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# Thursday, April 26, 2012

## Chair

**Mr. James Rajotte**

# Standing Committee on Finance

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● (1525)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order, the 54th meeting of the Standing Committee on Finance.

I will ask all of our friends in the media to respectfully depart. Thank you very much.

Our order of the day, pursuant to Standing Order 108(2), is a study of economic and fiscal outlook.

Our witnesses are from the Library of Parliament and the Parliamentary Budget Office. We have four individuals.

We have Mr. Kevin Page. Mr. Page, welcome back to the committee. As we all know, you present to our committee twice per year. We appreciate your economic and fiscal outlook updates. I will ask you to introduce the other members of the Parliamentary Budget Office to the committee and then present your opening statement, please.

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

By way of introductions, I have Mr. Sahir Khan. He's our assistant parliamentary budget officer for revenue and expenditure analysis. Dr. Mostafa Askari is our assistant parliamentary budget officer for economic and fiscal analysis. Chris Matier is our senior economist, and he's responsible for a lot of the work we're presenting today.

Thank you.

[*Translation*]

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

[*English*]

Thank you for inviting me and my colleagues to speak with you today.

Yesterday, in preparation for this meeting, PBO released two reports to parliamentarians and Canadians. In my introductory remarks I would like to highlight three key messages and possible issues for discussion.

First, PBO's updated projections show a significant improvement in the government's budgetary balance over the medium term, which is primarily attributable to policy actions to restrain operating expenses. These fiscal projections, which are based on our own independent economic assumptions, are broadly similar to the government's fiscal outlook presented in budget 2012.

[*Translation*]

Second, PBO's Economic and Fiscal Outlook highlights a key policy trade-off that we feel has been largely absent from fiscal policy discussions—namely that, while the benefit of spending restraint is increased fiscal room in the future, the expected cost is a weaker Canadian economy and a slower recovery.

My final message is that improvements are needed in the government's budget reporting to Parliament. Just as increased budget scrutiny was warranted during the fiscal stimulus phase of the economic action plan, so too is scrutiny required during the spending restraint phase, in order for Parliament to carry out its fiduciary responsibility to scrutinize the estimates and approve appropriations.

● (1530)

[*English*]

In my view, PBO's two reports provide some guidance on what this improved budget reporting to Parliament might entail. Specifically, our economic and fiscal outlook provides projections of Canada's potential GDP, the government's structural budget balance, and it illustrates the uncertainty around the outlook. In addition, we provide economic impact estimates of budget 2012 measures, and include quantitative estimates of the impacts of policy changes with far-reaching impacts, such as changes to the age of eligibility for elderly benefits. Comparable analysis was not provided in budget 2012.

Our second report, *Budget and Expenditure Reporting to Parliament*, highlights the management challenges associated with the strategic and operating review. This report advances a reporting framework for your consideration that would be unlikely to increase the administrative burden on departments, as collecting this information is already required as part of Treasury Board policies.

[*Translation*]

Recent economic indicators suggest that the global economic recovery is gaining some traction following setbacks in 2011. While recent growth in Canada has been stronger than anticipated in our November report, its pace remains modest.

Going forward, PBO expects that Canadian fiscal policy at the federal and provincial levels will act as a drag on the economy, pushing it further away from its potential level and delaying the recovery. Based on Finance Canada's estimates of expenditure and tax multipliers published in previous budgets, PBO estimates that real GDP will be roughly 1% lower and that employment will be reduced by just over 100,000 jobs in 2014 as a result of tighter fiscal policy.

PBO projects that real GDP growth will slow to 1.9% in 2012 and 1.6% in 2013, resulting in an increase in the unemployment rate to 7.9% in 2013. As the recovery eventually takes hold, real GDP growth is projected to rebound, averaging 2.8% over 2014 to 2016, while the unemployment rate is projected to decline gradually to 7.0% by 2016.

Relative to the average private sector forecasts, PBO projects slower economic growth and lower GDP inflation from 2012 to 2014. PBO judges that the balance of risks is tilted to the downside for the private sector forecasts for nominal GDP, which is the broadest measure of the government's tax base.

In addition to the downside risks identified in his report last November—namely, a more sluggish U.S. recovery, larger impacts of commodity price weakness and high levels of household indebtedness—PBO believes that fiscal policy will exert a larger drag on real GDP growth than private sector forecasters have projected.

[*English*]

PBO's current fiscal projection incorporates the planned departmental spending reductions contained in budget 2012, as well as the government's forecast of operating expenses subject to freeze that was initially announced in budget 2010. These changes represent significant reductions to PBO's projection of federal direct program expenses, amounting to approximately $60 billion over 2011-12 to 2016-17.

PBO projects a significant improvement in the government's budgetary balance over the medium term. PBO's fiscal balance projections are in line with the government's forecasts. PBO projects a budgetary deficit of $24.2 billion or 1.4% of GDP in 2011-12, which steadily improves over the projection horizon, resulting in a budgetary surplus of $10.8 billion or 0.5% of GDP in 2016-17.

PBO estimates that the likelihood of realizing budgetary balance or better is roughly 35% in 2014-15, 55% in 2015-16, and 70% in 2016-17, respectively.

The projected improvement in the budgetary balance over the medium term is largely the result of policy actions to restrain spending on programs. As a result, PBO projects that the government's structural deficit will be eliminated by 2013-14, ultimately giving rise to a structural surplus of $14.3 billion in 2016-17.

With respect to fiscal sustainability, while medium-term projections are an essential element of fiscal planning, it is also necessary to take a longer-term perspective to assess whether a government's fiscal structure is sustainable, given economic and demographic trends. Fiscal sustainability requires that government debt cannot ultimately grow faster than the economy.

In January 2012 PBO estimated that the federal fiscal structure was sustainable over the long term, owing to the government's decision to reduce growth in the Canada health transfer after 2016-17. Furthermore, our analysis at that time assumed old age security eligibility at age 65 and did not incorporate the government's forecast of its operating expenses.

The proposed increase in the age of eligibility for benefits for the elderly would, according to budget 2012, ensure that the program is on a sustainable path. However, no analysis of the sustainability of the program was provided, nor were the fiscal impacts of this policy change presented. In our report, PBO projects that the proposed change would reduce spending on benefits for the elderly by roughly 12%—$12 billion—in 2029-30. Benefits for the elderly would rise from 2.2% of GDP today to a peak of 2.7% of GDP in 2033-34, which is 0.3 percentage points of GDP lower than it would be without this policy change.

With respect to fiscal transparency, debate, and scrutiny, this is the last issue I will discuss, which is the need for the government to improve its budget reporting to Parliament.

Parliamentarians need more transparency—not necessarily more disclosure, but more transparency—from the government. This issue is particularly important in the current context, given the sums of money involved.

● (1535)

Taken together, the savings measures enacted since budget 2010 represent almost $60 billion over the next five years, according to the government's estimates. These actions are larger than the federal fiscal stimulus implemented in budgets 2009 and 2010. At that time, stimulus measures were accompanied by commendable levels of transparency and analysis, which included quarterly reporting on implementation and the economic impact of the budget measures. This level of transparency and analysis is absent in budget 2012. If we can deliver transparency to parliamentarians and Canadians on fiscal stimulus, we can do the same on fiscal consolidation.

Parliamentarians also need more analysis from the government. The current context features both short-run and long-run challenges. In the near term, fiscal consolidation is being undertaken in the context of an economy operating below its potential. Over the long-term, significant policy decisions are being undertaken on the Canada health transfer and the old age security program, without sufficient analysis to support these policy actions. Without such analysis, there is a potential for a misleading view that parliamentarians face no policy trade-offs.

Parliamentary debate on fiscal policy could be enhanced if the government provided its estimates and analysis of the following: the performance of the Canadian economy relative to its potential; the government's structural balance over the medium term; the economic impacts of spending restraint; and fiscal sustainability.

Finally, parliamentarians need more detailed spending plans from the government. Scrutiny on government spending would be enhanced if parliamentarians had details, at the level of departments and agencies, for baseline spending levels, public service job numbers, and service-level information on program activities that will be restrained or eliminated.

Parliamentarians need to assess fiscal and service-level risk before they vote on appropriations for budget 2012 measures. Recent government announcements suggest that this reporting may be delayed until 2013. In my opinion, this should not be acceptable.

To sum up, PBO expects the government's fiscal position to improve over the medium term, due primarily to spending restraint. This fiscal improvement needs to be weighed against the cost of a weaker Canadian economy that is currently operating below its productive capacity. Finally, informed parliamentary debate on important fiscal policy issues requires more information than the government is currently providing.

Thank you again for inviting us here today. We would be happy to take your questions.

● (1540)

**The Chair:** Thank you, Mr. Page.

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

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you very much.

Welcome again to the finance committee. It's good to see you.

I want to begin with the last point you raised, on fiscal transparency. Recently the Auditor General's report partially criticized the federal government for the F-35 procurement process. It said that it had badly handled that process. Yet you yourself had been harshly criticized by the federal government because you had come up with actually similar numbers in terms of what the cost of the F-35 procurement would be.

My question is really about how well Canada is doing in fiscal transparency, when such a massive procurement program, as we're seeing with this military procurement of the F-35s, seems to lack such a level of transparency. How should we be going forward as a country when we really can't seem to get the proper numbers for a purchase as huge as the F-35 procurement?

**Mr. Kevin Page:** Thank you for your question.

We are certainly hoping that as a result of the Auditor General's report and discussions that are ongoing now we will see higher levels of transparency and analysis with respect to that very important procurement project.

I think in the context of our discussions today, particularly in the context of a budget where there's significant fiscal restraint, spending restraint, over the medium term, it's important that before you vote on these spending measures you have that big end baseline information. What's changing on a program-activity by program-activity basis? What number of public service employees are being reduced on that program-activity basis, and what will those service levels impact?

Again, it's another example of transparency, which I think we need to see more of.

**Ms. Peggy Nash:** So what should the federal government do differently in order to provide that level of transparency?

**Mr. Kevin Page:** Well, I think in some ways, as I noted in my speaking points today, we have seen in the past there are a number of examples we can point to, including recent examples, as in the case of fiscal stimulus, where we had very commendable levels of transparency, significant details for parliamentarians and Canadians on where money was going to be spent in the context of stimulus—a $47-billion stimulus package over two-plus years—and also economic impacts as well.

As we change now to consolidation, I think we need to see again that level of details by program—which programs are being cut, which are the efficiency measures, and again, what are the potential service-level impacts, what are the public service impacts.

We've provided in this report today...and we've actually sent out a circular, Ms. Nash, to all departments, saying, again, basically in template form, here's what we think parliamentarians, all the folks around this table, plus standing committees that look at estimates, would need to do their job.

Hopefully we get the return of that type of information from Parliament and we could provide it to you sometime early this fall. It would make your job much easier.

**Ms. Peggy Nash:** Do you think right now you have adequate tools to provide the kind of information that parliamentarians need in order to make an informed decision?

**Mr. Kevin Page:** Ms. Nash, I think the way we look at it is that we want to make sure that you have the tools. Whether you get the tools and analysis and information from the public service, the government, or from us I guess is a matter of discussion. At the end of the day, we want everybody around this table, and other standing committees, to have the benefit of this information.

We don't think you have what you need—in our personal opinion, professional opinion—in terms of voting on budget 2012 at this point, particularly with respect to spending restraint.

● (1545)

**Ms. Peggy Nash:** You have said in your report that our programs are being significantly cut and our program spending is being reduced to historically low levels as a percentage of GDP, and yet our net debt-to-GDP ratio continues to be one of the lowest in the Group of Seven nations.

Is it your opinion that we do not need to be as aggressive in our deficit reduction in order to preserve the sustainability of program spending here in Canada?

**The Chair:** Just a brief response, please.

**Mr. Kevin Page:** We don't have an opinion as to when the government should really get back to balance. What we want is to provide you with the analysis of what the potential impacts could be.

We think the economy is operating roughly two percentage points below potential. I mean, we're launching an austerity impact exercise, and we think if you restrain spending in the neighbourhood of $60 billion over the next five years, in the way that's implemented, it could trim from output levels as much as 0.7% on the level. We expect employment to continue to improve, but we think it could reduce employment by roughly 100,000 jobs.

Ultimately, when people look to the future, when parliamentarians look to the future and the government looks to the future, they may decide that not only do we want in the medium term to be balanced, but we also want to be in a structural surplus position, so that we'd be in a better position to deal with challenges in the future.

Again, that's a government decision, a policy decision. We're agnostic to that.

**The Chair:** Thank you, Ms. Nash.

We'll go to Ms. Glover, please.

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

I want to welcome our witnesses once again.

Mr. Page, I'm listening very intently to what you're saying about the need for us to have tools, and I appreciate that.

You commented at great length about some of the things we'll be asking about, such as public service impacts. I know you tried to answer that as well as you could, and yet you criticized the government for not having enough information.

I do want to remind you that collective agreements are in place, and some of those things do have to be done in the correct format— that is, notifying workers and what not beforehand. But the BIA was introduced today, and it's substantially longer. I would recommend that you have a read of it when you have a chance.

In terms of the 100,000 jobs that you just mentioned, and following that track, as you criticize the government, you yourself keep mentioning these 100,000 jobs. So I want you to give me those tools you want me to have; I want you to tell me exactly where those 100,000 jobs are being cut. Is it public servants who are being fired, and in which departments? Is it hypothetical public servants who have never been hired? Are they indirect jobs that aren't being created? Exactly where are those 100,000 jobs you're talking about?

**Mr. Kevin Page:** Thank you for your questions. I think there are two questions there.

On the first question, in terms of what we think Parliament should have before they vote, I think we want parliamentarians to have—

**Mrs. Shelly Glover:** That's not my question, sir. My question is where are those jobs? Start with the departments, if you would.

**Mr. Kevin Page:** Okay, with respect to the fiscal plan, I think it's appropriate for parliamentarians to have information.

**Mrs. Shelly Glover:** No, the departments with those jobs, sir.

**Mr. Kevin Page:** With respect to jobs—

**Mrs. Shelly Glover:** Which departments are they?

**Mr. Kevin Page:** Which departments, you ask. With respect to the announcements that we provided, effectively what we've done today is exactly what I think the government did in the stimulus, which we highlighted today as being commendable.

**Mrs. Shelly Glover:** Mr. Page, I hate to interrupt you, but I have five minutes. You've said 100,000 jobs will be lost. Where are those jobs? Are they hypothetical? You've criticized the government for not releasing enough information quickly, which will be done in time because we have to honour collective agreements. Where are these 100,000 jobs?

Then I have two other questions for you.

**Mr. Kevin Page:** The announcements we did in our paper today duplicate the announcements the government did for fiscal stimulus. We used the Department of Finance estimates, what the impacts would be by spending category, especially—

**Mrs. Shelly Glover:** I don't need to know how you got there. I want to know where those jobs are.

**Mr. Kevin Page:** We did the same thing the Department of Finance tabled. It was tabled in one of the annexes in the budget in terms of what the impacts would be on stimulus. We looked at the flip side of that—what the impact would be once we pulled this demand out of the economy.

● (1550)

**Mrs. Shelly Glover:** So they're hypothetical jobs? Is that correct?

**Mr. Kevin Page:** It's a macroeconomic estimate.

**Mrs. Shelly Glover:** So they're hypothetical jobs. Is that correct? Because we've talked about 19,200 actual positions and talked about where they're going to be, etc. Yours are hypothetical then is what you're saying.

**Mr. Kevin Page:** Our estimates—

**Mrs. Shelly Glover:** Is that a yes or a no? Because I have two other questions for you, Mr. Page. I don't want to dance around the issues.

**Mr. Kevin Page:** With all due respect, I think we're comparing apples and oranges. I think we're comparing your estimate of.... I think perhaps 19,200 jobs relates to the strategic operating review cuts, which total roughly about $20 billion. Those are public service jobs. Our estimate of 100,000 includes both public service and private sector jobs. It's the same with the techniques that we used—

**Mrs. Shelly Glover:** So they're hypothetical, though. They're hypothetical? They're not actual jobs. I'm asking you for departments and you're not giving them to me, so they're hypothetical.

**Mr. Kevin Page:** Then I guess I could ask you: Is 19,200 a hypothetical number?

**Mrs. Shelly Glover:** No, those are actual positions. We were very clear about that, actual positions, leading to 12,000.

Anyway, I'll move to the next question, since you don't have the answer.

It's unfortunate he wasn't able to answer the question in all those four minutes.

I want to ask about the fact that you've talked at great length about how the restraint measures may lead to some unemployment, but you didn't talk about any of the positive measures in the budget. For example, there's the Canada Foundation for Innovation to support new competitions. There's $400 million to support the creation of venture capital funds. There's money for the industrial research assistance program. Those we believe will create jobs. Yet you mentioned nothing in your report about how many jobs will be created. So I would like you to send me in writing an analysis of all those measures for job creation that are put in the budget. I would like you to include that, since you neglected to do so and only focused on the negative and you can't explain how you got there. I would like you to send that to the committee in writing, if you wouldn't mind.

Thank you.

**Mr. Kevin Page:** We would be happy to send a detailed analysis of this, Ms. Glover. I think you'll find we did the same analysis that the government did in the first stimulus.

**The Chair:** Thank you.

Thank you, Ms. Glover.

We'll go to Mr. Brison, please.

**Hon. Scott Brison (Kings—Hants, Lib.):** I suggest you keep the analysis fairly simple when you do that.

Earlier today Minister Flaherty compared you to Paul on the road to Damascus, saying you had flip-flopped about your assessment of the government's structural deficit, effectively saying you were wrong. You had a different explanation earlier.

Did the government's decision to massively and unilaterally reduce the projected health care transfers have a significant effect on your change of view in terms of projected deficit?

**Mr. Kevin Page:** Thank you for your question, Mr. Brison.

In my office we've done two major fiscal sustainability studies, the first one in 2010, the second in the fall of 2011. We updated our study after the decision by the government to change the escalator to the Canada health transfer. All the reports, these fiscal sustainability studies, are on our websites. I think if you follow the sequence of these reports, you'd see that we were saying in September of 2011 that the government had a fiscal gap, that actions needed to be reduced in the neighbourhood of 1.5% to stabilize the debt-to-GDP ratio over the long term, which we take as 75 years.

We also noted almost a similar gap at the provincial level. We highlighted a significant change in the Canada health transfer; effectively it takes some of this fiscal gap and moves it over to the provinces. We highlighted that in an announcement we released in January. So that put the government on fiscally sustainable terms in terms of roughly balanced.

**Hon. Scott Brison:** So there was a change in material information that led to you changing your view. That's helpful.

Budget 2012 includes a cut of 19,200 federal public service jobs. Minister Flaherty's spokesman is quoted in the media as saying:

> We were clear in our budget document we were eliminating 12,000 positions—not the number Kevin Page has created.

Can you clarify this discrepancy between Minister Flaherty's office and the numbers that you are citing?

**Mr. Kevin Page:** I think this goes to the question Mrs. Glover was posing just minutes ago.

Our estimate of 100,000 jobs relates to the overall aggregate impact of taking out from the government's fiscal framework something in the neighbourhood of $60 billion. There are offsets between some of the additional revenues to be created from closing some of the tax loopholes and some of the additional spending that's highlighted by Mrs. Glover with respect to the Canada Foundation for Innovation, etc.

● (1555)

**Hon. Scott Brison:** So there's a multiplier effect.

**Mr. Kevin Page:** Yes. It's a full effect.

As I understand it, the number from Minister Flaherty's office refers to 12,000 cuts. I think it removes the impact for attrition, but again, they're talking just about the federal public service and they're talking specifically about cuts related to the strategic operating review.

**Hon. Scott Brison:** Is the elimination of the 19,200 positions simply the result of the 2011 strategic review, or is it connected to the strategic reviews of 2007 to 2010?

**Mr. Kevin Page:** We hope we'll get more clarity from the templates that we're sending out to departments. Our understanding, from reading budget documents and just looking at the rough aggregates, in trying to achieve ongoing savings somewhere in the neighbourhood of $5 billion per year, is that the government is looking to eliminate roughly 19,200 positions to achieve savings of roughly $5 billion or $5.2 billion ongoing.

In addition to that and just from a public sector perspective, I think to achieve savings related to the operational freeze announced in budget 2010 and the 2011 strategic review, additional job losses will be required.

**Hon. Scott Brison:** Are they from the 2011 strategic review, or are they connected to the strategic reviews of 2007 to 2010?

**Mr. Kevin Page:** We think they're distinct, so we're actually talking about cuts on top of cuts.

**Hon. Scott Brison:** Okay.

The Canadian Centre for Policy Alternatives believes that the 19,200 figure is connected just to the 2011 strategic review, and that there are a further 6,300 job cuts as a result of the 2007 to 2010 strategic reviews, and 9,000 job cuts as a result of the 2010 budget operating freeze, for a total of 34,500 federal public service jobs, if you combine those decisions.

Do you believe those numbers are credible if you combine all of them?

**Mr. Kevin Page:** Sir, we don't really have an opinion whether those numbers are credible. We think at this point the best option for us is to go to departments and make it clear that we're looking at restraint over a period of time going back to the 2010 budget and coming up with a total number, again in the context of cuts on top of cuts, or reductions on top of reductions.

**The Chair:** Thank you.

Thank you, Mr. Brison.

We'll go to Mr. Hoback, please.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Mr. Page, and your staff for being here today. It's enlightening to listen to what you have to say.

Where I'm going to go, Mr. Page, is on the structural deficits, looking at the costs of our inaction or if we take action, and what the impact would be.

It wasn't that long ago you came before this committee with a stark warning about the need for deficit reduction. In fact, you were sitting right in that chair saying that it's very important. Last fall you were quoted as saying:

> We can't be that shortsighted. We have our own fiscal sustainability issues.... The problem doesn't go away.... The only way you address a major sustainability problem is with permanent-type action.

Yet today you talked about the $14.3 billion structural surplus that we're going to have in 2016-17. You can actually see the direct results of reduction in program expenses and what the impact is.

Again last year you were quoted as saying “significant delay in implementing fiscal actions substantially increases the required amount of corrective measures”.

Could you explain to the committee, if we had not taken action to eliminate the deficit in the medium term, what would have been the impact? What would that look like if we were to ignore that action and keep on going the way we're going?

**Mr. Kevin Page:** At the federal level, I think for some period of time we were on a downward path in terms of reducing deficits. That reflects the fact that some of the deficit that we are experiencing right now is simply cyclical, meaning that as the economy gets back to potential, revenues will come back. Spending on employment insurance types of programs would be reduced as the labour market strengthens. Much of that deficit would have been eliminated over the medium term.

As well, we've been saying for some time that there was a structural deficit. Those are still numbers.... If you look at our current numbers right now for 2011-2012, you will see we are still talking about roughly about 15 that is structural. This deficit we are seeing, even when the economy gets back to potential, would still exist, according to our estimates.

The government is taking actions to reduce and effectively eliminate that structural deficit and we're saying by 2013-2014 will actually eliminate it. So even before the economy gets back to potential, we would actually be in a structural surplus mode.

There are long-term benefits, for sure, to get our debt loads down. I think it would be well received by the next generation that this hand-off with respect to debt would be much smaller. I think we're now talking about over the medium-term something in terms of a debt-to-GDP ratio of roughly about 28% or 29%, which is a little bit higher than what we had targeted for a few years back. Still, relative to other countries, it is an extremely low debt-to-GDP ratio, which situates us well.

Again, I'm also saying that what we're seeing in this report is that there are always trade-offs. To take these tough actions in the economy where there's labour market slack, it will cost some jobs for some of—

● (1600)

**Mr. Randy Hoback:** But that's where I have a problem, Mr. Page. You talk about the labour market being slack. I come from Saskatchewan. We have a 4% unemployment rate. I'm losing opportunity because I don't have enough people. I know Mr. Jean is in the same boat, coming from Fort McMurray. So I kind of look at labour mobility as more of an issue than the lack of labour. That is our issue in Saskatchewan. I don't see this surplus of labour in Saskatchewan, so I guess I'm trying to figure that out.

**Mr. Kevin Page:** Sir, could I respond to that very quickly?

In Canada we're still looking at an unemployment rate of roughly 7.2% and we're talking about that employment rate in the context of our participation rate that is at least a percentage point below where it was before we started this recession. As well, we all recall that with this government back in 2006-2007, we had an unemployment rate down to 5.9%. So to us, overall, on an aggregate basis, a macro basis for the economy—which is obviously not necessarily the situation is Saskatchewan—we are still talking about a fair amount of labour market slack.

**Mr. Randy Hoback:** I guess the option of not doing what we did to reduce the deficit would be to raise taxes, and the implication of raising taxes also would have had the domino effect in the labour markets. There's no question about that.

Maybe you can help some of my colleagues understand the importance of keeping our corporate tax levels down to the rate we're at, and the importance of keeping a low tax rate. I have talked to the business community, not only here in Canada but abroad, and we're attracting businesses. If we had ignored the measures we have taken and had raised taxes, what would have been the impact? Would we have seen more of a domino effect and increasing deficits? What did your forecast look like there?

**The Chair:** A brief response, please.

**Mr. Kevin Page:** We don't have an analysis for you today. We didn't do a policy analysis option saying what if we did this or did that—what if instead of cutting spending we did, say, a 1% increase to a personal income tax rate, or we increased the revenue intakes. Actually, we don't have that type of analysis. But actually your point is right, sir. If we can get fiscal balance and we can get the lowest possible tax rates, we can create an environment for businesses that is stable. Where we have healthy balances, we are all better served.

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

[*Translation*]

Mr. Mai, go ahead.

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

I want to thank our witnesses for joining us today.

Mr. Page, thank you for your report. There is clearly an issue with transparency when it comes to data. You have even deemed that issue to be unacceptable. In the latest report, the Auditor General criticized the government for its poor management of the F-35 procurement process. He downright accuses the government of misleading Parliament about the program's cost and of wanting to award the contract to a single provider to replace the aging CF-18s without asking for approval or the required preliminary documents.

Do you agree with the Auditor General's assessment of how the F-35 issue was handled?

**Mr. Kevin Page:** I had a chance to read the Auditor General's report, but our work is very different from his. In the case of the F-35, we had prepared projections on the costs of procuring, operating and maintaining those aircraft before the government decided to purchase them. Therefore, our work is really different. We commend the Auditor General for providing such an assessment.

**Mr. Hoang Mai:** Did you have any difficulty in obtaining documents? Was the government transparent in your dealings with it?

**Mr. Kevin Page:** I think it is preferable that all parliamentarians obtain adequate analyses and transparent information, and that a proper debate be held to determine whether the F-35s are the best type of aircraft and what the repercussions would be on the Department of National Defence's budget and operating costs.

Transparency is certainly preferable in such a situation.

● (1605)

**Mr. Hoang Mai:** You are talking about the loss of 100,000 jobs. Could you tell us a bit more about the impact that could have? In your report, you also said that the Canadian economy is not operating at its full potential.

Could you explain to us what kind of an impact—in terms of employment loss—that could have on the Canadian economy?

**Mr. Kevin Page:** Could you repeat your question, please?

**Mr. Hoang Mai:** One of the things you talked about is the loss of 100,000 jobs. What would be the repercussions of that loss on the Canadian economy?

**Mr. Kevin Page:** I think that our report contains a chart of the repercussions on the GDP. In fact, we are talking about 0.7% for 2014. The percentage is less than 1% of the GDP.

**Mr. Hoang Mai:** Does that have an impact on the fact that the Canadian economy is not at its peak?

**Mr. Kevin Page:** In the budget, the government decided to reduce the measures for supporting the economy.

**Mr. Hoang Mai:** You also mentioned that this is an austerity budget. Will that have a negative impact in terms of the economic growth?

**Mr. Kevin Page:** The impact on GDP's level of growth can be determined. As far as GDP growth goes, the unemployment rate could increase by 0.3% in 2014, when it would be 7.9% instead of 7.6%.

**The Chair:** Mr. Mai, you have 30 seconds left.

**Mr. Hoang Mai:** You talked about the fact that the government has not been transparent enough.

Can you compare its transparency level with that of the previous government? Is parliamentarians' lack of information regarding the budget something new?

**Mr. Kevin Page:** As I said, the level of transparency in a stimulus context can be compared with the 2010-2011 budget. There are some recent examples. For instance, in 2005, the government provided information on overall cuts, broken down by department and by agency.

I think it would be possible to increase the level of transparency and to hold a proper debate on the topic. I think that $60 billion over five years is a fairly considerable amount.

**The Chair:** Thank you, Mr. Mai.

[*English*]

Ms. McLeod, please.

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

I would like to welcome the guests.

I just have a brief comment about the job issue, and then I actually want to focus in on some comments around demographics.

I think it's absolutely critical that we remember that between 1998 and 2011 our federal public service grew by one-third, so we've gone from just under 300,000 to just under 400,000. Certainly that's much faster than GDP growth, and that's much faster than the population growth.

I think if one asks the average Canadian.... Yes, there are absolutely critical services that the government provides, but also, I was with the red tape reduction commission, and they were saying there is an awful lot of unnecessary red tape bureaucracy. So first of all I think we need to keep the job issue in perspective. It's always very difficult for anyone affected by job cuts, but I think we have to look at the federal public service and what are the key roles and responsibilities and really look again at that job picture over the bigger picture. I just want to make those comments, because 300,000 to 400,000 between 1998 and 2011 is very significant, and what additional services are Canadians actually getting?

The demographic challenges.... I struggle with this one. I was involved in health care for many years prior to being elected a member of Parliament. I can remember for years and years we sat around and navel-gazed about the impact of the demographic challenge on our health care and our health care facilities. I was in many meetings, over time. I think we pontificated a lot about what it was going to mean.

Before the committee last year you spoke at length about the demographic and long-term fiscal challenges facing Canada. I'll just quote what you told us in 2011:

> ...Canada's major fiscal challenge is long term, not short term.
>
> Canada's serious fiscal challenge is underscored by aging demographics and weak productivity growth. Our population is getting older. In 1971 there were 7.8 people at working age for every person over 65, which fell to 5.1 in 2008. And it is projected to be 3.8 in 2019 and 2.5 in 2033. Growth in labour supply will fall dramatically due to slower population growth and the retirement of the baby boom generation.

Those were your comments.

And now I look at what you're saying today. Specifically, you indicated that OAS changes are not necessary. You said to the media, when you were talking about the need to make OAS more sustainable,

> ...there's no reason to change from a fiscal sustainability perspective....There may be other reasons to change retirement ages that have to do with broader policy discussions, but that goes beyond fiscal sustainability.

Everyone talks about the challenges. Obviously the government does not want to do things they don't have to do in this area. As soon as someone takes a measure it's really, “Oh my goodness, someone is dealing with this issue”. So as an economist, are you honestly saying that you know the labour supply will fall dramatically due to the slower population...? Will there be no cost pressures whatsoever for this program?

● (1610)

**Mr. Kevin Page:** Thank you very much.

We still think that the longer term is always the key issue, and we're gratified when parliamentarians focus on the long term. There are aspects in this budget and decisions have been taken in recent months that certainly deal with the long term. That's a good thing, and these are tough decisions.

What we're saying so we can better support this committee and Parliament in general.... It is to make sure that we can provide analysis for you to decide what is that broader fiscal context. You highlighted those numbers quite correctly in terms of the demographic challenges over the next little while.

When we look at fiscal sustainability in terms of one program, again, the way I think the decision was communicated by the government was that we have to do this for fiscal sustainability reasons.

So for us, as economists, as legislative budget officers, if you're talking about a program that's funded from general revenues you need to look at fiscal sustainability from the broader context. So when we do our analysis we do it in that broader context. It doesn't minimize the challenges that we face.

**Mrs. Cathy McLeod:** I don't have time for another question, but I do want to say that there are a number of measures that are moving forward in terms of dealing with those challenges, including the option of perhaps deferring, keeping that workforce going. So I think that to take one very difficult policy decision, but an important policy decision, and isolate it from all the other issues is perhaps not really looking at the whole demographic challenge that we're going to face and how we're going to deal with it.

Thank you.

**The Chair:** Thank you, Ms. McLeod.

[*Translation*]

Mr. Caron, go ahead.

**Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP):** Thank you.

Mr. Page, I would like to go back to the issue raised by Ms. Glover, regarding the employment-related projections from your report. I am trying to summarize what you seem to be saying in your report. Please let me know whether I have understood correctly and correct me if not.

There are two main austerity measures in the budget—budget cuts, as announced, and a freeze on operating budgets. As those are austerity measures, stimulus measures will promote economic growth directly and indirectly. Austerity measures—those two in particular—will lead to a drop in economic growth. That drop can be calculated using multipliers. You mentioned a multiplier provided to you by the Department of Finance. Some multipliers are more well-known than others. I know that, if a dollar is injected into the infrastructure, economic growth increases by $1.60. If corporate taxes are reduced by $1, only 35¢ is generated in economic growth in the short term. You use another line to evaluate the loss of economic growth using that multiplier. You even went as far as to convert those figures to jobs. Have I understood correctly?

**Mr. Kevin Page:** Yes, that's a good analysis. As I said, the annex of Budget 2012 contains another analysis that looks at the impact of stimulus measures using the same economic multiplier. We conduct the same kind of analyses, but in the context of fiscal consolidation.

● (1615)

**Mr. Guy Caron:** When the Minister of Finance and his departmental staff make economic growth projections—the potential creation or loss of jobs—they mainly rely on those multipliers.

**Mr. Kevin Page:** Yes.

**Mr. Guy Caron:** Is there consensus among economists when it comes to the use of multipliers in economy, especially macro-economics, and the multipliers provided by the Department of Finance?

**Mr. Kevin Page:** Yes. There is a debate regarding the number of multipliers. People are wondering whether there is a difference in terms of the number of multipliers between 2009-2010 and today, in the context of 2012, 2013 or 2014. We think it's important to point out that economic growth is lower than it could be. It is still below its potential.

**Mr. Guy Caron:** You talked about the estimated job loss. I am not talking about the known cut of 19,200 jobs in the public sector, but about repercussions on employment owing to the drop in economic growth stemming from the austerity budget. Currently, the estimated job loss is 43,000, based on multipliers for budget cuts, and about 56,000 owing to the operational budget freeze. Is that right?

**Mr. Kevin Page:** Yes.

[*English*]

**Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis and Forecasting, Office of the Parliamentary Budget Officer, Library of Parliament):** I'll try to shed a bit more light on those job figures.

The estimate and summary table 1 that we have for 2014 show a loss of 43,000 jobs, and this applies specifically to the spending reductions in budget 2012. But again, that's net of these positive measures.

So yes, we have taken into account the government's stimulus measures, both on the EI side and on other program spending side. We don't distinguish between public and private sector job losses. We look at the overall economy, as Mr. Page said.

But if you want to take the government's number of 19,000, which is at the end of 2014, and subtract that from our number of 43,000, that would mean roughly 24,000 in the private sector and 19,000 in the public service—again, based on the government's estimate of that number.

The rest of those job losses stem from previous restraint exercises that are occurring.

[*Translation*]

**Mr. Guy Caron:** You are confirming that the calculations are unanimously recognized by all economists. Just as a stimulus measure will lead to economic growth and job creation, an austerity budget will lead to a drop in economic growth and job loss. Your calculations are based on that.

[*English*]

**Mr. Chris Matier:** Yes. I would say that even recently the issue about fiscal drag has been very non-contentious. The TD's chief economist yesterday said:

> I completely agree with the assessment that there is going to be a lot of fiscal (government) drag, the real question is how strong is the private sector going to be.

I think we all agree that the impact is negative. It's unambiguously negative. The question is how the private sector will respond to that.

[*Translation*]

**Mr. Guy Caron:** Thank you very much.

[*English*]

**The Chair:** Merci.

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

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Mr. Page and everyone else from the office, I want to thank you for coming here again.

I want to tell you I spent some time last night and early this morning reading this. I think I was working on this until one o'clock this afternoon. I want to talk to you a little about your forecasting and the accuracy of your forecasting.

I don't want to be critical—you're trying to do your job—but when I read this I find there's an air of pessimism. It's that I want to talk to you about. When we look at the IMF, for instance, and the Bank of Canada, there are 14 leading private sector economists who somewhat disagree with your economic outlook on what's presented in 2012. Then when I look at the long-range forecast, that trend continues.

In 2012 you were predicting 1.9% compared to the 2.1% by the IMF and the private sector economists and 2.4% by the Bank of Canada. For 2013 the difference is even more stark, with your office predicting the real GDP growth of only 1.6% and the IMF projecting 2.2% and those same private sector economists and the bank again coming in at 2.4%.

If your numbers are correct, can you explain to this committee how the Bank of Canada and the International Monetary Fund and Canada's leading private sector economists have erred in their predictions? Why are these leading respected organizations overly optimistic in their outlook?

● (1620)

**Mr. Kevin Page:** When we're talking about the future, I don't think anybody knows what the accuracy will be. We'll only know when we get there. I would love to know who's going to win the hockey game tonight, as an example, right now so I could put money on the game, but we don't know.

These are all predictions. I think what we do provide in our report is what we call fan charts, so we have 16 years of history with the private sector and we've been using these private sector forecasts for that period of time, in fact, 16 to 17 years. What is our track record in terms of projecting nominal GDP one to five years out? What is our track record of hitting a budgetary balance one to five years out?

You could see we provide these confidence intervals and they're quite wide. Again, you folks have to make the decisions about is this the right plan. When it comes down to our forecasts, and the difference between, say, the PBO forecast, which is independent—it's our view—in our legislation you've asked us to provide an independent view, and it's our independent view.... How do we compare it to an average?

I think what's presented in the Department of Finance document, again, is an average of private sector forecasts. There are some below and there are some obviously higher. There's an arithmetic average. So there's probably some in our context.

I think Minister Flaherty and the Department of Finance officials quite rightly recognized that the number looked optimistic to them, so they put in some prudence. That prudence they put in on the forecast analogy represents something like $20 billion on the size of the economy, roughly about $1.7 trillion. We think it's probably an extra $20 billion, effectively, to give you a magnitude of that sense in terms of prudence.

I don't know that they're far off, and we don't really know with respect to the IMF and the OECD, and to be quite frank even the Bank of Canada, what they're calculated in terms of a fiscal drag factor for the budget. Again, the government didn't highlight that estimate in budget 2012. In some private sector forecasts, we're just getting this information now as to what they think the fiscal drag will be. I think most economists would agree that when you take that money out of the economy there will be some drag, just as they were saying quite rightly in times of stimulus that we needed the stimulus if the economy's operating below potential and it would have an impact on the economy that was positive.

**Mr. Dave Van Kesteren:** We've got to admit that in the past you've had maybe a poor track record in some of your predictions. There was a private sector study published in the *Globe and Mail*, and you're probably aware of that. It said that the government was more accurate than your office nine times out of fifteen.

Can you enlighten this committee and explain those apparent contradictions? And lastly, could you provide this committee with a written comparison of your predictions since 2008, comparing the economic indicators and what actually happened?

**The Chair:** Just give a brief response, if you want to, Mr. Page. If you want to provide something in writing, you can as well.

**Mr. Kevin Page:** Yes, we'll definitely provide something in writing.

Again, just to highlight, the reason we produce these fan charts is to give you a sense as to how much uncertainty there is around these estimates.

Quickly, with respect to the study you referenced, I think what it showed is that there was virtually no difference between the Department of Finance numbers and PBO numbers in terms of materiality. These are very small. They wouldn't affect any kind of decision-making sort of context. I'll leave it at that.

Thank you, sir.

**The Chair:** Okay, thank you.

Thank you, Mr. Van Kesteren.

[*Translation*]

We now go to Ms. Blanchette-Lamothe. You have five minutes.

**Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP):** Thank you.

Mr. Page, I would like to talk about Old Age Security. We have seen that the budget contains measures that affect that program. Is it true that our commitments to a public pension system are not a considerable threat to our public finances?

**Mr. Kevin Page:** The Parliamentary Budget Officer cannot use those exact terms. As mentioned in the report, we conduct general sustainability analyses. We look into the sustainability of the whole revenue and expenditure fiscal structure. In such a context, we said that it is a good thing, not a bad thing, but that the structure is stable.

● (1625)

**Ms. Lysane Blanchette-Lamothe:** Thank you.

Currently, the government is saying that Old Age Security is obviously not sustainable. Just today, a member said in the House that it was just a matter of basic math. I assume that the complexity of the issue goes a bit beyond basic math.

We are talking about transparency and trying to hold a debate on the announced changes to the Old Age Security Program, but we have not been provided with any studies unequivocally proving the program's unsustainability. Have you seen any such studies?

**Mr. Kevin Page:** I have no information about that. The government has prepared a study that claims the program has fiscal viability issues.

**Ms. Lysane Blanchette-Lamothe:** Would you say that Old Age Security is unsustainable in the long term?

**Mr. Kevin Page:** Like economists and people working in legislative offices, I think that it is more important to look at the overall structure. When we're talking about a program that is part of the spending structure, it is more important for us to examine the overall structure. We look into different things, such as Old Age Security. That is a completely different issue.

**Ms. Lysane Blanchette-Lamothe:** Have you seen any analyses or studies that predict the potential consequences of an increase in the age of eligibility for the Old Age Security Program? Have you seen any documents regarding that?

**Mr. Kevin Page:** I have no knowledge of any such documents. Budget 2012 certainly provides some information, but it does not talk about the potential consequences.

**Ms. Lysane Blanchette-Lamothe:** Can economic consequences be predicted? For instance, can we predict how an increase in the age of eligibility for the Old Age Security Program will affect poverty among seniors?

**Mr. Kevin Page:** No, we have not conducted any such analyses.

**Ms. Lysane Blanchette-Lamothe:** I may be missing some information. What are your general thoughts on Old Age Security and the increase of the age eligibility for that program?

**Mr. Kevin Page:** I think it's a good thing the government decided to make such an important decision to change the indexing factors for the Canada Health Transfer and to modify the Old Age Security Program. I think it's important to have basic information and some analyses in support of the decision. However, as I said today, no such analyses are available. Of course, analyses can be carried out. Our office has conducted similar general analyses.

**Ms. Lysane Blanchette-Lamothe:** If my understanding is correct, you are telling me there is insufficient information to support the decision to increase the age of eligibility.

**Mr. Kevin Page:** The government can say that providing such analyses is unnecessary. It may be more important to focus on the fiscal impact. I think that more information and transparency is better for the general debate in Parliament.

**The Chair:** You have 30 seconds left.

**Ms. Lysane Blanchette-Lamothe:** Could you tell us what specific information would help us have a better debate on this issue?

[*English*]

**Mr. Chris Matier:** What's really lacking is the government's report on fiscal sustainability and intergenerational equity that they promised to release, I believe, in 2008. It would help the situation to have long-term economic, fiscal, and demographic projections, looking at the entire fiscal structure of the federal and provincial or territorial governments. That type of analysis would be extremely helpful.

**The Chair:** Thank you.

We'll go to Ms. Brown, please, for a five-minute round.

**Ms. Lois Brown (Newmarket—Aurora, CPC):** Thank you very much, Mr. Chair.

Thank you for your presentation. I'm a visitor to the finance committee, so I haven't had the opportunity to hear any of your previous presentations, but thank you very much.

I know you're all economists. I think it was President Roosevelt who said he'd like to find a one-armed economist, because economists always say, well, on one hand, and on the other hand. So there's always a great dispute. Economics can be a science and it can be a social study. I guess it's because we have normative, then we have positive.... People come at these things from different perspectives, do they not?

I listened to the presentation and heard what you've had to say today, and yet we have economists from all across this country.... Patricia Croft is saying, regarding budget 2012, "...I think Canada is in a fabulous position."

Avery Shenfeld, from CIBC, said that budget 2012:

> ...makes sense in a world economy that is still not what we would like it to be. [...] Relative to what anybody else is doing, we still come out with flying colours.

Craig Alexander, from TD Economics, talks about budget 2012 being

> ...a prudent budget...the government provided support to the economy when it needed it. They boosted spending. They increased stimulus and now that we're on the other side of the valley, it's time to rebalance.

Doug Porter.... And it goes on. There's a whole list of economists here who have quite a different take on some of the things you've presented today.

One of the things I would like to point out, just being a visitor to this committee, is that the government has created 700,000 net new jobs since the beginning of the recession. So we are coming out on the other side. Every one of those jobs in the private sector is a new taxpayer who is contributing to the economy. I always look at government jobs as ones that are being paid on recycled dollars, so when we have real jobs taking place in the real economy, and the private sector is starting to provide that opportunity, we are on a positive trajectory.

I'm not an economist, but at least I look at that and say I think there are some very positive things happening here.

Where I really want to focus my question, though, if I may, is on issues where you're talking about cuts in spending and cuts in transfers. You said that's going to have a really negative impact on health care across Canada. I wonder if you could provide to the committee some of the costs the provinces are projecting as increases in their spending.

I come from the province of Ontario; I represent an Ontario riding. I know that Mr. McGuinty, in his most recent budget, said that increases for the province of Ontario are going to be kept to an average of 2.1% growth annually. Yet we've been transferring 6% year over year into the province of Ontario for health transfers. I don't get how this jibes. I just don't get how this matches with what you're saying, that health care is going to be impacted so negatively.

I wonder if you could speak to that and if you could provide to the committee those numbers as far as increases from the provinces are concerned. Are they looking at spending more than that 6%?

● (1630)

**Mr. Kevin Page:** Thank you very much. Welcome to the committee, obviously.

Briefly, on this take that somehow we're very negative, just to highlight that, we actually have pretty much the same deficit track as the government. And again, the budget is full of information that provides international comparisons of where Canada is with respect to the G-7. We have low deficits relative to GDP. We have a low net-debt-to-GDP ratio. We've had strong growth in our labour market, so that we didn't have quite as deep a recession as some other countries when you even look at these output kinds of analyses.

We like the fact that we're talking about a deficit here today of $24 billion compared to a deficit of a year ago that was considerably higher. And just a few years ago it was $56 billion. These are really good trends. This is very positive. And March data are pointing to a strong number.

**The Chair:** Wrap up briefly, please.

**Mr. Kevin Page:** In respect of fiscal impacts, on the Canada health transfer, we look at it pretty much as legislated, but we just look at the fiscal numbers. When we did this analysis, for example, on sustainability, we looked at trends and made projections based on those trends. We can tell what average growth is by provinces in terms of health care spending over the past ten years. It's roughly 7%. We can give you the averages over the past 30 or 40 years. Now we have governments that are saying they want to constrain spending to even lower levels. If we see a lower growth—

**Ms. Lois Brown:** If I could just say—

**The Chair:** I'm sorry, Ms. Brown. We're well over our time.

I apologize for that. If there's anything further on that question, Mr. Page, you can come back to it in another round or you can supply it to the committee.

We'll go to Mr. Jean.

● (1635)

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

My thanks to Mr. Page for coming today. I do appreciate it.

On page 4 of your report you indicate that the elderly benefits are projected to rise relative to the size of the economy from 2.2% of GDP, which is $36 billion in 2010-11, to 3% of GDP, which is $110 billion. That's a significant rise by 2031 in elderly benefits. That's fair to say. It's three times more in real money terms.

**Mr. Kevin Page:** As a percentage of the economy, I think the numbers are there in front of you.

**Mr. Brian Jean:** But that's significant—from $36 billion to $110 billion in less than 20 years. That's on page 4 of the report.

First of all, since we've been in power this government has cut debt so we have lower payments. I think you can agree with that. The second thing we did was the economic action plan, which is $45 billion, a huge amount of money, the most ever spent on infrastructure in the country, a stimulus shot in the arm. Third, I look at this budget as not so much an austerity budget as an efficiency and productivity budget. You mentioned on page 25 that the manufacturing sector is actually much more productive in Canada today than it was a few years ago. We're getting more output. I was also glad to hear that you believe the lowest possible tax rates produce the strongest economy.

But my interest is really in jobs. My difficulty is what you project in relation to job losses. I think the efficiency and productivity of the budget, specifically in some areas, would produce a much more efficient and robust economy. Is that fair to say?

**Mr. Kevin Page:** I'm sorry, I'm just waiting.... There's a question?

**Mr. Brian Jean:** Oh, there are lots of them.

What is the natural rate of unemployment? What do most economists consider to be the natural rate of unemployment?

**Mr. Kevin Page:** There are different models to calculate a natural rate of unemployment. Most economists would probably say Canada should have something just under 6%.

**Mr. Brian Jean:** Most would say 4% to 7%; somewhere in there, 5% to 6%, would be common. But in fact Canada was running at a zero unemployment rate in real terms. That's fair to say, isn't it, when we're at 7%? Isn't that fair? It's pretty close to zero anyway.

**Mr. Kevin Page:** I'm not sure I understand the concept, but I'm not—

**Mr. Brian Jean:** You can't get a zero unemployment rate, but you can have what is considered to be a natural rate of unemployment, and you've indicated that to be about 7%. We're at 7%, and you can't get much lower than that. Is that fair to say?

**Mr. Kevin Page:** I'm sorry, I think even if we said the trend rate was something just below 6%, we'd still be talking about a gap of about a percentage point. And we're talking about—

**Mr. Brian Jean:** Agreed, agreed.

**Mr. Kevin Page:** —an economy operating about two percentage points below its potential.

**Mr. Brian Jean:** Agreed, and I understand that.

It's just that I never saw anything in your report in relation to what's happening in the economy. In my riding, we provide about $5 billion in income tax payments a year, and that's supposed to go up to $20 billion within 20 years. There are 500 big projects, and with that will come $500 billion in construction in the next 10 to 20 years. But I didn't see that in the report anywhere.

I'm wondering if you could provide to the committee an analysis of that and the impact of these big projects and what it will do to the real growth of unemployment in this country. I can't believe that we are under-performing and that we are going to be losing jobs as a result of what I consider to be a very efficient and productive budget.

You don't have anything in there in relation to the streamlining of the regulations, the encouraging of productivity, the “one project, one review”. These are the biggest things for western Canada and northern Canada that could possibly happen, far bigger than any shot in the arm. Wouldn't you agree with that?

**Mr. Kevin Page:** Well, sir, if there's an all-party kind of consent to do a project that looks at infrastructure in general and how it's contributing to the economy, we'd be happy to undertake a project like that.

**Mr. Brian Jean:** Well, I'm not interested in all-party—I'm interested in you doing that for us.

**Voices:** Oh, oh!

**Mr. Brian Jean:** I would like to have an analysis of these 500 super-projects, of this $500 billion in investment that's going to take place in this country, because I think you've ignored it in your report. I didn't see it anywhere. I didn't see it mentioned in one place in that report—

**Mr. Kevin Page:** Sir, I—

**Mr. Brian Jean:** And indeed, you even mentioned—with respect —

**The Chair:** Okay—

**Mr. Brian Jean:** —that commodity prices, in your analysis, were going to be low, and we heard from the Governor—

**The Chair:** Thank you.

**Mr. Brian Jean:** —of the Bank of Canada that they're actually high and they're going to remain high for some period of time.

My time is up just in time.

● (1640)

**The Chair:** Just a brief response, Mr. Page.

**Mr. Kevin Page:** Well, we do talk about an economy, and we have projections based on increased productivity growth, sustained productivity. We're talking about productivity growth in Canada of about 1% for the labour productivity growth. So we build these into our projections overall, and yes, I think the more that government can produce good quality investment infrastructure, potentially like we did in stimulus, I think the more it can add to Canada's economic potential. These are built into our estimates. They're built into the Bank of Canada estimates.

I think on commodity prices the language we've used, sir, is relative to where we were in the middle of 2011 in terms of weakness. It's relative in that context.

**The Chair:** Thank you.

Thank you, Mr. Jean.

We'll go to Ms. Nash, please.

**Ms. Peggy Nash:** If I recall correctly, Mr. Page, the Parliamentary Budget Officer's position was created to provide greater transparency for Parliament, and therefore for Canadians, on the impact of budget decisions, how our dollars are being spent, and the impact of budgets. It was created in the aftermath of the sponsorship scandal, where the Liberal Party had.... Well, we all know about the Liberal sponsorship scandal. It created the need for greater transparency so that we could have a better control over how our money was being spent. Am I correct on that?

I won't ask you to comment on the politics, but your position was created after the Liberal sponsorship scandal.

**Mr. Kevin Page:** Yes, I think it was created as part of the Accountability Act. I was appointed in March 2008.

**Ms. Peggy Nash:** Right, and it's to provide greater transparency for Canadians, and greater accountability in terms of how our tax dollars are being spent.

Now, Mr. Van Kesteren said you had a very poor track record on your predictions. But if I look at the F-35 project, which is a massive multi-billion-dollar procurement plan for our military, in fact the government's numbers must have been done on the back of a napkin over somebody's multi-thousand-dollar lunch, and your numbers were much more in line with the Auditor General's numbers, if I'm correct on that.

**Mr. Kevin Page:** Well, I think when we were comparing apples to apples in terms of acquisition costs and sustainment costs, what we found through the Auditor General's report was that there were numbers that were being produced by Department of National Defence officials that were similar to numbers that were being provided by the Parliamentary Budget Office to all parliamentarians.

**Ms. Peggy Nash:** But your numbers, for which you were highly and visibly criticized by the government, in fact turned out to be closer to the accurate numbers than what we were being told in Parliament.

**Mr. Kevin Page:** Well, I wish we could say that we actually could talk about real accuracy in the sense that we actually knew what the final prices would be and we could be looking backwards in time. But still at this point, when we're talking about F-35s, and when we're talking about the economy, we're still projecting for it.

So for us it's really giving, as you said, as much transparency as we can give you and also giving you analysis around that transparency.

**Ms. Peggy Nash:** Now, your job is to act on behalf of Canadians in terms of providing that transparency, which I think is a really critical job, because we're entrusted with overseeing the tax dollars that Canadians send to us in Ottawa. I sense today on the part of the opposition members here on the committee some defensiveness, shall we say, and perhaps some aggressiveness towards you and pushing you in terms of your analysis.

So let me just ask you now.... The Auditor General is appointed by Parliament. I think I'm correct on that. But if I understand correctly, you are appointed at—I quote—"the pleasure of the Prime Minister of Canada". Is that right? Your position is not a position that is appointed by the Parliament of Canada.

**Mr. Kevin Page:** That's correct. It's a Governor in Council appointment, but effectively appointed by the government. Actually, I did work for the Prime Minister. I did work for this government as a public servant in the Privy Council Office, and I'm proud to say that.

**Ms. Peggy Nash:** In terms of your role of sometimes providing information that might be critical of the government, it must make it awfully difficult for you to not have the full independence every other officer of Parliament has, because they are appointed by the Parliament of Canada, as opposed to serving at the pleasure of the Prime Minister.

**Mr. Kevin Page:** In my own experience, when I was being appointed in March 2008 and came to this very room in front of different committees, when committee members found out that I had worked for this Prime Minister—and these were different committees—they were concerned that I wouldn't be non-partisan. I don't think people are as worried about that particular issue right now.

In terms of the future, which is where I think your question is going, Mrs. Nash, I have a little less than a year left doing this job, and there are three people at the front of this table who I think would be excellent candidates. It would be much better if they were appointed by a broader process, if they were only dismissed by cause, this office would have a chance to continue and grow and serve all parliamentarians.

● (1645)

**Ms. Peggy Nash:** For the best process of transparency, would it be better if the Parliamentary Budget Officer's position and those who work with the Parliamentary Budget Officer had the confidence of Parliament and were responsible to Parliament, and therefore the people of Canada, rather than to the Prime Minister's Office?

**The Chair:** Just give a brief response, please.

**Mr. Kevin Page:** I think a change in the appointment procedure would get the support of all of Parliament. To be dismissed by cause would be a big improvement to the legislation.

Thank you.

**The Chair:** Okay, thank you, Ms. Nash.

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

Mr. Page, I wanted to ask you a follow-up on the OAS issue. When the changes were made, you said that "...there's no reason to change from a fiscal sustainability perspective. There may be other reasons to change retirement ages that have to do with broader policy discussions, but that goes beyond fiscal sustainability".

But in the "Fiscal Sustainability Report 2011" you did, the report stated:

> The major demographic transition that is underway in Canada will strain governments' finances over the next several decades. During this time, population ageing will move an increasing share of the population out of their prime working-age years and into their retirement years. This will put downward pressure on revenues, as growth in economic activity, and therefore the tax base, slows. At the same time, ageing will put upward pressure on programs whose benefits are entirely or disproportionately realized by Canadians in older age groups, such as elderly benefits and health care.

I'm at a bit of a loss, frankly, as to some of the statements made in the report, which I consider an excellent report and very solid, and some of the reactions to the government's policies.

Can someone indicate to me what the difference is, and why this statement, which is fairly clear, was made in this report and then we had your reaction to the OAS changes?

**Mr. Kevin Page:** Sir, I think what I'll do is start, and then I think Chris wants to jump in.

I would start by saying, again, that our first sustainability report was in 2010. The second one was done in 2011. We've seen sustainability reports. We used methodologies we borrowed from other countries. We do a similar type of calculation. We're trying to find out what fiscal actions it would take to stabilize the debt-to-GDP ratio, in terms of the 2011 report, both at the federal level and the provincial and territorial level. We provided this analysis.

We also provided analysis to give you a sense of how big these gaps are relative to, say, actions taken in the 1990s. Again, what we said, in terms of the fiscal gaps, was that there were modest gaps at both the provincial and federal levels. With respect to the change in the Canada health transfer subsequently, we said that essentially this burden was transferred down to the provinces. We haven't eliminated that gap, but we've transferred it to the provinces.

**The Chair:** Mr. Page, with all due respect, there's a fundamental difference between saying there's no reason to change the OAS program from a fiscal sustainability perspective and saying that the major demographic transition that is under way in Canada will strain governments' finances over the next several decades. These two statements are contradictory, in my view.

Mr. Matier, would you or Mr. Page want to address that?

**Mr. Kevin Page:** Maybe, sir, I'll just start.

It's true. You've seen graphics. There are similar types of graphics in budget 2012 on what will happen to the old age dependency ratio. We're all finance economists. We can calculate what that would mean to potential output and budgetary revenues. Canada still faces this challenge. Again, we are talking about a fiscal plan today, and we're basically saying that PBO numbers, the Government of Canada numbers, are effectively the same over the medium term. We're talking about Canada getting to a structural surplus in the medium term, and then we project forward from that.

**The Chair:** But I'm not getting an answer.

The issue is, if one read the report one would be led to the conclusion—at least I concluded—that we had to make some changes in the long term to programs like old age security, based on what the report told us back in 2011. As I said, it's a very good report. Then the changes were made and then there was criticism of the changes that were made when in fact the analysis that was done in the PBO report would lead one to conclude that these are the kinds of changes that are required.

● (1650)

**Mr. Kevin Page:** Again, sir, there was a big change made in December 2011, when the government changed the Canada health transfer. It was an important change, and it actually solved a lot of the federal government's fiscal problems. But it did transfer this problem effectively to the provincial and territorial level.

**The Chair:** Okay, but on that point, page 4 of this report says "under a scenario in which health spending grows in line with only nominal GDP and ageing impacts...the federal and provincial-territorial fiscal gap would be reduced to 1.2 per cent of GDP". You also go on to say that "significant delays in implementing the required actions substantially increase the amount of corrective measures".

I guess my frustration here is that I took you very seriously when you produced this report. I think it's an excellent report. Frankly, I'll say as a member of Parliament that I went to the Minister of Finance and others and I said we need to take these issues seriously; the Parliamentary Budget Office has done an excellent report on this, and we need to look at long-term transfers for health care, and we need to look at programs like old age security in terms of long-term sustainability. My view is that in fact the government took your advice.

If I were you, I would have said, "I'd like to thank the government for taking our advice, because we were the ones who highlighted the problems that they are in fact addressing with these two measures." That's where my frustration is.

**Mr. Kevin Page:** Sir, I apologize for your frustration. When we released the report in January on the Canada health transfer, we effectively updated our analysis. I assume that all members of Parliament would like us to keep our analyses current. We released the report and we said effectively that the federal government is now fiscally sustainable. So we updated our analysis. I would have thought at that point the government would have said, "Yes, we should take credit for that. We are now fiscally sustainable." Then, in the context of an additional decision, really in the communication of a decision, they said that now we're going to take action on the old age security program.

**The Chair:** Unfortunately, Mr. Page, my time is up, but in this report you did address both health care and the demographic issues in terms of pensions. I encourage people to actually read the report. I think it's an excellent analysis.

At this point we'll turn the time over to Mr. McKay for five minutes, please.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** I would have liked to carry that on, Chair, but I have another issue.

It's nice to be back. I see some things never change.

I want to turn to your second report, which has to do with the fiduciary duty of parliamentarians to the Canadian people to manage the public purse. As you know, I wrote you a letter a couple of weeks ago and asked you to update your F-35 report, and you in turn released a letter yesterday that asks DND to update their analysis. You specifically guided them to chapter 5 of their own guidelines. In there, you suggested, I believe—and I'm recollecting from the letter —that the cost per plane is somewhere in the order of $137 million or thereabouts.

The government has maintained throughout this that the envelope is $9 billion. That's locked in stone: there is no money other than $9 billion, end of story. Their analysis is based on a $75-million or $80-million plane. Yet very few countries seem to be staying with that number. The argument that DND puts to us as parliamentarians is that they're going to buy in the sweet spot of the analysis. This becomes a function of numerators and denominators. I was wondering whether you could take a little bit of time and explain to us as parliamentarians—and, by extension, Canadians—why that purchase in the so-called sweet spot is, as I would call it, fantasy. You might use another word, but in my judgment it's fantasy.

**Mr. Sahir Khan (Assistant Parliamentary Budget Officer, Expenditure and Revenue Analysis, Office of the Parliamentary Budget Officer, Library of Parliament):** Thank you for the question, Mr. McKay.

Right now the program is in what is referred to as low-rate initial production. So you have net R and D costs, you have relatively high costs associated with small batches of early production associated with the risks and challenges at that stage. Over time, typically what happens in fighter jet and other types of procurement is those costs decline, and one would hope that you would see those types of reductions over time.

In the context of this current airplane, the LRIP costs remain relatively high if you look at the shape of the production learner curve. So there are some concerns expressed by a number of countries that they would like to all defer purchases, including the United States government. It has also announced that it would like to defer production. The challenge ends up being in the long runs that not everybody can buy the last airplane in the production run, or fastest production sweet spot. So there are trade-offs among the partners that potentially could be required in order to balance between early costs and later costs.

When we did our analysis over a year ago, we did an estimate for the overall production run, which we estimated about $129 million per copy. Then we estimated a premium, given the time that the Canadian government had estimated acquiring the airplanes, which was among the earlier aircraft. So we estimate about a 15% increase.

● (1655)

**Hon. John McKay:** So that gives you what, $148 million?

**Mr. Sahir Khan:** That's $148 million, sir. So as countries decide to postpone delivery, it does two things: it potentially reduces the cost, but then all the other aircraft subsequent to that point actually then have to absorb the cost increase, because essentially we're looking at what has been described to us as kind of like a total cost program divided by the number of aircraft. As those aircraft, the denominator, start to reduce, the average cost per aircraft starts to go up for everybody. So as countries start to reduce their orders, that cost then gets absorbed by all the remaining partners. There are papers written on this phenomenon that can occur. It's affected a number of programs, which have resulted in very high unit costs because ultimately the production runs were contracted.

**Hon. John McKay:** I understand the concept that pretty well everybody wants to buy this airplane last. That makes perfectly good sense to me, because that's where the sweet spot is. But what you're saying is that because of the reduced number of orders and the increased difficulties with this airplane, effectively we, along with all the other countries, will be shoved up the purchase scale to a higher per-unit cost.

**Mr. Sahir Khan:** Effectively, if you look at where Canada was originally looking to purchase, that point would have been in a fairly high level of this current learning curve associated with the production in the low-rate initial production, which would have been a relatively high cost compared to the last units.

Right now the U.S. Department of Defense has a figure published via the Government Accountability Office at $137 million average for all variants. So there will be a lower amount for the F-35A. But the price you ultimately pay—again based on this estimate—depends on when you are able to acquire the aircraft.

**The Chair:** Thank you.

Thank you, Mr. McKay.

We'll go to Ms. Glover, please.

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

I want to pick up on a couple of things that were said. First of all, I'm simply a soccer mom. I'm a parliamentarian, but I'm a soccer mom, so when I do my budget at home I take into consideration the revenues I have, the expenses I have, any investments I may have, and to get to the bottom line I have to include everything.

The frustration I have, Mr. Page, is that whenever I ask questions that are sensitive to you, because you really haven't included the good stuff, you try to stay away from it and you don't answer the question. So when Ms. Nash says we expect transparency, absolutely, that's why we created your position. We expect transparency. We expect honesty and fairness. Mr. Matier actually did say that you did take into consideration that chapter on innovation, on research, that kind of stuff, so I'd like him to point out what page that's on. He said EI as well. I see where EI is. So all I'm asking, and I hope it doesn't take you four minutes again, is to point out the page.

While you're looking for that, sir, I'd like to also ask you to clarify a couple of other things, because I only have five minutes and really four of those minutes were wasted dancing around the question last time.

The province-to-province health care spending, I thought that was an excellent question by Ms. Brown, and the ten-year projections I thought was an interesting comment. I would love to see that. If you could provide that to us, the ten-year projections of what the health care spending was, province to province, territory to territory, that would be very helpful.

I also want to comment that although I remarked about the one chapter on entrepreneurship and that kind of thing that seems to be absent, and Mr. Matier is going to get me the page in your report where it's addressed, I really don't see any investment information either, and how that assists in keeping Canadians in a situation where we're at an advantage. So things like, for example, the hiring credit for small business, the community infrastructure improvement fund in the budget, the Canadian Coast Guard—they have $5.2 billion that will generate jobs as well—all of those things help to generate jobs.

Again, going back to your contention that there are going to be 100,000 jobs lost, they're hypothetical. I know that now, after listening to you—that is what I asked you in the very first moment, and which you danced around for four minutes—but I do want to know, where are those projections for all these created jobs? It seems awfully odd that you would leave those out. So I'm giving you a chance here to explain where they are, and if you did leave them out who asked you to do that, because that's not transparent. That is not fair. That is not what a soccer mom would do in calculating a budget or making comments about a budget.

Frankly, there have been other economists who have said, Mr. Page, that you're very pessimistic when you do these things and there are things that are missing. So if you criticize the government on what's missing, it's because we've asked you to do a job, and we appreciate that. But you can't come here and do exactly the same thing and then try to dance around the question. So I'm giving you an opportunity to explain.

● (1700)

**Mr. Kevin Page:** I'll defer to Chris to provide the page numbers in the announcement, but I think as Chris said earlier, what we provide in our tables are figures that are provided on a net basis. When we're talking about jobs, we're talking about net jobs. When the government spends additional moneys—and there's roughly $1 billion of additional spending in the 2012 budget, and there was lots of spending in previous budgets—that creates jobs. Then when there's money being taken away, so to speak, because of program spending—and we're not commenting that that's a bad thing at all—there's a job impact to that as well. So the numbers are provided on a net basis, and Chris will provide you with the page numbers.

**Mrs. Shelly Glover:** What page number, sir?

**Mr. Chris Matier:** That's page 11, footnote 7.

The reason we didn't break out all of the job impacts by category was simply the size. These are relatively small amounts of money.

**Mrs. Shelly Glover:** So for the people at home who might be listening, because this is an interesting topic, this value refers to the net reduction in government spending contained in budget 2012. It has nothing to do again with taking the good and the bad and coming up with a bottom line once again—

**Mr. Chris Matier:** Actually, I disagree. It does. The net is that. There are spending reductions and then there are spending increases. The net is the sum of those two things.

**Mrs. Shelly Glover:** Okay, if you could break them down for me I would—

**Mr. Chris Matier:** I could. I would only say that again we're talking about.... We tried to focus on—

**Mrs. Shelly Glover:** You won't have time to do it here. I'd like it in written form, if you wouldn't mind. My time is up, unfortunately, but I'd like it in written form so I can actually see that you did provide the fair, transparent, balanced report that I'm hoping it is.

**The Chair:** Okay, thank you, Ms. Glover.

[*Translation*]

Mr. Mai, you have the floor.

[*English*]

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

I'll come back on the F-35. You had a letter to DND. Why did you feel it was important to ask DND that sustainment costs, including operating and support OS costs, be reconciled with the estimates published by the U.S. Department of Defense cost analysis and program evaluation unit?

**Mr. Sahir Khan:** Thank you for the question.

When we produced this report for parliamentarians a year ago, public estimates were not easily readily available for the F-35A variant, nor were long-term sustainment costs, so at that time we felt this would be.... Well, we were asked to produce this estimate under the Parliament of Canada Act.

Subsequently, reports have been published by the U.S. Improving Government Accountability Act, which is the audit and investigative arm of Congress, as well as by the U.S. Department of Defense CAPE unit—capability assessment and program evaluation—which has produced two estimates on the sustainment costs, and the Government Accountability Office has now produced average unit procurement costs.

Given that these are in the public domain, and they're done by respected institutions, our sense is that parliamentarians could be well served to have them as reference points for estimates that are now produced by the Department of National Defence alongside their own guidelines, which provide definitions for such things as life-cycle costs and operating and support.

We think it could be very useful for parliamentarians to have these reference points, because they are in the public domain. They are being updated on a periodic basis, and they remain estimates, but they're well explained as such.

We can provide the reports from the GAO and that could help you in your review.

**Mr. Hoang Mai:** Thank you very much.

I'm going back to Mr. Page. You note that budget 2012 will result in 43,000 fewer Canadians being employed, then you spoke about 100,000 lost jobs. What do you think the impact will be in the national capital region?

● (1705)

**Mr. Kevin Page:** The analysis we provide very much follows the same methodology provided by the Department of Finance in the 2009 budget, the 2010 budget, and the 2012 budget—it's an aggregate number. We have not broken out estimates for what the impact would be in Ottawa. We've undertaken an exercise working with departments, department by department, program by program. What will the job numbers be? Hopefully, we'll have something for that shortly.

We're also doing some broader work on compensation.

**Mr. Hoang Mai:** What do you think the impact will be in the long run, if we talk about more general...?

**Mr. Kevin Page:** More generally, I think it speaks to a question and our response provided, I think to Mr. Hoback, that there could be some.... We're taking some tough actions now, reducing our debt-to-GDP ratio, and there will be initial drag in the short term. I think Chris was quoting some private sector economists on this. But in the longer term, this might be a price or a trade-up well worth taking.

What we're saying in terms of the announcements today is to highlight this in a transparent way, that there are these trade-offs, and when we take these trade-offs we're aware we are taking them.

**Mr. Hoang Mai:** In your report you indicate that we'll reach a historic low in direct program expenses of 5.5% of GDP in 2016 and 2017. What will be the impact of this decrease in direct program spending, according to you?

**Mr. Kevin Page:** If we freeze the direct program spending in nominal terms, it's somewhere in the neighbourhood of $115 billion, so we're saying almost flat or negative growth over the next five years.

That direct program spending, as you say, will fall very dramatically. The question for us, and what we would like to provide to parliamentarians, is what will the impact be? In that context, what programs are being eliminated? What is being done to efficiency measures? What's being done in the context of public service? There's analysis for us to do.

Again, that is almost a record low level of direct program spending.

**Mr. Hoang Mai:** How will it impact poverty and inequality?

**Mr. Kevin Page:** We have no comment. We have no analysis.

Again, we are trying to do the distribution analysis, department by department, but I think the government is quite focused on trying to do this operationally. Mr. Jean talked about that.

We were going to look at that. What are the plans in place to achieve these efficiencies? Are there plans? Can we get to these levels?

I think that's a task we're going to turn to ourselves. We're not saying it can't be done, but certainly there will be risks.

**Mr. Hoang Mai:** I have just one more question.

With the volatile global economy, do you think it's too early to present an austerity budget?

**Mr. Kevin Page:** When we provide these estimates, we want to be clear to Parliament where we think the economy is vis-à-vis potential. We're saying right now, as we look in this particular context today, that we're probably operating somewhere about two percentage points below potential.

The IMF and the OECD present similar analyses from the reports. Their numbers are very similar to ours. We are talking about a consolidation program in that context, so there will be drag in the context of the economy operating below potential.

There is an impact, but as we get back to potential through the medium term, that impact will be mitigated. In a global economy with lots of uncertainties, who is to say where we'll be a year or two years from now in terms of potential?

**The Chair:** Thank you, Mr. Mai.

We'll go to Mr. Jean, please.

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

I want to reiterate what Mr. Rajotte said earlier. I really do appreciate your work. I am probably one of the one or two people who actually stay up at night to read the stuff and get giddy about it, because it is very interesting. I do appreciate that, and I appreciate your department's work as well. Saying that, we have to ask our questions, and we are very interested in that.

I do appreciate your comments to Mr. Mai, suggesting that initially doing this and maybe dragging the economy a little bit, which makes a bit of sense—it does make sense—over the medium term and the long term is going to be of a real benefit to Canada. I think that's what it's all about: real long-term benefit.

On page 3 of your report you talk about three things that would cause us to have problems, and one is the larger impact of commodity price weakness. I want to comment on that. On page 11 of your report you talk about how you revised the commodity prices up modestly.

We had the Governor of the Bank of Canada here a couple of days ago, and he said that commodity prices are high and they're going to remain high for the foreseeable future. I do see a conflict in that, and I would like a revised update based on that expertise from the Bank of Canada and what he sees as being the ongoing commodity prices.

I also want to know if you've taken into consideration the Canadian Energy Research Institute and its forecasts for what's going to happen, for instance in the oil sands generally, and for energy across the country.

● (1710)

**Mr. Kevin Page:** Sir, on the commodity prices, effectively we were using the Bank of Canada commodity price index. If you look at the data, the latest releases of the Bank of Canada commodity price index for March 2012, you will see year-over-year declines of the overall index, probably of about 12%.

**Mr. Brian Jean:** And I agree—

**Mr. Kevin Page:** You'll also see declines in agriculture, energy, forestry, etc.

**Mr. Brian Jean:** I'm sorry, Mr. Page. I only have a few minutes. I'm not trying to be rude. I understand. I'm just talking about commodities.

**Mr. Kevin Page:** I think it just a language issue. I think both what you're saying and—

**Mr. Brian Jean:** I know language issues, but you said low prices and he said high prices. You've said you've upped it modestly, and that doesn't sound like it's the same.

I really want to get back to the Canadian Energy Research Institute, which has indicated there's going to be $218 billion in the next 25 years invested just in the oil sands. Did you consider these investments? I see Mr. Askari shaking his head.

Did you consider those investments when you did your outlook?

**Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament):** Sir, when we do our projections, we don't go sector by sector, company by company. We provide—

**Mr. Brian Jean:** I understand, but this is an independent not-for-profit institute. The Canadian Energy Research Institute indicates that $218 billion in the next 25 years actually equals another $8 in economic value, a third of it outside of Alberta. That's going to be $1,744 billion in the next 25 years—$1,744 billion—invested in economic value just in the oil sands itself, and $600 billion of that is going to be in other parts of Canada besides Alberta.

You haven't used that. It seems absolutely strange, because that is astronomical.

**Mr. Mostafa Askari:** As I said, sir, we don't go sector by sector because there could also be a reduction in other sectors. We don't do that. It's an aggregate forecast.

**Mr. Brian Jean:** The forecast methodology is another thing I want to talk about.

I looked at the 2011 report, the last one that you did, and you mentioned in there that for the first time you're using your own medium-term economic outlook. You said that previously, and I quote, "PBO had used the average forecasts from Finance Canada's survey of private sector economists to prepare its fiscal projections."

Your projections are actually about 30% under the average projections of the private sector. No disrespect, but I invest a lot of money, and I would bet on their forecasts over yours, just because they have a hundred people who do what one of your people does—if I know the banks at all.

To be fair, I don't understand why you would change your forecast on that basis to be in essence pessimistic, as has been said; it is nowhere near the average of the private sector people who do this for a living and are very accurate.

**Mr. Kevin Page:** Sir, just to be short, we also do this for a living. We look at the average private sector forecast. We benchmark all the time against the average private sector forecast, including in our reports.

When we made the decision to move away from average private sector forecasts, we were looking at estimates for U.S. economic growth that were in the 3% range at that particular time. They have now come down, which is essentially closer to where we are, in the 2% to 2.2% range over the next three years. We thought that to get a balanced view forecast we had to make that decision at that time.

**Mr. Brian Jean:** But it doesn't seem balanced, because to me balanced seems average.

I do want to get back to this issue of the Canadian Energy Research Institute. I would like to have some information on why you didn't use it and if you could take those into consideration, because that is a lot of money.

If you haven't considered it in your projections, I would like to have paperwork that indicates it does. We don't have employees where we are, and to give this forecast to the government I think sends us and Canadians generally in the wrong direction.

Thank you.

**The Chair:** Please give a brief response.

**Mr. Mostafa Askari:** On whether we are more pessimistic, in fact the end point of the forecast, over the five years.... We are almost at the same point. It's the transition.

**Mr. Brian Jean:** It's in the short term.

**Mr. Mostafa Askari:** So we are a little bit below the private sector in the short term—

**Mr. Brian Jean:** Thirty percent below.

**Mr. Mostafa Askari:** —but above the private sector by more than 30% over the medium term. In fact it is a profile. It's not that we are being more pessimistic; it's just that the profile is different.

**The Chair:** Thank you very much.

Colleagues, I have a couple of items to deal with as business, so we are going to stop our session here.

We thank all our witnesses, Mr. Page and your colleagues, for coming in, for presenting to us, and responding to our questions.

Colleagues, I'll suspend for a couple of minutes, and then we'll resume.

[*Proceedings continue in camera*]

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