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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1105)

[*English*]

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

This is meeting 118 of the Standing Committee on Finance. Our orders of the day, pursuant to Standing Order 108(2), are for a study of the economic and fiscal outlook.

We are very pleased to be joined here this morning by four officials from the Parliamentary Budget Office.

First, we have the Interim Parliamentary Budget Officer, Madam Sonia L'Heureux.

[*Translation*]

Welcome to our committee for the first time.

[*English*]

We have Mr. Mostafa Askari and Mr. Sahir Khan, both assistant parliamentary budget officers, and Monsieur Chris Matier, senior director, economic and fiscal analysis and forecasting.

Welcome, all of you, to the committee.

Madam L'Heureux, I understand you have an opening statement to present to the committee. Then we'll have questions from members.

Ms. Sonia L'Heureux (Interim Parliamentary Budget Officer, Library of Parliament): Thank you.

[*Translation*]

Mr. Chair and committee members, I am here in my capacity as Parliamentary Budget Officer on an interim basis. Your interest in the work of the PBO is important to us, and we are pleased to appear before you today to discuss our report on the economic and fiscal outlook, which was recently published.

As you mentioned, joining me today are PBO officials Mostafa Askari, Sahir Khan and Chris Matier. I would like to begin with a brief opening statement, and then we would be pleased to respond to your questions.

As you may recall, our report was prepared in response to this committee's September 2011 motion that, consistent with my mandate, the PBO provide an economic and fiscal outlook to the committee twice a year, in April and October.

[*English*]

Since our previous report in October 2012, the outlook for global growth in 2013 has been revised down, from 3.6% to 3.3%, based on International Monetary Fund projections. The IMF currently expects global growth to improve to 4% in 2014, but cautions that the road to recovery in advanced economies will remain bumpy.

PBO's outlook for the U.S. economy is broadly in line with its October projection, which showed a gradual but steady improvement over the medium term. PBO's outlook for commodity prices is little changed from October, and consistent with futures prices over the near term, shows moderate increases going forward.

PBO's current outlook for the Canadian economy also reflects the impact of the government's 2013 economic action plan. Measures in the action plan were targeted at supporting jobs and growth and at returning the budget to balance. In addition, the action plan included downward revisions to direct program expense levels.

[*Translation*]

All told, over the period 2013-14 to 2017-18, the measures and revisions in the 2013 action plan should result in projected savings of \$10.8 billion. Our report also provides estimates of the impacts of these changes on real GDP and employment based on Finance Canada's multipliers.

[*English*]

Combined with the sluggish recovery in the global economy, government spending restraint will act as an additional drag on growth and job creation in Canada. PBO projects Canadian real GDP growth to slow to 1.5% in 2013, and to remain below its potential growth rate until 2015. With the economy continuing to operate well below its potential, the unemployment rate is projected to remain relatively stable at around 7.4% over the next two years.

As the recovery takes hold, PBO projects real GDP growth to average 2.6% over the period 2015 to 2017. The unemployment rate is projected to decline gradually, averaging 6.3% in 2017.

[*Translation*]

Despite the sluggish economic recovery, given projected increases in employment insurance premium rates, and assuming that the government achieves its planned spending levels and savings from revenue increases, the PBO projects that the budgetary balance will improve from a deficit of \$25 billion—or 1.4% of GDP—in 2012-13 to a surplus of \$8.5 billion—or 0.4% of GDP—in 2016-17.

Assuming that the government does not increase its spending above planned levels and achieves its savings from revenue increases, the PBO estimates that given the economic uncertainty surrounding the outlook, the likelihood of realizing a budgetary balance is approximately 60% in 2015-16, 70% in 2016-17 and 65% in 2017-18.

[*English*]

PBO's projected improvement in the budgetary balance over the medium term is largely the result of a structural improvement in the government's financial position. PBO projects that the government's structural deficit will be eliminated by 2014-15, giving rise to structural surpluses of $8.4 billion, on average, over 2015-16 to 2017-18.

Estimates and projections of structural balances provide useful information about a government's underlying financial position and can be used to help guide policy actions. As such, our report also provides a comparison of PBO and Finance Canada estimates. Finance Canada's structural balance is estimated by PBO to be $3.6 billion higher, on average, than PBO's structural balance.

As most of you know, I was appointed to the PBO role only a few weeks ago on an interim basis. I must confess that my comfort level with the subject matter is still a work in progress. Nevertheless, I am joined today by officials from the PBO team with in-depth expertise in these matters, and they will assist me in responding to your questions or anything you may have on the economic and fiscal outlook.

[*Translation*]

Thank you.

The Chair: Thank you kindly for your presentation.

We will now proceed with members' questions.

Ms. Nash, please go ahead.

[*English*]

Ms. Peggy Nash (Parkdale—High Park, NDP): Bienvenue. Welcome to your first visit to the finance committee as interim PBO.

I would like to ask you some questions about the 2013 economic and fiscal outlook, just to review some of the salient points in the outlook.

In the report, you reference cuts to direct program spending. In budget 2013, by how much is direct program spending going to be cut?

● (1110)

Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): There was a total of a $9.1 billion reduction in direct program spending over the five-year period. That consists of many different things, but $9.1 billion is the total.

Ms. Peggy Nash: Okay, so it's a $9.1 billion cut.

How many jobs will be eliminated as a result of budget 2013?

Mr. Mostafa Askari: What we have done in annex D of our report is we have shown all the measures that have been taken in 2013, plus the measures that were taken in budget 2012, and we have measured the impact of all those over the five years.

The impact on jobs for budget 2013, by year 2016, is about 14,000. What that means essentially is that whether jobs will be created, it will be essentially lower by 14,000 relative to what we are projecting right now.

Ms. Peggy Nash: Lower than 15,000.

Mr. Mostafa Askari: Fifteen thousand. So we are actually projecting an increase in jobs over the forecast period. What that 14,000 means is that the level of jobs would be 14,000 more had the government not introduced the measures it introduced in budget 2013.

Ms. Peggy Nash: Okay, so the jobs created would be reduced by 14,000. There would have been 14,000 more jobs without these cuts.

What are you projecting in terms of the cut to real GDP growth as a result of those program cuts?

Mr. Mostafa Askari: The impact on GDP level, not the growth, will be relatively small. It's about 0.12%, I believe.

Ms. Peggy Nash: Just to get the bigger picture, when you add in the last budget and the impact in this fiscal update, what is the total number of jobs that are being eliminated through these cuts?

Mr. Mostafa Askari: What we are estimating is a total of about 67,000 jobs. For all the measures from budget 2012 through to the update of 2012, and then budget 2013, it's a total of 67,000.

Ms. Peggy Nash: It's a total of 67,000 fewer jobs because of these cuts. That's pretty significant.

What is the projection in this report for the GDP reduction?

Mr. Mostafa Askari: Sorry, GDP reduction relative to.... I said about 0.5% for the level of GDP.

Ms. Peggy Nash: Generally, how would you project economic growth going forward? What is your forecast for 2013-14? How would you characterize economic growth?

Mr. Mostafa Askari: We are expecting 1.5% growth in 2013, rising to 1.9%.

Actually, for both of those two years, growth will be less than the potential growth. The output gap, that's the excess capacity, will actually increase over those two years. Beyond that, the economy will grow much faster. We are expecting about 2.6% growth over the last three years of the projection period. By 2016 we are expecting that we will actually reach the potential output level in Canada. That's the full capacity at that time.

Ms. Peggy Nash: So, for the next couple of years you would characterize the economic growth as—

Mr. Mostafa Askari: As relatively weaker than the potential growth in the economy.

Ms. Peggy Nash: What about unemployment?

Mr. Mostafa Askari: The unemployment rate will stay relatively stable for the next couple of years, and then gradually decline to about 6.3% by the end of the forecast.

Ms. Peggy Nash: I have one more question. High unemployment, weak growth, loss of jobs—are these cuts to program spending necessary to return to a structural budget surplus?

The Chair: Just a brief response, please.

Mr. Mostafa Askari: We are estimating that the structural surplus by 2017 will remain on the plus side without those measures. It would be a much smaller—

Ms. Peggy Nash: The cuts were not needed.

The Chair: Thank you, Ms. Nash.

Mr. Hoback, please.

● (1115)

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

In predicting a return to a balanced budget in 2015, even the PBO's projected budgetary balance, on average, is $2.5 billion higher per year, compared to what the government is projecting in its budget 2013. I understand your numbers are a little more rosy compared to what the government's numbers are, largely due to higher projected revenues.

Can you give us some detail on how you're projecting these higher revenues and where these projections are coming from?

Mr. Mostafa Askari: The revenues are determined by the level of GDP and the tax base, which is the broadest tax base.

Our nominal GDP that we are projecting over the five years is about $8 billion more than what the government is projecting in budget 2013. That difference in the GDP level explains about half of the extra revenues that we are projecting. The other half is explained by the assumptions that the government makes about the effective tax rate, and also about tax bases, personal taxes, corporate profits, and those things, which we don't have any access to, but we're assuming that amount is explained by those.

Mr. Randy Hoback: Are you just using a different formula to get to the $8 billion higher number?

Mr. Mostafa Askari: No, we have a higher nominal GDP projection relative to the government. That's $8 billion, and that's—

Mr. Randy Hoback: Why is that?

Mr. Mostafa Askari: Why? Our projection is different because we have a different profile for GDP growth over the five-year period.

Mr. Randy Hoback: How does your profile differ from, let's say, the private sector's projections?

Mr. Mostafa Askari: Do you want to answer this one?

Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis and Forecasting, Office of the Parliamentary Budget Officer, Library of Parliament): Sure.

In terms of the average real GDP growth over the five years, it's the same as the private sector. It's just the profile.... The difference on nominal GDP, then, would stem from differences in projections of GDP inflation. I would suspect that our GDP inflation is higher, probably due to a higher outlook for commodity prices, let's say, than what would be consistent with the private sector forecasters.

Mr. Randy Hoback: When you look at the forecast of the U.S. economy at the end, you're forecasting higher growth in the U.S., or a stronger recovery in 2014. What do you account that to? Where are you getting your numbers to say, in your profile, that you see the economy in the U.S. being stronger than what the government is projecting?

Mr. Chris Matier: Our U.S. forecast is largely based off of private sector organizations in the U.S. We would follow some of the leading macroeconomic forecasters there, as well as the IMF. I think it would line up closer to those forecasters, as opposed to the Canadian private sector forecasters.

Mr. Randy Hoback: So, for budgetary consequences when you're looking at.... Again, it's forecasts. We are all pulling a number out of the air, and we're doing the best we can to make that number as accurate as possible to a different profile.

But if you're making decisions, would you not view it prudent to take the most cautious forecast over the most optimistic forecast?

Mr. Chris Matier: Our approach to doing the projection is to present what we consider to be a balanced approach, so that there's an equal likelihood that the projection could come in worse or better. Typically most forecasters, when they construct their forecasts, are trying to come up with, let's say, the most likely, and what will happen is they will provide their projection, but then they will say that the balance of risks is to the downside or to the upside. So I think for most fiscal planning, and I know that for the Office for Budget Responsibility in the U.K. and others, the tendency in preparing economic assumptions is to use a balanced approach.

Mr. Randy Hoback: In your scenario, then, would the balance of risk be to the upside or downside from where you forecasted?

Mr. Chris Matier: No, ours would be a balanced projection, so we would judge it to be approximately equal of being higher or lower. Again, this is largely subjective.

Mr. Randy Hoback: It's an averaging style.

Mr. Chris Matier: Yes.

Mr. Randy Hoback: Thank you, Chair.

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

Mr. Brison, please.

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

Welcome. First, we know that Kevin Page's term ended on March 25. When can we expect the appointment of a permanent PBO?

Ms. Sonia L'Heureux: In terms of the process that we're running to find a new PBO, I haven't finished looking at the candidates, all the people who came forward. There are some very high calibre candidates and we're still assessing them. Once I've made my recommendations of potential candidates as required by legislation, then it becomes an order in council and the Governor in Council has.... The answer to your question is I don't control that timing.

● (1120)

Hon. Scott Brison: What are the key skills or attributes required?

Ms. Sonia L'Heureux: I think in terms of the skills we're looking for, obviously we're looking for somebody who understands economic matters, the financial management of the Government of Canada. Because of the mandate, reviewing estimates and providing advice on the health of the economy, we're looking for somebody who understands that.

Hon. Scott Brison: The principal requirement repeated by the Treasury Board president in the House is that the person be non-partisan. Have you seen any indication that the previous holder of the office was partisan?

Ms. Sonia L'Heureux: I'm not commenting on the previous holder of the office. What I'm looking for, obviously, is somebody who can look at the economic matters as mandated in the legislation and can communicate them, as well, in simple terms to parliamentarians. That's what I'm looking for.

Hon. Scott Brison: That's particularly important, I'd say.

I'd like to start with the comparison to the EAP 2013 fiscal outlook. If you look at annex G, which compares PBO's April 2013 fiscal outlook to the EAP 2013 fiscal outlook, we can see that relative to the PBO, the government consistently projects lower revenues from personal income tax, as well as consistently higher revenues from corporate income tax over the next five years. What might account for that disparity in revenue projections?

Mr. Mostafa Askari: As I said in response to previous questions, the revenue forecast depends on the level of GDP that we forecast, and then also on the composition of that GDP, how much of that is personal income, how much is corporate profits. We know what we have in terms of the composition of the GDP that we are forecasting, and that determines our projection of the income tax revenues and corporate tax revenues.

In terms of the government budget projections, we know the level of GDP that they have projected, and we know that's below what we have projected, so that explains partly the lower tax revenues that they have in their projection. Beyond that, we don't have access to the composition of their projection of normal GDP that they have in their forecast, so we cannot really say what has caused that part.

Hon. Scott Brison: Is there more information that, if you were provided it by the government, would better able you to answer that question?

Mr. Mostafa Askari: Certainly if we had access to the composition details of the projection of nominal GDP by the government, we would be able to determine how the difference between the two projections can be explained.

Hon. Scott Brison: On page two of your report, summary table two, you show that the government's budget 2012-13 will actually have a negative impact on Canada's job market. According to your report the Canadian economy will have 12,000 fewer jobs this year, 33,000 fewer jobs next year, and 67,000 fewer jobs by 2017 as a result of the government's last two budgets.

Would you explain to the committee why the government's so-called action plan is expected to have a negative impact on job creation?

The Chair: Could we have a brief response, please.

Mr. Mostafa Askari: Sure. In budget 2013 there are stimulative measures and there are also measures for savings. The net impact of those that we have put together, and it is in our report, is a negative, a reduction. Any kind of compression of spending or raising of taxes would have a negative impact on GDP. It's just the way the economy functions.

The Chair: Thank you, Mr. Brison.

We will go to Mr. Jean, please.

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

I want to pursue the line of questioning in relation to the $9.1 billion cut. I'm not going to argue with your figures. I'm not certain; I haven't checked them out, but a $9.1 billion cut with 67,000 jobs lost over a five-year period—is that correct? I didn't really understand that.

Mr. Mostafa Askari: Actually the 67,000 jobs is a result of the measures taken in budget 2012.

● (1125)

Mr. Brian Jean: But the cuts of $9.1 billion.

Mr. Mostafa Askari: The $9.1 billion is only for budget 2013. With budget 2012 and the update of 2012 and budget 2013, together we are looking at total measures of about $38 billion for the two budgets and the update. The impact of all of those together will be 67,000 jobs lost.

Mr. Brian Jean: So it's $38 billion saved or cut. Let's face facts. Government is about allocating funds in the best place they think possible, right? Is that correct? Is it fair to say that government's job is to allocate moneys the best way possible, based upon their policies and what they expect the public, who pay taxes, to want?

I'm curious because if you look at the amount of jobs lost—67,000—and $38 billion cut, we have invested.... You're familiar with the economic action plan, the $45 billion, the $33 billion in record infrastructure that is the most any government's ever done in the history of Canada in dollar terms. We've created 900,000 jobs.

To me it seems if we're cutting $38 billion and we're only losing 67,000 jobs, if we take your figures, and yet we're creating 900,000 jobs, which we've done, with $33 billion, in fact, we've only invested about $27 billion by all calculations. It seems to me that we've created a lot more jobs through infrastructure investment by far. I don't know the figures in front of me, because the figures I did my calculations on were the previous ones, which were astonishing. This is even more astonishing. It sounds like very good fiscal management by the government because for $27 billion we've created 900,000 jobs. Wouldn't you say that's a very good investment compared to the $38 billion that we're saving and we're only losing 67,000 jobs? Doesn't that seem like a very good management scenario to you?

Mr. Mostafa Askari: I wouldn't comment on the management aspect of this. The stimulus package that was introduced in 2009, based on the government's own estimate—

Mr. Brian Jean: Including 2008?

Mr. Mostafa Askari: The 2008-09 budget.

Mr. Brian Jean: With respect, Mostafa, I'm not talking about projections. I'm talking about what actually has taken place.

Even if we take your projections, which seem to be doom and gloom on the face of it, it's only 13,000 jobs per year. Nobody wants to lose any jobs, but it's $1.8 billion saved per year as well. It seems to me that based upon economic action plan 2008, based upon what we've done in 2009, 2010, we've created 900,000 jobs. Those aren't estimates; those are actuals. We've got a very good return on investment for Canadian taxpayers on the basis of what we've saved compared to what we've invested. Of course we're creating jobs in different areas.

If you look at some of the research on the web, especially the studies done by the American government, which wanted to have great stimulus but seemed to fail on their stimulus program, we've done even better than all those estimates have been, per dollar spent and the return on investments. What do you attribute that to, besides the good management style of our government?

Mr. Mostafa Askari: If I can go back, the actions that were taken in the 2008-09 budget, based on the government's own estimates, were supposed to create about 220,000 jobs at the time.

Mr. Brian Jean: I remember that.

Mr. Mostafa Askari: Certainly the economy has created about 900,000 jobs over that period, but not all of that is attributed to the stimulus package, only part of that.

Mr. Brian Jean: Of course, but would you not agree that stimulus, with the private sector's contribution—they've been part of that stimulus—continues to escalate? It's like a rock rolling down a hill; it just gets faster and faster and carries more things with it as it goes down and creates an avalanche. In fact, that's the idea of stimulus: it's supposed to be a shot in the arm that gets the whole body up and moving. Wouldn't you agree with that?

Mr. Mostafa Askari: Of course, pump priming is the idea, to shock the economy.

Mr. Brian Jean: You can say the economy's created the jobs, but the stimulus and the management action created the jobs. Ultimately, that's what's taken place. Bad management takes away jobs, and good management creates jobs. In the private sector that's how it works, and I would suggest it works that way in government as well. It seems to, anyway.

The Chair: A brief response.

Mr. Mostafa Askari: Well, as I said, the way we look at these things is to look at the change in the policy—

Mr. Brian Jean: Absolutely.

Mr. Mostafa Askari: —and the impact of that policy per se. Anything else that happens is because of other things that are happening in the economy.

The Chair: Thank you. We can come back to this topic, I'm sure, later on.

[*Translation*]

Mr. Caron, the floor is yours.

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

Ms. L'Heureux, I want to discuss infrastructure because your office also released a report dealing with that on April 11.

According to the report, since the 2007 budget, nearly $6 billion that the government had promised to invest in infrastructure programs under the Building Canada Fund was not spent.

Is that correct?

● (1130)

Mr. Sahir Khan (Assistant Parliamentary Budget Officer, Expenditure and Revenue Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): Some amounts allocated in the government's budget were not spent, but they were used afterwards to boost available infrastructure funding.

Mr. Guy Caron: If I understand correctly, then, a good portion of the funding announced in 2013 comes from amounts that have not been used since 2007. So it doesn't represent new investments. The government is actually re-announcing previously announced investments.

Mr. Sahir Khan: You are correct.

Mr. Guy Caron: In your view, is that consistent with sound fiscal management?

Mr. Sahir Khan: When a department can't use funding allocated by Parliament, that sort of practice is acceptable, although not ideal.

Transport Canada changed some of its practices in that regard. It reduced the amount of unused funding owing to the problems tied to the forecasts for a given period. Not spending certain amounts is, nevertheless, problematic.

The other reason this matters is that these expenditures were supposed to be made during a time of poor economic performance. So it's important that the money be spent during that period. In this case, the funds are available for other economic periods. You, therefore, have to determine whether that is useful or not.

Mr. Guy Caron: The bottom line is that, since 2007, approximately 35% of the funding that was earmarked for infrastructure projects, and more specifically under the Building Canada Fund, was not spent during that period.

Mr. Sahir Khan: I'm not sure of the exact percentage, but it was fairly sizeable.

Mr. Guy Caron: Now let's pick up on Mr. Jean's line of questioning.

I am referring to the 67,000 jobs that were not created. In fact, it's a matter of falling short of the full job creation potential under the 2012-13 budget measures and not meeting those targets by 2016-17. Is that correct?

Mr. Jean was making it sound as though the 900,000 jobs created since the depths of the recession in 2009 were almost entirely due to government measures. The reality is that a large chunk of those created jobs—since we were in the depths of the recession—were restored naturally, without the government's intervention. Am I right?

Mr. Mostafa Askari: You are right. In fact, I said we look at the impact of the measures put in place by the government. The evaluation shows that the 2013 budget had a negative impact on employment and GDP.

Other economic events could generate more jobs and raise GDP. We examined the effects of the government's budget measures.

Mr. Guy Caron: Thank you.

What it boils down to is this: saying that the government is responsible for creating 900,000 jobs is almost as absurd as saying that the government is entirely to blame for the 500,000 jobs that were lost during the recession. I will leave it at that.

I have two more questions. I will ask them one after the other, as I have just one or one-and-a-half minutes left.

First, in your report, you stated that current GDP levels were about 2% lower than they could be. What we have now is 2% less than what we could have, further to the measures adopted in 2012-13. I'd like you to comment on that.

Second, I want to discuss the multipliers you used in your modelling. They come from the Department of Finance. I see that, since the 2011 fiscal update, that information no longer appears in the budget. As a result, we, as parliamentarians, have no way of knowing what the fiscal multipliers being used are. Do you think that information should be restored to the budget, so we can get an overall sense of the statistics the government is using?

Mr. Mostafa Askari: It would be useful for everyone to know the government's multipliers. That would make it possible to measure the impact of the various budget measures.

● (1135)

The Chair: Thank you.

[*English*]

Point of order, Mr. Jean.

Mr. Brian Jean: Mr. Chair, I'm not sure if the translation is correct because it was in French, but Mr. Askari just said—I think this is what he said and I want to confirm if it came out in English or French differently—but did he say that jobs are just going to naturally come back if government does nothing? Is that what he suggested, that jobs will just come back if governments do nothing?

The Chair: Do you just want to clarify that he actually said that?

Mr. Brian Jean: I just want a clarification on the French to English because—

Mr. Mostafa Askari: No, I didn't say that.

Mr. Brian Jean: Okay. I thought you agreed, and I thought—

Mr. Mostafa Askari: I didn't mean to say that if I said it.

Mr. Brian Jean: Perfect. Thank you very much.

The Chair: Thank you.

We'll go to Mr. Adler for your round, please.

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

I want to thank all of you, first of all, for being here.

We've received accolades as a country in terms of how we're held up as an economic model in terms of job creation, with the strongest record of the G-8. International organizations have heaped praise upon us and how well we're performing, relatively speaking, to other countries. Could you talk about the potential dangers that exist in terms of potential occurrences that could affect our economy coming from the outside?

Ms. Sonia L'Heureux: From my understanding, obviously what's happening in terms of our export market would be something to watch. What's happening in the U.S. is of interest to us, as well as the strength of the economy. The eurozone is also important.

I think I'll turn to my colleagues for more refined comments on the actual impact on our estimates when it comes to the outlook.

Mr. Mostafa Askari: Certainly the external environment is quite important for Canada. We export a lot of goods and services, so whatever is happening in the United States, in Europe, in the emerging markets, would be important for Canada. Everybody knows that there is a lot of uncertainty out there, especially in the U. S. and Europe. The fiscal situation in both areas is in very bad shape. There is also a lack of.... Especially in the U.S., the decision-making processes are really not working very well. There is a lot of uncertainty. If some of those problems and risks are realized over the next couple of years, it will obviously have a huge negative impact on the Canadian situation.

The way the projections are done right now is that the underlying assumption, really, is that over the next couple of years some of those issues will be resolved in the U.S. and Europe and they will go back to sort of more normal modes of operation. But if those things are not realized, obviously both will have a different scenario.

Mr. Mark Adler: How many of the potential contingencies that you see outside our borders.... For example we don't know how long the sequester in the U.S. is going to go on for. You mentioned uncertainty in Europe. How much of these factors are built into your numbers? What's the methodology in terms of how you go about doing that?

Mr. Chris Matier: Again, in the case of the U.S., you mentioned the sequestering. Our current projection lines up pretty closely to the IMF's. According to the IMF's projection for the U.S., their assumption is that the sequester will take off about a half a percentage point of growth in 2013, so they will have that reflected. While we don't have our own estimates of these impacts, we can look to organizations such as the IMF for that.

Mr. Mark Adler: Okay, so essentially, what you do is look for those—

Mr. Chris Matier: Yes, for the U.S. economy.

Mr. Mark Adler: And for the European economy?

Mr. Chris Matier: Again, the approach that we take is very fine-tuned in the sense that we look at the main external factors, such as the U.S. economy, commodity prices, consumer confidence, as well as domestic factors. Per se we don't have an explicit forecast for the euro area. Again, we would look to the IMF to allow us to inform our judgment for certain variables such as commodity prices. If the IMF sees global weakness, we might want to adjust our outlook for commodity prices somewhat.

● (1140)

Mr. Mark Adler: Domestically, what do you rely on for your information, and from whom?

Mr. Chris Matier: Domestically we're using the indicators for, let's say, Statistics Canada, to build up our near-term outlook for all of the sectors of the economy, for example, consumer spending, residential construction, and for business investment as well. We have a more detailed approach for Canada. Then any factors that we don't think will appear in our model we try to introduce, in the case of this fiscal consolidation. That's why we're using Finance Canada's multipliers to inform our judgment around that.

The Chair: Thank you, Mr. Adler.

[*Translation*]

Mr. Côté, your turn.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you very much, Mr. Chair.

I won't try desperately to get the answer I want to hear. Forgive me, but I couldn't help it.

Ms. L'Heureux, let's discuss the process for selecting the Parliamentary Budget Officer.

The NDP made proposals pertaining to the length and renewable nature of the PBO's term. We suggested that the term be lengthened to 7 years and that, 6 months before the end of the term, it be renewed or another Parliamentary Budget Officer appointed. We also laid out in our proposal all the considerations in the event of the incumbent's death or resignation.

Right now, you are doing the job on an interim basis. I would like you to do a comparison. Let's not kid ourselves. The process that led to your appointment was fairly confusing. I would like you to describe how that process differs from the one that led to your appointment as interim Parliamentary Librarian.

Ms. Sonia L'Heureux: I just want to make sure I fully understand what you are asking.

Mr. Raymond Côté: Yes.

Ms. Sonia L'Heureux: Are you looking for a comparison with the process set out in the legislation?

Mr. Raymond Côté: No, I want a comparison of the process that led to your becoming the Interim Parliamentary Budget Officer versus the process that led to your appointment as the Interim Parliamentary Librarian.

Ms. Sonia L'Heureux: So you want a comparison of the two processes.

Mr. Raymond Côté: Yes.

Ms. Sonia L'Heureux: In the Parliamentary Librarian case, it's an order. A competition was held, and candidates were interviewed. A recommendation was made, and the Prime Minister's order in council was introduced in the House. The House then adopted a motion that was submitted to the governor in council for approval. That is the process for the position of Parliamentary Librarian.

The process for the Parliamentary Budget Officer is different. Under that process, the Parliamentary Librarian must strike a committee to propose three candidates to the government leader in the House. He then submits those names to the governor in council. And it stops there because the House doesn't vote on it.

Mr. Raymond Côté: To some degree, then, it's a faster process.

Do you think it would be beneficial to have the appointment process for the Interim Parliamentary Budget Officer clearly set out in the legislation? Would that have been useful?

Ms. Sonia L'Heureux: I'm not sure, because I wasn't involved in that appointment. I don't know which factors were considered during that process.

Mr. Raymond Côté: At least you clarified the differences. Thank you kindly.

Now I would like to delve deeper into certain aspects of the economic and fiscal outlook, with the help of your experts. My question has to do with the regressive fiscal and tariff measures that were adopted.

Take the increase in the employment insurance premium rates set out in the legislation, for example. You cover that quite well in your report. There is also the elimination of Canada's general preferential tariff available to a certain number of countries on an array of 1,200 everyday consumer goods, and sometimes on more specific products such as diesel-electric locomotives. Then, there is the tax credit for labour-sponsored funds, affecting Quebec in particular.

Did your office examine those kinds of regressive economic measures? If not, would you have the ability to study the regressive dimension of those measures as it affects low-income families, such as those making $40,000 or less a year?

● (1145)

Mr. Mostafa Askari: We did not examine the measures through that lens. We focused on the impact of the economic and fiscal measures. But we can assess the various economic measures. We can assess the economic and fiscal impacts, but not so much the benefits to Canadians. That doesn't really fall within our mandate.

Mr. Raymond Côté: Thank you.

But would you have the resources for that?

My apologies, Mr. Chair. I see that you're telling me my time is up. Sorry.

The Chair: Thank you, Mr. Côté.

[*English*]

Ms. Glover, please.

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

Welcome on your first time here. It's really nice to have you here.

I would like to continue along the same lines with these job numbers, because I think there's some misleading information out there about these 67,000 jobs we're talking about. I want to make sure that you have an opportunity to be very clear about those jobs.

As I look at the stats that were provided, overall it looks like the PBO expects the unemployment rate to decline starting in 2015, lowering to about 6.3% by 2017, which is in fact broadly in line with the March survey done by the government, isn't it?

No one can hear you if you just nod your head yes, so I'd appreciate it if you'd say yes for the transcript.

Mr. Mostafa Askari: Yes, I think our unemployment rate forecast is pretty much in line with what the government has in its projection in the budget.

Mrs. Shelly Glover: Right, and I'll come back to the jobs in a minute.

On GDP growth, if you look over the time period, there might be a discrepancy between whether we believe commodity prices might go up as quickly as you do, but over the period to 2017, from 2013 to 2017, your numbers are exactly the same as our March survey, are they not?

Mr. Mostafa Askari: As far as the nominal GDP is concerned, we are just a slight—

Mrs. Shelly Glover: For real GDP.

Mr. Mostafa Askari: For real GDP, we're almost the same.

Chris?

Mrs. Shelly Glover: I'm at 2.3% and 2.3%.

Mr. Chris Matier: Yes, on average, they're the same.

Mrs. Shelly Glover: Let's get back to the jobs for a minute. Your report notes that if the government had spent more money in the budget this year and last year, 67,000 jobs would have been created in 2016. To be clear, these hypothetical jobs would have been created only if we, as the government, increased spending, right?

Mr. Mostafa Askari: Had you not taken the measures that you have taken in budget 2012—

Mrs. Shelly Glover: Which were to decrease spending—

Mr. Mostafa Askari: That's right, and—

Mrs. Shelly Glover: Again, you're saying that if we had increased spending and had not taken away that $38 billion over two budgets —and actually, it's probably over three budgets that you're looking— we would have had to spend $38 billion to maintain those 67,000 hypothetical jobs. That's what you're saying.

Mr. Mostafa Askari: Well, there were also some stimulative measures during that period of time, so it wasn't just savings measures, but the total amount, that type of thing.

Yes, I mean, the way to look at it is that we are expecting the government—well, the economy—to create about 600,000 jobs over the next five years, so on average, an increase in employment of about 120,000 jobs per year. The way to look at it is, had the measures not been taken, based on our estimates overall, that number would be about 667,000.

Mrs. Shelly Glover: Correct. I'm glad you qualified that because it is in fact government that makes the policies that make the environment to help our economy. Although you may not want to use the words that the government created those 900,000 jobs that have already been created, the government policies, as you've just indicated, will provide an environment to create 600,000 jobs. Am I correct that with the hiring credit for small business, with the accelerated capital cost allowance, venture capital, $50 million for young entrepreneurs, the competitive corporate tax rates we have, the free trade agreements that we have, again, it is government policy that actually lends to an environment for those 600,000 jobs you're talking about that will be created?

● (1150)

Mr. Mostafa Askari: Again, in the way we look at this we can't really separate that from what happens in the rest of the economy, from what other factors have affected the job creation. Whether it's an external environment, whether there are certain other events, whether it's lower interest rates in the economy that have caused more investment or more spending, those are all the different factors.

We separate the actions of the government and the impact of that, as the government did in budget 2009 when it introduced the stimulus package. It provided the impact only of that stimulus package, separately from other—

Mrs. Shelly Glover: Right. But what you're saying, sir, is not consistent with what your report is saying and what you've said. You've said that the 67,000 hypothetical jobs are lost as a result of what government has done, and you've said that you've evaluated the budget...the budgets. Those are government policies. It doesn't say that you've evaluated all those external factors to come to that 67,000.

You either need to correct the record here and tell us if those 67,000 jobs are influenced by outside measures.... I'd love to know that. But from what your report says, you've looked at the budget and it's the budget that will lend to those increases in jobs.

The Chair: Could we get a brief response to that, please.

Mr. Chris Matier: Sure. Those 67,000 jobs are related exclusively to the measures that were in the 2012 and the 2013 action plans. All the other factors that underlie the increase that we see of 500,000 or 600,000 jobs would be affecting those, but this is an all else equal, holding everything else constant, that if there was a dollar measure provided in the budget we were able to translate that into employment—

Mrs. Shelly Glover: Am I done?

The Chair: Yes.

Mrs. Shelly Glover: I'd like to know the direct measure of the government's measures that created jobs.

The Chair: There is another Conservative round. We'll come back to that issue.

We'll go now to Mr. Rankin, please.

Mr. Murray Rankin (Victoria, NDP): Thank you, Mr. Chair, and thank you, witnesses, for attending this morning.

Last Monday a court ruling dismissed part of Mr. Page's case on a technicality, but it seems it gave a significant boost to the PBO, stating that the office is answerable not only to the government but also to members of Parliament of all parties. The ruling strongly upheld the right of the PBO to take the government to court if it refused to provide requested information.

Its decision to go to court was, of course, prompted by a request by Mr. Mulcair, the leader of the opposition, to the PBO to analyze $5.2 billion in cuts made in the 2012 federal budget and their impact on jobs and service levels.

How valuable is this court decision to the work of the PBO in your view?

Ms. Sonia L'Heureux: At this point what we need to focus on is what the legislation is giving us as a mandate, and we do have a mandate to answer the question posed to us. At the moment I'm taking the request for information to our colleagues in the public service and the executive so that we can fulfill our mandate.

Mr. Murray Rankin: Right. I think you indicated that if the government refused to provide the requested information, you'd ask the relevant government departments to give you the budget analysis information that you have requested. Can you give us an update on that work? How valuable would that information be on the PBO to do its work?

Ms. Sonia L'Heureux: We do need the information to do our work. You may know that we've given departments two weeks to assemble the information we need.

In terms of an update, it's a little difficult at this point to give you an update because they're still compiling the information we requested.

Mr. Murray Rankin: It's a hypothetical question perhaps, but if the government does not hand over the information that you need to do your work, will you use the courts to obtain the information?

Ms. Sonia L'Heureux: You're right, it's hypothetical. All we have is the court said that they would be available.

Mr. Murray Rankin: They would be available and you're aware of that.

Yesterday the House of Commons debated a private member's bill, Bill C-476, to establish the Parliamentary Budget Officer as an independent officer of Parliament, like the Auditor General, the Privacy Commissioner, and the like.

Many experts and pundits have spoken out in support of the PBO becoming an independent officer of Parliament.

Do you agree that strengthening the mandate of the PBO in that way would be beneficial for your work and ultimately for government accountability?

Ms. Sonia L'Heureux: My job is not to agree or disagree with legislation; it's to meet legislative requirements. I will not comment on whether it's good or bad.

Mr. Murray Rankin: You're not in a position to comment on whether that level of independence and the additional powers would provide more....

Ms. Sonia L'Heureux: I believe it's for the parliamentarians to debate that, what they feel they need for us to do the work they wish us to do.

● (1155)

Mr. Murray Rankin: Maybe this is in the same vein, and if it is, don't answer. The point of this bill or any such bill would be to clarify the mandate, to have more precision in the language in which you do your work, the kind of analysis you can do, the kind of independence that you require, the rights in the statute to access information. Wouldn't that clarification in the mandate be of obvious assistance to your work?

Ms. Sonia L'Heureux: I think we've had some clarification with the court case you referred to earlier.

Mr. Murray Rankin: Right. And in your view, is that sufficient?

Ms. Sonia L'Heureux: I don't know. We'll see.

Mr. Murray Rankin: Okay.

Thank you, Chair.

The Chair: Thank you, Mr. Rankin.

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

I want to provide some context and get some clarification from you. In the past, the Parliamentary Budget Office has raised a couple of serious points, one with respect to what they called a structural deficit that the government was facing, and also, that the government in its budgets was underestimating risk. Those were two very serious points made by the office, in my view, and I think partly in your view the government has responded to both in terms of those concerns. It has in its budgets moved in fact to elevate the amount of risk that it is foreseeing.

In your fiscal sustainability report in 2012, you talked about three items that are going to lead to the government moving to balance over the medium term. You talked about the Canada health transfer changes post 2017, the OAS changes post 2024, and the program expense reductions. Those are three items over the medium term.

If I heard you correctly, Mr. Askari, you said in a response to a question that the government could return to a balanced budget without program reductions. Explain to me how the government can move to a balanced budget without program reductions when the other two items in your 2012 fiscal sustainability report do not even start to take effect until 2017 on the CHT, and 2024 with respect to the OAS.

The only thing remaining to move the budget to balance is program expense reductions, yet what I heard you say was that you could take those out, and then the government could balance its budget. I hope this would be true, but I just don't see how this could be true.

Mr. Mostafa Askari: I'll start this and then ask Mr. Matier to follow up.

What we have said in the report is that on the savings that were introduced in budget 2013, if we remove those savings—which means higher spending by the government—the structural budget deficit in 2017 will still be positive. That's the only thing we have focused on, just a measure in budget 2013.

The Chair: So keep the measures in 2012 but not the measures in 2013—

Mr. Mostafa Askari: That's right.

The Chair: —and that leads to a balanced budget.

Mr. Mostafa Askari: The budget still will be in the positive, about a $2 billion structural budget balance in 2017.

Chris, do you want to add something?

The Chair: In terms of risk, it seems to have flipped on the other side, which is saying that now the government is overestimating risk. Is that correct?

Mr. Mostafa Askari: That point really has nothing to do with the risk. This is just a factual matter that the impact of those measures on the structural budget balance essentially is to bring them down from about—

The Chair: I am asking a specific question. In the past, you've said that the government has underestimated risk. It seems you've now flipped and are saying that they're overestimating risk. Is that correct, Monsieur Matier?

Mr. Chris Matier: I would just say that the difference between our projection for nominal GDP and the government's risk adjusted is minimal. This is $8 billion on average, or 0.4%. We would consider that to be broadly in line. What's changed really, if I just point you to figure 2-13, is that the private sector outlook has been revised down significantly. What's happening is that private sector forecasters are starting maybe to take a closer look at the impacts of fiscal consolidation.

The Chair: Some commentators responded to our budget by saying that the government is putting too much in terms of future revenues, is overestimating future revenues, and therefore it's going to balance the budget. Some commentators said that they don't think the government will balance the budget because it's overestimating revenues. In fact, you're going beyond where the government is and even estimating those revenues to be much higher.

How do you respond to those commentators?

● (1200)

Mr. Chris Matier: It would be difficult to respond to them without having their projections and their detailed assumptions to allow us to reconcile the differences. Probably, the important point is that there is some uncertainty around the year that the budget returns to balance, but the direction is clear. The structural surplus that's in place will allow that budget to return to balance over the medium term.

The Chair: If I could return to jobs, you've said you're largely in line in terms of the government projections on GDP, but with respect to job growth, you see job growth occurring but you think there could be more job growth if the changes.... Now, is it the changes in 2012 and 2013 or is it the reductions only in 2013 that affect job growth going forward?

Mr. Chris Matier: If you were to compare the differences between the current private sector outlook and our outlook, I think you could explain those differences by looking to the impacts that we have. Perhaps private sector forecasters have a different estimate or are underestimating the impact of these reductions.

The Chair: I'm bumping against my own time here, but explain then, on a very fundamental question. You're saying the government ought to keep spending higher to ensure that more jobs are created in the future. Obviously, you want to get through a recessionary period by having stimulus spending, but you want to wind that down and have the private sector step in to create those jobs.

It's a big fundamental question and there's not much time, but do you want to try to answer that?

Mr. Chris Matier: I agree it's a fundamental question, but that's beyond the scope of the mandate of our analysis. It's an extremely interesting question. It's being debated everywhere around the world at this moment.

As much as I would like to respond, I will not respond.

Voices: Oh, oh!

The Chair: Well, you can respond if you want. It perplexes me that the office would sort of imply that the government ought to keep its spending at a high level in order to create more jobs which presumably would simply be in the public sector, which is not what you want to see happen in terms of economic growth going forward. You want the private sector to be generating the bulk of the jobs.

Mr. Chris Matier: I agree with that statement. It's not the underlying assumption in our work that the government should be increasing spending. What we're trying to provide here is an impact analysis of what could be some of the implications of these decisions, much like the government did in its first economic action plan.

The Chair: Okay, thank you.

Ms. McLeod, I apologize. I did take your time.

I want to thank our witnesses very much for being here, and for responding to questions from the members as well.

Colleagues, I'm going to clarify the calendar.

As you know, the calendar did say we were going to start the budget implementation bill on Thursday, but some members have strongly suggested that we not start that bill until it has been referred to us by the House, until it is voted on at second reading. Therefore, I am recommending, as your chair, that on May 2 we deal with main estimates 2013-14, and on Tuesday, May 7 we deal with a private member's bill, Bill C-462, the Disability Tax Credit Promoters Restrictions Act. I'm hoping we can start the budget implementation bill with officials from the Department of Finance on May 9.

I'm looking around for nods and I hope I have agreement to do that, as your chair.

Some hon. members: Agreed.

The Chair: Thank you.

The meeting is adjourned.