household debt. You also mentioned that might have a negative effect on the growth of the economy. Can you expand more on that?

Mr. Kevin Page: We've noticed, really over the past ten years, a significant increase in the amount of household debt, both credit and mortgage, that's being carried relative to personal disposable income. We're now at levels of debt relative to personal disposal income that we've never seen before. When you're an economist and you see these things that don't look sustainable, they're probably not sustainable, so something has to happen to correct them.

As economists, we feel this will mean that the rate of growth of real consumer spending over the next few years will be slower, so we've adjusted our forecast downwards to deal with that. That will potentially account for one of the big differences between our forecast and even the average private sector forecast. We think you have to recognize that consumer spending has to be slower. You have to have balance sheet repair at the consumer level.

Perhaps Chris....

● (1610)

The Chair: You still have two minutes.

Mr. Hoang Mai: What will the impact be on individuals if we continue the way we're going and they continue getting more debt?

Mr. Kevin Page: Again, we tend to look at the relationship as really an equation. You have the buildup of debt, but you have growth in incomes, and the growth in incomes is tied to the growth in the economy. Obviously, as everyone does, we want the economy to grow. Good, healthy balances overall can contribute to some of that growth.

What it will mean for individuals—and again, we actually tend to look at it more from a macro perspective than from an individual perspective—is a slower growth in consumer spending going forward, so that we can bring back the savings rates to more sustainable levels, bring back the amount of debt relative to income over time. We've sort of built it into the forecast, but that does contribute to sluggish growth over the next few years.

[*Translation*]

The Chair: Thank you, Mr. Mai.

[*English*]

Mr. Adler, go ahead, please.

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

I too want to welcome Mr. Page and his colleagues here this afternoon.

I have a few questions. I want to preface my question. There's no doubt that Canada is an emblem of stability around the world. Our economy has demonstrated great resilience and flexibility. We've been recognized by a number of international economic organizations around the world as having the leading economy among G-8 countries. You yourself just said a little while ago that we are in good shape and we have a good plan.

In your report you strongly suggest—and both the IMF and the Bank of Canada have said the same thing—that the two biggest threats to the Canadian economy are from outside our border, namely Europe and the United States. Could you comment on that? And I'll follow up after.

Mr. Kevin Page: As has been discussed really across this table, we think the significant risks to the economic outlook are external in nature, and that's one of the reasons we've seen softening growth projections across the private sector, and certainly by the bank and by us. But we're budget officers, so when we're trying to provide advice to you on fiscal policy, we want to make sure we're having as much focus as we possibly can and make sure we have credible fiscal policy in Canada. It also means looking at the medium and the longer term.

Mr. Mark Adler: Yesterday Craig Alexander, from TD Bank, released a paper entitled “No to Stimulus, Yes to Deficit Reduction in Canada”. Is that something you would agree with?

Mr. Kevin Page: Again, it's really what we provide for you as a planning environment. We want you to understand where we think the economy is vis-à-vis potential, what the nature of our fiscal balance is, how much is structural, how much is cyclical. So I think it's your policy choice to say, “Here are the trade-offs we're prepared to make in order to get back to balance”. I think we do have a plan that gets us close to balance over the medium term, and that's a good thing.

In terms of saying yes to stimulus or no to stimulus or fiscal consolidation, we have a plan right now whereby we're making that shift from stimulus to consolidation. We're okay with that. In the analysis we have done on fiscal sustainability, what we have said is that we cannot lose sight of the longer term. As you get to the second half of this decade and move into the next decade, we're dealing with significant demographic transition, and there are fiscal issues associated with that.

Mr. Mark Adler: But would you not agree, given those demographic changes that we anticipate happening, that we are well positioned, better than any other country around the world, to take that on?

Mr. Kevin Page: Than any other country in the world? That would be hard to do. Certainly if you look at G-8 on average or G-20 on average, we're in better shape when we compare our levels of gross or net debt with that of other countries. Going into the recession in 2009-10, we were in better shape. It allowed us to have a fiscal stimulus package.

Again, the question for you today is, as you look to the future and you see the range of private sector forecasts, what do you feel is realistic in this context? You're going to get different data points from different people. And it's in that kind of context where you might say that if you're going to operate so long below potential, then should you consider stimulus. But if you consider stimulus, you're absolutely right, it would be deficit finance. And it would have to be done in the context of a longer-term scenario. Because of aging demographics, we have more fiscal pressures to face. There is a trade-off.

● (1615)

Mr. Mark Adler: Based on your methodology, if we were to go into deficit spending right now, what would that mean for our economy? I'm asking you as an economist.

Mr. Kevin Page: Well, let me think. We've had deficits in the last few years. We had a deficit of $56 billion in 2009, and we shrunk 2.5%. We had a deficit of $34 billion in 2010-11, and we grew 3.2%. Economies can grow with deficits. What you want to avoid is a buildup of debt that we will pass on to future generations and that will restrain capital spending. We've got to give our future governments room to manoeuvre.

The Chair: Thank you, Mr. Adler.

We'll go to Mr. Marston, please.

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

Mr. Page, I certainly appreciate the work of you and your staff. You offer Canadians a view of government policy in a very distanced way. You stand back and you take a very interesting view of things. And at times I think you find yourself somewhat in conflict with the government of the day, but that's healthy. That puts us in a position of better understanding. And as I said, I thank you for that.

Over the last 10 years, and in particular since this government took office in 2006, there have been significant reductions in the corporate tax rates. We went from, I believe, 20% to.... We're headed for 15%. From my understanding, that's taking about $16 billion out of the fiscal capacity on a yearly basis.

You mentioned structural deficit. Do you see that contributing to the structural deficit?

Mr. Kevin Page: Just to back up, yes, since probably 2000 we've seen a dramatic reduction of roughly a little over 20%, to 15% next year, in the corporate income tax rate. It does raise an issue. Have we seen, based on the reduction of those corporate rates, improvement in investment, improvement in business productivity, labour productivity, and multi-factor business productivity?

On the first part, I think most economists are disappointed and scratching their heads, asking why, after all those corporate income tax reductions, we haven't seen more productivity. We wish we would have more productivity. We know we need that productivity.

Going forward, we have a structural deficit in this country, in terms of the current year, of about 1.5%. As we move over the medium term, this deficit, in our projections, at the structural level is more or less eliminated—over the medium term—because of spending restraint. If we get the spending restraint, we will eliminate for the most part that structural deficit. As we move to the longer term, we see that structural deficit opening up because of aging demographics.

So yes, one could say that all tax cuts, whether corporate or PIT.... At one point we cut a little bit too deeply. Or you could argue on the other side that as a result of additional spending, which was structural in nature, that has contributed to the structural deficit.

Mr. Wayne Marston: That, very clearly, is the gap between us and the governing party.

In terms of the demographic change you're talking about, we've called on the government to respond to the fact that 63% of working Canadians today have no pensions or no savings. There's a wall out there, about 35 years from now, and if we don't start to address it now, as you would say, in the long term in our planning, there's going to be a major crisis for Canada as a whole.

We've proposed an increase to the Canada Pension Plan of 2.5% monthly for both employer and employee. And yes, that amounts to a cost factor for business—there's no doubt. But there will be another cost factor if we don't respond.

I'm curious about your response to the need that's genuinely there and the idea of that particular response. It would double CPP in about 30 years, but it would have to be phased in, obviously.

Mr. Kevin Page: Sir, we have not been asked to do work. We know the government, the Department of Finance, has been a doing significant amount of work on the overall pension issue, but we haven't been asked to cost a proposal. If asked, though, we would be happy to do so, if we could be helpful.

● (1620)

Mr. Wayne Marston: If I could just do the asking, I'd be pleased to. But thank you.

Yesterday, when Finance Minister Flaherty was before us, I expressed a concern to him about this ongoing European crisis. We are all very proud of the situation the Canadian banks have found themselves in, but beyond that, with the exposure of American banks, particularly to the failure of some banks in Greece or in the European zone, can you express the impact that may have directly on either our economy or our banks, or both?

Mr. Kevin Page: I think it's fair to say that when you look at credit growth and various measures, and surveys done by the Bank of Canada on credit growth in general at the business level, we haven't seen the significant tightening that would raise major concerns.

I think what you're alluding to is what if we found ourselves in a scenario, somewhat similar to the fall of 2008, where we had a banking crisis, and what would that mean in terms of tightening? We're perhaps all a little bit shocked at how fast that tightening could actually take place and even impact on Canada. We would have to respond accordingly.

Again, it's one of those difficult choices you make as you look forward. I don't think anybody in these forecasts, whether you're looking at PBO or the average private...is planning a recession right now. But yes, we would get tightening in a hurry if that happened.

We're not planning it. We're assuming, as I said, that we'll have containment in terms of the Europe credit crisis and that the U.S. will restructure in a coordinated way.

The Chair: Okay, thank you.

Thank you very much, Mr. Marston.

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

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

Thank you for appearing, Mr. Page. It's good to meet you. We get to see you on television and all these things, but as a parliamentarian it's great to have this opportunity to be one on one with you.

I want to tell you that I don't envy you. I remember when you were first appointed to this position, and I thought about the enormous responsibility you have and the task that lies before you.

We had a chat with another panel last week, and I mentioned to one of the women who was representing that the word “economics” is a Greek word, and I think it means “household finance”. I liken you to the Dad. We have the money, and the kids have all these demands and wants, and you're the one who has to step back and say, “Whoa, whoa, wait a minute, we can't afford this.” So I commend you for your job, and I encourage you to do what a Dad would do to keep a handle on things.

One of the things I think we've experienced in this committee, and it's not unique—I think there are other committees that can say the same—is that we a have good camaraderie here. We don't always agree. There are a few principles on which we're 180 degrees away from each other, but we have this camaraderie. I see that as sometimes being the solution to our problems, because we have to work together.

One of the messages I'm trying to get out, and our party, and all of us, are trying to get out, is that we're looking for solutions from those who come to government. Too often we hear requests, and there are so many needs, but we need solutions.

I wonder if your group, when you talk about some of the solutions, consider those too. One of the things we need to do is recognize that it's the private sector that is going to generate the wealth. We need the public sector, but the two work hand in hand.

So that we can move forward, is there some movement within your organization to encourage the public sector to also look at some of these real challenges we have, some of the things you mentioned, the demographics and productivity and all of these other things?

Mr. Kevin Page: Yes, we do have conversations when we go out for coffee about what we think would be solutions. And we argue as much as, perhaps even more than, the House finance committee argues about what the direction could be.

But with respect, in terms of our legislative mandate in the act of Parliament—the advice and independent analysis on the economy, the nation's finances—we are very careful not to cross the line and provide a prescription on policy. We're happy to do costings, whether we're looking at programs like the Canada Pension Plan or military procurement, to give you an extra independent data point, which we think is a good thing in this environment.

But, sir, I don't think our mandate allows us—nor do I think we would ever be comfortable—to suggest policy prescriptions. We want to give you the richest planning framework possible.

That's why in the speech today, in addition to these five-year projections, we're giving analysis on the economy relative to trend. Is it cyclical? Is it structural? What is the risk based on our forecast errors over the past 16 years, and what does the longer-term look like? We want you to have this rich planning framework so you can actually debate the solutions the way you debate here.

● (1625)

Mr. Dave Van Kesteren: I have one minute.

Would you agree that in the private sector, if we're going to get out of this thing...we've talked about entrepreneurship, the resource section—the gas, the oil, and the mineral technology—the marketing, the programs we're headed toward.... I think of SR and ED and the granting agencies. These are the catalysts we'll need to stimulate and encourage those sectors. Are you in agreement that we're going in the right direction with that, that these are the areas we need to focus on?

Mr. Kevin Page: Sir, again, I apologize, with great respect, I think it would go beyond my mandate to agree on a policy direction. We think that any plan, whether it's a government policy plan, whether it's fiscal policy or economic policy, that lays out a vision the way you've described and then allows people like me, as a budgetary officer, to say what this means for public finances, to ask if there could potentially be an impact on Canadians' productivity.... That's more where we come in, in terms of our work. But thank you very much.

The Chair: Okay, thank you.

You could always choose to go for a coffee together and share some information.

Mr. Kevin Page: We'd love to go to coffee with you, sir.

The Chair: Yes, you could have a good discussion.

[*Translation*]

We will now go to Mr. Giguère.

You have five minutes.

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

Mr. Page, thank you for appearing before us.

Currently in Canada, we are struggling with a labour market problem. In the manufacturing sector, which generates wealth, over 350,000 jobs have been lost and have not come back. The unemployment rate is increasing and the workforce participation rate is decreasing; many people have given up on finding work and 27% of part-time employees would like to work full-time.

In addition, $500 billion in liquidities are not reinvested in businesses. The reinvestment rate is extremely low. If only 10% of those $500 billion were reinvested, would the situation be fundamentally different in terms of revenue? It would be like the opposite of the Greek syndrome. In fact, Greece is making budget cuts, and the more they do, the more unemployment there is; the more unemployment there is, the greater their deficit is. Here, in Canada, if we invested in job creation, would the opposite not be happening, that is, by creating wealth and jobs, would we not be stimulating consumption and generating revenue for the government?

Mr. Kevin Page: You are right in saying that there have been many problems in our manufacturing sector. Generally speaking, this sector was hard-hit by the recession. The real question is what is the level of recovery in the manufacturing sector. If you look at the figures, you will see that the employment curve has gone down and that production has not managed to bounce back to the pre-recession level.

As Mr. Van Kesteren said, if we were able to stimulate investment, particularly in the manufacturing sector, we could create many jobs and generate economic growth. As you said, this is more of a political question for you rather than for me.

Mr. Alain Giguère: Given the drop in economic activity, job loss and demographic trends, how many jobs should Canada have created in order to be in the same situation it was in before the 2009 recession?

Mr. Kevin Page: I am not sure that I understood your question properly, but I can tell you that just before the recession, in 2008, conditions were not good for Canada in general nor were they good for the manufacturing and market sectors. The economy was really weak that year.

I think that you had another question.

Mr. Alain Giguère: Yes. As far as the entire labour market is concerned, I would like to know how many jobs we need to create to attain the lower unemployment rate and the higher activity rate we had prior to the recession.

● (1630)

Mr. Kevin Page: Are you talking about the gap between now and...

Mr. Alain Giguère: Yes.

Mr. Kevin Page: Are you referring to the differences in the manufacturing sector?

Mr. Alain Giguère: I am talking about the entire labour market.

Mr. Kevin Page: Are you talking about the increase in the unemployment rate in general?

Mr. Alain Giguère: Yes.

Mr. Kevin Page: We are talking about approximately 300,000 jobs.

Mr. Alain Giguère: Thank you very much.

Do I have any time remaining? I have one minute left, I am spoiled.

Both Mr. Flaherty and Mr. Carney made it clear to us that the choice to have the Canadian dollar on a par with the American dollar was a political choice. They openly acknowledged that they were the ones who decided how to intervene on the currency market in order to keep the dollar floating.

On this issue, could you tell us essentially what impact this decision may have had on the job market in the industrial sector? Would we have lost so many jobs if the value of our dollar had remained at approximately 85¢ American? Now many witnesses are telling us that the parity between the Canadian and American dollar was what really hurt the job market in the industrial sector.

The Chair: Please provide a very brief answer.

Mr. Kevin Page: It is difficult to provide a very brief answer. However, it is possible to analyze the relationship between the exchange rate and the job market or production in general in certain sectors. If you wish, we could have a conversation about what type of analysis we could do. Such an economic analysis would be possible.

Mr. Alain Giguère: Could we have such a study done?

Mr. Kevin Page: Yes.

The Chair: Thank you, Mr. Giguère.

[*English*]

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

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

Thanks for your attendance today.

I'm only allowed five minutes, and I have many questions, so I'm going to make them brief. If you could make your answers brief, I'd appreciate it.

First, I'm looking through the “Status Quo Budgetary Balance Outcomes Given Economic Uncertainty” on the PBO website. I used to teach statistics, and I'm looking at the statistical analysis on this. I'm just wondering if you could get back to the committee on whether you used normal statistical procedures, including outliers and the 3% plus or minus to eliminate them. You have about a $62 billion difference in relation to your different confidence levels, and I'm just curious if you used that.

I understand that you can't get back to me on that today. But could you get back to the chair on that? Just normal statistical procedures would be fine, if you could get back to the clerk on what procedures you used in relation to that.

Mr. Kevin Page: Actually, sir, we published a paper on our website on exactly how we did it, and I think we could probably give you a quick response.

Mr. Brian Jean: If you could do that, that would be great.

Mr. Kevin Page: In all of the methodologies, we create fan charts or—

Mr. Brian Jean: I didn't see it, I apologize, but if you could, I would like a quick response on that.

Mr. Kevin Page: Actually, sir, we'd be happy to provide it to you and to actually sit down and explain how we do it.

Mr. Brian Jean: Perfect. I'd love that.

Mr. Kevin Page: We share this information with Finance as well.

Mr. Brian Jean: Good.

I agree with you in relation to your analysis and your comments on demographics. I can't tell you how much I agree with that. It is going to be the number one issue in the next 20 to 30 and probably 100 years.

The other issue I have is with infrastructure investments. You mentioned to Mr. Marston, I think, why you had not seen more productivity based on the investments in infrastructure. I think you really know, sir, with respect, that the Canadian corporations are holding their wealth right now. They're not investing, so they have billions and billions of dollars in their net cash accounts. If we look at this positively instead of negatively, it really gives Canada a dramatically important future once the recession stops, because they're going to be able to buy a lot of things. I see you nodding your head. You agree with me. Our Canadian corporations are well positioned for the future, and I just wanted to make that....

I thought you mentioned to Mr. Adler specifically that you couldn't name a country other than Canada that would be better positioned coming out of this recession. I'm just astonished, because I don't see any country.... I lived in Australia for three years. I lived in the United States for four years, and knowing the countries as I do around the world.... Can you name another country that will come out of this recession with a better future prospect for quality of life based on financial outlook?

Mr. Kevin Page: Well, I think, sir, when one goes back and looks at the experience of 2008-09 and the relative impacts in terms of output gaps and employment losses, and then looks at how we're kind of situated, there's a big difference between countries that actually had a financial crisis versus countries like ours.

Mr. Brian Jean: I agree. But can you name another country that's going to come out of this financial crisis with a better quality of life?

● (1635)

Mr. Kevin Page: I think, sir, you could just look at the IMF analysis of G-8 countries. If you look at Germany right now, if you look at its balances, if you look at its growth on a per-capital basis, if you look at its growth in general—

Mr. Brian Jean: But with respect, they don't look nearly as good as Canada does in relation to our economic output, based on our commodities, our stock market, our financial resources, and our trading partners. I mean, all analysis indicates that Canada is going to come out of this recession better than any other country. Germany is not one of those countries that even came to my mind, to be honest. With respect, can you name another country that you believe is going to come out of this recession better, just very quickly, without the...?

Mr. Kevin Page: Actually, I don't—

Mr. Brian Jean: Just one country. Just one country out of the 187 countries that belong to the UN.

Mr. Kevin Page: Sir, if you'd like, we can do an analysis for you that looks at the experiences of countries that have had financial crisis, that have not had financial crisis, where they are now, how big their output gaps are, where—

Mr. Brian Jean: That's all right. Thank you.

The Chair: Mr. Jean, you should give Mr. Page an opportunity to answer your questions.

Mr. Brian Jean: I mentioned at the beginning, Mr. Chair, that I just wanted short answers, and quite frankly, most of the answers were not answers; they were about the outlook and analysis, which I can see online.

I'm sorry, Mr. Chair. I only have a few minutes and I have several questions to get through.

The Chair: Okay. Well, that's my advice as chair, but it is your time, you're correct.

Go ahead.

Mr. Brian Jean: Finally, I'm interested in the Perimeter Institute and something that was published online. I know you're aware of this. I'm just curious, because the NDP brought to our attention that the public accounts site and your website had different information on them.

I'm just wondering if you could clarify that, whether it was a clerical error or what the situation was, concerning the Perimeter Institute.

Mr. Kevin Page: We've had some discussions with the NDP on this issue, on the Perimeter Institute.

On the numbers that we prepare, we get the numbers from the Receiver General. I think they were coded correctly. They highlight expenditures against authorities for the Perimeter Institute, plus other community action programs.

I think there was some misinterpretation by some of your colleagues as to how that was interpreted. I don't think it's a coding error, per se.

Sahir, you may want to just—

Mr. Sahir Khan (Assistant Parliamentary Budget Officer, Expenditure and Revenue Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): In our view, there's not actually a material financial issue—this is an internal, relatively minor, coding issue between the Treasury Board Secretariat and the Receiver General. Our understanding is that it's actually being resolved as we speak.

Mr. Brian Jean: Can I just have a clarification, Mr. Chair, of what a coding issue is?

Mr. Sahir Khan: It's just a question of the level of aggregation of the financial reporting, a couple of categories between the report the Treasury Board Secretariat provided and the information received by the Receiver General and Public Works. There was an aggregation of a few categories.

By the time that feed was reported to us, those categories were collapsed a little bit, so….

Mr. Brian Jean: It wasn't detailed enough, so—

Mr. Sahir Khan: Correct. There was no actual material issue, financially. We've contacted them and they've resolved it.

The Chair: Thank you.

We'll go to Mrs. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): I'll take the last round.

The Chair: Mr. Hoback, please.

Mr. Randy Hoback: I think it's very important that we get to the bottom of this, because there's a history of the NDP making statements using numbers and figures. In fact, last night in an agriculture committee the member for Churchill talked about Cargill's share value going up, which I find very interesting since Cargill is a privately held company.

I think we need to get to the bottom of this. In the analysis of funding, is the NDP right in saying the Perimeter Institute received $127 million from the Government of Canada since 2007, or is that a wildly inaccurate number?

Mr. Sahir Khan: I think the $10 million that was in the reporting is correct. The $100 million is for the full category.

Mr. Randy Hoback: It's for the full category. It's wildly inaccurate—

Mr. Sahir Khan: It's due to a different level of aggregation of that cost category.

Mr. Randy Hoback: When you receive the public accounts, do you trust that the numbers are accurate?

Mr. Sahir Khan: Sir, the public accounts are audited by the Auditor General.

Mr. Randy Hoback: So they're accurate—there's no question about that.

Mr. Sahir Khan: Sir, we receive the information for our database from the Receiver General. Frankly, when there are anomalies, we have an opportunity to discuss it with them, with the departments, and it's a normal process.

When it was brought to their attention, they promptly worked to resolve the issues between the Treasury Board Secretariat and the Receiver General. In our view, it was not a material financial issue.

Mr. Randy Hoback: The NDP are basically questioning the ability or the honesty of the Comptroller General in terms of his preparation and presentation of public accounts. It's totally inappropriate to be doing that Is that correct?

Mr. Sahir Khan: Sir, there are always potential improvements in hand-offs between one agency and another. When we were quoted, it was treated as an issue that was probably different from the actual issue, which was rather technical in nature.

Mr. Randy Hoback: I don't know if you'll answer this, but I guess it comes back to the opposition party trying to pretend they're the government in waiting. Of course, for any government in waiting, you'd think you'd want to spend some time and effort in making sure the facts you receive or the facts you present are actually accurate.

I guess I'm just wondering, would you have any suggestions for the opposition members that maybe they do a better job in their fact-checking before they start smearing the good names of both professional civil servants and a world-class Canadian research institute?

● (1640)

Mr. Sahir Khan: One of the things we do—not only do we provide this integrated monitor and database for parliamentarians, but on a quarterly basis we provide an expenditure monitor that provides reporting of major variances in items. That report provides an opportunity for us to scrub some of those things. Sometimes in an interim reporting context there can be coding errors. These can be easily identified, particularly large ones. We've had good experience working with departments to resolve these.

Certainly, members are free to contact our office if they ever do find something that looks like an anomaly. We're more than happy to go through it, to actually investigate it, and to work with government officials to see if there is in fact an issue that merits further scrutiny or if it's something that just needs to be resolved, and in the fullness of time, through public accounts, will get resolved.

Mr. Randy Hoback: That's actually good advice to the opposition members. If they see something that looks totally crazy, why not second-guess here? Check your data to make sure you're right before you go out and smear somebody's good name. I think that's good advice, not just for the opposition but for all members of Parliament.

I'll go back to stimulus, deficit reduction, and the action plan, Mr. Page. You've been pretty clear about the need for balanced budgets, and I think that goes back to your economic background on the role of balanced budgets. What will be the impact if we haven't balanced our budget by 2014-15 or 2016-17? Have we decided that we'll let it slide until 2020? How do you see that affecting our kids and our grandkids and the future of Canada in the long term?

Mr. Kevin Page: Again, that speaks to why we do fiscal sustainability analysis that looks at what actions you need to take to stabilize that. I think we've experienced it in Canada. We know what it feels like to have rapidly rising debt relative to the size of the economy. We saw that in 1990s. I witnessed it when I worked at both the Department of Finance and the Privy Council Office at that time.

Your debt rises and the carrying cost of that debt rises. We saw our debt at the federal level peak at 68% relative to GDP in the mid-1990s. The carrying cost in terms of budgetary revenues peaked when roughly 37¢ of every revenue dollar went to public debt interest charges.

In 2007-08 we brought those numbers down to a 29% debt-to-GDP ratio, and our carrying cost was down to 13¢ on every budget revenue dollar. If you can maintain those healthy fiscal balances, avoid those structural deficits, and deal with these issues ahead of time, before they get out of control, you'll have the kind of position we had going into this recession in 2008-09. There's much more flexibility to deal with the issue, as well as some of the investment issues we need to deal with.

The Chair: Okay. Thank you.

Thank you, Mr. Hoback.

We'll go to Mr. Julian, please.

Mr. Peter Julian: Thank you very much, Mr. Chair. I couldn't agree more with Mr. Hoback on the issue of financial sustainability.

As our guests know, for the last 20 years the federal Department of Finance has been tracking the actual fiscal period returns—the actual end results—of NDP governments, Conservative governments, and Liberal governments. As Mr. Hoback I'm sure knows, NDP governments have come out at number one every single time. They balanced the budget and paid down debt. Mr. Hoback would be well-inclined to follow the NDP example.

I'm also very much in agreement with Mr. Hoback on the issue of wild and crazy financial expenditures. Mr. Page has certainly raised a concern with all of us that the government is going ahead with its massive billion-dollar prison scheme at a time when crime rates are falling, without any sort of economic or budgetary analysis on how much all this will cost. I would like to praise Mr. Page for having exposed the huge cost overruns in the F-35 fighter jets. I believe it's now at $29 billion and counting. Those are two examples of pretty crazy budgeting on behalf of this government.

I'd like to come to the question of the EI fund, because we have a situation here where you've flagged 100,000 Canadian families who are going to lose breadwinners over the next few months. Looking at your revenue and expenditure projections around the employment insurance fund, I would like you to confirm this. It seems to me that the changes being brought into employment insurance will result in surpluses starting the year after next of $1.5 billion, $4 billion, and then $6 billion. We're talking about a $12 billion surplus in EI. Benefits are going up, of course. The moneys coming into the Conservative government are skyrocketing.

This brings us back to the time when the former Liberal government did the same thing. They took from unemployed workers and their families about $50 billion from an accumulated EI fund.

Can you confirm those figures? It looks to me from your analysis that it will be $12 billion up until the next election and $20 billion up to 2016-17.

Is that an accurate estimation of the accumulated surplus?

● (1645)

Mr. Kevin Page: It looks like our EI accountant is going to handle that question.

The Chair: Please introduce yourself, sir.

Mr. Jeff Danforth (Economic Advisor-Analyst, Office of the Parliamentary Budget Officer, Library of Parliament): My name is Jeff Danforth.

The question was regarding what the balance in the EI account would be.

I think you're looking at the difference between the expenditures and revenues. You have to be careful, because administration costs aren't included in those two differences. The administrative costs for EI show up somewhere else.

The EI account won't be in an annual surplus until 2014-15. It won't be in an accumulative surplus until 2016-17, according to our projections.

Mr. Peter Julian: Thank you for that. That's different from the projections I see here. But what would be the accumulated surplus up until 2016-17?

Mr. Jeff Danforth: There wouldn't be any surplus until 2016-17.

Mr. Peter Julian: And how much would that be?

Mr. Jeff Danforth: It's zero. It's in balance. It's in deficit up until that point.

Mr. Peter Julian: I want to come back to your jobs projections, the 100,000 additional families that will lose a breadwinner over the course of the next few months. You've been tracking job figures since May 2008. When you go back to May 2008 through to the present day, what would be the overall number of full-time jobs created? If you don't have those figures handy, perhaps that's something you could bring back to the committee.

Mr. Kevin Page: Sorry, I don't have those figures in front of me.

The Chair: You can provide them to the committee.

Mr. Peter Julian: What was the overall growth in the labour force over that same period, from May 2008 till now?

Mr. Kevin Page: As soon as we get back to our office, we could provide you with that.

Mr. Peter Julian: Thank you.

The Chair: Thank you, Mr. Julian.

I forget the gentleman's name who came to the table, but it might be helpful to have more information on that issue. It is a topic that is quite often discussed in Parliament. We'd appreciate that.

We'll go to Ms. Glover now.

Mrs. Shelly Glover: Thank you, Mr. Chair, and my thanks to Mr. Page and his team for being here.

With regard to the truth in sentencing legislation, hindsight is 20/20. Projections were made that inmates would increase to 6,200 from 4,000. That was a projection for September 2011. Hindsight is 20/20, so we can look back. You know what the actual numbers show? They show 800. It went from 4,000 to 4,800, not 6,200, as was projected. It's not even close.

I'd like the members of the opposition to double-check and look at the past to see where the numbers actually fell, because projections are only projections. We try as much as possible to trust the folks who are trying to provide those numbers.

In your submission, you say:

> Parliamentarians may wish to consider whether the recently updated average private sector forecast represents a realistic view or they may recommend that the Department of Finance provide an independent economic outlook.

You were with the finance department in the era when there were questions about whether or not their projections and their economic outlook were independent. What you are asking is to maybe return to those days when they were being questioned on their independence, which is exactly why we moved to trusting independent, private sector economists. Fifteen of them are polled every single time, and you are suggesting, sir, that we look to others.

You've also mentioned the IMF, the OECD, the Bank of Canada. We've talked about their projections, which are much closer to the government's private-sector-based projections and much further from yours. Are you also suggesting, sir, that the IMF, the OECD, and the Bank of Canada have unrealistic projections and ought to do their work again?

● (1650)

Mr. Kevin Page: No. I think anybody who spends many years in forecasting, as some of us at the front of the table have done, knows that we're all going to be wrong. I think we learned our lessons in the 1980s and 1990s. A lot of economists learned lessons in the last five years about projections, and we're seeing significant changes in the forecasts of all these agencies. All the private sector forecasts—IMF, OECD, even the Bank of Canada—are significantly lowering their forecasts.

Mrs. Shelly Glover: That's what I want to get at. You said clearly that you're all trying to do the job of providing us with information, but I think we should stop there and not try to tell people they should do theirs better, because we know mistakes are going to be made. You've made mistakes too, right?

Mr. Kevin Page: Yes. Actually, we all make mistakes. We make our share of mistakes.

The issue for consideration, we're saying, is would you consider...? For example, in the 2011 budget we know Minister Flaherty looked at the average private sector forecast and he wasn't satisfied. He said he needed more prudence. He added $10 billion effectively to nominal GDP and the key tax base—

Mrs. Shelly Glover: I think that was extremely valuable, given what we now see in the world, given the overspending that has happened in some other areas of the world that's now put them at risk, and we're not going to be immune to that.

But I do want to refer to a *Globe and Mail* article that did say that the government, 9 times out of 15, was more accurate than the PBO was. I commend you for your efforts, but I'm certainly glad we did go to look at a variety of places to try to come up with an average.

I do have one other question. Earlier you said the June budget economists' forecasts are now unrealistic. That's what you said. Correct me if I'm wrong, but were you not using similar economic forecasts in your spring forecasts? So are yours also unrealistic? I think it's a choice of words that is wrong, and I would suggest you might want to use words like “need to be updated”, which is normal. Snapshots need to be updated, wouldn't you agree?

The Chair: A brief response, please.

Mr. Kevin Page: Again, I think what we are trying to do is provide a planning framework for you. It's for you to decide what is realistic. You're getting different data points. You had a range of data points. The average private sector's forecast, as you say, is an average of 15. Some of them do only short-term forecasts. Very few of them actually do longer-term forecasts. It's for you to decide what is realistic.

As we look forward, we will be watching Minister Flaherty as we move to Budget 2012, how much more prudence he will be adding in, effectively moving away himself from the average private sector forecast, to make sure he can hit his targets. We think he will be adding more prudence. We wouldn't be surprised.

The Chair: Okay. Thank you, Ms. Glover.

We'll go to Mr. Brison, please.

Hon. Scott Brison: Following on that discussion, Ms. Glover mentioned the $10 billion risk adjustment put in the June budget. Earlier today you said that the downgrading of the GDP projections has been approximately $50 billion. You're saying it's approximately $50 billion in terms of...?

Mr. Kevin Page: That's correct, in terms of nominal GDP, on average, over the five-year period.

Hon. Scott Brison: So that's five times the $10 billion risk adjustment figure in the June budget.

Mr. Kevin Page: That's correct. It again reflects additional information since June, the significant slowdown in the U.S. economy, a recession that seems to be under way in Europe right now, significant credit problems. So it's additional information that now enriches the planning framework that wasn't there in June.

Hon. Scott Brison: Thank you.

The government is still saying it will balance the budget by 2014. On the current track, when do you believe the government can balance the budget?

Mr. Kevin Page: Based on our projections right now, we're still showing a small deficit of $7 billion in 2016-17, so we don't actually get to total budgetary balance at the federal level over our medium term. From my point of view, as we look at the data, we see a cyclical balance that more or less is eliminated, a structural deficit that's more or less eliminated. The fact that we're talking about something less than 0.5% of GDP, for most economists—again, we're talking about a $2.1 trillion economy—it's close enough to balance to satisfy most people. We are within that kind of difference; it's quite small.

Hon. Scott Brison: In your report today you've provided some advice to Parliament and to parliamentarians. You say:

> Transparent fiscal policy means full disclosure of analysis, information and risks. Parliamentarians may wish to ensure full disclosure of the measures covered by the Strategic and Operating Review to be implemented in Budget 2012.

You also say:

> ...parliamentarians may wish to request that the Government provide full disclosure of departmental plans associated with Budget 2010 operational restraint measures....

Are you saying that that information has yet to be provided to Parliament?

• (1655)

Mr. Kevin Page: With respect to the first measure, the strategic operating review, I guess in the context of pre-budget consultations and as advice in your pre-budget report, to get full disclosure would be very important. It's important for us, because as we project forward and we look at the amount of spending in the medium term and we look at these growth rates, it's very low. It's almost unprecedented to have sustained five-year projections of total program spending under 3% and direct program spending under 2% over a sustained period of time. We're going to be building in more additional restraint under that kind of context.

The more details we can see around it, the more we know what will be the impact in terms of fiscal risk and what will be the service level risk.

In terms of 2010 budgetary measures, we still don't know how departments are managing, particularly that third year. So we're getting information almost on an *ex post* basis.

In terms of the crime adjustment numbers—even the numbers the government has put ou—my office cannot go to a budget, either in Budget 2010 or 2011, and see basically what has been the adjustment in Minister Flaherty's fiscal framework for the additional expenditures for the tough-on-crime agenda, so to speak.

The Chair: You have a brief 30 seconds.

Hon. Scott Brison: Would you be willing to provide to the committee a more granular and detailed list of the data that we ought to be requesting as part of the pre-budget report? Because the report will be to the Minister of Finance, to the government, perhaps we can use this opportunity to ask the government for a more detailed and granular analysis of budget figures in terms of its projections.

Mr. Sahir Khan: We'll be releasing a report tomorrow that looks at the quarterly financial reporting of the departments, and, in advance, you'll note that some departments do report the impacts of the Budget 2000 freeze. So there are some high water marks, and it could be very helpful for parliamentarians if that could be applied uniformly. That would certainly inform deliberations and debate.

Mr. Kevin Page: We could provide....

Hon. Scott Brison: Thank you. That would be helpful.

The Chair: Thank you, Mr. Brison.

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

I understand, Ms. Glover, you just wanted to correct a point or...?

Mrs. Shelly Glover: I'd like to correct.

As I was talking—of course, I'm so passionate—I made a mistake. I think I said 4,000 and 4,800. It's 14,000 and 14,800. So we went up by 800 in prisons, not the 2,200 that was projected. But I think I said 4,000 and 4,800m and I meant to say 14,000. So 14,800 is our current prisoner population and it was projected to go up 2,200.

The Chair: Thank you.

Mr. Page, I wanted to return to the issue of forecasting, and you and I have talked about this before. Actually, I'm not that hard on forecasters, because I don't know if I see it as issues of mistakes; rather I see it as changing conditions. If you could go back two years, you couldn't say if there was going to be an Arab Spring, or tell if Japan was going to have the natural disasters it has had, or predict the impact on the economy of those events. That is very hard to predict. So forecasting is a very difficult field.

But I want to return to the issue Ms. McLeod first raised. And Ms. Glover's point, in terms of moving it out from the Department of Finance seemed to me—it was done by a former government—to be a good idea: to do the average of private sector forecasts. To make sure I'm clear on it, are you recommending that the department, in addition to that, do its own forecasting? Or are you recommending that it not do that, not take an average of private sector...but reverse that earlier decision and bring forecasting back within the Department of Finance?

• (1700)

Mr. Kevin Page: I think if the Minister of Finance and the Deputy Minister of Finance look at this economic outlook and they look at an average private sector forecast—again, they're just simple averages of headline numbers, real GDP, nominal GDP, inflation, and the unemployment rate—they ask, from their point of view, if that is realistic. Can we hit our targets? Should we be planning the government's finances to that?

If they feel it seems not realistic in terms of balance, in terms of risk, then I think they should provide an independent forecast.

Again, it doesn't mean to say we can't. We can do the calculations, as we've done for the first three years of our office, where we say here's what a fiscal forecast looks like based on an average private sector forecast. They can continue to do that. I don't think it prevents them from providing their own independent view. We know they have very strong economists with economic potential in that department.

The Chair: Can I get your reaction? If you were advising the minister, how many times per year would you update your forecast? I think, frankly, updating on a continual basis, with all the changing conditions, two or four times per year.... I would not recommend that the government continually update its projections, because I think you're almost going to confuse Canadians more than actually inform them.

In your view, how many times should they present it—twice per year or four times per year? What is your view?

Mr. Kevin Page: Honestly, I think what we have now effectively works, for the most part, with an economic update, five-year projections, and an update with the budget on the economy. I think as well, with the fiscal and monetary...the release of that information by the government, are we on track, are we not on track? For the most part, that's probably sufficient in terms of frequency, but it's in service of you folks.

The Chair: Okay. I appreciate that very much as well.

I did want to draw attention to your statement about the strategic and operating review providing the same level of detail afforded in the 2009 fiscal stimulus plan. Before committee, you've commended that in terms of the amount of detail provided to parliamentarians, and I appreciate you raising that again. I agree with you that that is a good model.

You did a very important report with respect to sustainability, and you've talked before the committee about health care as well. In your report, and also before committee, you've commented on provincial levels of debt as well. I wanted to give you the opportunity to comment on that. You've talked about the 2014 accord and the negotiations leading up to that.

The federal government, in my view, is in a much better position fiscally than many of our provinces are. I wanted to give you an opportunity to talk about some of your concerns with respect to provincial debt.

Mr. Kevin Page: Sir, in the context of fiscal sustainability, when we look forward, we look at how aging demographics will impact on the provinces as well as the federal government. In the report that we provided at the end of September, we break out where we think all the key spending components are. We do projections that look at impacts of demographics, potential enrichment, and other cost factors.

In that context, when we look at the fiscal gap as a result of aging demographics, we're saying roughly something in the neighbourhood of 2.7 percentage points of GDP, roughly equally balanced as we kind of go forward in terms of dealing with the demographic issue.

I think it's true that we have certain provinces right now that are under more fiscal strain than others, and certainly under potentially more fiscal strain than the federal government. When we look at the fiscal sustainability now, trying to stabilize both, we're talking about a gap of 2.7 percentage points. That's quite significant.

It's less significant than what some other countries are experiencing, like the U.S. and the U.K. on a fiscal sustainability basis. Again, this analysis is provided for all other countries, but it's balanced between the two. So we have fiscal holes or fiscal gaps at both levels.

The Chair: For the record, which provinces concern you most, in terms of their debt levels and their ability to meet them going forward?

Mr. Kevin Page: Actually, we don't have that analysis for you here today. I'd be hesitant to provide a kind of conclusion, as to....

The Chair: Okay. Maybe we'll have to go for coffee as well and discuss that.

Some hon. members: Oh, oh!

The Chair: I very much appreciate you and your team being here with answers to our questions. We look forward to any further additional information you may provide to the committee, and we look forward to seeing you again. Thank you very much.

Thank you, colleagues.

The meeting is adjourned.

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