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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. I will ask our friends in the media to please step outside. Thank you very much.

This is the 85th meeting of the Standing Committee on Finance. Our orders of the day, pursuant to Standing Order 108(2), are a study on the report of the Bank of Canada on monetary policy.

Colleagues, we're very pleased to have, in our first hour today, the Governor of the Bank of Canada, Mr. Mark Carney. Mr. Carney, welcome back to the finance committee.

We're also joined by the senior deputy governor, Mr. Tiff Macklem, who is also a frequent contributor to this committee as well.

Gentlemen, welcome to you both. Thank you so much for being with us today.

Governor, please start with your opening statement, and then we'll have questions from members.

Mr. Mark Carney (Governor, Bank of Canada): Thank you very much, Chair. Good afternoon, members.

Tiff and I are very pleased to be with you today to discuss our October monetary policy report, which we published last week.

[*Translation*]

The global economy has unfolded broadly as the Bank projected in its July MPR. Growth has slowed in ail major regions. The economic expansion in the United States is progressing at a gradual pace. Europe is in recession and recent indicators point to a continued contraction.

In China and other major emerging economies, growth has slowed somewhat more than expected. However, there are signs of stabilization around current growth rates.

Notwithstanding the slowdown in global economic activity, prices for oil and other commodities produced in Canada have, on average, increased in recent months. Global financial conditions have improved, supported by aggressive policy actions of major central banks. Sentiment, though, remains fragile.

[*English*]

In Canada, while global headwinds continue to restrain economic activity, domestic factors are supporting a moderate expansion. Following the recent period of below potential growth, the economy is expected to pick up and return to full capacity by the end of next year.

The bank continues to project that the expansion will be mainly driven by growth in consumption and business investment, reflecting, in part, very stimulative domestic financial conditions. Housing activity is expected to decline from historically high levels. The household debt burden is expected to rise further before stabilizing by the end of the projection horizon.

There are upside and downside risks around the evolution of household imbalances. Residential investment could regain momentum, thereby reinforcing existing imbalances. Conversely, continuing high household debt levels could lead to a sharper than expected deceleration in household spending. In this context, Canadian authorities are cooperating closely to monitor the financial situation of the household sector and are responding appropriately.

Canadian exports are projected to pick up gradually but remain below their pre-recession levels until the first half of 2014, reflecting weak foreign demand and ongoing competitiveness challenges. These challenges include the persistent strength of the Canadian dollar, which has been influenced by safe haven flows and spillovers from global monetary policy.

After taking into account revisions to the national accounts, revisions which had the effect of raising measured growth for this year, the bank now projects that the economy will grow by 2.2% in 2012. Going forward, we expect growth of 2.3% in 2013, and 2.4% in 2014.

With respect to inflation, core inflation has been lower than expected in recent months. This reflects somewhat softer prices across a wide range of goods and services. Core inflation is expected to increase gradually over coming quarters, reaching 2% by the middle of 2013, as the economy gradually absorbs the current small degree of slack, the growth of labour compensation remains moderate, and inflation expectations stay well anchored.

Total CPI inflation has fallen noticeably below the 2% target, as the bank had expected. It is projected to return to target by the end of 2013, somewhat later than previously anticipated, in fact, a quarter later than previously anticipated.

● (1535)

[*Translation*]

The inflation outlook in Canada is subject to significant risks. The Bank's projection assumes that authorities in Europe are able to contain the ongoing crisis, and that the U.S. fiscal cliff will be avoided.

The three main upside risks relate to the possibility of higher global inflationary pressures, stronger Canadian exports and renewed momentum in Canadian residential investment.

The three main downside risks relate to the European crisis, weaker demand for Canadian exports and the possibility that growth in Canadian household spending could be weaker.

[*English*]

Overall, the bank judges that the risks to Canada's inflation outlook are roughly balanced over the projection period.

Reflecting all of these factors, on October 23 the bank maintained the target for the overnight rate at 1%. Over time, some modest withdrawal of monetary policy stimulus will likely be required, consistent with achieving the 2% inflation target. The timing and degree of any such withdrawal will be weighed carefully against global and domestic developments, including the evolution of the imbalances in the household sector, which I described previously.

With that, Tiff and I would be pleased to take members' questions.

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

We will start with Ms. Nash, please, for five minutes.

Ms. Peggy Nash (Parkdale—High Park, NDP): First of all, let me welcome both of you once again to the finance committee. Thank you for being here.

Let me start with your comments on the overall performance of the economy. We've seen some imbalances in the impact of the downturn and the subsequent recoveries, with some provinces hit more than others. The goods-producing sector is obviously still performing far below where it should be. We're seeing persistently high youth unemployment.

The Parliamentary Budget Officer has said that government spending reductions, the cutbacks, will result in an 1% annual decrease in the GDP by 2014. Were these cutbacks and the austerity measures taken by the government the correct fiscal policy? Would you care to comment on that?

Mr. Mark Carney: Thank you for the question.

Absolutely you are correct in the sense that there have been some imbalances or disparities in economic growth. That's frequently the case. In an expansion or in a recession and subsequent recovery, some sectors are affected differentially. Particularly in Canada one of the most important impacts obviously has been the structure of global demand and particularly demand for Canadian exports.

As is referenced in the report, foreign activity, which is an aggregate measure of foreign demand—demand in the United States and across the emerging world, the demand that matters most for Canadian goods—has been particularly weak in the recession period, and its recovery has been relatively weak. I'll give you one example, which is that of the U.S. housing sector. At its peak that sector was producing two million starts a year. It went down to a trough of less than 500,000 new homes per year as recently as a year ago.

Over the projection horizon we see that coming back more rapidly than the actual measured GDP, so there will be some benefit. That will help with disparities.

On your particular question, though, related to government expenditures, I would note that the fiscal expansion in the early days of the recession made an important contribution to GDP and to the recovery. It accounted for up to a third of the growth that came out in 2009-10 on a fully measured basis, a multiplier basis.

The subsequent adjustment and move in the direction of fiscal balance obviously does create some measure of fiscal drag, but as a whole, the direct contribution of government, at least in the bank's projection, the actual government spending—and I refer you to page 27 in the English—in 2013-14 is about 0.3 percentage points of additional growth.

For reference—and I'll hand it back to you—on average historically that contribution would be something like 0.6, but that's the nature of the adjustment. So it's positive, but it's not as much as previously.

● (1540)

Ms. Peggy Nash: Thank you for that.

I'm asking because this was a decision taken at the G-20 summit, to focus on getting to balanced budgets quite quickly. Even the IMF, I think, has underestimated the impact that austerity measures would have around the world.

I want to ask you to expand on comments you made last summer when you talked about inequality. Information released today by Food Banks Canada said they have seen a 31% increase in food bank use since before the recession, with a total of 882,000 Canadians using food banks.

How serious do you think the challenge of inequality is? What kind of a challenge does it pose to the people of Canada and specifically to the Government of Canada?

The Chair: You have about 30 seconds left. That's a big question, but can we have a brief response to that?

Mr. Mark Carney: I would say in general there has been an increase in inequality across the advanced economies over the course of decades, that there is normally and there has been an increase in measured inequality in the recession.

The best contribution of the Bank of Canada to mitigating this is to ensure that inflation is low, stable and predictable, because inflation itself hurts the poor the most, and deflation hurts those Canadians who are indebted the most. Our job is to make sure that inflation, on average, is at that 2% target. We can come back to this if other members wish.

The Chair: Thank you, Ms. Nash.

Mrs. McLeod, please.

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

It's always a pleasure to have you before the finance committee, Mr. Carney.

I was first elected in 2008, and it seems there has been a number of very significant challenges we've had to face as a government since that time. Certainly, I want to note that in your monetary policy report you underline:

> In Canada, while global headwinds continue to restrain economic activity, domestic factors are supporting a moderate expansion.

Given that comment, would you conclude that the greatest risks to our economy are really external events outside our control, like the European crisis? Would that be a fair comment?

Mr. Mark Carney: In our hierarchy of risks, we would say that the greatest risks are external. You referenced the European crisis quite rightly. Our expectation is that that crisis will remain contained. That is different from it being resolved, but it will remain contained.

The next in the near term is the potential resolution, or not, of the so-called fiscal cliff in the United States. This is something that, if not resolved—that's not our expectation, but we're no wiser than anyone else in terms of the eventual resolution of this—if the fiscal cliff were not to be resolved and all of the measures were to come into force that are on the books in the United States, the U.S. would almost certainly be in recession next year with a knock-on effect, obviously, for Canadian exporters, business, investment, etc. We're not predicting that, but it's a possibility.

I would note, as we do note in the report, that we do have a domestic risk that bears attention. That is the level of household indebtedness. This is the risk that we and others have been flagging for some time. It has built over time, since we've both been here in 2008. At present, given measures that have been taken by OSFI, by the government, given as well the stance and the leaning of monetary policy in Canada, there are mixed signals. I say that in a positive sense in that there are some signs that the pace of accumulation of household debt is certainly slowing. The pace is slowing, though it is still accumulating, and some adjustment appears to be under way in the housing market. This requires continued vigilance by all parties, and we certainly intend to play our part in that.

● (1545)

Mrs. Cathy McLeod: To go back to the European crisis because that might potentially have a significant impact, can you talk about the progress that's been made recently? Are we anywhere near a lasting resolution on this issue?

Mr. Mark Carney: I would not say we are near a lasting resolution on the issue, but that is not to diminish the important progress that has been made over the course of the last year.

Very importantly, the measures taken by the European Central Bank over the summer, the so-called OMT program, the intent of which is to remove so-called convertibility risk from European government borrowing, in other words, removing the risk premium that's paid by those governments for the possibility that the euro would cease to exist in its current form, the ECB has taken that risk off the table, or has made the commitment to take that risk off the table. That is very significant.

In addition, there has been progress, not completion but progress, on issues such as banking union and progress on some other broader fiscal arrangements that are there, but as we've underscored on a number of occasions, there is an ongoing need to deepen the economic union, to relaunch the financial union within Europe. Ultimately, there may need to be constitutional changes in Europe. There is a host of fiscal and structural reforms in each of the member states that are necessary for a lasting resolution of this situation, so it will take years.

The Chair: Thank you.

Mrs. Cathy McLeod: I was hoping to talk about the speech you gave at the Spruce Meadows round table, if you could give a quick summary within 15 seconds, but perhaps one of my colleagues will pick that up later.

Mr. Mark Carney: The quick summary is that Canada has been blessed with immense commodity resources. We should develop them sustainably and intelligently and to the benefit of all of Canada. That is entirely within the realm of possibility. All other things being equal, if commodity prices are going to be higher than historic averages, which they have been and we expect that to continue, it's better to have commodities than not.

The Chair: Thank you, Mrs. McLeod.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Macklem and Governor Carney, for joining us today.

Governor Carney, yesterday the Minister of Finance lowered projections for government bond and T-bill rates until 2016. We have the Parliamentary Budget Officer's report which expects interest rates, Bank of Canada rates, to stay where they are until about 2015.

Are you concerned about what seems to be an emergence of a consensus that Bank of Canada rates are going to remain just about where they are for the foreseeable future, given your warnings to Parliament and to Canadians about rising personal debt levels?

Mr. Mark Carney: The Bank of Canada sets monetary policy consistent with our inflation target and consistent under flexible inflation targeting, we're supporting other objectives such as financial stability in Canada, and we will take whatever actions are necessary.

Obviously in a view that we have in this projection, which includes some modest withdrawal of monetary policy stimulus over the course of the projection, a projection which runs until the end of 2014, in other words in advance of the 2015 date you just quoted, that would not necessarily be consistent with the projection, but I would reiterate that any adjustment to monetary policy would take into account the evolution of domestic and global factors, including the imbalances in the household sector.

Hon. Scott Brison: In the area of shadow banking, you've been active as chair of the FSB in calling for more oversight. In your speech at the CAW, you talked about Canada's auto leasing market, and what happened in 2007, and the effect in terms of the asset-backed commercial paper issue. Could you provide some current examples of shadow banking activities in Canada that would provide concern? What are the public policy measures we ought to be taking as parliamentarians?

● (1550)

Mr. Mark Carney: Jointly with other authorities, both federal and provincial, we have been conducting a monitoring exercise of the level of activity in the shadow banking sector. I would say that—I'm not going to be Pollyannaish about it—but there are not identifiable pockets that have the same level of risk and vulnerability that existed in the asset-backed commercial paper market in 2007-08. That's the first point. This is an area which requires consistent vigilance.

The second point is that the response to potential risks—and it's not just about risks that exist now; it's to ensure that vulnerabilities don't develop—should be proportionate and should be timely. With respect to policy, I will defer. The FSB is proposing to the G-20 this weekend and on Monday in Mexico City, a series of potential reforms which, subsequent to the presumed endorsement by the G-20, would go out for broader consultation next week. It should be considered here in Canada by parliamentarians.

Hon. Scott Brison: We all know how vulnerable we are to events and decisions made in the U.S. I'd appreciate your insight very briefly on three such events and decisions: QE3, some of the recent strengthening numbers in the U.S. housing market, and given that Bloomberg is reporting that hurricane Sandy will cause up to $20 billion in damages, what will be the impact of that? I know they are three distinct events and/or decisions, but I'd appreciate your thinking.

The Chair: You have about a minute left to respond.

Mr. Mark Carney: I have one minute? Okay.

Let me start from the bottom, which is first to acknowledge our sympathies for the families in the U.S. and in Canada who have been affected, and tragically so, by this storm, which as you know is ongoing.

Obviously it's very early days and the damage, unfortunately, is not yet complete. The estimates in the order of $20 billion are very early stage. What I would say in general is that with these types of disasters, there obviously is an impact on growth and activity. Initially there are activities that can never be redone: a visit to a restaurant or a movie or something similar that didn't happen over the course of the last few days represents lost GDP. There's obviously destruction, which isn't actually measured, but then there's the rebuilding, which is measured, and the extra activity and the shifting in time of activity.

I'm not trying to belittle the hardship that is being felt and continues to be felt, but in general it tends to be a relatively negligible impact over time. There will be noise in the data. There will be some stronger data and lesser data.

Those other two questions are very important, and hopefully, we'll come back to them.

The Chair: We'll come back to them, Governor. Thank you very much.

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

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

Governor, it's good to see you here again.

Certain observers have said that the Canadian job market has not actually been that strong in recent years. They have, for instance, implied that we have not recovered all the jobs we've lost since the recession, or have said that the quality of these jobs has been low.

I wonder if you could comment specifically on whether we have recovered the jobs we lost in the recession, and if so, what the quality of those jobs has been. Have they been full-time or part-time, public sector or private sector? Finally, how do we compare with our G-7 counterparts?

Mr. Mark Carney: It's an important question. The short answer is yes, for well over a year, in fact almost two, Canada's been in a position where we've fully recovered the 400,000-odd jobs lost in the recession, and then we have added jobs. Obviously, the number added moves around with each employment report. I'll look to Tiff. If memory serves me, it's about 380,000 net jobs. That's our final answer. I need to phone a friend on this one.

Mr. Tiff Macklem (Senior Deputy Governor, Bank of Canada): We lost 430,000. We got those back, and we've added about another 380,000.

Mr. Mark Carney: Thank you. We've added another 380,000.

Your question about quality is an important one. About three-quarters—77% to be exact—of those jobs are in industries where the wage is above the average wage paid, so those are in higher quality industries as measured by wage. The vast majority of jobs—I think almost 85% on the most recent read—are private sector jobs. Most of them are, obviously, full-time as opposed to part-time. The quality of job creation has been high.

We're obviously still, though, in a position—I think all members would agree—where there are more Canadians who want to work than are working. We can see that in a variety of measures. The unemployment rate is at 7.3% to 7.4%. The employment-to-population ratio is still a couple of percentage points lower than it was before the recession. The level of involuntary part-time workers, people working part-time who want to work full-time, is still elevated relative to what it was prior to the recession. All those factors are important from a monetary policy perspective. They're obviously important from a personal perspective, but from a monetary policy perspective they're important because they illustrate a degree of slack that still exists in the labour market measured across the country as a whole, which is one of the reasons that a monetary policy can be and continues to be and should continue to be very accommodating.

● (1555)

Mr. Dave Van Kesteren: How do we compare to our G-7 counterparts?

Mr. Mark Carney: Certainly relative to the United States, there's no comparison. The United States has not recovered all the jobs lost. They're still millions of jobs down. The drop in the proportion of Americans working relative to the population is much more marked and severe than it is in Canada—it's another couple of percentage points on that employment-to-population ratio—and the involuntary part-time is much higher.

Obviously, within continental Europe, the G-7 countries, and unfortunately in the U.K. as well, the pace of job creation from recession troughs has been quite slow, and the quality has been beneath that found in Canada.

Mr. Dave Van Kesteren: Speaking of the United States, we certainly don't want to see the same problems they've had in the housing market. I know this is something you've been very concerned about as well.

As a government, we've moved the period of amortization to 25 years. We've also taken some steps with CMHC and the new supervision of the Office of the Superintendent of Financial Institutions. How do you feel these two things have changed the situation? Are we stronger? Are we in a better position to not run into the same problems they've run into in the United States with the housing market?

Mr. Mark Carney: We have welcomed the moves the government has taken on reducing amortization, increasing down payments, effectively raising the credit scores, reducing and effectively eliminating the ability to access mortgage insurance for refinancing and for investment properties. These measures as a whole are contributing to a more sustainable development of the housing market here in Canada, and we welcome them. We also welcome the measures that OSFI has taken to improve the mortgage underwriting standards of financial institutions.

The Chair: Thank you, Mr. Van Kesteren.

Monsieur Mai, s'il vous plaît, pour cinq minutes.

[*Translation*]

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

Good afternoon, gentlemen.

Mr. Carney, you said last summer that Canadian companies are not doing enough to stimulate economic growth and create jobs.

According to Statistics Canada, those companies had a reserve of $526 billion at the end of the first quarter of 2012, an increase of 43% since the end of the 2009 recession. You called that reserve dead money.

Could you explain what the impact of this is, since the money is not being reinvested in the economy, or in productivity, where Canada is having trouble? What could be done to improve this situation? I know the Minister of Finance agreed with you that this was dead money.

Mr. Mark Carney: Thank you. That is an important question.

Yes, the cash to book ratio has reached a record level. It is not just the amount that is important; it is also the ratio.

What can be done? We can use monetary policy. This is one of the reasons why that policy is so accommodating at present. The overnight rate is 1% and return on Government of Canada bonds is a little under 2%. Obviously, that money is not earning a company's capital costs. So after a certain time, they feel the need to invest.

What more can be done? The incentives for companies to invest can be changed, with measures like the accelerated depreciation deduction that the government put in place in the last budget. That is one approach.

What is essential is to offer certainty as soon as possible. There has to be certainty in the conduct of monetary policy, in budget policy, and in the regulations. As well, if it could be done, we would like to offer certainty globally, in Europe and elsewhere, but that is impossible.

Voices: Oh, oh!

Mr. Mark Carney: Even the Bank of Canada can't do that.

● (1600)

Mr. Hoang Mai: I think that is beyond your capacity.

You met with us last year and you raised the issue of household debt. The reason the economy has grown is household consumption. There has been talk of record debt levels. According to Statistics Canada, the debt level has reached 163.4%.

What should be done about this? I think this is a concrete issue. Last year, you said it would continue to rise. What can be done?

Mr. Mark Carney: First, the rate of growth in household debt has declined. That is a confirmed fact.

Second, as we were discussing with Mr. Van Kesteren, on four occasions, the government has implemented significant measures to tighten CMHC's mortgage insurance rules.

That said, we have to continue to be vigilant. A number of regulatory options are available. The recent changes have just been put in place and we are starting to feel and see the effects. All in all, we think now is when we will observe the impact of the measures.

The Chair: Thank you, Mr. Mai.

[*English*]

We'll go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Mr. Chair, and welcome to Mr. Carney and Mr. Macklem.

As you know, the financial system as such makes an important contribution to the welfare of all Canadians, giving the ability to firms and individuals to hold and transfer assets. With the recent global downturn over the last number of years, Canadian banks have certainly weathered it well, being well capitalized.

With the G-20 financial sector reforms that were proposed and then Canada going even further by introducing legislative amendments to support a central clearing house standard for over-the-counter derivative transactions, could you comment on how this technical change is important in maintaining Canada's global market economic stability?

Mr. Mark Carney: There is a series of reforms that are, as you say, technical and relate really to the plumbing of derivatives markets. I think we do well to remember that these are $300 trillion-plus markets in notional size. These are immense markets globally. They bring real, true systemic risk to global financial institutions and back into institutions in Canada. The so-called infrastructure of these derivatives markets was found wanting in the crisis and needs to be fixed.

I'll briefly walk through some of the key elements.

First, we actually want to know what's going on in these markets. In other words, we want to make sure that every trade in every derivatives contract is actually reported to what's called the trade depository, so that regulators and authorities can see the actual level of activity, spot trends, see emerging vulnerabilities, and address them as necessary. That's the first thing. Unlike the equity market, one does not have a central repository of the trades that actually happen in derivatives, and it's not acceptable. It's being fixed. It's the first element. Canada is moving forward on that.

The second thing is that the actual mechanisms of so-called settlement in these markets used to be done effectively on a bilateral basis between you and me. I'm going to pick on you, Mr. Adler. If you were going bankrupt, the concern of all other members of the committee would be who else is exposed to you. Then we would think maybe we should cut off the Chair, for example, with all due respect, or maybe that wasn't the best choice; maybe we should cut off Mr. Brison. If the consequence of that was to freeze the system, if there's a central counterparty in the middle so all our trades are through a central pool and all our collateral is held there, if you have the misfortune to fail, then the rest of us can continue to function because we know the collateral is safe and the system continues.

That is fundamental to ending too big to fail, which is a shared objective certainly of members of this committee and of the G-20. Also, it's fundamental to actually make the system more efficient because by pooling the collateral, there can both be more of it available in the event that you fail to the system as a whole but less of it required as a whole because it is in fact pooled.

What Canada has done—and maybe I'll say, as FSB chair, all G-20 countries have just done—is to decide the direction in which they're going to proceed with central clearing. Those legislative amendments were important for the ability of Canada to make those decisions.

● (1605)

Mr. Mark Adler: Could you comment on how you use monetary policy to calm the growth of household debt?

Mr. Mark Carney: As you are aware, the important aspect here is that the first responsibility of monetary policy is the achievement of the inflation target, it's inflation.

With respect to issues around household debt, there are several lines of defence. They start with the individual and the institutions lending to those individuals. They then extend to so-called micro-prudential regulations, which are a type of regulation that OSFI would put in place. The amount of capital a bank has to hold against a given loan, OSFI has actually been raising those amounts, so that has helped.

Related to that, the second line of defence is supervision and underwriting standards. OSFI has been tightening those underwriting standards, so that has helped.

The third line of defence is macro-prudential regulations, the types of measures raised by Mr. Van Kesteren on CMHC and mortgage insurance. They have been tightened four times. That has helped.

The last line of defence is monetary policy. One doesn't want to lean with monetary policy, but one doesn't want monetary policy working at cross-purposes, easing when everything else is tightening, for example, when there is economy-wide vulnerability. Monetary policy can play a complementary role. It's the last line of defence. That's why we work closely with other authorities to ensure that all potential mechanisms and tools can be used to the greatest effect.

The Chair: Thank you, Mr. Adler.

Mr. Marston, please.

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

Governor, I'm going to take advantage of the fact that we've got your expertise here to go a little off track from where we've been.

This committee has been tasked with hearing testimony on a private member's bill that requires the publishing of financial information from a number of organizations, which raises some very serious concerns, not only from the witnesses but from some members from all parties.

Could you speak to how the market would be impacted if the details of all financial transactions had to be publicly disclosed? Suppose that this only applied to a single group. What impact would that have on their operations?

● (1610)

Mr. Mark Carney: I'm not sure I have quite enough information to answer that question at this stage. If we drop it down another level....

Mr. Wayne Marston: I thought we might be at that point. It's regarding unions and other associated organizations, labour trusts, and places like that. For example, if that information were published, employer groups would know the assets of the union, would know what they could apply for bargaining and a variety of investments they have in the building trades where they have contracts with specific municipalities or whomever. Their competition would know that.

Would that affect the outcome of the collective bargaining if the finances of that union were made evident?

The Chair: Mr. Marston, I'm going to interject. We invited the governor and senior deputy governor to talk about the monetary policy report. I think we're really stretching relevance; even your generous chair may think this is not relevant.

I don't know if it's fair to ask Governor Carney something that we haven't....

Governor, you are welcome to comment generally about it or we can certainly follow up later.

Mr. Mark Carney: It seems to be an issue that in other venues you might discuss, but I'm not sure that it affects the conduct of monetary policy, if I may answer that way.

Mr. Wayne Marston: I will have to take that as a reasonable response. I have to admit, I was trying to put you on the spot a bit.

In trying to talk about monetary policy and relative to the impact such things could have, and I'm trying to be as general as I possibly can with this, if institutions were required to publish financial information that they haven't traditionally put out there, that would open up a whole new venue in the market, in the responsibilities they have. That might be onerous on some.

Mr. Mark Carney: I'll give you a general answer that goes back to the question Mr. Adler asked.

In terms of financial reform, and the example was on derivatives but there are other examples, there are some initiatives that we're hoping are going to come out next week —I don't want to pre-judge the G-20—that relate to enhanced disclosure of financial institutions, related to their risk profiles, the business models, and other aspects.

In general, we are encouraging greater disclosure of financial information and risk profiles and transactional information. I would say that obviously in all cases, we are encouraging disclosure by all sides so it's not just one financial institution, but all financial institutions and both sides of the trade in a derivative. One of the challenges internationally, of course, is these are international markets. Canada will disclose, but we want to make sure that the Europeans, the Americans, the U.K. etc. disclose as well. That's the way the system works. In the end that's why reforms, such as the two I just referenced, in our opinion, have to be agreed internationally and implemented internationally at the same time to be effective.

Mr. Wayne Marston: I think that advice you had at a macro level would apply here to some degree. If two parties are in this, both parties should be disclosing. If one or the other had to, it would be a less balanced situation. I appreciate your comments.

Mr. Mark Carney: Thank you.

The Chair: You have about 30 seconds, if you wish.

Thank you, Mr. Marston.

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

I wanted to follow up, Governor, on a few issues.

First of all, though, I think it's important to say that I thought your statement as governor on the passing of former Bank of Canada governor James Coyne was an outstanding statement. I did want to commend you for that. That was very much appreciated in terms of him as a person, but also in terms of his role in the development of the Bank of Canada.

I did want to follow up on the point about quantitative easing three. I don't know how much you want to say about that, but certainly from our perspective I'd like to hear your thoughts on its impact, positive, negative, or otherwise.

Then, I did want to follow up on the issue of the statement you made with respect to the cash that companies are holding. It was presented as being a sort of critical statement, although in your report itself, on pages 29 and 30, I don't really see it as a criticism, frankly. It's more of an analytical statement at the bottom of page 29 and the beginning of page 30. I did want to get your full response on that, because there has been a lot of dialogue here, certainly dialogue back and forth as to what the government should or should not do with respect to companies and whether they are in fact sitting on too much cash, as it's said colloquially.

If I could get your comment on those two issues, I'd appreciate it.

● (1615)

Mr. Mark Carney: Thank you.

First, with respect to quantitative easing, we have in the report, as I'm sure you saw in box 1 on page 6 in the English text—I think it's *page 7 en français*—a technical box that goes through the implications of, in effect, QE3. It's called “U.S. Monetary Policy Developments”. I'll make a couple of observations just to summarize.

The first is on the measures taken by the Federal Reserve, the so-called QE3, which is not just a commitment or an expectation of asset purchases—$40 billion per month until it's no longer necessary—but also a communications strategy associated with that, which included the central tendency expectation that U.S. interest rates would remain at their lowest possible level through the middle of 2015, but also tying that to “substantial improvements in the labour market”. The combination of those, in our opinion, was quite a significant move by the Federal Reserve to provide significant additional stimulus to the U.S. economy.

The question is, what's the net impact of that on Canada? We took the overall level of those measures, and we feel that it will lift the level of U.S. GDP by 1.3%; that's not growth, but the cumulative impact of 1.3% on U.S. GDP by the end of 2014. That's a significant move.

Now, we expected them to do something over the second half of this year, so some of that was already in our projections. Our U.S. projection does not move up by the same amount as that. I won't draw any more on that, but we had something in there because we expected additional U.S. stimulus.

For net for Canada, it's obviously a good thing if the U.S. economy is growing more, but some of that is taken away by upward pressure on the Canadian dollar, which is one of the channels through which quantitative easing works. In fact, any monetary policy easing works. It doesn't have to be unconventional; it can be conventional. That upward pressure on the Canadian dollar takes some of that benefit to Canada back. Our point estimate on the net impact of the U.S. measures is about 0.4% on the level of Canadian GDP measured to the same point in time.

It's something, and it is positive. We do believe that it's positive. One shouldn't put too much faith in the specific estimates. I mean, they're directionally correct and we think order of magnitude correct, but what will matter ultimately is through which channels quantitative easing operates, and how much of that is through the improvement in the value of domestic assets in the United States, which spurs spending and investment in the U.S., and how much is through the exchange rate channel. We can go into more detail if you want.

In terms of the question about cash balances, first off, the original observation was an observation. Yes, it's an observation that if there's cash on the balance sheet and it's not earning the cost of capital, firms ultimately will put that money to work, or they will give it back to shareholders, who will redeploy.

The Chair: Yes.

Mr. Mark Carney: Operating in an environment of uncertainty, the best thing we can do is provide the maximum amount of certainty about as many aspects as possible. It starts with macro policy, goes to regulation, and goes to the structure of structural policy. There is some advantage for consideration. It's for the committee and ultimately the government and the House to decide—for Parliament to decide—the merits of tax measures that have been deployed—

The Chair: You mean measures such as the accelerated capital costs.

Mr. Mark Carney: Yes, and there are other measures that could be like that.

The last thing I will say, and it is for firms to decide, is that what we do have in Canada are tremendous opportunities that don't necessarily exist elsewhere. We have an opportunity to boost productivity, to build market share in major emerging markets, and to take advantage of the strong Canadian dollar to buy machinery and equipment.

The Chair: Thank you.

[*Translation*]

Mr. Caron, you have the floor.

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

Thank you for being with us today, Mr. Carney.

I would like to come back to the point Ms. Nash started to address: budget austerity. If we look at some countries, Great Britain for example, that have moved fairly aggressively toward budget austerity, we see that they seem to be having a lot of problems with economic growth at present. In a recent report, the International Monetary Fund questioned the multiplier it currently uses to study budgetary effects, and in particular effects associated with budget austerity.

Here in Canada, you probably know that the Parliamentary Budget Officer, using the Department of Finance multipliers, concluded that Canada is not currently realizing its full economic potential. Among other things, he concluded that growth is 1% lower than what it could be if we did not take the austerity approach, and that we have a loss of about 125,000 new jobs.

As things now stand, and in the global climate of economic uncertainty we are experiencing, do you think austerity is the direction we should be going in? Should we not instead examine other alternatives, such as stimulating the economy with infrastructure work, which would provide an injection of sufficient funds to help growth?

● (1620)

Mr. Mark Carney: I want to start by pointing out that we do not agree with a projection that includes an increase in the output gap by the end of 2014. Here in Canada, there are two macroeconomic policies, and in particular monetary policy. So we could adjust, if that were the case.

If that were the probability, there would be a reaction, via monetary policy, to narrow the gap between the policies, that is, there would be monetary easing.

To discuss multipliers and other aspects, I will yield the floor to Mr. Macklem.

Mr. Tiff Macklem: I just want to mention two things. First, it is important to distinguish between the situation in Canada and the situation in a lot of other advanced countries. Our situation is quite different. Compared with other countries, Canada has the lowest debt-to-GDP ratio.

As the governor just said in answer to Ms. Nash's question, there were stimulus measures in the budget in Canada. In 2012, it had already reversed. At page 27, in the English version of the Bank of Canada document, we can see that government contributions were negative. That reflects the reversal of the stimulus effect, but it has now ended. For the 2013-14 fiscal year, there is a government contribution to growth of about 0.3%, which is about half the historical average of about 0.6%.

Second, in the other countries, and especially the European countries, much greater emphasis is being placed on budget austerity. Clearly, some of those countries have no choice. They need to resolve their budget situation. It is also important to note that the urban crisis is not just a budget crisis. It is also a balance of payments crisis. They also need major structural measures to reform their economies and improve competition so they can get back to a growth situation. Growth is also important, to improve the budget situation.

So there are these two aspects. It is important to strike a balance between the two.

Mr. Guy Caron: Because I have only 30 seconds, I am going to quickly ask a question.

You say that some countries had no choice but to impose austerity budgets. In the present situation, would you say that Canada can still choose between austerity and economic stimulus-type budgets?

Mr. Tiff Macklem: Clearly, Canada has more monetary options and more fiscal options. That is an advantage.

Mr. Guy Caron: Thank you.

The Chair: Thank you, Mr. Caron.

[*English*]

Mr. Jean, please, for the final round.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you for coming today.

I'd like to ask some questions but, first of all, I'd like to congratulate you and your staff on your website and the interactive nature of it and also on having the speech today published so I could read it, even though I wasn't in the room listening. Congratulations. That is very helpful.

I'd like to ask some questions in relation to globalization and the skills shortage generally found in Canada.

In the context of the speech you made to the CAW on August 22, 2012, specifically in regard to building foundations to create prosperity, you mentioned the competitive advantage that we have here in Canada. We are, I would say, more advanced than many countries in resource development. Many countries in Africa, South America, and Central America use our corporations. We lead the world as we have more investments overseas than they have in Canada as far as ownership and management control goes.

Keeping in the thought process the policy tools of mobility of workers, removing barriers—provincial barriers, primarily—and immigration reform, and training and education, do you see, first of all, that the status quo, as we've been operating over the past years, is not good enough and that we have to make changes?

● (1625)

Mr. Mark Carney: I think that's a good operating principle. We always have to examine the status quo and see how we can continually improve. In fact, in a competitive world, we find that you almost level-peg as a result of doing that, and you're running to stand still. The question is how we can further advance.

With respect to skills and skills shortages in this country, as you reference, first and foremost, we want to make sure we have as flexible interprovincial labour markets as possible so we can maximize opportunities for all Canadians to work where they wish and to realize the advantages in this country. Obviously, targeted immigration and the immigration reforms that have been put in place, in our view, will enhance the productivity of the country and the experience of new Canadians. It's a challenge that goes to equality of opportunity, which we discussed earlier. It's a challenge that goes to productivity, goes to the ability to continue to build the skills of Canadian workers and enhance those skills over their working lifetimes. That's workplace training.

It also goes to the post-secondary education experience in Canada. As you know, a very high proportion of our population pursues post-secondary degrees. The matching of those degrees and those skills and the requirements of a modern, globalized, technologically intensive economy has been less than ideal. We're seeing that in work outcomes for graduates. Therefore, it's an ability to better target, better encourage the skills that Canadians are acquiring in post-secondary education and mapping them to a globalized economy.

I'll hand it back to you. We talked a bit about inequality and equality of opportunity. One of the challenges is that the level of technical and technological expertise that is required for the middle class job continually goes up as globalization extends, and the range of activities, including very importantly, service activities that become tradeable, that technological advantage has to increase. We need to better prepare our children for that.

Mr. Brian Jean: Obviously, some of the moves we've made so far in immigration reform and mobility, as far as removing inter-provincial barriers goes, are good, but wouldn't it be fair to say that if we don't go further than what we currently are doing and we make some changes, that it's actually a threat to our economy and our well-being?

Mr. Mark Carney: Yes, these are areas that need, as I said at the outset, to constantly be evaluated. Some of the good work that has been done on a provincial level has helped in this regard. There have been provincial agreements between, for example, B.C. and Alberta that have proved to be a successor to TILMA .

Do you want to supplement that?

Mr. Tiff Macklem: Yes, I was just going to add to that. By looking over a longer horizon, as you're aware, the demographics suggest that the growth of the labour force is going to be declining. In fact, it's already started. Effectively, workers are aging. We're all having fewer babies and so the workforce is growing more slowly.

When you look, going forward, increasingly, the challenge will be finding enough good workers for the jobs, so that's going to be partly related to skills.

I would add the need to increasingly improve efforts to tap into areas of the workforce where there's potential for more growth. For example, we're living longer, we're healthier, and the labour participation of older workers is going up. There is scope for that to go higher with more flexible work arrangements.

The aboriginal population is growing rapidly. There are lots of good reasons to improve access to work for aboriginals. The coming demographic squeeze is just another one. Those are a couple of examples, and immigration, yes.

● (1630)

The Chair: Okay, thank you.

Thank you, Mr. Jean.

I want to thank, on behalf of all the committee, Governor Carney and Mr. Macklem for being here today and responding to our questions. If there's anything further you wish us to consider on any of the topics we raised here today, please do submit it to the committee and I'll ensure all members get it .

Mr. Mark Carney: Okay. It's our pleasure.

The Chair: Thank you so much for being with us.

●
(Pause)
●

The Chair: I want to welcome everyone back to the 85th meeting of the Standing Committee on Finance.

I want to welcome our guests as well.

Pursuant to Standing Order 108(2), this is a study of the economic and fiscal outlook.

As you know, colleagues, two times per year we have the Parliamentary Budget Officer, so we're very pleased to have Mr. Kevin Page back before the committee today. He's joined by three of his colleagues from the Parliamentary Budget Office. We have Mr. Mostafa Askari, Mr. Sahir Khan, and Mr. Chris Matier. Welcome to all of you. Thank you for joining us here today.

Mr. Page, I'll ask you to begin with your opening statement and then we'll begin with members' questions immediately after that.

● (1635)

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

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

[*Translation*]

Good afternoon Mr. Chair, vice-chairs, and members of the committee. Thank you for inviting me and my colleagues to speak to you today about Canada's economic and fiscal outlook.

Yesterday, as you know, PBO released two reports. The first examined the short- and medium-term outlook, and the second analyzed the performance of the Canadian labour market. In addition, just over a month ago, the PBO released its 2012 Fiscal Sustainability Report, which examines Canada's fiscal structure from a longer-term perspective.

[*English*]

My remarks will focus on three topics that go to the core of the PBO's mandate: the nation's economic and fiscal outlook over the medium term, the government's fiscal sustainability in the long term, and Canada's labour market performance.

The global economic outlook has deteriorated since the PBO's April 2012 economic and fiscal outlook. The recent International Monetary Fund's world economic outlook indicates that uncertainty surrounding policy-makers' ability to control the euro crisis and to avoid the fiscal cliff, i.e., automatic tax increases and spending reductions, in the U.S. are weighing on growth in advanced as well as in emerging market and developing economies.

The expected weakness in the global economy and commodity prices combined with government spending reductions and restraint are expected to weaken economic growth and job creation going forward. As a result, the PBO projects Canada's real GDP to grow 1.9% this year, 1.5% next year, and 2.0% in 2014. The weakness in near-term growth pushes the economy further below its potential, resulting in an increase in the unemployment rate in the short term.

Since the release of the PBO's April 2012 economic and fiscal outlook, private sector forecasters have revised down their outlook for real GDP growth in 2012-13, bringing it more into line with PBO's April economic and fiscal outlook. Compared to the average of private sector forecasts published in September, PBO is projecting slower real GDP growth and lower GDP inflation in 2013-14. As a result, the PBO's outlook for nominal GDP, the broadest measure of the government's tax base, is lower by $22 billion annually, on average, than the projection based on average private sector forecasts.

The PBO judges that the balance of risks to the private sector outlook for nominal GDP is tilted to the downside, reflecting larger impacts from government spending reductions and a more sluggish U.S. recovery, as well as differences in views on commodity prices and their impacts on real GDP growth and GDP inflation.

On the basis of this economic projection, the PBO's fiscal projection shows significant improvement in the government's budgetary balance from a deficit of $18.1 billion—that's 1% of GDP—in 2012-13 to a surplus of $13.8 billion—0.6% of GDP—in 2017-18. The improvement is partly due to a cyclical rebound in revenues, but can be mainly attributed to policy actions to restrain operating expenses.

Based on the outlook presented in budget 2012, the government's direct program expenses are assumed to remain essentially frozen for six years, growing at 0.2% annually, on average, which is well below the average of 6.3% observed over the last 10 years.

Given the PBO's assessment of the balance of risks to the private sector economic outlook, the PBO estimates that the likelihood of realizing budgetary balance or better is approximately 60% in 2015-16, 70% in 2016-17, and 75% in 2017-18.

Although the PBO projects the government's structural balance to improve from a deficit to a surplus position over the medium term, assessing whether a government's fiscal structure is sustainable requires looking over a longer horizon to take into account the economic and fiscal implications of Canada's aging population.

In its 2012 fiscal sustainability report, the PBO concluded that the government's fiscal structure was sustainable over the long term given recent policy changes, which include the reduction in growth to the Canada health transfer, CHT, beyond 2016-17, reductions in direct program expenses, and the increase in the age of eligibility for the old age security, OAS, program.

● (1640)

The PBO estimated that the government would have sufficient fiscal room, amounting to 1.4% of GDP, to reduce taxes, increase spending on programs, or some combination of both, while still maintaining fiscal sustainability.

The PBO is pleased to note that last week Finance Canada published a report on Canada's aging population and long-term fiscal sustainability. Finance Canada's report confirms the PBO's analyses of the federal fiscal structure presented in its September 2011 fiscal sustainability report, as well as its January 2012 assessment of the CHT renewal, as well as its September 2012 fiscal sustainability report.

That is, prior to the government's December 2011 change to the CHT, the Canada health transfer, the federal fiscal structure was not sustainable, as federal debt relative to GDP was projected to rise unchecked over the long term. The PBO noted in its January 2012 assessment that as a result of the reduction in the growth rate of the CHT, the federal fiscal structure was rendered sustainable. Furthermore, the PBO's January 2012 assessment did not incorporate the government's program spending reductions and restraint, or the increase in the age of eligibility for the OAS, the old age security program.

[*Translation*]

In its labour market report, the PBO provides a richer perspective on the performance of Canada's labour market by analyzing a broad set of labour market indicators, comparing current levels to PBO estimates of their underlying trends, exploiting longer time periods, which include previous recessions, and comparing Canada's recent performance to a large group of advanced economies.

Most of the key labour market indicators in Canada have improved significantly from their recessionary lows, but they remain below the PBO's estimate of their underlying trend values. PBO analysis also suggests that the labour market in the current cycle has generally fared better relative to past economic cycles in the 1980s and 1990s. Looking abroad, Canada's labour market is currently out-performing the U.S. and some European countries and scores above average among the G7 and OECD countries.

[*English*]

The PBO is pleased to note that Finance Canada is now publishing its estimates of the government's structural, or cyclically adjusted, budget balance on a public accounts basis in its annual fiscal reference tables. Consistent with the PBO's estimates, Finance Canada's estimates now indicate a relatively small but growing structural deficit over the period 2008-09 to 2011-12.

Further, to improve budget transparency and accountability, the PBO continues to strongly encourage the Government of Canada to publish: historical estimates and medium-term projections—i.e., five years ahead—of the economy's potential GDP, accompanied by the methodology and assumptions relied upon to arrive at such estimates; medium-term projections of the government's structural, or cyclically adjusted, budget balance, accompanied by the methodology and assumptions relied upon to arrive at such projections; and the fiscal sustainability analyses of the provincial-territorial government sector that it has prepared in the past, which the Auditor General noted in his recent report.

[*Translation*]

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

[*English*]

Thank you, Mr. Chair.

[*Translation*]

The Chair: Thank you for your presentation, Mr. Page.

We will start with Ms. Nash. You have the floor.

[*English*]

Ms. Peggy Nash: Welcome, Mr. Page, and your team, to the finance committee once again.

I remember when you were here in the spring. At that time you talked about the government's austerity measures and the impact you predicted they would have as a drag on economic growth. I know the members opposite on the Conservative side were very aggressive in their opposition to that, but I note that in fact more sources, more analysts, tend to be agreeing with the predictions that you made. It must be hard to be out in front on these projections. Even the IMF is saying now that they underestimated the impact of austerity measures and the drag that they would have on growth. First of all, I want to thank you for your fine work on this.

I want to ask you about your job as Parliamentary Budget Officer. You have had a very difficult time, and that has been a very public situation, getting access to basic information to be able to do your job. Can you tell the committee about the legal situation concerning the exercising of your mandate right now?

● (1645)

Mr. Kevin Page: At the moment, the PBO operates within its mandate as specified in the act of Parliament, which says that we can provide independent analysis on the economy, the nation's finances, the estimates, and costing. At the present time, we are working within that mandate.

With respect to the information we have received or not received in the past, it varies from file to file. There have been times on certain files where we received very good information. At other times, we have received less-good information.

With respect to budget 2012 and our efforts to get additional information and make it available to all parliamentarians, there's certainly been some progress, which we've reported on our website. We've received information from a number of departments on spending, less information on employment, and less information on service levels. We've reached a point where I think we need clarity with respect to our mandate. I think there's a difference of opinion, so we will proceed in that fashion. We will proceed to try to find clarity.

Ms. Peggy Nash: We support you in your quest to find clarity. It's been difficult for parliamentarians to find clarity on the impact of the government's budget changes and what they actually mean for the Canadians we represent.

I also note that you are nearing the end of your mandate. Can you clarify for us what the process will be for choosing the next Parliamentary Budget Officer? Have you been approached by the government for recommendations? Do you know what's going to happen when you complete your mandate?

Mr. Kevin Page: It's true that my mandate, my five-year appointment, will be up in March 2013. There is a process in the act that deals with replacing the Parliamentary Budget Officer, or finding a new candidate. It's also possible that I could seek an additional term.

The Parliamentary Librarian and the deputy head of the Library of Parliament, where I work, put together a process. Three names are advanced, effectively, to the Governor in Council, and then a choice is made. That is the process that is going on. There have been some discussions with the Parliamentary Librarian to start that process. I'm not aware that it's officially started at this time.

Ms. Peggy Nash: Are you concerned that the position may be vacant if there is not action soon to initiate the process for finding a replacement?

Mr. Kevin Page: If the process were started now, I don't see why they couldn't find a very capable, knowledgeable, experienced candidate. I think there are probably three others around this table right now who would love to do the job. If we start the process soon, I think people will come.

Ms. Peggy Nash: The government has talked a lot about the gun registry and how much it would save Canadians to get rid of it, and now we're having difficulty getting these numbers out of the government. Is that something your office is examining, and if not, could you do it?

Mr. Kevin Page: We have not been asked, but certainly we could talk about what such a process could look like and how we would put together such a costing. We'd be happy to talk to you about that.

Ms. Peggy Nash: Thank you.

The Chair: Thank you.

We'll go to Mr. Hoback.

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

I want to thank you, Mr. Page, for being here this afternoon. When we're talking about the economy, what we're going through, and the global recession and the implications, your insight is always valuable.

I'm going to get your insight on the U.S. economy and the implications it will have for Canada. The U.S. economy's facing some serious fiscal challenges. It's going to require some painful steps to deal with them. Would you agree that while fiscal consolidation may have short-term pain it is necessary in the long term for the economic health of the U.S.?

● (1650)

Mr. Kevin Page: I think the whole world is waiting to see some type of fiscal plan, medium term or longer term, from the United States. As was highlighted in my remarks and highlighted by the International Monetary Fund in its world economic report, that type of uncertainty is actually having a global impact. I would agree that if it is possible sooner rather than later for the Government of the United States to put together a longer term fiscal plan; the world would be a much better place. Yes, fiscal consolidation in the U.S. would act as some type of drag, but it would have to be balanced against the massive uncertainty of having deficits in the neighbourhood of 8% to 9% of GDP every year.

Mr. Randy Hoback: You see the lack of direction in the U.S. as having more impact than the consolidation would have?

Mr. Kevin Page: I think at the present moment the uncertainty with respect to the so-called fiscal cliff in the United States, and in Europe as well, is having a negative impact on investment around the world.

Mr. Randy Hoback: How do you view the quantitative easing three that the U.S. has brought in and how would those implications impact on Canada? How do you see them affecting Canadian businesses and Canadians?

Mr. Kevin Page: I'm sorry, could you repeat the question? I didn't hear it. I apologize.

Mr. Randy Hoback: On the quantitative easing three that the U. S. has brought out, I guess I'm looking for the implications back here in Canada of that type of program and how it will affect us.

Mr. Kevin Page: The monetary easing...?

Mr. Randy Hoback: The quantitative—

Mr. Kevin Page: Oh, the QE3.

Mr. Randy Hoback: Yes.

Mr. Kevin Page: I'm sorry, sir.

On the QE3, I think one of the things that we've changed in our projections is lower longer term interest rates. We've actually revised down our longer term interest rates, both for the United States and for Canada, in our projections. I think we've seen that across the board. I think it has had an effect of lowering the rates, getting the rates down.

Is it having a significant impact? I think a number of commentators have said that rates are already quite low, and the ability of the monetary policy to provide continuous stimulus with the rates as low as they are is probably minimal. In the current environment, I think monetary policy people are pretty much doing all they can do, so there would be a positive impact certainly, but for longer term impacts, it's hard to say.

Mr. Randy Hoback: Okay.

Under "Improving Budget Transparency and Accountability", you talk about the "fiscal sustainability analyses of the provincial-territorial government sector that it has prepared in the past, which the Auditor General noted in his recent report". Are there any specific problems that you are concerned about as far as their debt levels are concerned and how they're handling their spending?

Mr. Kevin Page: Well, sir, in our mandate and in the act of Parliament, it talks about preparing analyses on economic trends in the nation's finances, so when we do fiscal sustainability work—I think where we find that as well, from the AG's report, is what Finance is doing as well—with our limited capacity, we've consolidated the provincial-territorial-local sector, so we look at it as a complete sector. We don't yet have the actual capacity to separate out province by province.

I think that capacity does exist at the Department of Finance, which is where that type of question would be much better placed. The longer term stability, their projections, we weren't able to do that, sir.

Mr. Randy Hoback: You haven't done any background information on that at all.

Mr. Kevin Page: Well, what we've done, and what we've actually published in the last two fiscal sustainability reports, is to look at the consolidated sector. I think what we've said on that sector is that the provincial-territorial-local sector faces a fiscal gap of something in the neighbourhood of two percentage points of GDP. Again, that's action that we need to require just to stabilize the debt-to-GDP ratio over a 75-year period. That's our estimation. We suspect that Finance might actually have a similar number, but they have not made that analysis available.

The Chair: You have 30 seconds.

Thank you, Mr. Hoback.

Mr. Brison, please.

Hon. Scott Brison: Thank you, Mr. Page, and thanks to you and your team for being here and for the work you do on behalf of Parliament and on behalf of Canadians.

In your report, you expect that the Bank of Canada will keep interest rates where they are until 2015, yet Governor Carney constantly warns us of personal debt levels in Canada and keeps the door open to changes. How would a modest increase in rates prior to 2015...what sort of quantum would be the effect on your projections?

Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis and Forecasting, Office of the Parliamentary Budget Officer, Library of Parliament): Our assumption on the Bank of Canada's interest rate is largely based with the view that the Federal Reserve is keeping their rate stable, very low, for an extended period of time. If we were to have increases beyond that, modest increases in interest rates, which we do have in our projection, you obviously would expect to see some drag from growth, but again, to keep inflation at its target, that would be required.

The effects of those policies, however, would probably fall largely outside the five-year window we're looking at, so probably towards the end of 2016 or early in 2017.

● (1655)

Hon. Scott Brison: In a recent report from the Macdonald-Laurier Institute, "Provincial Solvency and Federal Obligations", here is what was said: "In the medium to long-term, public finances in several provinces are unsustainable, raising the spectre of debt crises, damaged credit ratings, and federal bailouts if corrective steps are not taken".

You just referred to the long-term fiscal gap, on the provincial side, of 2% in your report. Yes, that's $36 billion per year in 2012, at a time when the federal government has a long-term fiscal surplus of 1.4%. That gap, not just between the federal situation and the provincial situations, but the gap between provinces, is troubling and is tied to demographic issues and to the higher health care costs in an aging population in some provinces, less so in other provinces with a younger population, as an example.

Should we be looking at public policy changes in how we approach equalization, as an example, and considering other demographic realities, for instance, as opposed to purely per capita?

Mr. Kevin Page: Sir, I certainly agree with the premise that it is a different fiscal situation facing the federal government as a result of some tough actions with respect to the Canada health transfer, the freezing of direct program spending for five years, effectively, and the change to age eligibility for OAS.

The provinces have a gap of 2%. To provide some perspective on that, it's a significant gap, and it will grow as we move through this aging demographic transition over the next 20 years.

There is a cost to delaying action at the provincial level. I mean, it is our sense that the provinces are facing, like the Canadian economy in general, the economy operating slightly below potential. They may want to wait a number of years to take that action. But we think two percentage points of GDP is perhaps manageable. It's something they can deal with. The PBO is not forecasting unmanageable debt loads.

Hon. Scott Brison: Respectfully, that's a macro number. In some provinces, it's far worse. It's that disparity that is troubling, in terms of potential. Some are saying that there's a potential for default, even. It's that disparity that is troubling.

Mr. Kevin Page: There would be disparity. Two per cent is an average. If you think of the adjustment we did to the operating surplus at the provincial level in the late 1990s, it was more than two percentage points. It wasn't sustained. This has to be sustained.

It is a significant challenge. I think it has implications for programs such as equalization and perhaps the CHT, as well. That could be a focus of policy discussion going forward.

Sorry, Chair, if I went on too long.

The Chair: No.

Hon. Scott Brison: Thank you very much.

The Chair: Thank you, Mr. Brison.

We'll go to Mr. Adler, please.

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

Welcome, Mr. Page, and others.

I have a question on employment. Some have said recently that Canada has not fully recovered the levels of employment as compared to other countries. I hope that what you say here in your report, "Assessment of Canada's Labour Market Performance", will put to bed any concerns on that front.

First, on page two of the report, you say:

> After declining 2.5 per cent in the recent recession, employment in Canada is currently 2.3 per cent above its pre-recession peak from October 2008. The level of employment is now 4.9 per cent above its recessionary trough from July 2009, an increase of over 820,000 net new jobs.

Second, on pages 19 and 20, you say:

> Our analysis also suggests that the recession of 2008-09 was comparatively milder relative to other downturns in Canada during the 1980s and 1990s.... Looking internationally, Canada's labour market is currently significantly outperforming some countries with struggling economies, (e.g.the U.S.,and Euro area) and Canada also scores above average among G7 and OECD countries.

Could you elaborate on Canada's employment performance and how we compare to other OECD countries?

● (1700)

Mr. Kevin Page: Mr. Chair, the report released yesterday by the PBO is actually a very favourable report on Canada's labour market. Just to reiterate some of the points you've made, I think it shows that certainly in level terms, we are much better than where we were prior to the recession.

We make three large points in the report. We look, again, on a cyclical basis. First, Canada, we still see, I think, from the Bank of Canada, the IMF, the OECD, and others, is still operating a bit below potential. We're still recovering to get back to Canada's potential after the recession of 2009. We provide estimates on how we are relative to where we think those longer term trends are. But clearly, just as you highlighted, sir, relative to pre-recession peaks and levels in past cycles, such as the recessions we experienced in the 1980s and the early 1990s, this recession is much milder. We went in with better numbers. We're coming out with better numbers. I think it's highlighted in many ways. When we look at comparisons with other countries, Canada has done very well.

When you started your point, you talked about, I think, employment being lower. Some people were making comments to this point. It is also true that employment rates, participation rates—the level of employment relative to the population—are lower at the present time relative to where we were on a pre-recession basis. Again, that reflects the fact that we're still recovering. We're getting back to potential. I think the Governor of the Bank of Canada might have said something very similar.

Mr. Mark Adler: With respect to the Canadian economy as a whole, the PBO's latest outlook report talks about external factors and the effect they could have on Canada's economy. Would you agree that it's mostly external factors that can have a negative impact on our economy and not domestic influences?

Mr. Kevin Page: I think there are foreign and some domestic risks as well. I think balancing the external risks, as raised by a member here today, is much more significant than the incredible uncertainty surrounding the fiscal situation in the United States. I think the euro crisis is another significant risk. I think that raises huge upside and downside risks that are hard to determine, but again it could be both on the upside and the downside. It makes forecasting in this environment quite difficult.

Mr. Mark Adler: Would you agree that the external factors are far more significant than anything domestic?

Mr. Kevin Page: I would agree, sir.

Mr. Mark Adler: Thank you.

The Chair: Thank you, Mr. Adler.

Monsieur Mai, s'il vous plaît.

[*Translation*]

You have the floor.

Mr. Hoang Mai: Thank you, Mr. Chair. Thank you for being with us today, gentlemen.

Mr. Page, I would like to thank you for the work you are doing to ensure greater transparency.

When you came to meet with us last year, you said you did not envy us because we had to make decisions when we did not understand the full extent of the fiscal measures. That was not because of a lack of will, but because we did not have all the information. Unfortunately, we also saw, in the newspapers, a lot of discussion and the possibility of the government being sued to get information.

How do you assess the exchange of information and accountability on the part of the government?

Mr. Kevin Page: At present, we have received information from nearly 50% of the departments and agencies and about 25% of the information from the departments and agencies relating to jobs and work force. The figures are almost the same for the services. What we are receiving is still falling short of our objectives, but over the last day we have received information from 10 other departments.

Mr. Hoang Mai: If I understand correctly, you still do not have all the information you have asked for.

Mr. Kevin Page: That is correct; we are missing information about the strategic and operating review.

Mr. Hoang Mai: In terms of the budget and Bill C-45, An Act to implement certain provisions of the budget, have you had a opportunity to analyze them?

Mr. Kevin Page: I do not have the time and capacity to do a proper examination of a budget bill.

Mr. Hoang Mai: So you do not intend to take a look at the fiscal impact of that bill?

Mr. Kevin Page: No.

Mr. Hoang Mai: Have you studied the ways and means motion that has been introduced concerning the fiscal measures bill, which is 1,000 pages long?

● (1705)

Mr. Kevin Page: No.

Mr. Hoang Mai: Nor do you have the time. That is unfortunate, because it could have helped us.

In terms of the information available to you, or the lack of information, can you say something about the budget measures? Why are you not able to help us on this? Does it have to do with the fact that your budget has been cut? Are you lacking resources?

Mr. Kevin Page: I think it is really important that all parliamentarians have the information they need for examining the restraint program before the authorities approve it.

I think it is necessary to have information that establishes the level of spending, the changes, and program activities in terms of spending and the impact on jobs. We also have to know whether there is a good plan for managing the restraints. That is important not just for our office. It is much more important for all parliamentarians.

Mr. Hoang Mai: I agree with you, and we would have liked you to have more resources and means, to be able to help us understand all these bills better. We are very grateful for the work you do.

In your report, and this was raised with the Governor of the Bank of Canada, you said Canada is not doing very well in terms of productivity. You also said it would be a good idea to invest in increasing productivity. Can you tell us more about that?

Mr. Kevin Page: We do not have a mandate to study all of the issues relating to policies and to determine what the best program is in terms of policies to stimulate productivity. That is really not our office's mandate.

Mr. Hoang Mai: Perhaps you have analyzed the measures that were taken recently, to determine the economic impact and the impact on productivity, since we know our country is not performing very well in that regard. Have you done that?

Mr. Kevin Page: If legislation is introduced by the government, it is possible for our office to examine the impact of the programs. However, it is not our role to develop policies.

Mr. Hoang Mai: Thank you.

[*English*]

The Chair: Merci.

We'll go to Madame Glover, please.

[*Translation*]

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

[*English*]

I also want to say welcome to Mr. Page and to all of the other gentlemen who have joined us today.

I have a couple of questions that I'm hoping you will be able to answer. I want to say as I start that as I look at the different averages of the outlook for real GDP growth between 2012 and 2017, I note that the PBO's outlook is exactly in line with the October 2012 survey put out by the Department of Finance, in which we look from 2012 to 2017 at 2.3% and 2.3%.

Looking at long-term sustainability as well, I really appreciated your opening remarks, Mr. Page, indicating that you agree that the government's fiscal structure is sustainable over the long term.

I would ask, just so that we can compare, how many other G-7 countries also have a long-term sustainable fiscal structure.

Mr. Kevin Page: It's a very good question. We could put together a survey and we'd be happy to do that for you, because we use methodology that's very similar to a number of other countries, certainly that of the U.S., which is not sustainable. We share similar methodologies with the United Kingdom, and they do not have a sustainable situation. For some of the other G-7 countries we would have to examine and compare methodologies, but we'd be happy to do that for you.

But clearly, we are sustainable at the federal level.

Mrs. Shelly Glover: That would be awesome. Honestly, if you could do that, I think it would be very helpful.

Let's turn to what you were discussing earlier. You mentioned that some reasons for our long-term sustainability are policy changes by the government with respect to the Canada health transfer, reductions in government program spending, and the age eligibility for the OAS system.

I'm curious to know: if we were to reverse all of these decisions, what impact would that have?

Mr. Kevin Page: We would be back to where we were when we did our 2011 fiscal sustainability report, which showed that the federal government would have a fiscal gap, meaning it would not have a sustainable fiscal structure. We would not have a structure in place that would deal with aging demographics, and it would result in rising debt relative to GDP.

Mrs. Shelly Glover: Thank you for that, because that ultimately is something that was a huge concern to the government, which is why we made some very difficult decisions, and they were difficult decisions. We don't take those decisions lightly, but we knew they were in the best interest of the country.

I want to turn to a question that I'm particularly interested in. It has to do with something in your report with regard to the female employment rate. I take note that in the assessment of Canada's labour market performance report, you note that Canada has actually led the G-7 with respect to the female employment rate. I'm curious to know whether you could elaborate on that and tell us why it is that Canada has a such a strong leading employment rate among females.

● (1710)

Mr. Kevin Page: As the report says, at a high level on both a male and a female basis we went into this recession with relatively good employment and unemployment rate numbers. In the report we highlight some of the differences between males and females. We would be hard-pressed to explain why Canada does so much better than France, why Canada does so much better than the U.S. Again we could provide comparative numbers in that regard, but it would probably take some time for us to provide an explanation of why the numbers are better.

Certainly, you're absolutely right. Our numbers are better.

Mrs. Shelly Glover: Are you not sure why the female employment rate is different? Do you not have any hypothesis about it? Maybe we're smarter, or we're stronger. I'd love to hear that.

Mr. Kevin Page: Certainly, for all the females in this room that would be more than apropos.

It was really not the objective of the study to provide a policy difference reason for why we are better, but yes, our females are better.

Mrs. Shelly Glover: Of course, I'm a Canadian woman, so I was saying that in jest; nevertheless, I thought it was an important point to bring out.

You mentioned that Governor Carney touched on some numbers with respect to employment. He was very clear that we've recovered all of the jobs lost in the recession and in fact have done surprisingly and exceedingly encouragingly better by creating another 380,000 on top of those that had been lost. We on this side think that's a good measure and are going to continue along that vein.

When the question is asked of you about job employment numbers—I know that you heard what the governor said—do you agree with what he said?

The Chair: Make just a brief response.

Mr. Kevin Page: I'm sorry, I didn't hear what the governor said, but I would agree that employment levels have, as indicated in our report, more than recovered. Actually, I think our report was quite a favourable report on Canada's labour market.

Mrs. Shelly Glover: Thank you.

The Chair: Thank you, Madame Glover.

We will go to Mr. Marston, please.

Mr. Wayne Marston: Thank you, Chair.

Welcome again, Mr. Page. We're pleased to have you with us.

It strikes me as ironic, sir, with a government first elected in 2006 on accountability and transparency, how hard you've had to work to draw out the information you need to do your job.

I'm sure you realize that the effect on parliamentarians' ability to do due diligence, which is crucial and is expected by Canadians, is impeded to a great degree by the size of omnibus bills that have come before us and by the fact that one committee, for the most part, is charged with reviewing them.

The role of a committee should be to make bills better. It should look at the problems in the bill and work to make the bill better. Do you think it would be better if the content of those bills and the ability to amend them were distributed to the more appropriate committees that align with the particular departments affected and the laws that are affected?

Mr. Kevin Page: Well, to the extent that the Parliamentary Budget Officer has a bias, it's for more debate and analysis, and to make that available to you all so that you have a better level of discourse. We're not really well positioned to provide legislative advice on whether omnibus bills or something big or small is better.

For us, more analysis and more debate is better.

Mr. Wayne Marston: Thank you.

Sir, you were on record very early concerning the change to OAS, saying at the time you reviewed it that it was sustainable, if they made the other changes they went about making concerning the transfers. At the same time, or just a little before, the OECD pension team had reached the same conclusions. For the record, the OECD group actually released their opinion before the government got involved with it as well.

The outcome, at least, was that, with the off-loading of costs to the provinces and municipalities, the costs of disability pensions or welfare are going to be carried for two more years by the provinces. It has to be billions of dollars. The government has said they will transfer a certain amount to the provinces and municipalities to help them. They haven't mentioned anything about helping the seniors, who now have to wait two years without some elevation in their income by going to OAS.

What would your opinion be on that?

● (1715)

Mr. Kevin Page: The analysis we have done to date is limited to looking at old age security in a fiscal sustainability context. I would agree, sir, with your point, that we thought the federal government had a sustainable fiscal structure before the changes to the age eligibility for old age security. I think the Finance analysis supports that conclusion as well.

We have not done other analysis of a policy nature looking at what the potential impacts could be on the provinces, municipal governments, or seniors in general. We just have not done that work.

Mr. Wayne Marston: At our committee, we've recently had a number of academics and scientists talk about the change with the long-form census and how it is impeding their work of gathering the information they need to do their work. We've heard that from several very concerned witnesses.

Do you agree with those concerns? Does the availability of information have an impact on the work you do?

Mr. Kevin Page: Certainly, when we take on any project we're very mindful of the other work that is done in the field, including the work that we presented yesterday on the labour market. We read pretty much all the work on the labour market that was done domestically and internationally before we put together work. So yes, we rely on those types of researchers.

Mr. Wayne Marston: Is it fair to say that the impact of removing the long-form census is going to somewhat impede your ability to do your job?

Mr. Kevin Page: I can't tell you precisely how it will have an impact, but certainly past chief statisticians and other public servants have echoed these concerns. I'm sure that future PBOs will feel the impact.

Mr. Wayne Marston: Thank you.

The Chair: Thank you, Mr. Marston.

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

Mr. Page, I want to focus on your labour market report, which I think is very substantive. I want to thank you and your office for doing it.

First of all, perhaps you can give us some clarification. You talk about comparing Canada with the U.S. and European countries, and about Canada's performing favourably. As you know, Canada and the U.S. come to their unemployment rates differently. In fact, my understanding is that if the U.S. used Canada's method, the rate would be much higher than is actually recorded.

Do your graphs take into consideration the different ways in which the countries analyze their unemployment rates?

Mr. Kevin Page: Yes, sir. We've used harmonized rates. These are rates that are made available by the OECD, so we've harmonized the rates. You can go to Statistics Canada and get the harmonized rates so we can compare apples to apples with the United States.

The Chair: I'm going to ask for unanimous consent to continue for a few more rounds to finish.

Some hon. members: Agreed.

The Chair: Thank you.

You've got some very interesting graphs on page 9 in terms of labour market tightness by industry and labour market tightness by province, which echo the sentiments of members of Parliament like me and others from Alberta, Saskatchewan, and even Manitoba. They are very tight in terms of the labour market and very tight in terms of certain industries.

I want to give you and your team an opportunity to comment on that. That's certainly the biggest challenge I face in my home riding. People come to me and say that they simply don't have enough people, so we look at answers like quadrupling or quintupling the immigration rate. Most people look at that and say that it's not feasible. We're going to have to find some domestic solutions to this labour challenge as well.

I did want you to comment on the remarks that you make on the graphs on page 9 of this report.

Mr. Chris Matier: In this report, we didn't want to go into too much depth on underlying causes and provide an analysis. It was largely descriptive in nature. The comments that the governor made previously on labour market mobility and removing interprovincial trade barriers are standard proposals or suggestions to help this. Beyond that, I wouldn't comment further.

The Chair: I'm going to follow that up with a question on Newfoundland. Newfoundland is a little puzzling in terms of the graphs because it seems to show strong employment gains in one graph, and yet it's still showing a fairly high unemployment rate in the other graph. It seems to be somewhat of an anomaly vis-à-vis the other provinces in Canada.

Do you want to comment or elucidate on that?

● (1720)

Mr. Chris Matier: Unfortunately, we don't have a longer time series on the labour market tightness. It's a relatively recent series from Statistics Canada. While we can see the change in employment over the cycle, we can't really evaluate it in terms of the vacancy ratio.

The Chair: But it's showing that it's not tight in Newfoundland. The number of employed is dramatically improving in Newfoundland. Am I reading that correctly?

Mr. Chris Matier: I think it could be the case that previously there was a very high vacancy ratio, and now it's been reduced, but we do not know that for certain.

The Chair: You don't know that for certain because of the short time period.

Mr. Chris Matier: Exactly. We don't have the data.

The Chair: Is there any policy advice you'd advance or things that the committee ought to consider in terms of trying to better match our labour challenges—certain industries, certain areas—with our labour needs in other regions and other areas?

It's an open-ended question, but feel free to comment.

Mr. Kevin Page: On issues of policy, we just feel way more comfortable saying that it's beyond our mandate. I apologize.

We seem to get into enough trouble just trying to work with what we have.

The Chair: You won't get into trouble. I asked the question.

All right. I appreciate that.

[*Translation*]

Mr. Caron, you have the floor.

Mr. Guy Caron: Thank you, Mr. Chair.

I would like to come back to the question of fiscal policy.

You say we have achieved long-term structural balance in fiscal policy in Canada. In that regard, changes have been made to Old Age Security and there has been no actual reduction in transfers to the provinces, but rather a reduction in the growth of transfers.

I also see, on slide 18, regarding net debt, that the plan is to significantly reduce the federal government's debt. However, we can see that the debt levels of territorial, provincial and local governments are rising, also significantly.

Is there a relationship between the decisions made by the federal government, in particular concerning transfers, and the long-term forecasts relating to provincial, territorial and federal debt?

Mr. Kevin Page: Certainly, from the calculation we have done, most of the fiscal gaps at the territorial, provincial and local levels are a result of the changes made to the escalator for the Canada Health Transfer.

Mr. Guy Caron: Do you therefore think that the changes that have been made in relation to health care will also have repercussions for the provinces' fiscal position in the long term?

Mr. Kevin Page: Yes, that is correct. Before the change made by the indexation clause, there was a narrow gap at the provincial, territorial and local levels. That gap will grow because of the indexation clause.

Mr. Guy Caron: Thank you.

I have another question, and there has been quite a lot of talk about this recently. That is your assessment stating that using the Department of Finance multipliers, you estimate that economic growth in the medium term, and I think that is in 2015, will be 1% lower than what it could be, and 125,000 jobs that could have been created will not be created, one reason being austerity policies.

You say that because of the various policies that have been adopted, and because of recent budgets, the Canadian economy will not achieve the results it could otherwise have achieved.

[*English*]

Mr. Chris Matier: Yes, in our projection it does reflect the economic impact of government spending reductions and restraint measures, to date. Of course, all else equal, we estimate that the level of real GDP would be 1% higher in the absence of the federal spending reductions and restraint.

[*Translation*]

Mr. Guy Caron: Just out of curiosity, do the 125,000 jobs that will not be created also include the positions that have been eliminated in the public service, for example? One figure mentioned was 19,200 jobs. Others have even said 30,000 positions.

● (1725)

Mr. Chris Matier: We do not have a precise estimate for that. It is more of a comprehensive estimate. It might include both.

Mr. Guy Caron: Thank you.

I have one last question, because I have a little over a minute left.

We were talking about employment. Mr. Adler's question is a good one, in the sense that yes, some new jobs have been created. We are achieving a higher level than was observed at the bottom of the recent recession, but we have also not achieved our potential in terms of employment. For example, the fact that there is a difference with the trend rate is mentioned, but it is also due to the fact that job creation is not keeping up with population growth and is also not keeping up with the number of people who want to re-enter the labour market. That explains why the unemployment rate is really not budging, even though job creation is occurring. Is my analysis correct?

[*English*]

Mr. Chris Matier: We haven't identified the specific factors for the level of unemployment being below its estimated trend, but, yes, you're correct that in the third quarter of 2012, the actual level of employment is roughly 130,000 jobs below what we estimate as its trend level.

[*Translation*]

Mr. Guy Caron: Thank you.

[*English*]

The Chair: Merci.

We'll go to Mrs. McLeod for the final round.

Mrs. Cathy McLeod: Thank you, Mr. Chair.

I'd like to go back to the conversation we were having about health transfers and the change of track. First of all, the change of track is not happening until 2016-17, so that's not impacting the provincial situation currently or for the next numbers of years.

I see you nodding your head.

Mr. Kevin Page: That's correct.

Mrs. Cathy McLeod: Yes, okay.

Contrary to, of course, what the opposition says, it's not a decrease, it's a change in track. But certainly 3% or nominal GDP are increases. Is that accurate?

Mr. Kevin Page: That's correct.

Mrs. Cathy McLeod: Thank you.

I've been involved in health care within the provinces, and I certainly understand the challenges that provinces are going to have. As I understand it, we're increasing at 6%, but if you look at the provinces, they're not increasing at 6% currently, are they?

Mr. Kevin Page: Well, we have historical data over the last 10 years where increases in health spending by the provincial, territorial, and local levels were in the neighbourhood of 6% to 7%.

Mrs. Cathy McLeod: But currently?

Mr. Kevin Page: Yes.

We've also seen periods in the 1990s—which I think speaks to your point, Mr. Chair, that we've seen rates much lower than that during times of restraint. When we do this projection analysis, the same way, I think, the Department of Finance does it, we create baselines based on a longer term history. We project forward. Based on looking at income, looking at population, looking at enrichment, you're going to see health spending in the neighbourhood of about 5% to 5.5%.

Mrs. Cathy McLeod: I can remember listening to the health minister, listening to the deputy health ministers, knowing that it's absolutely unsustainable to keep on that track. We know there are system changes that can be made. The *Ottawa Citizen* said in an editorial earlier, that even if federal health care support increased at the current 6% a year indefinitely, the provinces would still have this affordability.... The provinces are going to have to make some changes. Do you believe that the provinces really don't have any intention of ensuring increased efficiency in their health care spending, and that they're not really grasping and grappling with this very important issue?

Mr. Kevin Page: Mr. Chair, I think once we see evidence of real structural change to bring down the spending growth in the provinces, I'm sure the Department of Finance, the PBO, and others who do this fiscal...would definitely be happy to lower the baselines. But at this point in time, we just feel more comfortable giving this information using longer term baselines.

Mrs. Cathy McLeod: Again, I certainly know how they are grasping this issue. I've seen significant changes over the last year or two in terms of how they are moving ahead.

The Chair: You have about 30 seconds.

Mrs. Cathy McLeod: I believe that they will have challenges, absolutely, but the health transfers increase will actually help in terms of having funding so they know what is coming. Obviously it would not be like in the 1990s when the Liberals significantly decreased the health transfers. At least they can count on the sustainability of their funding that's coming from the government.

I guess I'll leave it at that. Thanks, Mr. Chair.

● (1730)

The Chair: A brief response, Mr. Page? No, okay.

I want to thank you, Mr. Page, and your colleagues, for joining us today and responding to our questions. I believe you offered us something in response to Ms. Glover, a short report on a comparison of the G-7 countries. We'd love to have that. If you have anything further, please do submit it to us and we'll be happy to share it.

Thank you so much. The meeting is adjourned.

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