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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1530)

[*English*]

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

This is meeting number 43 of the Standing Committee on Finance. I want to welcome all of our guests here today at the start of our 2014 pre-budget consultations.

Colleagues, I want to welcome you back to this first meeting of the finance committee in the fall.

We are starting our pre-budget consultations. At our first meeting, we have two panels of an hour and a half each. In the first panel, we have the Canadian Taxpayers Federation, with the director, Mr. Gregory Thomas. We also have from the Fraser Institute a person who has written a budget in the past, Mr. Sean Speer.

From the Macdonald-Laurier Institute, we have a senior fellow, Mr. Philip Cross. From the National Association of Federal Retirees, we have the president, Gary Oberg. Also, from the University of Ottawa we have someone who's familiar to our committee, Mr. Kevin Page.

Welcome to all of you. Thank you so much for being with us.

You each have five minutes for your opening statement. Then we'll have questions from members.

We'll start with Mr. Thomas, please.

Mr. Gregory Thomas (Federal Director, Canadian Taxpayers Federation): Thank you, Mr. Chair, and committee members.

On behalf of the Canadian Taxpayers Federation, Canada's largest, oldest, and noisiest taxpayer advocacy group, I thank you for the invitation to appear today.

We recently surveyed our supporters and had nearly 6,000 responses to the survey, which was asking what the priorities should be for the Government of Canada in the years ahead. Interestingly, 53% of this sample of nearly 6,000 Canadians said that paying down Canada's debt was their top priority for what to do with the surplus, while 44% favoured tax cuts and 2% wanted to see more federal spending.

So we strongly urge the committee to urge the government to include a debt repayment schedule in the 2015 budget. Nobody's expecting the debt to be repaid overnight, but over the course of 11 surplus budgets leading up to the financial meltdown in 2008, over $100 billion of federal debt was repaid by governments of all stripes, the lion's share of that by a Liberal administration. We hope the Liberal caucus and the official opposition will take note of the desire amongst Canadians for lower debt.

Our supporters also indicated a preference for fewer tax brackets, lower rates, and fewer boutique tax credits. When it came down to a straight-on request for input as to how best to deliver tax relief to families, the most popular option was increasing the child care deduction and allowing stay-at-home parents to benefit from the child care deduction. We believe that if special relief is going to be afforded to Canadian families, then a child care deduction of $10,000 per child that is available to stay-at-home parents, whereby a parent in the workforce could pay a stay-at-home parent, is an affordable, flexible, and effective way of getting that tax relief to Canadian families.

We continue to call for the government to reduce employment insurance premiums and to ultimately implement an employment insurance savings account, whereby Canadians who never use the employment insurance fund and who work all their lives could roll their own employment insurance premiums into their retirement savings at retirement. This year, a working couple earning the average industrial wage—two spouses earning approximately $50,000—is going to see $4,300 docked from those paycheques on behalf of the employer and the employee and sent to Ottawa. We think that's far too much money benefiting far too few Canadians. We strongly urge the committee to urge the government to begin comprehensive reform of employment insurance.

We have a whole bunch more in our brief, but if I keep talking my friends won't have a chance, so I'll once again thank you for the invitation.

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

We'll go to Mr. Speer, please.

Mr. Sean Speer (Associate Director, Government Budgets and Fiscal Policy, Fraser Institute): Thanks, Mr. Chair.

Thanks to all of you for the opportunity to appear as part of your annual pre-budget consultations.

I want to begin by recognizing how important the committee's pre-budget work is. I've been involved in four federal budgets in the past, and I know the extent to which the government relies on these hearings and ultimately on your advice in the development of the budget.

This year's work is particularly important as the government moves to a balanced budget and the country debates how best to use future budgetary surpluses. I think to this point the committee's pre-budget theme of balanced budgets and economic growth is apt.

This brings me to my two main comments today: the need to eliminate the deficit and maintain ongoing spending discipline and, secondly, what I think is a high-impact and low-cost step the government can take to encourage short- and long-term economic growth.

First, with respect to the deficit, we appear to be entering a transition from a series of budgetary deficits to fiscal surpluses. This protracted period of deficits will have added nearly $175 billion to the federal debt by 2015-16. The government's top priority, therefore, ought to be eliminating the deficit. This means ignoring calls from some quarters to push back the timeline for a balanced budget in the name of ongoing fiscal stimulus. The fact is, we've seen the results of such prescriptions before, and this ultimately leads to a never-ending cycle of persistent deficits, growing debt, and rising interest costs.

It's also important, though, that the government doesn't use the return to a balanced budget as a licence to ramp up spending. The current government has exhibited better discipline in recent years, and it would be a mistake to reverse course and return to the type of spending growth we witnessed before and during the global economic recession.

Put simply, the first priority of this budget ought to be to put the government on a strong fiscal path now and for the future. This of course is because controlled spending and balanced budgets aren't an end in themselves. They're a means to a end, and that is freeing up fiscal resources for the government to take steps that will improve the country's competitiveness and really set the foundation for long-term prosperity.

I think there's a real opportunity to focus the debate and the discussion through these hearings on how best to use the fiscal dividend, which was a major debate, as you all know, when we last eliminated deficit and returned to balance. There are many important policy ideas that ought to be discussed as part of a pro-growth agenda, but let me focus briefly on just one here today, and that is the tax treatment of capital gains.

A wealth of research shows that capital gains taxes reduce the supply and increase the cost of capital available to new and expanding firms and in turn diminish levels of entrepreneurship, economic growth, and, ultimately, job creation. The primary reason that capital gains taxes can have these negative effects is something that economists call “the lock-in effect”. Because capital gains are only taxed upon realization, high taxes can create an incentive for investors and asset holders to retain their current investments even if more profitable and productive opportunities are available.

The magnitude of the lock-in effect depends on a number of factors, but a series of empirical studies has found a negative relationship between capital gains taxes, assets sales, share prices, and other proxies for investment activity. This important for Canada because, as I'm sure you'll hear throughout these hearings, there remain ongoing concerns with respect to the capital supply and the creation of new firms in Canada.

A series of governments have taken steps to encourage and increase the supply of capital through direct subsidies and tax expenditures, yet the tax treatment of capital gains has gone largely ignored. At a time when governments are searching for policy options to improve the access to capital for new firms, it would be wise to reform the tax treatment of capital gains. Eliminating capital gains taxes altogether or reforming the application of capital gains taxes through a rollover mechanism could help to increase Canada's supply of early-stage financing.

It's worth noting that such a policy would have a relatively limited fiscal impact. According to the most recent estimates from the Department of Finance, the government collects approximately $2.8 billion in capital gains taxes, which represents 2.4% of income tax revenue and 1.8% of total government revenues.

So in sum, capital gains taxes carry significant economic costs and generate a small amount of government revenue. Capital gains tax reform would be a high-impact, low-cost measure that would have a considerable impact on the Canadian economy. I would encourage the committee to explore this issue further.

Thank you, Mr. Chair.

● (1535)

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

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

Mr. Philip Cross (Senior Fellow, Macdonald-Laurier Institute): Thank you, Mr. Chair.

I'd like to summarize. The MLI has done a couple of research reports in the area of federal deficits. One result that I think most members would be familiar with is the impact of aging on future deficits. Another impact I'll be discussing is the implications of provincial deficits, an impact that is rarely discussed. I'll start with the aging.

The rapid aging of the population is going to put pressure on federal finances through at least four mechanisms. One is that there will be fewer workers paying income tax. Second, there will be increased demands on the unfunded portion of our pension plans, notably the OAS and GIS. Third, there will be increased demand from the growing number of federal employees for the unfunded portion of federal government employees' pensions. Finally, there will be increased demands to fund the health care system.

One estimate we've published is that from now to 2030 the aging of the population by itself will add 52.5% of GDP to federal government debt outstanding. That's more than all federal government debt today.

The other thing I'd like to discuss is that while you look at federal finances—and they've come down from a peak deficit of over $40 billion at the worst of the recession to a negligible deficit over the last four quarters—what's rarely discussed is how there has been almost no improvement in provincial deficits over that time. In fact, provincial government debt today is higher than it was at the worst of the recession, totalling something on the order of over $40 billion at the moment.

The largest deficits are being run by Ontario and Quebec, the provinces that also have the highest provincial debts. Quebec's debt outstanding is 48.1% of GDP. Ontario is next at 37.4%. Ontario's is growing much more rapidly.

On the other hand, with regard to Quebec's deficit, they've had more ability to bring down their deficit, but it's worrisome that they haven't been able to eliminate it completely. In 2013, then finance minister Marceau gave an "*engagement ferme*", in his words, that the deficit would be eliminated. Instead, the deficit came in at $1.7 billion and, by the Quebec government's own estimates these days, it is heading up to $3 billion.

Why am I talking about provincial deficits? In the fall of 2012, we published a study showing that financial markets regard the federal government as giving an implicit guarantee to bail out the provinces that get into debt. This happened regularly during the Depression, but we don't have to go back that far.

One of the interesting chapters in Chantal Hébert's recent book, *The Morning After*, was about then Saskatchewan premier Roy Romanow saying that when he took over the province they were "flat broke" and adding, "I don't think I'm overstating it." He then recounted how he got a call from Brian Mulroney, then the prime minister:

> ...he phoned me about the gravity of the Saskatchewan and Newfoundland situations. The essence of the conversation was that we had to take dramatic action and if we did not, the federal government would have to act and the Bank of Canada governor would have to intervene.

That I think very explicitly says that the federal government is perceived correctly by financial markets as backstopping provincial debts. So to the degree that provincial government deficits continue to be a problem, this is something that can't be ignored when assessing the future outlook for federal finances.

Thank you.

● (1540)

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

We'll go to Mr. Oberg, please.

Mr. Gary Oberg (President, National Association of Federal Retirees): Thank you, Mr. Chair.

First of all, I have to tell you that I had a ten-minute presentation here that just had to be cut to five. I hope I can make it.

On behalf of the National Association of Federal Retirees, I am pleased to address this committee on the issues that affect all our veterans, including Canadian Armed Forces, RCMP members, and their families. As the president of the association, and having served my country as a member of the RCMP for over 27 years, I understand the issues affecting our veterans and their families. I have heard from many of them over the years.

The National Association of Federal Retirees is the largest national advocacy organization representing federal retirees and their partners and survivors from the Canadian Armed Forces, the RCMP, and the public service of Canada, and retired federally appointed judges. With over 185,000 members, including over 60,000 veterans and their families, this association has a 50-year history of providing independent advocacy on issues affecting the financial security, health, and well-being of our members, including veterans and their families. Our veterans' membership makes this organization one of the largest organizations representing veterans today.

Our presentation today focuses on ensuring that our veterans, including Canadian Armed Forces and RCMP members and their families, have access to the programs and services that will ensure a supportive and successful transition to civilian life, with reassurances of lifelong quality of life, including financial stability, a rewarding career, good health and well-being, and a strong family. This is the federal government's obligation.

Resolving the financial deficiencies of the new Veterans Charter is one of the most pressing issues facing our veterans and their families. Since 2006, veterans groups, the Veterans Ombudsman, the new Veterans Charter advisory group, and two reports from the House of Commons committee on veterans affairs have all stated that there are significant deficiencies within the new Veterans Charter. More recently, in June of this year this government released three reports on the care of our injured veterans. This is a compelling message that immediate improvements are required to the benefits, services, and programs that support veterans who have been injured in their service to Canada. Extensive and comprehensive consultation and analysis have taken place, and immediate action is essential. It is now time to resolve the key financial deficiencies of the new Veterans Charter.

We believe this government must maximize the number and types of jobs for Canadians, and this includes our military and RCMP veterans, by providing a tax incentive for employers who hire a veteran. The Veterans Affairs Canada 2010 life after service study confirmed that 25% of veterans experience difficulty in transitioning to civilian life. To lessen this risk, it is important that all veterans have the opportunity to transition to meaningful employment following their service to their country.

While there are programs available to assist our injured military and RCMP veterans' transition to civilian employment following their service, the programs remain limited and focused in such specific areas as Helmets to Hardhats. Our military and RCMP members have training, skills, expertise, and leadership that are second to none. We need to recognize this and ensure that diversity in employment opportunities that tap into their extraordinary experience and talent is available to our veterans. Therefore, to encourage private employers to engage this resource across the country, employers who hire veterans should receive a tax credit from the federal government. This will build and strengthen our communities.

Lastly, we believe a sustainable national research program focused on the needs of Canadian Armed Forces and RCMP veterans and their families is essential. The long-term impact of independent research on military and veterans health is significant, as it informs and shapes government policy and programs to ensure that veterans and their families experience successful transition and lifelong quality of life.

Our veterans are impacted by unique risks, exposures, and experiences of service. These Canadians require unique standards of health protection, prevention, and care. The Canadian Institute for Military and Veteran Health Research has established itself as an unprecedented and independent leader in veterans health research in Canada. This institute engages existing academic research resources, facilitates new research, increases research capacity, fosters knowledge translation, and has become the hub of 33 universities that have agreed to join forces in addressing these unique health research requirements. In just four years, the Canadian Institute for Military and Veteran Health Research has become the hub for military and veteran health research in Canada. We support their request that the government commit $5 million over five years.

In conclusion, on behalf of the 185,000-plus members of the National Association of Federal Retirees, I would like to thank you for the opportunity to address this committee today.

● (1545)

I have provided you with the priorities that are supported by veterans groups, the Veterans Ombudsman, the new Veterans Charter advisory group, and two reports from the House of Commons committee on veterans affairs. It is time for substantive change to support our veterans and their families who have been injured in service to their country. I urge you to take that needed change now.

Thank you.

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

We will go to Mr. Page now, please.

Mr. Kevin Page (Jean-Luc Pepin Research Chair, University of Ottawa): Thank you, Chair, vice-chairs, and members of the House of Commons Standing Committee on Finance. It is an honour to be here with you today.

The lead-up to the 2015 federal budget and federal election should be an important time for analysis and debate. The test for our country should be, will we leave our children with a stronger economy and stronger institutions than we had for ourselves? I worry. Growth in after-tax incomes has been stagnating. Business in multifactor productivity growth, a key ingredient for higher standards of living, has effectively flatlined. The old-age dependency ratio in Canada is about to go through a historic rise over the next two decades. We have had no federal-provincial discussion on what this may mean for sustainable growth, public finances, federal-provincial relations, or health care. Confidence in our Westminster system of responsible government has been eroded by spending scandals. The House of Commons has largely given up its power of the purse role.

On a more positive note, I believe we are about to reach some interesting junctures in the relationships between budgetary balance, fiscal sustainability, and growth. The world economy is emerging from the grips of the 2008 financial crisis. There is fiscal room to manoeuvre. There is choice in priorities and policy directions. Choose wisely.

After some difficult years since 2007-08, where Canada added about $140 billion, or 20%, to its accumulated deficit, the projected annual budget balance is near a balance. Minister Flaherty, God rest his soul, must be smiling from above. Thanks in part to historically low interest rates and 11 years of balanced budgets, or better, starting in the 1990s, the carried cost of this debt is down to about 12¢ on every revenue dollar, about one third of what it was 20 years ago.

Canada once again is headed for a structural surplus with a strong prospect of modest medium-term surpluses. Canada's fiscal sustainability situation is likely better than many other countries'. According to the Parliamentary Budget Office, the federal fiscal structure is sustainable, meaning we have a fiscal structure that will stabilize debt relative to the size of our economy in the face of demographic change. Similarly, the Canada Pension Plan and the Quebec Pension Plan are sustainable as currently structured, meaning we have a pension structure that will stabilize the relationship between net assets and expenditures over time.

We do have a fiscal sustainability issue or negative fiscal gap at the provincial and territorial level of government. The size of the gap at the provincial level was exacerbated by the federal policy change to the escalator for the Canada health transfer.

You may wish to recommend in your pre-budget consultations report that the Government of Canada prepare annual sustainability reports like other OECD countries, and that this analysis be done to reflect all levels of government. Health care is a major pressure on fiscal sustainability in Canada. Do we want a one-taxpayer approach to fiscal management? Do we want a national approach to health care cost management? If we do, the committee may wish to recommend a national dialogue on health care policy and finance involving all stakeholders.

You may wish to consider options to reform federal transfers to provinces. Balanced budget legislation as highlighted in the Speech from the Throne could provide a strong fiscal signal that the government is managing within a fiscal target. The experience in developed economies, particularly in the European Union, highlights the additional demand for analysis to mitigate the negative impacts of counter-cyclical fiscal policy. This includes the calculation of output gaps and cyclically adjusted balances, the need for corrective enforcement-type mechanisms, and stronger roles for independent fiscal institutions like PBO on the assessment of achieving targets.

The committee may wish to undertake analysis of various experiences with fiscal rules, targets, and balanced budget legislation and make suggestions on the necessary analytical requirements so that any balanced budget legislation is based on best practices. The committee may wish to recommend that the federal government provide five-year spending plans by department and agency outlining areas of spending reduction and changes to service levels. Spending restraint plans that generate fiscal and service-level risk create spending pressures into the future.

Thank you very much.

● (1550)

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

Colleagues, I think we'll have time for seven-minute rounds. That was what we were following in the spring. I'll start with the seven-minute rounds. If we run short on time, I may have to shorten some of the latter rounds.

We will begin with Mr. Cullen.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Thank you.

I just want to pick up on a comment that you made, Mr. Speer. I know that Mr. Page and maybe some others at the table have had some experience on the other side of this conversation from government. As we go through our hearings, does government listen? It's a fair question to ask, or have most of the big decisions with the budget already been made?

Your experience was that these rounds of consultations are important, that the ideas that you and other witnesses bring forward and the committee recommends are important to the drafters of the next budget.

Mr. Sean Speer: Yes. I can say that in my experience, Mr. Cullen, the committee's report and ultimate recommendations are a major input into the budget process. The Department of Finance is responsible, as a conduit to stakeholders, to compile a list of submissions from stakeholders, ranging across industries and sectors, and one of those inputs is the committee's report and recommendations.

Mr. Nathan Cullen: That leads me to a curious moment, because all five of you—and I thank you for your testimony—had an opportunity today to put in your topline ideas for what would help veterans and retirees and help the general economy, but none of you mentioned income splitting as your important idea.

Mr. Thomas, why did you not? Isn't your organization loudly in favour of all tax cuts at any time?

Mr. Gregory Thomas: We've just surveyed our supporters. We had nearly 6,000 responses. Our supporters strongly favour fewer brackets, lower rates, and the elimination of boutique tax credits. For example, we view a comprehensive tax reform along the lines of the American tax reform of 1986 as more equitable for everyone, and—

● (1555)

Mr. Nathan Cullen: Can I stop you—

Mr. Gregory Thomas: —it's interesting that when you look at the cost to provincial treasuries of income splitting, the effect is substantial in Atlantic Canada, Ontario, and Quebec, where there's a highly progressive income taxation system, and negligible in Alberta, where there is a flat tax. When we asked our supporters about income splitting, though, an enhanced deduction for child care won out.

Mr. Nathan Cullen: As a choice?

Mr. Gregory Thomas: As a choice amongst the supporters of the Canadian Taxpayers Federation, and when you look at the demographics and what have you, it's quite startling.

Mr. Nathan Cullen: In terms of the fairness or the equity you've mentioned, it's not just the number of families or what kinds of families may be impacted by such a tax policy, but also the geography and the implications region by region of such a policy, particularly on provincial budgets.

Mr. Gregory Thomas: That's right.

One of our younger employees has two children of pre-school age, including a newborn. He and his wife spend $8,400 on child care. The current ceiling per child is $7,000 and hasn't been bumped up since 1998.

Mr. Nathan Cullen: Thank you for that. It's helpful.

Mr. Page, part of the starting point that we don't necessarily address here is perceptions on the health of the economy, in that when the onset of the great recession came, there were different perspectives as to whether we were headed into a recessionary time or a not recessionary time. In the first budget that was brought out, that was then essentially rescinded. It was an austerity budget and then it became a budget for investment.

At the top of your presentation, you listed a number of indicators you're looking at with regard to the Canadian economy that leave you with some doubt or some serious questions about the strength and health of the Canadian economy. The reason I'm asking about this is that we don't take this first starting point very often: how strong is the Canadian economy today and how is it trending? That would then lead one to conclude, if you're listening to the evidence, as Mr. Speer says, not just from you but from the econometrics themselves....

You've mentioned a number of things. It left me with the impression that you're not feeling overly enthusiastic or confident that the Canadian economy is in a good and improving situation. Am I characterizing your testimony correctly?

Mr. Kevin Page: Mr. Chair, my view on the Canadian economy is that it is growing. I think that if you look at the latest numbers, at industrial production numbers, you see that we're up by about 2.6% on a year-to-year basis. We're growing. We have an unemployment rate of 7%. That's down from 8.5% at the depths of the recession.

That's probably a full percentage point higher, which most economists would say is Canada's longer-trend unemployment rate, so there is weakness. I think the Bank of Canada and other people who estimate these outputs say that the economy is still operating well below potential, maybe by a per cent to two percentage points, each percentage point being about $20 billion. That's a relatively weak economy, so I think economic growth should be a priority going forward.

Mr. Nathan Cullen: If we take as a starting point—and I know economists and two hands and all the rest—this idea of the Canadian economy being well below potential, and in speaking about the choices for our federal government going into a budget cycle, where there is now room either to invest or, as Mr. Thomas and others have argued, there are choices of true investment versus politics—which is always a difficult thing in balancing this—there is the question of where the best investments are.

Mr. Oberg, I want to turn to you for a moment. Do you consider the services and programs offered to our veterans as investments? Or are they sort of—and here I don't want to use an improper term—secondary considerations for a government dealing with other matters, other economic matters, like job creation and job growth? For your members, the folks you represent, with regard to the types of expenditures that you're asking for, now that we appear to be moving into surplus, are they investments in the Canadian economy and in Canada in general?

The Chair: You have one minute.

Mr. Gary Oberg: Here you have to take a look at perhaps a different terminology with an investment, Mr. Chair. This is an investment in people. This is an investment in the people who have perhaps gone to foreign lands or fought within Canada. They have suffered injuries, sometimes mental illness. They have come back so that at the end of this day, you and I can walk out of this historic building, to the top of the front of the stairs overlooking the front lawn, and breathe that thing we call freedom. That freedom did not come without a cost. We have to ensure that those people who have done that on our behalf are looked after at a cost to the people of Canada, who are the beneficiaries of all that that has taken place by these people. Thank you.

● (1600)

The Chair: Thank you. We'll go to Mr. Saxton, please.

Mr. Andrew Saxton (North Vancouver, CPC): Thanks to our witnesses for being here. My first questions will be for Philip Cross, of the Macdonald-Laurier Institute.

Now Mr. Cross, in your opening statement, you mentioned that you're concerned about provincial deficits. I'm glad you did because this was something that Jim Flaherty frequently talked to me about. He frequently encouraged the provinces to use the same fiscal discipline at their level to rein in their deficits as we've done at the federal level to rein in ours. Our government has committed to finding efficiencies and restraining spending within government to help balance the budget by 2015. We're on track to do just that.

Likewise, Canadian families know they cannot prosper by continually spending more than they earn. Our priority at the federal level has been eliminating deficits, and it will be paying down the debt as well. Do you agree that this should be a top priority of any government?

Mr. Philip Cross: Very much so. I gave projections, for example, of what the aging of the population by itself is going to add to the federal debt. The federal government isn't even the one that's primarily responsible for delivering health care, so you can imagine what the effect of this is going to be on provincial finances. Before the aging has really begun in force, provincial finances are already in extremely poor circumstances, and have shown almost no improvement coming out of the recession. That should be a major concern of every policy-maker. It's going to require substantial reform.

In the 1990s, this country undertook major reforms of the CPP and QPP, and of welfare. This country showed then that when we have to, we can undertake major reforms of programs that the public sector delivers. We're going to need that kind of fundamental rethinking of how we deliver programs for health care and education moving forward, because those are the two biggest sources of provincial spending. We're not going to be able to fix provincial deficit if we don't fundamentally address spending in these areas.

Mr. Andrew Saxton: Thank you.

Mr. Philip Cross: It's not going to work by making cuts of 2% across the board for a couple of years.

Mr. Andrew Saxton: Thank you.

Our government also recently highlighted that we're on track to have a comfortable budget surplus in 2015. Furthermore, the government has signalled it will take steps to enshrine into law our prudent fiscal management strategies, through the implementation of a balanced budget legislation.

What are your thoughts on the proposed balanced budget legislation?

Mr. Philip Cross: A lot of people would be surprised to hear that Ontario adopted a balanced budget legislation in the 1990s. The first thing the next government did was basically throw it out, and say it's no longer binding. You can pass laws saying well, we'll do this and that, but I don't think they're worth much. I think what counts is that all governments have to face the reality of these deficits, and have a determination to eliminate them. Governments can always find a way around something. I don't think writing something into law, and then expecting that future governments will be held by that, is realistic.

Mr. Andrew Saxton: Thank you.

My next question is for Gregory Thomas. Taxes today, as a percentage of GDP, are at their lowest level in almost 55 years. The PBO also said that our government has provided nearly $30 billion worth of tax relief. Could you elaborate on how our government's important tax relief measures will help support the Canadian economy?

Mr. Gregory Thomas: I think there's no question about the most compelling example. You can look back and see it in the teeth of the financial meltdown of 2008, when the American economy was reeling and when consumer spending was heavily depressed. There's no question that the reduction in the GST by 29% had a tremendous stimulative effect. It had a direct stimulative effect for Canadian households, for moms and dads who were trying to balance their household budgets.

Economists debate the effectiveness of the GST reduction compared to income tax reductions and things of that nature, but when it was needed, when the world economy was staggering, the GST reduction was 9-1-1 income relief to Canadian families. That should not be forgotten. It's not discussed very often, but it was of tremendous assistance.

With regard to the balanced budget act, we strongly supported the balanced budget legislation in Ontario, in British Columbia, and in Manitoba. It remains the fact that when governments like Manitoba's have done tax grabs and have gone back on balanced budget legislation, they've had to go back to the legislatures of those provinces and gut that legislation over the vocal objections of legislators in those provinces.

We'd like to see balanced budget legislation incorporated in the Constitution of Canada, but until that day comes, a law is a law and it makes a statement. We strongly endorse the government's legislative initiative to put balanced budget legislation on the books in Canada for the first time.

● (1605)

Mr. Andrew Saxton: Thank you. I'm glad you highlighted that the reduction in the GST was in fact 29%, because most people look at it as a 2% reduction, but it is actually a 29% reduction. I'm glad you highlighted that.

My next question is for Sean Speer at the Fraser Institute.

Mr. Speer, economic action plan 2013 introduced the new Building Canada plan to build roads, bridges, subways, commuter rail, and other public infrastructure in cooperation with provinces, territories, and municipalities. Our government provided over $53 billion in predictable infrastructure funding for the next 10 years. This is the largest and the longest federal investment in job-creating infrastructure in Canadian history.

As these funds now start to flow, how will they help create jobs and economic growth and provide a high quality of life for Canadian families in communities across the country?

The Chair: You have about 30 seconds for your response, please.

Mr. Sean Speer: We'll see how the program rolls out. I think an important part of the renewed Building Canada fund was the recapitalization of Public-Private Partnerships Canada. Delivering infrastructure spending through the P3 model I think has some real value, and I think that was an important part of the renewed program.

The Chair: Thank you.

Thank you, Mr. Saxton.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Chair. I'd like to begin with Mr. Oberg.

I thank all of you for joining us today.

Mr. Oberg, your brief touches on the key financial deficiencies of the new Veterans Charter, particularly in areas of inequality. You've highlighted the disability awards for veterans compared to what injured civilian workers would get in a court of law, as well as some of the issues with regard to the earnings loss benefit for class A and class B reservists.

Many of the soldiers who went to Afghanistan were reservists. What's the government's rationale for or defence of a policy of treating reservists differently when they become injured?

Mr. Gary Oberg: That's a very good question, Chair. Thank you.

No matter if he's a regular armed forces member or a reservist, a human being is still a human being. That person who goes to Afghanistan and comes back without body parts is still a human being without body parts. Because he may be a reservist as opposed to a member of the regular armed forces, he's being treated differently. I honestly cannot tell you the rationale for that. It is a conundrum to me and, in my mind, it has no rational basis. I believe it's something that the people who are looking at the new Veterans Charter have to really delve into to deal with it appropriately.

Hon. Scott Brison: Your brief also highlights differences between how much a veteran might receive in a disability award compared to what a civilian worker typically would receive in damages in a court of law. Could you provide some examples of those differences? What do you think is the principle behind this inequality in disability benefits for veterans versus civilian workers in similar situations?

Mr. Gary Oberg: I can't give you an example as to what one or the other may be. What I can probably say is that in civilian law in Canada, courts provide certain information, certain judgments, with reference to those kinds of issues, but they haven't gotten into that realm whereby that's what a person should get when they are in the military, in the service of their country.

I don't think those equalities, those links, have been made to be able to bring that together so that everybody is treated equally. That is an issue that needs to be looked at.

Hon. Scott Brison: Thank you very much.

The issue of infrastructure has been discussed. Mr. Page, you've spoken of slow growth in Canada, income growth being non-existent, and the need for a growth agenda. The U.K., U.S., and Australian economies are outpacing Canada's in terms of economic growth and jobs growth at this point. At the same time, we're hearing from people like David Dodge and others that now would be a very good time to invest in long-term infrastructure. In fact, I believe in Australia this year they've put $13 billion of federal money in their infrastructure plan, but they've leveraged with public-private partnerships and with their states to invest about $60 billion in infrastructure. The U.K. is very robust.

Given that Canada has probably the greatest concentration of expertise in the world in the design, construction, and financing of infrastructure through our pension funds, is there an opportunity for us in Canada to have a very robust infrastructure plan, led by the federal government but working with provinces and our pension funds, to revitalize the infrastructure in the long term and to create growth in the short and medium term?

● (1610)

Mr. Kevin Page: Thank you, Mr. Chair.

I think there is an enormous opportunity right now in an expanded program, in infrastructure spending. I think Mr. Saxton's points were well made. I think we are talking about historic expenditures over the next ten years. But I think given the environment, given the weakness of the Canadian economy, the global economy, and I think given the incredibly low effective interest rates, treasury bill rates under a percentage point, ten-year government bond rates with a 2.5% range, what a great opportunity to invest in infrastructure.

I think there would be short- and long-term positive impacts. I think the work done on stimulus in 2009-10 showed that infrastructure had a relatively big impact. If we go to balanced budget legislation, I think it would be a good idea to separate out current budget from capital budget so that we don't limit our opportunities to invest for the future.

Hon. Scott Brison: That's a good point, because not all spending is created equally in terms of the type of spending, in terms of program spending, short-term versus this kind of investment.

Do you have any thoughts from the Fraser Institute or the Macdonald-Laurier Institute in terms of long-term infrastructure investment?

Mr. Sean Speer: Mr. Chair, the only thing I would say to Mr. Page's comments is that we're seeing at the provincial level the separation of the operating and capital budgets. I understand the case for separating them for the purposes of these types of spending decisions. But we've seen in the case of some provinces that it's created a real lack of transparency, making it very difficult to evaluate the true finances of the government.

So to the extent that we move in that direction, there would have to be a careful eye towards increasing rather than reducing transparency.

The Chair: Did you want Mr. Cross to...? No.

You have one minute, Mr. Brison.

Hon. Scott Brison: Mr. Thomas, you recently referred to the income splitting, saying that the pledge was “written on the back of an envelope as the campaign bus pulled out of Ottawa”, and that it's “been denounced by every credible economic think tank, representing every shade of the political spectrum.” You also said that even the Department of Finance has weighed in, with an analysis that was “so damning that nearly everything but the commas was redacted before it was released to the public.” You go further: “What's worse, writing income splitting” into the tax act, topping off the Harper government’s inventory of boutique tax credits, “could collapse the book shelf”.

We haven't had a serious analysis or reform of our personal tax system since 1971, with the Carter commission. Is now the time to actually do a thorough study, with the objective being a fairer, simpler, and potentially more competitive tax system?

The Chair: Just give us a very brief response, please.

Mr. Gregory Thomas: Yes.

Voices: Oh, oh!

Mr. Nathan Cullen: Well said; well said.

The Chair: Thank you.

Thank you, Mr. Brison.

We'll go to Mr. Keddy, please.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman. Welcome to our witnesses here today.

My first question is for Mr. Speer of the Fraser Institute. I'm very interested in your discussion about capital gains, which I'm going to come back to.

Awhile back, your Fraser Institute recommended developing incentives for companies to provide in-house training for young workers. This is something that I think most of us around the table have discussed and certainly support.

At the same time, you also called for the government to loosen the red tape surrounding the temporary foreign worker program. That's a bit of a conundrum to me because we've seen some abuse of that program. We know it's important in certain areas, but how are you going to give an incentive for companies to have in-house training and then open up the temporary foreign worker program at the same time?

● (1615)

Mr. Sean Speer: Mr. Chair, I'll address that question, but my colleague, Mr. Cross, may also want to do so because I think Mr. Keddy may be referring in part to some work that Mr. Cross has done for the institute.

The only thing I would say directly to that is that I know that various proposals have been put out by different parties in the past week or so with respect to EI premiums. One of the unfortunate things about this debate is that it hasn't looked at the EI structure, the design of the program on the benefit side. I think what Mr. Cross' paper on labour market shortages seeks to get at is the extent to which we don't have a properly functioning labour market because of distortions such as the EI program. I think it's difficult to discuss things like the temporary foreign worker program before looking at what government is currently doing to distort the labour market.

Mr. Gerald Keddy: Okay, thank you.

Mr. Cross, go ahead.

Mr. Philip Cross: I have a couple of things to say here.

One is about your question about the incentives we should be giving companies for more training. That is one of the conundrums, because firms don't invest a lot in training of their employees. It's actually declined over time and is now negligible. They have every incentive to do it because of the shortages they're facing out west. So what more incentives we can offer, I'm not sure. But I think it's not all on firms to do. When you look at the labour market in Canada today, for example, you see that 16% of youths in Ontario are unemployed and employers are screaming to find employees out west. We have to do things differently to get people in the right places. It's not just up to firms to do; there's a role for government and individuals in all of this too.

Mr. Gerald Keddy: Thank you.

I wasn't suggesting there was an easy answer to any of that, but I think we need to be extremely careful that the temporary foreign worker program not be a disincentive for training, because you can replace that labour somewhere else. This can become a greater problem.

I just want to explore your discussion on capital gains, because you're absolutely right that capital gains really isn't a break. It's simply a deferral of paying that tax and somewhere at the end of the road, someone at some point will need to pay that tax.

I think many of us look at capital gains. You pay taxes on your business or your firm or your woodlot all your life. You should be improving that. It should acquire some assets and some value along the way and when you sell that, you're going to pay tax on it anyway. But on top of that, you have a capital gain. So you're suggesting a change of 2.4%, I think was the number that you used of tax revenue, to Canada's tax system. But that is a lot of money. How do you replace that? If the government were to stop capital gains tomorrow, would there be enough reinvestment? Would there be enough of an incentive to make up for that gap of 2.4%?

Mr. Sean Speer: Thank you, Mr. Chair.

Mr. Thomas referred earlier to the wonky economic debate about the marginal efficiency of different types of taxes. The most costly according to most analysis, including analysis done by the Department of Finance, is capital taxes. A dollar of capital gains taxes has the biggest economic negative impact of all of the different forms of taxation. So it would be wrong to say that eliminating or reducing the capital gains tax is going to produce a full 100% feedback effect. I think that would be misleading. But I don't think there is any question, as Mr. Page said at the outset, that this is about choices. We're in a world of debating the fiscal dividend and it seems to me a capital gains tax reduction would be an effective way to move ahead.

● (1620)

Mr. Gerald Keddy: I'm not disagreeing with that statement but am trying to lock in some real numbers here, knowing that capital gains can absolutely be a disincentive to investing in your company. If you're going to have to sell that business, or sell that farm, or sell that woodlot, you will want to depreciate it in value, because you're going to pay less income tax and less capital gains that way. This has happened in the past, but at the same time, it would have to be an incremental change instead of a radical change.

Mr. Sean Speer: Thank you, Mr. Chair.

I think it's something the committee ought to look at. The last change to the capital gains tax rate took place in 2000—again in the context of a debate about how to use budgetary surpluses. So moving incrementally, or even as I mentioned in my remarks the idea of a rollover mechanism whereby you defer capital gains taxes as long as you reinvest it in the market over six months, I think is a common timeline.... All of these things ought to be looked at.

The Chair: There is about 30 seconds left. You wanted Mr. Thomas to respond to that.

Mr. Gerald Keddy: I think Mr. Thomas and Mr. Cross are both trying to comment.

Mr. Gregory Thomas: When a government employee retires after 30 years of service and has an annuity worth, say, $1 million to be paid to them for the rest of their lives as a retirement pension, the government doesn't come away and take 40% of the annuity in one year at the top bracket, right? But that's what it does with an entrepreneur who might sell their apartment building.

The thing to do is to create a reserve and have an income averaging opportunity with the capital gains. It's not rocket science. It would be a very practical way to cushion that capital gain.

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

Unfortunately, Mr. Cross, Mr. Keddy's time is up. We'll come back to that.

Monsieur Caron, s'il vous plait. Pour sept minutes.

[*Translation*]

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

I thank the three witnesses for their presentations.

I'd like to clarify one thing with you, Mr. Cross.

You talked about the aging of the population and of the pressure this is going to put on public finances. I think that the issue of the aging population is important and that we should be taking it into account. You mentioned that this would create pressure that could affect the viability of retirement pensions, Old Age Security and the Guaranteed Income Supplement. Is that what you said?

I know that we have heard several opinions on this matter. The Government of Canada increased the age of eligibility for OAS, which has gone from 65 to 67 years of age. There have been studies done on this, among others by Bernard Dussault, the former chief actuary of the Canada Pension Plan, who demonstrated that the Canada Pension Plan was very viable and that minor amendments needed to be made to ensure its viability given the aging of the population. Were you aware of that analysis?

Mr. Philip Cross: Mr. Chair, with your permission, I'm going to answer that question in English.

[*English*]

I think the increase in the eligibility age for OAS is a good first step. I did a paper for the Fraser Institute on those who are unpensioned, and noted in it that the easiest way to address the pension crisis in this country is to get people to work longer. For every year you work longer, you are adding more revenue or savings for retirement and are reducing by one year the drawdown you are making on those assets. So delaying retirement by three years has a very significant impact on improving finances.

[*Translation*]

Mr. Guy Caron: Thank you very much, Mr. Cross.

Mr. page, I know that you also worked on the issue of the viability of our pension plans and Old Age Security.

What is your assessment of the viability of the Old Age Security plan, in light of the aging of the population?

[*English*]

Mr. Kevin Page: Mr. Chair, I think there are a couple of issues. One is the issue of fiscal sustainability. The other is the issue that I think Philip was dealing with, which speaks to the impact on the economy. I think with respect to fiscal sustainability, it was the work that we did when I was in the Parliamentary Budget Office on the federal government's fiscal structure after they changed the Canada health transfer.... When they changed the escalator, the Canada health transfer became fiscally sustainable. That means we have a structure in place, though maybe not the structure that we want, that will stabilize debt relative to the size of the economy when you overlay changing demographics.

I think when the Prime Minister and Minister of Finance said that the old age security program was not sustainable, we had a problem with that, because it is fiscally sustainable in the context of a program that is funded from general revenues.

There is the issue, which I think Mr. Cross raised, that as we look to the long term and see declining labour input growth because of aging demographics, do we want to raise the labour force participation rate? Do we want to raise their labour force participation rate? Having us work longer is one of those ways we could increase labour force participation and keep our growth rates up.

● (1625)

[*Translation*]

Mr. Guy Caron: Thank you very much.

Mr. Cross, I'd like to go back to a second point.

You talked about the difference between the financial soundness of the federal government and of the provinces. In fact we expect that the federal government is going to announce a budget surplus. The Conference Board of Canada recently did a study on the discrepancy between the financial and budgetary situations of the two orders of government.

However, one important element seems to go by the wayside, and that is the impact of the federal government's decisions on the provinces. During the 1990s, when the Liberal government cut transfers massively, this placed considerable pressure on the provinces and their capacity to fund programs was affected. I'm referring to programs involving post-secondary education, social assistance, and health. Other more recent decisions on the part of the federal government also had an impact on these matters, among others the reform of employment insurance, which has meant that people are no longer eligible for employment insurance, or no longer have access to it. Because of that fact they wind up on social assistance, which is a provincial program.

The cuts to health transfer increases, that went from 6% to 3%, will have a considerable impact on provincial finances; the Conference Board of Canada estimates that expenditure growth will be 5.2%. Currently, we hear that if the government goes ahead with the pension income splitting measure, this will mean cuts of $1.7 billion to $2 billion in provincial finances.

Consequently, could we also discuss the issue of the role the federal government has in this budgetary pressure that is being placed on the provinces?

Mr. Philip Cross: I'm not sure I understood the question well; you're asking whether provincial deficits are the responsibility of the federal government or of the provincial government, I believe. In my opinion, the provinces created the problem. And so solving it is their responsibility. The provinces that have the biggest deficits and the biggest problems are Ontario and Quebec. Their basic problem is not the reduction of transfers from the federal government, but their lack of economic growth. I think that these provinces have a primary responsibility in the poor results we saw recently.

Mr. Guy Caron: Thank you very much.

I only have 30 seconds left for my last question.

Mr. Page, you mentioned that we were heading toward a structural surplus. However, many economists are of the opinion that is a false surplus, as it derives from the fact that the federal government is not spending all of the amounts in the budget that is given to it by Parliament. This means that the next government that will be elected in 2015 will be in a somewhat compromised situation because the reality of the budget and that of public accounts differ completely.

Could you make a comment on that?

[*English*]

Mr. Kevin Page: Well, Mr. Chair, I think there will be issues and it is important that we see more transparency. Mr. Speer has raised this with the issue of potentially deconstructing budgets, looking at current versus capital budgets. On the operational side of government, I think there is a lot spending restraint going on. We are not seeing the details, but tend to get them through newspaper clippings —this morning on CF-18's, and other issues on veterans, which Mr. Oberg talked about. I think Parliament should have seen these five-year spending plans and scrutinized them. We don't know to what extent there is fiscal risk—of what spending pressures we are kicking down the road. So I think in that sense we need to be careful going forward while some of these spending pressures need to be dealt with. Are we being honest with Canadians with respect to service levels?

The Chair: Okay, thank you. Merci.

We'll go to Mr. Allen, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you very much, Mr. Chair.

Thank you to our witnesses for being here.

I want to finish Mr. Keddy's line of questioning on the capital gains piece. I think, Mr. Cross, you didn't get a chance to respond because Mr. Thomas used that time.

Do you have any other comments on the capital gains piece that Mr. Keddy was talking about?

Mr. Philip Cross: No, I don't have much to add. Sean has made a much more extensive study on this. We haven't published anything specifically on capital gains.

I think I was asked earlier if we favoured income splitting or a capital gains.... I think the most important thing is that we're talking about reducing the tax burden on Canadians. Exactly how we do that is less important to me than the actual reduction.

● (1630)

Mr. Mike Allen: Okay, then I'll take it back to Mr. Speer and follow up on a few things.

In New Brunswick, a lot of our businesses—80% to 90% of them—have fewer than 10 employees. We have lot of small businesses, a lot of small manufacturing, a lot of small types of things. As part of that process you were talking about, as part of the capital gains, how do you see that impacting—if this capital gains were a rollover mechanism or some other—the various types of businesses large and small? Would it benefit some over the others, or do you see it generally benefiting everything across the board?

Mr. Sean Speer: Thank you, Mr. Chair.

This committee has heard a number of times about financing constraints, particularly for new and expanding firms. Organizations such as the Investment Industry Association of Canada have been here, I know, talking about a decline in venture capital financing, for instance, over the past 10 or 15 years.

The real question is about how we get this capital off the sidelines. As I say, I think empirical work on the lock-in effect shows that it's real and could represent a significant obstacle to people moving capital from lower to higher productive investments.

The empirical studies differ, but I don't think there's any question that it would represent a major step forward in terms of access to finance for companies of all sizes.

Mr. Mike Allen: As part of this business investment and as the Bank of Canada projected for some of the GDP growth that we're predicting over 2015 and 2016, at least a significant portion of it is going to be started by business investment and exports and that type of thing. Would you see at least probably more than a proportional increase in the revenues line from giving up this $2.8 billion, if you will?

Mr. Sean Speer: Well, I want to be transparent. As I said, the work that Finance has done on the marginal efficiency of the capital gains tax shows that a reduction, or an increase, to put it differently, of the capital gains has a bigger economic impact than a reduction of, say, a consumption tax. It would be misleading to say that the feedback would be 100%, but I don't think there's any question that in generating economic activity there would be a return of some level of revenue.

Mr. Mike Allen: My last comment on this, too, is about freeing up the investment capital, because a lot of these small businesses can or would like to participate in some of the big contracts, whether it be the shipbuilding or others. The challenge they have is on the working capital aspect of it. They're paying out the materials and they're paying out the people, but then they're going to get paid maybe 60 to 90 days later. Do you see this same type of act helping with that access to capital issue as well?

Mr. Sean Speer: That's right, Mr. Chair.

I think to the credit of everyone around the table, this is something that we've been grappling with: how do we deal with this financing issue? There have been experiments with tax credits. There have been experiments with direct subsidies. A budget a couple of years ago launched the venture capital action plan. I think the last frontier, and what I think could make a significant improvement in access to capital, is looking at and reforming the capital gains tax system.

Mr. Mike Allen: Thank you.

Mr. Page, I would like to come back to a comment you made. You talked about how the option to reform federal transfers is something that we might want to think about. When we were doing our study on youth employment in Canada, we had some input from the student associations and also from the community colleges. The community colleges talked about a significant amount of rigour in the reporting they have to do to the provinces, based on the post-secondary money they get as a result of the post-secondary transfer. It wasn't the same for the universities. They didn't have to do the same kind of reporting.

Minister Kenney threw out the idea last week of having a discussion with the provinces on some reporting on that and some metrics with respect to the universities. Do you think that would be a smart thing for us to do with respect to the $12 billion in transfers we're making with respect to that?

Mr. Kevin Page: Thank you, Mr. Chair.

I think this is a good opportunity to talk about transfer reform. Before anybody increases transfers, I think we should look at the effectiveness of the transfers we're making now, which are in excess of $60 billion overall and, as you say, far in excess of $10 billion for the Canada social transfer. Yes, I think improved reporting on the performance of these institutions so that Canadians are getting value for money is a good thing.

Mr. Mike Allen: Mr. Oberg, I'd like to go to you.

One of things talked about was the tax credit for the hiring of veterans. We have the Helmets to Hardhats proposal, which we're looking to do and will provide a place for some of our veterans. How did you see that tax credit...? How would you see that proposal working, that tax credit for incentive for hiring, and how would you see that working to keep it as simple as possible?

● (1635)

Mr. Gary Oberg: Well, you're the ones who are probably in the finance area a lot more than I am, but what I can tell you is that any incentive for a company to make it easier for their bottom line to hire somebody would certainly go a long way to making that happen. When we have veterans who are not able to get hired because of their disabilities, there need to be incentives to be able to make them become more productive.

As I said in my statement, there's an awful lot of talent out there and there are a lot of brilliant people. Just because they're missing a body part or they're not necessarily in the best of shape physically... they can still offer an awful lot to the economy of Canada.

Mr. Mike Allen: I guess one way to classify it would be in terms of expenses for accommodation and other types of things.

Mr. Gary Oberg: Any way they can be accommodated, I would suggest, should be done to make it an incentive to the company to hire a veteran.

The Chair: Thank you.

We'll go to Mr. Rankin, please.

Mr. Murray Rankin (Victoria, NDP): Thank you to all the witnesses for coming today.

I want to start with Mr. Oberg.

Thank you, Sir, for your service to the country, and for what I thought was an excellent brief by the National Association of Federal Retirees.

I want to start with a comment that Mr. Cross made. He used the expression “pension crisis” in Canada. You have done an enormous amount in your brief to try to elaborate on that crisis. For example, you said that you are in strong support of public measures such as increasing the Canada Pension Plan. You also pointed out some of the difficulties with the RRSP as a solution. He specifically said that pooled registered pension plans are insufficient.

I want to know what your solution is for this pension crisis which Mr. Cross referred to.

Mr. Gary Oberg: Mr. Chair, I don't believe there is a total panacea that exists out there with reference to pension reform. What this country needs to do, what we need to do so that people can retire with health, dignity, and financial dignity has to be more than what is happening today.

The Canada Pension Plan is not going to meet the need. Not all companies across Canada have pension plans. Those who are entrepreneurs don't have pension plans. They have to save throughout their lives. We are advocating that the best thing we can probably come up with at this point in time is the Canada Pension Plan has to be expanded to be able to meet that better need at the end of the day, because it is not happening under its current regime.

Mr. Murray Rankin: I want to turn to your comments on vulnerable Canadians, particularly seniors. I represent the riding of Victoria, which has a large demographic of seniors. You refer to the former federal parliamentary budget officer, Mr. Kevin Page, and his analysis that new terms will translate into spending cuts of $31 billion in health care between 2017 and 2024. You said this will certainly place our health care system at risk, which I certainly would agree with. You then talked about home care being less expensive than the alternative. You talked about the Canadian Medical Association saying that long-term care is much less expensive than hospital care. You also made some other recommendations.

I wonder if you could elaborate more on some of these issues that you mentioned in your brief.

Mr. Gary Oberg: Boy, you really want me to go back into that think tank, don't you?

Mr. Chair, to put it into a much better context, as an association, we are advocating pharmacare and in-home care as the mantra which we believe the seniors of this country need at the end of the day. Health care is an exorbitant drain on the capital of the provinces, and we all know that. They are working extremely hard in their various ways to try to come to grips with the drain on that capital.

How do the seniors get involved in this? It comes to the point whereby we as an association have to ensure that all Canadians at the end of the day have health care that is going to meet their needs. That has to be tied with financial capability. If you don't have the two, you don't have the finances to meet your needs and that's going to discipline yourself as to what you're going to put on your table with respect to food, or perhaps it's just going to be your medication. They go hand in hand; if you don't have the health care and you don't have the finances, at the end of the day, you're probably going to need more health care.

● (1640)

Mr. Murray Rankin: Essentially you're saying sustainability has to be the lens through which we look at this.

That takes me to Mr. Page and his comments about fiscal sustainability today.

You talked about the CPP and the Quebec Pension Plan being fiscally sustainable, in your judgment, yet the federal government appears to be examining something called income splitting. I'd like you to comment on the fiscal sustainability vis-à-vis the provinces in the income-splitting regime. You talked about the disparity, the amount of income gap that the provinces have as programs are being pushed down by the federal government to the provinces and to the municipalities.

What would the impact be of the income-splitting scheme on provincial revenues?

Mr. Kevin Page: Mr. Chair, we have tax collection agreements with the provinces. It remains to be seen exactly how income splitting will be designed, how rich this program will be, what the parameters will be. There will be, as other panellists have talked about, an impact. This impact will be that the provinces will find themselves with less revenue, I guess. The provinces will have a choice on how to fill the gap, but from the point of view of sustainability, if there is a gap now—we think the gap at the provincial level is about two percentage points overall—this would add to that gap in the way that the reduction in the escalator to the Canada health transfer added to the fiscal gap of the provinces.

Mr. Murray Rankin: It's just exacerbating the problem for the provincial governments, yes.

Now, you were quoted in the *Toronto Star* in January as follows:

> Canadians have also added a lot of debt to our balance sheets. The ratio of household financial liabilities to household disposable income now sits at a record high 166 per cent, compared to 110 per cent in 2000. And as Canadians try to pay off this increased debt, inevitably consumption will further decrease, adding to more economic drift or stagnation.

Then you asked, “So how do we get out of this dangerous spiral?”

So that's my question to you. Is there a role in this budget to begin to address this enormous debt load Canadians have?

Mr. Kevin Page: We went through effectively, Mr. Chair, a balance sheet-type recession in 2008-09. I think there's more and more research that looks at the causes that precipitated it. Certainly the buildup in household debt relative to income was a factor, with the drop in asset prices, particularly in the United States and in other places in the world with house prices. We didn't see that. We were still.... We have this significant debt.

How do we get ourselves out of it? I think there's no quick solution. Right now we've seen moderations in the rate of growth of mortgage debt and credit debt. I think this is helping to bring things back into line. Obviously, economic growth would lighten the load on some of that debt as well.

The Chair: Thank you.

You have 10 seconds.

Mr. Murray Rankin: All right. Thank you.

The Chair: Thank you, Mr. Rankin.

Mr. Van Kesteren, please.

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

I'd like to thank you all for coming here. This is our first meeting, as you know. We're laying the groundwork for what are hoped to be great consultations for some advice to the finance minister.

Before I lead with my question, I want to make one thing perfectly clear that I think we'll agree with: that 2009 created an enormous challenge. I remember our former minister, the late Mr. Flaherty, speaking about the crisis and the talks that were ongoing behind the scenes. Essentially the position was, guys, we have to do something very drastic. The world was at a tipping point at that point. Unless we made some significant, bold moves—again, the free world in general—we looked at a total collapse.

So we're in a new chapter. We have begun what we hope will be, and it appears to be the case, balanced budgets.

Now, I don't want to put you on the spot, but I know that Mr. Page probably can think about this and has a little bit more information at the tip of his finger. I'm going to mandate you as the finance minister for the next five years, and I want you to lay out the groundwork for what you would think are essential steps or positions that the government must take. We can build around those things, so I'm not asking for that. I'm asking for one, two, or three principles that you feel are essential for the next five years, with a balanced budget; where we go next.

I'll start with Mr. Page, and then I'll go to Mr. Speer, Mr. Cross, and Mr. Oberg—I'll give you a break, Mr. Oberg, because this is probably a little out of your...so you'll be the last one asked.

Mr. Page.

● (1645)

Mr. Kevin Page: That's a very tough question, Mr. Chair.

With regard to the challenges for our current finance minister, looking at this pivotal point where we're now back to budget balance with a federal structure that is sustainable, I think there are these opportunities. I think you start filling that framework with what you think some of the major challenges are that we're going to face. I think those challenges are mostly long term in nature.

In terms of over the next few years, I think the recovery's taking place. I think we'll be back to potential output in a few years. Our unemployment will continue to come down. Then the issue becomes, how do we deal with aging demographics? How do we deal with the fact that our productivity rates, certainly business multifactor productivity rates, have effectively been flat? How do we address this issue?

I think the major challenge for the next finance minister will be how we stimulate productivity growth. I think budget constraints will be essential. I think with more transparency around...should we find ourselves in some type of fiscal role, whether it be legal or otherwise, what are those constraints, short, medium, and long term?

I think, again, the productivity challenge would be the number one task. How do we restructure our spending frameworks, our tax system, in order to promote productivity?

Mr. Dave Van Kesteren: Thank you, sir.

Mr. Speer.

Mr. Sean Speer: Thank you, Mr. Chair.

I would say that the first order of business is, as Mr. Page says, to maintain spending discipline, as the type of spending growth that we saw from about 2003 to 2011-12, I think, is something that we want to avoid returning to.

Secondly, I think there is a multi-party consensus in favour of making Canada's business tax competitiveness a priority. We saw a multi-year commitment to reductions to get us to our current levels of general business taxation. I think that's something that can be done on the personal income tax side, where we remain decidedly uncompetitive relative to the U.S. in particular and to other major industrialized countries.

I understand that fiscal restraints will prevent you from moving quickly, but setting out a medium-term plan to make Canada's personal income taxes more competitive I think would be a useful way to spend the fiscal dividend of the coming year.

Mr. Dave Van Kesteren: Mr. Cross?

Mr. Philip Cross: I think I'll elaborate a little on what I mentioned earlier in my introduction, which is that we need to fundamentally reform how we deliver health care as the population ages. That's already the biggest source of public sector spending that's going to have to undergo fundamental reform.

I think we also have to fundamentally rethink public sector compensation, including pensions. That's part of general spending restraint.

Another major priority may just reflect what I've worked on a lot on this year. I haven't worked on other problems. If I had worked on other problems, maybe I'd boost them up, but I've been quite struck by the difficulty in getting the Canadian labour market to behave more efficiently. I alluded to it earlier. We're having a great deal of trouble getting people with the right skills in the right place.

I'm particularly concerned that we've never before seen the current gulf we're seeing now between adult and youth unemployment. I don't know what that says. It's very puzzling. I don't know if it's a matter of youth being in the wrong place or whether youth don't have the right skills, but it's a very obvious problem that you can see when you look at our labour market. I think that's a big challenge going forward.

The Chair: You have one minute, Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you, Mr. Chair.

Mr. Oberg.

Mr. Gary Oberg: Thank you, Mr. Chair.

I have to tell you that I think I'm feeling the love here by being put in a group like this, with me being the policeman and these guys being the people with all the financial capability. If it were the other way around, with one individual who knew finance and the rest being policemen, they'd probably feel as I do. I really can't answer your question. I am prepared to go back—

Mr. Dave Van Kesteren: Thank you, Mr. Cross. That's understandable.

Really quickly, first of all, I hope you checked out our report on youth unemployment. It's excellent. It has some of those questions.

Boy, if we had more time, I'd want you to elaborate, because we've heard some talk about how to reform CPP and about some of the challenges in the public sector. In a broad scope—we don't have much time—where do you think we need to go? Pensions?

● (1650)

The Chair: There are 20 seconds.

Mr. Philip Cross: I'd just like to clarify. I don't think there's a pension crisis in this country. I've written extensively about how I think the number one way to address pension problems is to cut back on early retirement and get people working longer in their lives, as Kevin and I are doing.

Voices: Oh, oh!

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

Mr. Adler, please.

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

Thanks to all of you for being here today. I really do appreciate your input.

Mr. Cross, you brought up the whole issue of the albatross of provincial debt and our ability for ongoing fiscal sustainability in our country. Mr. Speer wrote a paper recently comparing Ontario to California and showing the abysmal situation that Ontario is in. Here at the federal level we're going to be discussing how to use the fiscal dividend. For the most part, the provinces, perhaps barring Saskatchewan, don't have that luxury, but we here at the federal level do.

Mr. Speer, I'm wondering if you could just initially comment on, one, the best uses for the fiscal dividend, and two, that light that's coming down the tunnel, that locomotive that's coming towards us in terms of the provincial debts that we are facing as a nation and the burden that's going to place on fiscal sustainability going forward. Could you comment on those two initially?

Mr. Sean Speer: Thank you.

Very briefly, Mr. Chair, what the highest priority ought to be is obviously going to govern the committee's work throughout the hearings.

I spoke today about capital gains tax relief, because I really do think that in terms of a bang for your buck, this could be a low-cost, high-impact measure. It's really something that the committee ought to look at, if the goal is to set the foundation for economic growth going forward.

With respect to the issue of provincial deficits and debt, it's obviously something that we've written and talked a lot about at the institute, including in the work by Mr. Cross. I would just say that we've seen some positive steps in recent weeks and months in the Province of Quebec, which has the highest debt-to-GDP ratio. We seem to have a government that's saying the right things about getting it under control and a populace, a citizenry, that has elected a government that's been honest about what steps need to be taken. The truth is that I think the more worrying jurisdiction at present in the Province of Ontario, because we are not seeing a government or citizenry that seems prepared to take the steps necessary to turn the province around.

Mr. Mark Adler: [*Inaudible—Editor*]...government laid out a plan, a framework, which they've completely abandoned. And Mr. Page talked a couple of years ago about health care, for example, being the Pacman, the way it eats up provincial dollars in terms of budgetary expenditures.

I also want to follow up on interprovincial trade barriers. Mr. Speer, I'll probably go back to you on this one. How much of a burden does that place on our productivity? How important is it that we dismantle those trade barriers as quickly as possible?

Mr. Sean Speer: Mr. Chair, I may not be the best placed person to answer a question on this. I know that we've seen some progress, particularly with the TILMA in Western Canada, which is really getting at problems around occupational licensing, for instance. But I will defer to one of my other colleagues on the panel who is more familiar with the subject.

Mr. Mark Adler: Mr. Page, maybe you could comment on trade barriers.

Mr. Kevin Page: Actually, I think Mr. Cross would probably be in the best position to talk about the productivity impacts and potential output—

Mr. Mark Adler: Mr. Cross, if you wouldn't mind.

Mr. Philip Cross: The managing director of MLI, Brian Lee Crowley, has written some material on the cost of interprovincial trade barriers. He addressed a conference recently here in Ottawa on the matter. It's hard to put a number on it, partly because it's multifaceted. For example, a big concern of mine is labour markets. What are the costs? How much of this problem of unemployed people being trapped in central Canada while jobs go unfilled in western Canada is due to the fact that it's difficult to get your credentials recognized out there? We really don't have a good handle on this, but anything that inhibits the mobility of labour is certainly going to reduce the productivity of this country.

● (1655)

Mr. Mark Adler: We have a labour shortage right now, and once the baby boomers start to exit the workforce, what in your estimation is that going to do to the level of productivity in our economy?

Mr. Philip Cross: It's not as simple a question as thinking that because older workers are the most productive, if they leave the workforce, productivity is going to decline. It doesn't work like that any more than the least productive companies exiting the market via bankruptcy increasing productivity. Productivity reflects some fundamental forces about the capital tools that are available to workers and the training they have. These are the real determinants. The fact that a certain cohort with relatively low human capital leaves actually creates opportunity for youth.

As we talked about, youth today have never had more training. More youth than ever before have university skills. We've always had a great deal of post-secondary training in this country, but that shifted a great deal in the last decade. Community colleges have fallen into disfavour and we have more and more university-trained youth. Our immigrants are selected for their economic qualifications, so we have a lot of skilled people coming into replace these people. The question is how to facilitate that transition. But obviously we're having some problems in the short term. As we've mentioned, youth unemployment is surprisingly high, and we don't fully understand why.

Mr. Mark Adler: How much time do I have?

The Chair: You've got about 40 seconds.

Mr. Mark Adler: You have 40 seconds.

Governor Poloz in Drummondville recently gave a speech about holding the dollar constant. He said it would be a bad idea. Do you want to touch on that?

The Chair: We've got time for one response. Is there someone who wants to comment on that?

Mr. Philip Cross: I'll jump in. I certainly read the speech. He's absolutely right. The Bank of Canada cannot control the exchange rate. It simply can't, so there's no point in even trying.

Mr. Mark Adler: [*Inaudible—Editor*]...other economies around the world do, and that causes....

Mr. Philip Cross: I was listening to a Federal Reserve Board president today talking about how the Europeans and New Zealand, and Japan for that matter, are all clearly trying to talk down their exchange rates. That's one of the problems. We're in a world now where basically everybody is trying to achieve prosperity through devaluation, except the U.S.

The Chair: Thank you.

Thank you, Mr. Adler.

I just had one question I want to put. I'll put it to Mr. Speer, and if others want to comment, let me know.

If you were advising the finance minister as we're entering a period of modest surpluses, what percent would you allocate towards debt reduction, what percent towards new spending, and what percent towards tax reduction?

Mr. Sean Speer: Thank you, Mr. Chair.

As you know, the government set out a debt-to-GDP target. That was something I think the Prime Minister announced at the G-20 a couple of years ago. My understanding is—

The Chair: But what would you recommend?

Mr. Sean Speer: I'm afraid I don't have a good answer on that. I think at the end of the day how the government uses the surpluses ultimately comes from a judgment about priorities. I've talked about capital gains taxes and personal income taxes today, but I'm sure there'll be other people around the table who have different views.

The Chair: Does anyone else want to quickly address that? What percent should be allocated towards each?

Mr. Page?

Mr. Kevin Page: I don't know if there's a mathematical rule on how to divvy it up. I think if you look at the trend lines, the debt-to-GDP ratio is now falling, the deficit is likely to be in balance, and the economy is growing. The debt-to-GDP ration is going to fall quite rapidly. I suspect we'll get to 25% on net debt basis quite quickly. So the people in the markets don't see a problem. Again, we're spending 12 cents of every revenue dollar on debt interest charges, whereas we were spending 36 cents of every revenue dollar in the late 1990s. I don't see debt as a problem. I think growth is a problem, and I think it comes down to this table. Where do you see the role of the state? Do you think the role of the state, the role of government, is to stimulate investment and enterprise growth? If so there might be some need for capital expenditure.

The Chair: Thank you.

Mr. Oberg

Mr. Gary Oberg: Mr. Chair, I can't give you percentages. I don't have that skill, but what I guess it comes down is Canadian values and what we want to put towards looking after veterans who have been injured.

● (1700)

The Chair: Thank you.

I want to thank all of our witnesses for being here for this first panel of the pre-budget consultations.

Colleagues, we're just going to take a two-minute break here, and we'll come back with our second panel.

Thank you.

● (1700)

(Pause)

● (1705)

The Chair: I call this meeting back to order.

I want to welcome our second panel of guests to this meeting, as we continue our 2014 pre-budget consultations.

We have with us at this panel, from the Canadian Council of Chief Executives, Mr. Brian Kingston. Welcome.

We also have from the Canadian Union of Public Employees, the national president, Mr. Paul Moist. Welcome back.

From the Conference Board of Canada, we have the senior vice-president and chief economist, Mr. Glen Hodgson.

From the Frontier Centre for Public Policy, we have Mr. Peter Holle, president. Welcome to the committee.

From the Office of the Veterans Ombudsman, we have back before us, Monsieur Guy Parent.

[*Translation*]

I want to welcome you to this hearing of our committee.

[*English*]

You will each have five minutes for your opening statement, and then we'll go to members' questions immediately after that.

We'll start with Mr. Kingston.

Mr. Brian Kingston (Senior Associate, Canadian Council of Chief Executives): Mr. Chairman, committee members, thank you for the invitation to take part in your pre-budget consultations on the topic of balancing the federal budget to ensure fiscal sustainability and economic growth.

The Canadian Council of Chief Executives represents 150 chief executives and leading entrepreneurs in all sectors and regions of the economy. Our members lead companies that collectively administer $4.5 trillion in assets, employ more than 1.5 million Canadians, and are responsible for the majority of Canada's private sector exports, investments, and training.

Canada's economy has proven resilient since the recession and continues to expand at rates higher than in most other OECD countries. Reducing the federal debt while implementing pro-growth policies would ensure that Canada continues to grow and remains an attractive destination for business investment and job creation. The CCCE fully supports the government's commitment to balanced budgets and debt elimination. Achieving balance and reducing Canada's debt-to-GDP ratio has four significant benefits.

First, balanced budgets and low debt levels are good for Canada's long-term economic growth. Estimates across advanced economies show that debt levels above 90% of GDP are correlated with lower economic growth. Fortunately, Canada has not reached this point, but that is not a reason to be complacent. The combined federal-provincial net debt reached 62.1% of GDP in 2013 and 2014—an increase from 49% in 2008 and 2009. According to the Fraser Institute's 2014 report on government debt, the story is significantly worse if you look at total liabilities, including debt guarantees, contingent liabilities, and unfunded program obligations. Using this metric, all provinces, except Saskatchewan, have total liabilities as a percentage of GDP in excess of 150%. In short, Canada's long-term prosperity depends on achieving and maintaining a sustainable debt level, and the federal government must lead the way.

Second, balanced budgets allow the government to respond to long-term challenges such population aging. The old age dependency ratio, which measures the number of elderly people as a share of those of working age, will rise dramatically due to a decline in total fertility rate and increases in life expectancies observed over the last 80 years. According to the Parliamentary Budget Officer's fiscal sustainability report, this will lead to slower growth in the labour force and total hours worked. Combined with lower labour productivity growth, projected average real GDP growth will be 1.7% over the period from 2013 to 2087, down significantly from average growth of 2.6% over the past 30 years. Balanced budgets and a low debt-to-GDP ratio give the government the flexibility to face this demographic reality.

Third, balanced budgets and a low debt-to-GDP ratio give the government the ability to respond to future downturns. While Canada's economy has performed comparatively well, the recovery from the global financial crisis has been underwhelming and continues to fall short of expectations. The recovery has had repeated false starts and still faces considerable headwinds. Much of this can be attributed to poor global growth that has averaged 3% over the past 2 years. That's well below the average prior to the crisis, and it's unlikely that 2014 will be much better. Until global headwinds abate and U.S. economic recovery fully takes hold, Canada will be vulnerable to new economic shocks and must be prepared to respond. Balanced budgets and a low debt-to-GDP ratio help to insulate Canada against such shocks.

Fourth, balancing the budget allows the government to make targeted investments to improve economic competitiveness. According to the PBO, the federal government has the fiscal room to increase spending, decrease revenues, or some combination of both.

The following pro-growth policies would ensure that Canada remains an attractive destination for business investment and job creation. First, implement a single, comprehensive portal that brings together data on labour market conditions and job vacancies across the country. Second, introduce a direct R and D support program for major new private sector innovation projects. Third, make targeted investments in infrastructure to promote increased trade and economic growth. Fourth, conduct a comprehensive review of the tax system with the goal of simplifying the tax code, encouraging the growth of small and medium-sized companies and improving exporters' competitiveness.

In conclusion, the CCCE supports the government's efforts to return to balance. Once balance is achieved, we recommend targeted investments to improve Canada's economic competitiveness and long-term prosperity.

I'd be happy to answer any questions you may have. Thank you.

● (1710)

The Chair: Thank you for your presentation. We'll now hear from Mr. Moist, please.

Mr. Paul Moist (National President, Canadian Union of Public Employees): Thank you, Mr. Chairman.

These remarks flow from our submission to the committee dated August of this year. Budget 2015 is going to be a critical budget for Canadians, including the almost 630,000 members that CUPE is privileged to represent. Our members pay collectively just over $3 billion in income taxes annually. When we discuss the issue internally, they agree quality public services are more important than tax cuts. They want fairer taxes, but few want tax cuts if it means public services will be reduced and their own individual cost will rise.

Trickle-down economic policies, tax cuts, and austerity measures are failing to strengthen growth. Growth from this recession is 30% slower than previous recoveries, which means about a $100 billion smaller economy by 2017, equal to $7,000 less per household. Those at the top have benefited the most, with increases for the top 0.01%, and CEOs far outpacing growth in workers' wages. The IMF, the OECD, the ILO, the World Bank, and even Standard and Poor's now agree that growing inequality is reducing growth and that we need to focus on generating quality jobs, raising wages, and reducing inequality to reignite economic growth. Unfortunately, we're not seeing this happen. Our unemployment rate has barely declined in the last three years. Over 80% of the growth last year in new jobs was in part-time jobs, and a fair chunk was in temporary and contract jobs.

Inequality continues to grow, with top occupations gaining bigger pay increases, while wages for many on the lower end of the scale are much lower, barely keeping up with inflation. A top priority for budget 2015 should be to create more and better quality jobs, and support wage and income growth. Private corporations are failing to do this, despite sitting on over $600 billion in surplus cash. The best way to achieve this is through increased public investment and expanded services.

Instead, we've seen the opposite. Some 20,000 full-time federal jobs have been lost, and apparently there are plans for 9,000 more. We're privileged to represent employees at Radio-Canada. Over 2,000 jobs have been eliminated, and another 1,000, one third of the workforce, are on the table. The government should help increase wages of working Canadians, instead of suppressing them, and should cease to interfere in free collective bargaining and bargaining that you control.

We also advocate for a reintroduction of the federal minimum wage, starting at $14 an hour, restoration of EI benefits with the fiscal dividend, and access and reform of the temporary foreign worker program beyond the needed changes that have been introduced by the minister to date. We should ensure decent retirement income security for all Canadians by improving the CPP and the GIS. We should cancel plans to force Canadians to work longer to qualify for OAS and GIS. We should think of the effect this will have on provinces and Canadians.

Polls show Canadians' top priority is to keep public health care systems strong. The federal government's unilateral changes, according to the Council of the Federation, reduce health care funding by $36 billion by 2024, or over $1,000 per person over the next decade.

We urge the government to negotiate a new 10-year health accord with a minimum annual escalator of 6% funding. We also want to see a national pharmacare plan that could help reduce overall costs by $10 billion annually, discussions on a national community residential and home care program, and expanded funding for community health care centres and clinics.

Budget 2015 should also pave the way for a high quality, public early childhood education and care program with the provinces. This would generate thousands of jobs, and would likely pay for itself in fiscal terms, as Quebec's program has done.

How can we pay for this while ensuring a balanced budget and fiscal sustainability? Tax cuts since 2000 have reduced federal revenues by at least $50 billion. Our August submission outlines a few simple steps that would increase tax fairness, and increase the federal government's revenues by over $33 billion annually.

To close, public investment and spending has a much stronger, stimulative impact on the economy than tax cuts. Combining these measures would provide a strong boost to employment and Canada's economic growth.

Thank you, Mr. Chairman.

● (1715)

The Chair: Thank you for your presentation. We'll now hear from Mr. Hodgson, please.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): Mr. Chairman, members of the committee, it's great to be back.

At the risk of sounding vain, I want to remind you that in 2010 we said that the government would be back in balance by 2015, so I think we got that call more or less right.

I want to focus on three things: our short-term outlook, our longer term economic outlook which is quite different, and then give you some free advice on what budgets should look like going ahead.

We actually just finished this afternoon our short-term outlook, and we're forecasting growth this year of 2.2% in Canada, a fairly weak job growth of only 1%, and unemployment getting stuck kind of in the 7% range. Next year will be a better year. We have attached ourselves to a recovering U.S. economy. Our view is that Canada will grow at 2.6% next year. You'll see kind of a good news story across the board.

The one area that really troubles me is the very weak growth in private investment. We're actually showing a negative sign this year in private investment. It's not because investment is not growing, but because the cost of investing is rising. We have a 5% nominal growth rate for private investment built into our forecast, but the cost of imported capital goods has gone up because the dollar has gone down.

People tend to cheer when the dollar goes down in value. I like to point out the fact that it's good for some people and not so good for other folks. It's actually raising the cost right now of private investment in the country, which is not such a good thing. I'm not sure there's much we can do about it. We're forecasting growth in private investment next year of around 5%, really driven by recovery in exports to the United States. The U.S. recovery is really critical to Canada's ongoing success, but I think there's lots of evidence that the U.S. is showing a really strong durable private sector recovery after six years of turmoil, so it's about time.

If I switch to our long-term forecast, it's really driven by the fundamentals—demographics, private investment, productivity growth—and there the story from the Conference Board is more sobering. We're forecasting that Canada will really only grow at about 2% in real terms after 2016. We're entering a period where the impact of demographics is really going to eat away at the capacity of our economy to grow. We're basically losing a whole percentage point in growth on a sustained basis. If you add inflation on top of that, because governments tax nominal income, nominal growth, we're looking at a world where nominal income is growing less than 4%. That means we're going to have to have a very disciplined budget process on a going forward basis, frankly from here to the horizon. That's probably not going to change for 20 years or longer. If it changes, it may go down rather than up.

What do we do about it? Well, I actually agree with Brian. We think that we should be thinking about budgets now than investing growth. Growth should become the core theme of budget making on a going forward basis. For us that means three things.

First of all, I would strongly encourage this committee to take on the role of being the champions of tax reform in Canada, not cutting taxes, rethinking the tax system to spur growth. That means simplifying, clarifying, taxing the right things. I can talk more about that if you want during the question and answer session.

Second, I think Canada has systematically underinvested in infrastructure for probably 25 or 30 years now, so it's time to catch up. We know that the provinces are doing it. We know that the federal government has already set aside funds going forward for infrastructure investment, but if you drive across this country, if you fly across this country, if you use the water system, you know that we have to put in a lot more money, probably hundreds of billions of dollars, to get our infrastructure back to the point where it can support the economy.

Third, we would support investment in people, meaning skills, education, building human capital to really have a modern economy going forward.

If I'm allowed, Mr. Chairman, I have one more thought. If I had to choose between debt reduction and cutting taxes, I would be much in favour of reducing debt further. I think the debt ratios are coming down, but to really have a sustained growth path for our economy, we have to get public debt under control federally and provincially. If I had a dollar left over at the end of the year, I would use it to pay down debt.

The Chair: Thank you for your presentation.

Next is Mr. Holle, please.

Mr. Peter Holle (President, Frontier Centre for Public Policy): I thank the committee for inviting me to come all the way here from western Canada.

I want to talk about three things today very quickly, three of the 30,000-foot type of items.

Number one is fixing the mismatch between taxing power and the federal government's jurisdiction. We have a lot of services that are provincial in nature and are being delivered by the federal government. The federal government collects about 43% of all the taxes. As the largest consumer of the tax pie, it has become involved in all sort of areas of provincial responsibility, such as health, education, municipal transit, roads, and infrastructure.

I have included in my little file a paper on decentralizing services. What we would like to suggest is that we need to go back to the original intent of the Constitution and have the federal government transfer taxing powers to the provinces, particularly the GST and the federal gas tax. We would suggest that you could do this concurrently with a phase-out of some damaging transfer programs.

I'm going to talk a little bit about equalization reform. Equalization is a well-intended program, but it has increasingly undermined and damaged the recipient and source provinces. We have ended up with larger and more politicized public sector services in the recipient provinces. They are rewarded for having higher taxes. Those higher taxes of course discourage private sector economic growth.

There has been a lot of research done around the "flypaper effect", which shows that the transfers that are provided to provinces end up enlarging the civil service in the recipient provinces. Again, I'm from Manitoba, where we have the largest proportion of our workforce in the public sector and we're also one of the largest recipients of equalization.

What we would suggest—and again, this is a longer-term answer to a fiscally sustainable balanced budget—is that we should be shifting over tax power in exchange for some reform, particularly for the GST. We did a calculation a few years ago: GST revenues were approximately equivalent to equalization a few years ago.

Number three, I would like to talk about core public sector reform in the federal civil service. We see ample opportunity and room to make the federal civil service smarter, smaller, and more effective. We can learn from other countries, from those that have embedded performance management measurement, more useful accounting systems, and more decentralized management to improve asset stewardship and bring an output-and-outcome focus to their service operations. I have included in my folder a paper discussing the New Zealand reforms, which are still very useful although they're getting a little old now, and they would apply nicely to Canada.

If I had to wrap it up, I would say that smaller federal government would be possible if the feds transferred taxing power to the provinces, got out of certain areas, and also did a substantial reform of equalization.

Lastly, I think there's a great opportunity to rethink how the federal civil service works. I am a great fan of the book *Yes Minister*, and I have to say that when I watched the environmental lakes program being shut down in Manitoba, and for not a lot of savings in my view, there were smarter ways to lower spending. Again, I think the opportunity for the committee is to look at changing the policy DNA within the federal civil service so that we have a focus on outputs and outcomes, push power down, and have the higher-performing civil service.

Thank you.

● (1720)

The Chair: Thank you for your presentation.

[*Translation*]

I will now yield the floor to Mr. Parent.

[*English*]

Mr. Guy Parent (Veterans Ombudsman, Office of the Veterans Ombudsman): Mr. Chair, committee members, fellow panellists, and ladies and gentlemen, thank you for inviting me to be here today to share with you my thoughts on balancing federal budgets and ensuring fiscal sustainability and economic growth.

[*Translation*]

As Veterans Ombudsman and Special Adviser to the Minister of Veterans Affairs, most of my previous parliamentary appearances have been before Veterans Affairs or National Defence committees of the House of Commons or Senate. Each time, I have presented an evidence-based position on current deficiencies in federal support to veterans, especially those who are the most severely impaired.

● (1725)

[*English*]

Some of the recommended improvements will require an increase in federal expenditure. Other changes, such as collapsing current approaches to veterans' transition from military to civilian life, and reducing red tape particularly in relation to service delivery, may well be sufficient to improve effectiveness and provide better service to our veterans. Either way, the immediate unmet needs of these veterans and their families must be addressed in the 2015 budget by implementing the recommendations of the June 2014 report by the House of Commons Standing Committee on Veterans Affairs, entitled "The New Veterans Charter: Moving Forward".

Veterans' expectations are very high that long-standing program deficiencies will be addressed in this budget. I have been working closely with the Office of the Minister of Veterans Affairs, the Honourable Julian Fantino, and with officials from the Department of Veterans Affairs Canada, to try to bring about meaningful improvements to the new Veterans Charter.

Most of us recognize intuitively that there is a direct link between how a nation treats its veterans and its ability to recruit and retain citizens for its military. It is not rocket science. If injured or ill veterans' needs are not being met, then why would anyone join the military and stay in for any length of time? For this reason, we need to address the deficiencies in our support to veterans not only because it is a debt we owe them for their service to Canada; it is also a matter of national security.

[*Translation*]

Let me put this in perspective.

There are approximately 700,000 Canadian armed forces and Royal Canadian Mounted Police veterans in Canada today. About 15% are clients of Veterans Affairs Canada. The majority of these clients are assessed with a minor disability, with the most seriously impaired representing only 1% of the total population of veterans.

[*English*]

However, when one mentions veterans today, what tends to come to mind first is an injured or ill person requiring government support. In a sense, this is as it should be. However, while we must never forget those who have sacrificed so much for their country, I believe it is time we also start paying more attention to our healthy veterans who transition into their local community with minimal support.

While serving in the Canadian Armed Forces, these veterans have benefited from millions of dollars in educational, technical, and professional development training. They have also gained leadership experience that can be acquired nowhere else. As a result, they are recognized as being skilled, experienced, and dependable, with a strong work ethic. Are these not attributes that Canadian employers are seeking? Yet today as a nation we are not capitalizing enough on the effort and time and expense that Canada has put into developing the skill sets for these men and women. When they finish their service, for the most part we thank them and then they drop off our radar screen. Although veterans are woven into the fabric of our everyday lives, as first responders, coaches, volunteers, and service club members, for the most part we are not aware that these citizens are veterans.

With the challenges of the 21st century world economy before us, I believe it is time we really start to leverage their skills when they transition from military to civilian life. Veterans can help advance our country's fiscal sustainability and economic growth. They can help Canada strengthen its leadership role in the 21st century global economy.

It is a matter of looking at veterans through a new lens. It is a matter of starting to treat veterans as an investment again. Why do I say "again"? Because history shows us that when a million men and women returned from World War II, the Government of Canada had a strategic plan to ensure that these veterans learned the skills necessary to successfully transition into civilian life.

The Chair: One minute.

Mr. Guy Parent: Injecting veterans into all corners of the country became a catalyst for the economic boom of the 1950s and 1960s. Not only did we hone their skills for civilian life, but we also provided loans, grants, insurance, and other incentives to enable their success.

In the United States, the post-World War II GI Bill is estimated to have returned $7 for every dollar invested. Canada's post-World War II investment in veterans not only positively affected our economy, it also changed the social fabric of Canadian society. The creation of our national health care system was influenced by the federal system of veterans hospitals. The socio-economic barriers to attending colleges and universities were broken by the expansion of post-secondary education institutions trying to meet the need of our returning World War II veterans. Owning a house today for most Canadians is made possible by Canada Mortgage and Housing Corporation, which started as a program for veterans.

In other economic sectors, could we not start working with post-secondary educators to capitalize on the strength of veterans and tailor programs to fit specific occupations that are in short demand?

● (1730)

[*Translation*]

There are many more ideas that could be considered in this regard, but the limited time allotted only allows me to give you a flavour of what is in the art of the possible.

[*English*]

From a sustainability perspective, one only has to remember that every year, the Canadian Armed Forces releases more than 5,000 highly skilled and experienced personnel. It is time we fixed the deficiencies of the new Veterans Charter in the upcoming budget and started to consider the long game.

We have an opportunity to help ensure the fiscal sustainability and economic growth of our country by changing the way we look at veterans. Canada can profit from that change. I say let's get the wheels turning and seize this opportunity to recognize the full potential of our veterans. Mr. Chair, committee members, we owe them that much.

The Chair: Thank you very much for your presentation.

Colleagues, we do have a vote, I believe at 6:30, so I'm recommending we do the first round of seven minutes. It will be the first four questioners. After that, we'll go to the five-minute rounds.

We'll start with Mr. Cullen, please.

Mr. Nathan Cullen: Thank you to all of our witnesses for being brief. This is difficult. We're very restricted, as you can imagine, in this study as we make recommendations to the government and the finance minister. Mr. Parent, in particular, thank you for your testimony today.

One of the challenges that we start with as we look at recommendations to the government is to try to understand the Canadian economy's health or weakness, depending on your perspectives.

Mr. Hodgson, I want to ask you what your perspective is on private sector job growth over the last year or year and a half within the Canadian economy. Would you describe it as robust and trending in the positive direction? How many private sector jobs have been created in Canada in the last year?

Mr. Glen Hodgson: I don't know the number off the top of my head, but I would describe it as positive but not robust. There was actually a weaker growth here. It grew about 1% over the last year, but it's not as robust as we've seen in the U.S. recovery, for example.

Mr. Nathan Cullen: Some have said we're underperforming right now, that the Canadian economy broadly speaking is under-performing with respect to its potential. Would that be an assessment you'd feel comfortable with?

Mr. Glen Hodgson: Overall that's probably not a bad assessment.

Mr. Nathan Cullen: Okay.

Mr. Kingston, I'm not sure how you felt. These words are loaded; they can mean different things to different people. Mr. Page was testifying just before you and recounting some of the key economic indicators and showing that there is place for concern. If we start from at least that place, that the Canadian economy is middle of the pack, doing okay but not great, underperforming, some range in there, that would then prescribe the type of recommendations you would make.

Again, similar to our first panel, I didn't hear anyone suggest income splitting was the ticket to help the Canadian economy become better performing, or more enhanced. Does the CCCE have a clear position on this policy option as being a priority, a lower priority, or not a priority right now?

Mr. Brian Kingston: Mr. Chair, we don't have a clear position on income splitting, but what I would say is that with a surplus, we think that pro-growth policies are the best use of funds. The policies that I laid out I think would be the best choice for the government to encourage growth in this environment where there is serious fiscal challenges facing the country. Again, we have no clear position on income splitting, but if it's not a growth-related policy, then I would look at it through that lens.

Mr. Nathan Cullen: If it's not a growth-related policy, then you would look at it through that lens. That's the test that you would apply to all of these.

Mr. Moist, you were perhaps most specific with some of your policy recommendations that we've heard to this point. Others would argue this is not a time for government expenditure towards something like child care. Does your group have any familiarity with what the experience has been like in terms of the economic impact in the one province in Canada that has instituted affordable child care? We know many of the social benefits, but I wonder if you could speak to the economics.

Mr. Paul Moist: The labour force participation of females over 24 in Quebec went from number 10 to number 1 within 24 months of the implementation of the child care program that Quebec has. This stimulated government revenues. For every dollar in investment $2 has been returned to the Government of Quebec by their own study. It's interesting. Canada would have input into this. The International Labour Organization prepared a document for the recent G-20 meetings in Australia. This is a global comment but this is apropos to Canada, in my view:

> Re-igniting economic growth also depends on recovery of demand, and this in turn requires stronger job creation and wage growth. Without confidence in their job and income prospects, households will continue to be cautious about consumption and firms will remain hesitant to invest in productive capacity until they see demand rising for their products and services.

I think it's a very relevant comment to the Canadian economy in 2014.

● (1735)

Mr. Nathan Cullen: It's tough to have a strong economy if you don't have a lot of willing customers.

Mr. Paul Moist: Canadians don't have record rates of personal indebtedness because they've become irresponsible overnight; it's been driven by sluggish, sluggish wage growth. I'll just speak for CUPE members. The average full-time CUPE member who has a full-time job—that's about 70% of the membership—makes $41,000 a year. If that wage hasn't moved in six, seven, eight, nine years, people have dealt with normal inflation by taking on more debt.

There's a lot of hesitancy in the Canadian economy. The ILO G-20 report says that it becomes a vicious circle. Business won't invest unless demand's evident, and demand's not evident absent wage growth. I would call our economic performance sluggish at best.

Mr. Nathan Cullen: At best.

Mr. Hodgson, your group came out recently with a report that generated a lot of attention in terms of the generation gap, the gap in terms of the realities for the younger generation coming up versus what's often referred to casually as the boomer generation. Why should this be a concern, and should it be something that the committee should be recommending to the government to do something about?

Mr. Glen Hodgson: Well, it directly plays into the long-term growth capacity of our economy. If you have a generation that's being left behind in absolute or relative terms, you're losing a generation of consumers, of workers, of people who may not freely advance in their careers the way we would like to see them advance.

Mr. Nathan Cullen: Is that the suggestion out of your report, that we potentially are leaving a generation behind?

Mr. Glen Hodgson: It didn't go that far, but whenever you see the data where you see that wide a difference between 25 years ago and today, you have to start asking deeper questions about whether we're doing all the right things to ensure that kids find their way from school into employment and really become full members of the society.

Mr. Nathan Cullen: Is this something, Mr. Moist, that preoccupies you in terms of the recommendations you bring forward, this generational gap, the potential trend towards leaving a generation behind?

Mr. Paul Moist: We argue that in most provinces in Canada, the youth unemployment rate is double the official unemployment rate, which is too high four years after a recession ended. We think a lot of people are being left with huge amounts of debt and no obvious pathway to full-time paid employment. The young are paying a disproportionate price in Canada right now.

Mr. Nathan Cullen: Mr. Kingston, can I have a small comment from you about this particular report that came out from the Conference Board?

Mr. Brian Kingston: Yes, it is something that concerns us, and that's why we've recommended looking at a virtual labour market, implementing that. We're seeing a huge issue with students going from university to finding their first career job.

Mr. Nathan Cullen: Just very quickly, do we collect enough data in this country right now on the health and quality of the labour market?

Mr. Brian Kingston: No. Hence, the reason I think an integrated labour market survey would be better.

Mr. Nathan Cullen: Thank you very much.

The Chair: Thank you, Mr. Cullen.

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton: Thank you, Chair.

Thanks to our witnesses for being here this evening.

To Mr. Hodgson, as the government approaches its target for a balanced budget, our government has indicated that paying down the debt and providing tax relief to Canadian families are its top priorities. I'd like to ask, do you agree with that?

Mr. Glen Hodgson: As I said in my opening comments, I think we have to look at every element of the budget going forward in terms of the contribution to economic growth. I think investing in strategic assets like infrastructure probably is the higher priority right now, frankly, than further tax cuts. I think paying down debt is critical, because as we've seen around the world, if you let your public debt get out of control, you end up in a disaster. We would probably have a shift in priorities and look at some of the catch-up really required in an area like infrastructure spending in particular.

Mr. Andrew Saxton: Then you would agree with our government's Building Canada plan and the $53 billion we've dedicated towards infrastructure.

Mr. Glen Hodgson: I would agree with that as a good down payment, but the last estimate I saw was probably a decade ago by the consulting engineers, and they were talking about a deficit at that time of $125 billion. If I just do some simple arithmetic, that's probably pushing $200 billion right now.

We know that the provinces are also earmarking funds in their budgets, but the infrastructure hole is very large in this country.

Mr. Andrew Saxton: Do you want to elaborate very briefly on why it's important for us to be investing in infrastructure, as we've announced that we will be doing?

Mr. Glen Hodgson: Sure, it's because it really underpins all parts of commerce and our economy. If it takes you an extra two hours to get goods or services to market, you've just lost a two-hour advantage against an American competitor in the U.S. market, or against a country like China. To ensure that our economy is really as productive as possible, we have to ensure that we're functioning on all cylinders. A strong infrastructure base is part of that.

Mr. Andrew Saxton: Thank you very much.

To Peter Holle, our government's trade agenda has already made Canada one of the most open and globally engaged economies in the world. Indeed, our government recently completed negotiations on a comprehensive economic and trade agreement with the European Union. The agreement alone has the potential to add more than 80,000 new Canadian jobs and to give Canadian businesses preferential access to over half of the global economy.

Why is it important for Canadian businesses that our government continues to open up new markets for their goods and services?

● (1740)

Mr. Peter Holle: You're creating private sector growth. What I'd like to say is that while I would encourage the government to do the European trade deal, the trans-Pacific deal has also been a great opportunity for western Canada, where my think tank is based. What I would like to stress is that one of the items that has held things up is supply management, which has affected our grain industry, beef, and parts of our agricultural economy.

I think the government is on the right track. It should take that whole drive and bring it to the trans-Pacific deal as well.

Mr. Andrew Saxton: Since coming into government in 2006, which is just over eight years ago, we've increased the number of free trade agreements between Canada and other countries from 5 to 43. Based on what you just said, you would agree that this is the right way to move it forward and it's going to be good for building Canadian jobs and building the Canadian economy.

Mr. Peter Holle: It is absolutely the right path.

Mr. Andrew Saxton: Thank you very much.

Mr. Holle, as we approach the budget period, what do you believe our government's priorities should be? We're looking at balancing the budget next year. We're on track for that. Where do you think our priorities should be after we balance the budget?

Mr. Peter Holle: You should be reducing taxes and reducing debt.

Again, there is a major opportunity for the government to look at structural reform within the federal civil service. I would encourage it to look at some of the best practices from other countries. A simple thing like bringing a capital charge into the government's books and requiring departments to actually have a cost of capital for different assets, in my experience, would give departments an incentive to privatize assets. That would be a good thing, again from the point of view of balancing budgets and lowering spending.

Mr. Andrew Saxton: Okay, thank you.

Since coming into government, our government has lowered over 180 different taxes. We now have taxes at a 55-year low in Canada. The average Canadian family is reported to have about $3,400 extra in their bank account at the end of each year as a result of our low-tax plan.

Would you agree that this is the right approach, that we should be looking at lowering taxes both for individuals as well as for companies?

Mr. Peter Holle: Yes, lower taxes are good.

Again, we would go toward general tax cuts, raising the exemption. We would tend not to go toward boutique tax cuts, or tax credit programs, which has been the practice before.

Mr. Andrew Saxton: Thank you very much.

My next question is for Brian Kingston.

Mr. Kingston, in your submission to the finance committee, you noted that Canada's labour market information system should be comparable to Germany's integrated virtual labour market system. Could you please explain for the committee today how the system functions, and how that should be used here in Canada?

Mr. Brian Kingston: Germany has a virtual labour market system that's actually administered by a centre, one of our member companies. It's a clearinghouse for essentially all labour market services in a virtual environment, and employment services. Every citizen is registered here. It has proven to be very effective at lowering the unemployment rate and reducing long-term unemployment.

We think it's a system that Canada should consider looking at as a way to bring the unemployment rate down and help people who are seeking jobs.

Mr. Andrew Saxton: Did you look at all at the apprenticeship programs in Germany and perhaps Switzerland and other places where they're quite effective?

Mr. Brian Kingston: Yes, we did. One thing that we've recommended actually in our submission is to help apprentices basically achieve parity of esteem with other degree holders. Right now apprentices receive their papers. We think there's a way to actually make them on the same level as a university graduate by giving them what would be equivalent to a diploma, something they could be proud of, which would encourage more people to actually take the trade route.

● (1745)

The Chair: Thank you, Mr. Saxton.

Mr. Brison, please.

Hon. Scott Brison: Mr. Parent, the 2013 figures from your office show that out of around 87,000 clients of Veterans Affairs Canada, 1,428 of them are “totally and permanently incapacitated”. Of these over 1,400 veterans, 406 would not receive any allowances or Canadian Forces pensions.

Could you elaborate on that deficit of such a large number of veterans who are totally and permanently incapacitated who are not receiving any allowances or pensions? What should we include in the 2015 budget to address these severely injured veterans?

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

When the new Veterans Charter was introduced, it replaced a pension plan. The pension plan was made up of benefits and programs that would last for life.

When they introduced the new Veterans Charter—the income loss benefit—they introduced, for the first time in veterans benefits, a program that ended at 65 years old. Those people who are totally and permanently incapacitated right now are only receiving the earnings loss benefit, which ends at 65.

However, there is a permanent incapacity allowance that is available. In fact, we've questioned the logic there. Why are people who are totally and permanently incapacitated not receiving a permanent incapacity allowance? That's where the big secret is right now.

People who are not capable of generating any income at all should have benefits for life. Therefore, the PIA, the permanent incapacity allowance, should be widened so that it's easier for people to access. It should also be brought up to a level that is consistent with life after service, which is in the $70,000 area.

Hon. Scott Brison: Thank you very much.

Mr. Hodgson, you seem to be calling for a growth agenda that is consistent with the consensus that emerged from the G-20 finance ministers meeting in Cairns recently. The Australian treasurer said, “It is critical that we take concrete steps globally to boost growth and create jobs”.

Compared to economies like the U.S., Australia, and the U.K., we're growing more slowly as an economy than those countries. Yet Australia and the U.K. are investing massively in infrastructure: the federal government in Australia, the national government, working with state governments, working with Canadian pension funds.

With probably the greatest concentration of expertise in the design, construction, and financing of infrastructure in the world resident here in Canada, should we build a more robust national infrastructure plan today as David Dodge would counsel us, by working with the provinces to invest massively in fixing our infrastructure? We would create jobs in the short term and better competitiveness in the long term.

Mr. Glen Hodgson: I can give you a one-word answer, yes, or a longer answer.

It's not a surprise that I've set out a growth agenda, given that I worked at the Department of Finance for 10 years and at the IMF for three-and-a-half years. I would align with the kind of view that would come out of the G-20. We've said for over a decade now that Canada has a huge infrastructure deficit that has to be addressed.

I am pleased that the government has made a down payment, but we have to eliminate the deficit over the next decade, let's say.

Hon. Scott Brison: Part of the problem with the down payment is that much of it is back-end loaded to 2017. That's a bit of a problem when the infrastructure needs are right now.

The work that the Conference Board has done on intergenerational inequities is important. TD Economics estimates that there's a scarring effect on young Canadians who are currently having trouble finding work, potentially something that will cost $13 billion to the Canadian economy over the next 10 years.

Could you speak to that scarring effect and the long-term impact of a generation of young Canadians who have significantly less opportunity than their parents or grandparents?

● (1750)

Mr. Glen Hodgson: Well, in a very short response, if you don't enter the labour force and get engaged in a career path where you're building skills, you end up sucking the life out of the economy. It erodes productivity, the long-term wealth creation capacity of the economy. As taxpayers, we end up having to support them either directly or indirectly: directly through income transfers; indirectly through other forms of social support. It's imperative that we find a way to bridge kids from school into the workplace as efficiently as possible.

I like Brian's ideas very much.

Hon. Scott Brison: Is the direct financial subsidization by parents and grandparents of young people who have a good education but can't get a good start one of the factors that is driving record levels of personal debt? Is that one of the factors?

Mr. Glen Hodgson: I actually haven't taken the drivers apart. We like to sit down and do a serious analysis of the drivers of personal debt levels.

I suspect it's what Mr. Moist referred to. It's a matter of compensation for not having significant real income gains over time.

The Chair: You have one minute.

Hon. Scott Brison: In terms of education and training—this is to Mr. Kingston's point as well—we need better labour data and more investment in solid data and evidence. You seem to be promoting that, Mr. Kingston.

Mr. Holle has talked of the importance of science and investment in scientific research. I believe you mentioned one example in particular.

Can any of you think of any organization in the world over the last 10 years, government or business, that has deliberately chosen to reduce both the quantity and quality of the data it collects? Can you think of anyone?

The Chair: Could just one person to respond, very briefly.

Is that a known—

Hon. Scott Brison: I can help you. It's the Canadian government. And it's a skill-testing question, because in this age of big data it's hard to find any organization, business or government, that has chosen to receive less quality information. So I would leave you with that.

The Chair: Thank you, Mr. Brison. Thank you for answering your own question. Thank you.

Voices: Oh, oh!

The Chair: We'll go to Mr. Keddy, please.

Mr. Gerald Keddy: Thank you, Mr. Chairman.

Welcome to our witnesses. You'll be glad to hear that I don't have any skill-testing questions for you because I think you're all very skilled in the categories you are representing.

I do have a question for Mr. Holle on an interesting statistic on how we collect tax dollars, with the federal government collecting 43% of all taxes. You make a bid for decentralizing services. Most of us would like to see a simpler or more simplified taxation system, but it's not something that can happen overnight. Do you really think that decentralizing services would be cheaper?

My concern would be that we'd end up decentralizing services and pass back more to the provinces and end up with a hodgepodge of systems across Canada where some provinces might have a fairly good system and encourage growth and opportunity, and other provinces would be left behind, frankly.

Mr. Peter Holle: You also have 10 laboratories of experiments where provinces might want to try new things, and what will happen is that there will be a sorting out and eventually the things that are working the best will be adopted by other provinces. What we have now is a system that is artificially enlarging the size of the public sector. There's just not a lot of accountability. When I look at a construction project and there are three levels of government involved, three levels of bureaucracy, three levels of administration, I can't see how that is saving anybody any money. It would be much smarter to give, for example, the gas tax back to the cities or to the province and have them then decide what their local priorities are.

On equalization there is some very good research that's been done by several think tanks showing that the money tends to stick to the bureaucracy and the bureaucracy gets larger. Why would they take money and pass it through? It also discourages innovation and experimentation with new forms of service delivery.

There is a lot of room to have a more creative, innovative public sector by having government stick to their knitting. The federal government is into certain roles—foreign affairs, armies, courts—but it shouldn't be involved in local issues, potholes and so on. The flip side is cities shouldn't be involved in federal issues as well.

There is plenty of opportunity to simplify things. I would argue strongly that the equalization system is actually helping nobody. It certainly hurts Manitoba, where the money has essentially gone into a large, slow-moving system.

● (1755)

Mr. Gerald Keddy: On another point, there was a lot of discussion by all stakeholders of the national infrastructure plan that we have in place—about making it even more robust. So we come back to your comment on potholes. I don't quite see how you can have three levels of government really applying similar taxation policies and have that somehow simplify the system. It actually increases the layers of bureaucracy and the layers of tax.

I have one final question. We've had a substantial red tape reduction action plan. It was an ambitious plan. It's one of the best red tape reduction action plans in the world today. It underscores our reputation as a place to invest and, in addition, our one-to-one rule has saved Canadian businesses somewhere in the neighbourhood of about $20 million.

Again, if you don't have one umbrella, if you don't have one overseer, how do you make that happen at all the three levels of government if someone doesn't take a leadership role?

I'm not saying there is not more to do.

Mr. Peter Holle: Again, I'm arguing in favour of diversity, experimentation, and innovation. I look at the public sector in general in Canada, and it's not a world-beater. I could look at Australia, or New Zealand, or other places and ask, “What can we learn from them?”

We tend to have a bias towards in-house monopolies with no accounting measurement. We don't know what things cost. When you do the proper accounting, we generally have expensive services. I think you can look at some of the models out there where basically the government's role is to purchase the outputs from the marketplace, and if it can be done more efficiently in-house, they have the information and they keep it in-house. But if they have information showing that there are cheaper ways of doing it out of house, they go with that. We don't even have those information systems in Canada and, I would argue, at all levels of government.

Again, in terms of upgrading the policy DNA in the civil service and so on, I think there are some great opportunities. I'd encourage the government to look at that.

Mr. Gerald Keddy: Mr. Kingston, you talked about a federal-provincial net debt somewhere in the neighbourhood of 52%. It's a pretty daunting number when you get up over that 50% mark. It's more than a little bit scary.

However, given the discussion we just had, you start to look at devolution of powers and devolution of taxation. You also need to have some societal buy-ins, some societal acceptance. Do you see that out there? Would there be societal buy-in and societal acceptance?

Mr. Brian Kingston: For debt reduction?

Mr. Gerald Keddy: Not just for debt reduction, but for devolution of how we look at debt, at separating provincial debt and federal debt.

Mr. Brian Kingston: Well, I do see a bit of a concerning societal view on debt. When you look at the federal level, there seems to be an acceptance that the government should return to balance and reduce the debt. However, in some provinces there are extremely worrying debt levels. We had a recent election in Ontario where that didn't seem to be a huge concern coming from the population. I do see two different views on it, and I think it is something to be concerned about.

The Chair: Thank you.

Thank you, Mr. Keddy.

[*Translation*]

I now yield the floor to Mr. Caron, who has five minutes.

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

Once again, I want to thank the witnesses who appeared before us. Their presentations were quite interesting.

I would like to begin with Mr. Hodgson.

We won't discuss the most recent report which was on intergenerational equity, but rather the previous report which was entitled *A Difficult Road Ahead: Canada's Economic and Fiscal Prospects*.

At a previous meeting, some people mentioned that even if the federal government had a budget surplus, the provinces are far from having surpluses. So the road ahead is going to be quite difficult for them.

Indeed, you mentioned in your report that if we maintain the status quo, in 20 years, between now and 2034-2035, the federal government budgetary surplus will balloon to $110 billion, whereas the provinces will have clocked a deficit of $171 billion.

Given the current budgetary situation, what role can the federal government play to assist the provinces?

The federal government did several things. For instance, in the 1990s, it reduced transfers. Currently, it is adopting other measures such as the reform of employment insurance, cuting the growth of health care costs, and cutting health transfers to the provinces. These measures will have major impacts on the provinces.

In your opinion, how could the federal government act directly to help the provinces and try to reduce this disparity between the health of federal finances and that of the provinces?

● (1800)

[*English*]

Mr. Glen Hodgson: Well, that's the $64,000 question. Isn't fiscal federalism the nature of Canada? Trying to figure out what the alignment is between provinces and the federal government? Essentially, you have two choices. Either the federal government decides to vacate space and then provinces can step in and raise taxes, or you transfer more.

I don't think there's a single right answer. I think we've always ended up with a kind of blended system. In some cases, some governments have transferred tax points, which has happened in the past. In other cases, governments have chosen to transfer more funds.

What is clear is that most of the cost drivers in public services are at the provincial level. They include health care, which has grown by about 6% to 6.5% over the last 20 years. In a world of nominal growth of 4%, clearly something has to happen there in terms of the state of the health care system. It's the same with education.

The provinces have the expensive programs. Right now, the federal government has the revenue source.

[*Translation*]

Mr. Guy Caron: I understand what you are saying.

[*English*]

Mr. Glen Hodgson: There's not a single answer; there's really an array of choices.

[*Translation*]

Mr. Guy Caron: I understand what you are saying.

On the other hand, the government is also responsible for not making the problem worse.

For instance, there is a cut to health transfer growth. It will go from 6% to 3% per year, and the Conference Board of Canada assesses in its model that growth would be 5.2% per year. So the provinces have choices to make, but the federal government is transferring less money to meet their needs.

[*English*]

Mr. Glen Hodgson: Sacrifices have to be made. The federal government committed, I think it was three budgets ago, to a nominal increase in transfers after 2017, after the Martin accord runs out, in line with the economy. There's a policy debate around whether that's fast enough or not.

Frankly, we're not advocates. We don't have a view on that. But clearly there's a debate that the public has to have, as they elect members of Parliament, about whether they want to maintain that, increase it, or even decrease it.

[*Translation*]

Mr. Guy Caron: There's another point in your report that is interesting. It concerns Old Age Security.

You mentioned the impact of the government's decision to increase the age of eligibility to OAS from 65 to 67, which will of course help on the federal side, but does not help so much on the provincial side. If the situation were reversed and if people could access Old Age Security at 65 years of age, according to the report you produced, this would in the final analysis help the provinces financially.

Did I understand that part of the report correctly? Could you make some further comments in this regard?

[*English*]

The Vice-Chair (Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP)): You have about a minute left, Mr. Hodgson, to wrap up.

Mr. Glen Hodgson: First of all, I want to emphasize that we were very much in favour of shifting the operating rules for the Canada Pension Plan. We did the right thing a decade ago when we put it on an actuarially sound basis. In view of the aging population, we think we also have to shift the operating rules.

We actually haven't analyzed how that plays throughout the tax system. Clearly, there are going to be fiscal impacts. But I can't actually speak to this in detail, because we haven't analyzed it.

[*Translation*]

Mr. Guy Caron: I can even read it to you.

In your report, you did not discuss the Canada Pension Plan. You talked about the Old Age Security plan.

If the government were to reverse its decision and allow people to receive OAS benefits as of the age of 65, the provincial and territorial deficits would be lessened. So that is one thing the federal government could do to help to put the two levels of government on a more equal footing.

[*English*]

Mr. Glen Hodgson: I can't speak to the report itself because there are four of me at the Conference Board, and that didn't come from my division. But I'm sure if my colleagues wrote that, they got it right.

Some hon. members: Oh, oh!

The Chair: Thank you. Merci.

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

Mr. Mike Allen: Thank you, Chair.

I'd like to start with Mr. Kingston and Mr. Hodgson, please.

Mr. Kingston, you talked about productivity and long-term challenges. We're also talking about some of the GDP growth being spurred on by business investment, exports, and things in the future years—in the next two years especially.

I just want to understand this. When you look at the cash on the balance sheets of some of these companies, and productivity, what are some of the ways you see that this committee could recommend for you to actually spur that investment?

I know you've talked about accelerated capital cost allowance as one of the things. It always strikes me, though, that with accelerated capital cost allowance, if you make it permanent it's not necessarily going to spur a business to do something, as opposed to putting a time limit on it, which might. You have to balance that with the timeline for investment decisions, and major ones.

Could you both comment with respect to how we would do that? Is it through tax measures or is it through regulatory improvements? I know that some small businesses are hinged up on regulatory aspects that prevent them from making investments as well.

So is it tax measures? Is it regulatory? Is it a combination of both? Are small and large businesses impacted differently?

● (1805)

Mr. Brian Kingston: Thank you.

I think something that would be very helpful to spur productivity for large businesses is a direct R and D program.

A couple of years ago when changes were made to the SR and ED tax credit, it had a very adverse effect on the large Canadian corporations that are responsible for the lion's share of R and D investment in Canada. We estimated that this was going to result in a 25% to 30% reduction in R and D spending by large corporations.

I think if you want to increase productivity and improve research here in Canada, it would be through a direct program that would help these companies make investments in R and D.

Mr. Mike Allen: Mr. Hodgson, do you have a comment?

Mr. Glen Hodgson: To be really frank, I'm not sure there is a silver bullet. I'm not sure there's much you can do through the tax system or through regulation to change that.

The fact that we're sitting on about $625 billion of cash stuffed in corporate balance sheets is due a fear factor. It's a reflection of an uncertain world out there, of not knowing where the world economy is going. I would suspect, for example, that all the free trade deals we're either signing or pursuing are inherently good things because they give market access to other growing markets.

But I'm not sure there's a silver bullet that could come along and fix the problem. I think you really have to keep building confidence in the private sector. The fact that the American recovery is so strong is a good thing, so we're forecasting private investment growth next year following along stronger export growth.

I wouldn't necessarily advise going in, doing more fine-tuning and fiddling with the tax system.

Mr. Mike Allen: You both also talked about tax reform and simplification and then commented about taxing the right things. What does that mean? You also made one other statement with respect to infrastructure when you commented on infrastructure that would help us transport goods. I know there's been a lot of investment in road and highway infrastructure. Does that suggest that some infrastructure investment is more equal than others?

Mr. Glen Hodgson: That's a very good question. First of all by “tax the right things” I meant what do we really value in creating long-term wealth? We value investment and income. So we value individual effort. We don't value consumption. Economic theory is very clear on this: consumption taxes are not a long-term wealth creator—albeit they're popular politics. Frankly, taxing carbon is another way to raise revenue and put a price on things that are not good for our economy in the long term.

In terms of your second question, we've had the chance to do a lot of the analysis for the federal government and the provinces on the infrastructure programs that were put in place to stimulate the economy in 2009-10, and they're not all equal. Although infrastructure spending is good for the economy because it has very high local content, not every form of infrastructure spending is equally good. But compared to other forms of spending, it's a very good form of spending to kick-start an economy right away.

The Chair: You have 30 seconds.

Mr. Mike Allen: Mr. Holle, really quickly, you've suggested some pretty profound change. The question then becomes, how realistic is that change? I say this because I haven't seen many provinces come to me to ask me for that.

Mr. Peter Holle: That's why we have independent think tanks that accept no money from governments. Our goal is to push the envelope at the Frontier Centre. We hear from politicians privately that they agree with us, but it's very difficult to move the ball. Again that's our role. I think this can be framed in terms of lots of benefits for Canada if it's done right. I was once a civil servant and I know the story of bad systems and good people, and I think the government and every politician could do a lot by talking about having better public services and using better accounting. A lot of this stuff around infrastructure deficits is coming out of accounting issues, which can be fixed.

● (1810)

The Chair: Thank you, Mr. Allen.

We'll go to Mr. Rankin, please.

Mr. Murray Rankin: Thank you.

Thank you to all the witnesses for coming.

I would like to start with Mr. Hodgson of the Conference Board, if I might. You had a very sobering study on the gap between young and old that you've referenced today, and you even used the expression “leaving a generation behind”. As a former professor I sure meet a lot of students who are very pessimistic about their future, with youth having twice the unemployment rate, and so forth.

You also referenced the infrastructure deficit and how the government has really only made a “good down payment” on that. Is there a link? Is there a way in which the two issues can be addressed? By increased infrastructure spending and better training can we find new opportunities for youth? Have you put your mind to that?

Mr. Glen Hodgson: We haven't put our mind to it expressly, but sure there's a linkage between investing in a public good that we need that's going to last 50 years and skills development for young people.

Mr. Murray Rankin: Mr. Moist, I appreciate your presentation and see that you elaborated on a number of things from your brief today, and some that you didn't. One that you did reference was the growing and record levels of household debt. At the same time you say that corporations are hoarding over $640 billion in surplus cash, more than the federal government's entire debt. First of all, if that figure is accurate—and I invite you to tell us where you got it—do you have any suggestions how we might be able to use a budget to address that and somehow lever that money out for the public good?

Mr. Paul Moist: Thank you.

Through the chair, first of all I agree with the G-20 report that I quoted—Mr. Brison was speaking about the finance ministers from the G-20—that one feeds the other. High unemployment and stagnant wages truncate people's purchasing decisions, and if business is going to lay out $1 billion.... I was in Washington two weeks ago talking with a Canadian representative about how he's trying to pitch the unused manufacturing capacity in Ontario to people for expansion. If a company's going to put $1 billion into investing in their private infrastructure, they need to know that they've got consumers to buy. Our Canadian Labour Congress is meeting with the Governor of the Bank of Canada next week, and I think he holds a tough job right now. Interest rates are very low. That stimulates some real estate activity, but everybody wonders what would happen in Canada with an inflationary rise in interest rates to that edge of the economy, coupled with truncated or flat wages. I'm talking about the average worker. This seems to me what the G-20 was wrestling with last week saying “we can't shrink ourselves or cut ourselves to greatness”.

Mr. Murray Rankin: Yes.

The other thing that I think you didn't have the time to reference in your oral presentation, but which is found in your brief, is your reference to the infrastructure programs of the federal government. You mention in your brief that while there have been recent commitments to long-term infrastructure funding, “little of this money has flowed”. People have said that it's back-end loaded to 2017, that it's not going to help us any time soon.

But then in your material you talk about the so-called P3 screen. I've heard from big city mayors, and recently the Federation of Canadian Municipalities, who are very critical about the requirement of having a P3 screen. You say that eliminating the P3 screen and the fund “could save governments not just the $1.25 billion cost of the P3 Fund, but also many billions in future years from not engaging in these more expensive P3s”.

I wonder if you could elaborate on that.

Mr. Paul Moist: Through the chair, very quickly, there are four things I heard in Niagara Falls with 2,000 mayors and councillors in June at the annual FCM convention.

Number one, they do not agree with the new Building Canada fund's eliminating roads. You can't have a road project and have it funded.

Two, they completely disagree with not being allowed to use the transfer of the gas tax to your municipality to lever applications for other Building Canada projects. They don't understand where that came from.

Three, it is back-loaded, and there is significant frustration with that.

And four, most municipalities don't want to be told what the mandatory P3 screen is going to tell them. They want to be able to, if they choose to, not to mortgage debt into the future but to borrow more cheaply. For those municipalities with tax room to borrow, there couldn't be a better time for Canadian cities to borrow. They think that should be a decision that they want to make.

● (1815)

Mr. Murray Rankin: Gee, I can sure agree with you. I've heard that from so many mayors.

The Chair: You have only 10 seconds left, unfortunately.

Mr. Murray Rankin: Okay.

I'll just say thank you for the reference in your materials to the need to address the Canada Pension Plan crisis. It's very good.

The Chair: Thank you, Mr. Rankin.

We'll now go to Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you, Chair.

Thanks to all of you for coming here at this late hour, enduring us, giving us some great advice and your wisdom.

I get a little confused, and I want somebody to help me with this. We've talked about the necessity for reducing debt, and I agree with that. I agree with that premise. But by the same token, we talk about spending more for infrastructure. This is where it gets a little confusing. I think about the United States, which has spent an enormous amount of money. But they've borrowed that money, and yet they still include that in their GDP figures. Subsequently, we try to...or at some point there are those who emulate that and think we should follow that example.

So who is right? Do we as a government take the moneys that we take from taxes, and do we spend what we have, or do we—

The Chair: I'm sorry, Mr. Van Kesteren.

Colleagues, we do have bells for 15 minutes. Can I assume the consent of the committee to finish the next two rounds?

Mr. Nathan Cullen: We'll finish up with Mr. Van Kesteren's questions?

The Chair: Yes.

An hon. member: Okay.

The Chair: We'll finish with Mr. Van Kesteren and Mr. Adler. The chair may have one at the end.

Mr. Dave Van Kesteren: Thanks, Mr. Cullen.

Do we spend more money and do we go further into debt, or do we apply the techniques or the position we have as a government, which is that we will spend money that we have? Somebody help me out with this.

I think I'll leave it open to anybody who wants to tackle it.

Mr. Paul Moist: I think the G-20 finance ministers, who wrestled with that very question, talked about the balancing act between the growth of one's economy and the debt as a percentage of that overall grown economy. They strongly counselled the world, to the extent they can influence the world, that debt reduction has to be weighed against sluggish economic growth.

Mr. Dave Van Kesteren: Mr. Kingston, Mr. Hodgson, or Mr. Holle.

Mr. Glen Hodgson: The federal government has a budget of about $270 billion a year. Your interest payments are locked in. You have certain commitments to Canadians and the provinces. But that gives you, frankly, lots of operating room to set different priorities. Our view is that infrastructure deserves to be near the top of the list of priorities.

Mr. Dave Van Kesteren: But that's not my question. My question is do we go into deficit further? We're ecstatic about the fact that we're one of the very first countries, I think the first G-7 country, to come out of this whole recession—we'll call it a recession—in a plus position. Do we go into a minus position to do these things, or do we do it with the money that we have?

I'm asking because we're setting our budget in motion, and we need to have your input as to what we should be doing.

Mr. Glen Hodgson: In a purely arithmetic sense you can actually run deficits forever as long as the share of GDP is smaller than your growth rate, but I wouldn't counsel that. I actually think balanced budgets are important, because budgetary balance is an important anchor to put down. So within a balanced budget framework our advice would be that infrastructure spending deserves higher priority.

Mr. Dave Van Kesteren: Should we include in our GDP deficit spending or money we borrowed, like the United States does?

Mr. Glen Hodgson: I don't understand your question in terms of public accounts.

Mr. Dave Van Kesteren: Should we calculate growth by the moneys we have taken and we've borrowed? Should we consider that an increase in GDP?

Mr. Glen Hodgson: Government spending at any time is a form of stimulus. It adds to the economy, but I think the really important thing is get the right principles in place. I agree with many members of this committee that balanced budgets matter and that you start there. Then it's a question of reallocating within your spending envelope towards things that really do support the growth capacity of the economy.

Mr. Dave Van Kesteren: Mr. Kingston.

Mr. Brian Kingston: I would agree with what Mr. Hodgson said, and I would say that the government's commitment to reducing the debt level to 25% of GDP by 2021 is a sensible goal. We would support that target.

Mr. Dave Van Kesteren: Mr. Holle, did you want to add something?

Mr. Peter Holle: There has been a lot of research on the optimum size of government. A lot of studies say 30% of the economy is government. We're at 42% or 41%. I think there's lots of room to make governments smaller and pass the money along to private citizens.

● (1820)

The Chair: Thank you.

We'll go to Mr. Adler, please.

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

I would like to begin with Mr. Hodgson.

If a family making $80,000 a year has $120,000 a year in expenses, ultimately what's going to happen is that this family is going to lose everything. Correct?

Mr. Glen Hodgson: Yes.

Mr. Mark Adler: Now with a government that has less revenues than expenditures, what happens to that government ultimately?

Mr. Glen Hodgson: They end up like Greece.

Mr. Mark Adler: Okay. That would limit its fiscal ability to act on the best interests of its citizens, right?

Mr. Glen Hodgson: Yes, and that's why most good fiscal economists would counsel the governments to maintain public debt under control and balance budgets in good time.

Mr. Mark Adler: So you would counsel our government, which has been exercising very strong fiscal spending discipline, that notwithstanding the fact we are going to be, from all indications, in a budgetary surplus in the next budget to continue to exercise fiscal discipline and not engage in any reckless spending schemes? Would that be fair to say?

Mr. Glen Hodgson: Governments should live within their means. When the economy is functioning at a high capacity, governments should live within their means.

Mr. Mark Adler: I'll follow up with Mr. Kingston.

Economies are very complex ecosystems. They are not simple, and the presence of good public policy and sound governance really creates an environment that attracts private investment and would enable business to grow and to create jobs, like what has happened here in Canada.

There can be countries, however, that have a lot of resources and good human resources yet their governance models are awful and, therefore, their economies are in pretty disastrous shape. Argentina is one example.

I'll pose the same question to you as I did to Mr. Hodgson. How important is it that our government continue on the same track it has been on in keeping taxes low and thereby increasing revenues for the government and keeping a strong fiscal restraint on spending? How important is that for business to grow and to create jobs in our economy?

Mr. Brian Kingston: It's absolutely critical. As you know, good public policy is key to attracting investment into a country, so maintaining spending discipline and a competitive tax rate is critical to that.

Mr. Mark Adler: It would be fair to say then, and I think the empirical evidence proves this out, that a lower tax environment, like we have at a corporate tax rate at 15% federally, has actually been proven to be very attractive for business to invest in Canada. Is that fair to say?

Mr. Brian Kingston: Yes, that's exactly right. A low corporate tax rate attracts companies to Canada.

The one thing I'll add, though, is you have to look at it beyond the federal tax rate. We surveyed our members to see the taxes they pay at all levels of government. They're actually taxed at 50 different points.

When you look at taxes overall, we would recommend that you take into account the whole picture, not just the federal rate.

Mr. Mark Adler: Would you say that what we saw recently with Burger King buying Tim Hortons is a sign that we're doing something right in this country? Is that correct?

Mr. Brian Kingston: I don't know the specifics of the Burger King deal. I know there has been a lot of attention given to it as a tax inversion. There could be multiple reasons for why they did that. But yes, in general, having an attractive corporate tax environment is good for attracting companies to—

● (1825)

Mr. Mark Adler: Certainly the Americans don't see it as a good thing, because their treasury department just passed a regulation against tax inversion.

The Chair: Thank you.

Colleagues, we have about six and a half minutes left.

I have a couple of questions. I'm going to put them on the record.

The first is on infrastructure. Is there a way to accomplish the infrastructure goals without perhaps adding more federal debt? That's a big question. Maybe a couple of you could answer me directly, and I will share that with committee members.

I want to play the devil's advocate. Mr. Kingston, I agree strongly with your recommendation one. I agree with recommendation three. I agree with recommendation four.

On recommendation two, about a direct support program, if it's true, as has been mentioned, that Canadian companies are not investing as much as they should, and over the last year or so they have been sitting on cash, for lack of a better phrase, as a result partly, some would argue, of corporate tax reductions by the federal government, then why should the government or this committee look further at enhancing direct support programs for various industries?

That's a big question. You can answer it partly here and answer further to me later.

Mr. Brian Kingston: Mr. Chair, I'll just say, to begin with, that growing cash balances in corporations over the past few years have basically been driven by the fact that there's a huge amount of uncertainty in the global economy. I'm confident that once the U.S. recovery takes hold, and demand in Canada is sustained and companies are confident in that, you will see investments made by these corporations. A corporation acts just like a person would in an uncertain environment: they're hesitant to spend.

In terms of a direct support program, Canada has traditionally focused on indirect spending in the past. Nearly 90% of our R and D support was in indirect spending, whereas in the U.S. 80% was direct.

What we've just argued is that there should be a better balance between indirect and direct spending if you want to encourage innovation and R and D.

The Chair: I appreciate that. I'd like to follow up further, but we should go to vote.

Mr. Kingston, or anyone else, in terms of companies' cash on hand, if we could get a more fulsome description of what form it's in and how many companies are sitting on how much cash, that would be helpful for the committee. Could you follow up on that?

Mr. Brian Kingston: I'd be happy to forward a report to you by TD that is quite good and shows exactly what the balances look like.

The Chair: I would appreciate that.

I want to thank our witnesses very much for being here and contributing to our discussions on the pre-budget consultations.