HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 007 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Friday, February 19, 2016

Chair

The Honourable Wayne Easter

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● (0805)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): Pursuant to Standing Order 108(2), on the pre-budget consultations 2016, this is meeting number seven.

I welcome the witnesses this morning. I know some people had quite short notice and we appreciate your making the effort. We are under a tight time frame, too.

We'll start with Ian Lee as an individual. He's an assistant professor at Carleton University.

Ian, go ahead. The floor is yours.

Dr. Ian Lee (Assistant Professor, Carleton University, As an Individual): Thank you very much, Mr. Chair.

I'm going to present slides in one moment, but I just want to state that I have been a full-time tenured professor at Carleton University's school of business since 1987, teaching business, economics, and public policy. This is my 29th year at Carleton. I have taught over 100 times in developing countries, including every year in Poland since 1991 and China since 1997. These are the two most successful post-communist countries in transition, which provides a lot of lessons in terms of economic development and so forth.

I appear on my own behalf as I do not work on behalf of lobbyists, NGOs, unions, corporations, political parties, or other individuals. Finally, since 2008 I've appeared 24 times before House and Senate committees of the Parliament of Canada, including multiple times before this august committee. I recognize the veteran, Monsieur Caron. I was mentioning to him that I am, I guess, a veteran, too.

In the run up to the budget, you'll receive numerous submissions from what Captain Renault in *Casablanca* called the usual gang of suspects, with long shopping lists of millions and billions of dollars. I will not do that today. I am going to do something completely different, following Prime Minister Trudeau's excellent statement that policy must be evidence based.

I will now provide some empirical data on the graphs that deconstruct some urban legends that are being touted regularly in the media by pundits, sometimes by elected officials, as the budget must be grounded on empirical reality and not on snake oil or quicksand.

I will start just by stating that Canada, as we all know, has experienced a temporary—and I underline the word "temporary"—oil shock. The economy is growing, albeit slowly. This year it's forecast to grow at 1.5%—that's positive 1.5%—next year, over 2%. There's already massive monetary stimulus sloshing around the system because of the historically unprecedented low interest rates, and there are $30 billion right now as we speak being pumped into the Canadian economy, representing the annual provincial deficits in aggregate across Canada.

I want to deal with urban legend number one. I've heard NGOs and some elected officials say that we're a one-trick pony, completely dependent on oil and gas. This is one of the biggest urban legends of all. I deconstruct it as often as I can. This is a very fresh graph. It's only two weeks old. It's posted by Statistics Canada. It breaks down the totality of Canada's economy into sectors ranked by employment. I'm not going to read through the list. I just simply want to highlight that the totality of all Canadians working in natural resources—that's where we're all allegedly working—is 370,000 Canadians, one-third of one million.

By contrast, 16 million of 18 million employed Canadians are working downstream in the services—plural—sectors, and that includes education, like me. There are 1.3 million of me running around, one million in financial services, and 2.7 million employed in health care. I can go on and on. We are one of the most diversified economies in the entire world alongside the United States, so when people say we're not diversified, that is not evidence based. We can discount that urban legend.

Another is that we're running into very bad times and we're very poor, or we're about to be. This is simply not true. We are one of the richest, most affluent countries on the planet Earth, somewhere around the 10th wealthiest in the world ranked by GDP per person on a PPP—that's purchasing power parity—basis, which is the proper way to do it. As you can see, there's the graph showing that we're in the top 10 countries of about 200 countries in the world.

Another urban legend is that the middle class is in collapse—it's shrinking; it's disappearing; it's vanishing. This is simply not true. This is Stephen Gordon's graph. You're all aware of Professor Gordon from Laval, and this is from a CANSIM table. Again, I'm not going to belabour this. Yes, it collapsed or dropped very dramatically in the 1990s because of the historic downsizing. It was the largest downsizing in Canadian history, but it has recovered since then.

Another thing we're hearing all the time from the NGOs is that inequality is exploding in Canada, yet people refuse to do comparative empirical research. This is OECD data. It's unimpeachable and it's showing that we are almost smack dab on the OECD average. This idea that we're an extreme outlier is simply empirically false. I'm not suggesting that we shouldn't do more about each of these urban legends, that we can't do more to reduce inequality, but we have to start from facts and not from urban legends.

Another issue is that I receive emails from NGOs who get angry at me talking about this. Andrew Coyne has also talked about this in his columns. Poverty has collapsed in this country over the last 50 years, collapsed.

It was 25% in the mid-1960s when I was a child growing up in eastern Ontario. Twenty-five per cent of Canadians were below the poverty line. Today it's 8.8%. That's under both Liberal and Conservative administrations. This is completely non-partisan. We are doing an extraordinary job at reducing poverty.

Parallel with that is the idea that—

The Chair: Mr. Lee, just to interrupt, we are trying to hold people to five minutes, so take another minute to—

Dr. Ian Lee: I'll skate through these really quickly.

Elder poverty, likewise, has collapsed from very high levels to one of the lowest in the world. We're at the very bottom of the OECD. In terms of pension readiness, 83% of Canadian households are on track to retire without a problem. We do have a problem in Canada, but it's a small problem. It's a minority of 15% to 20% of working Canadians, and 7% who are already retired. Elders are the wealthiest people in Canada. Senior families, according to Statistics Canada data, have $650,000 in net worth. So our elders are our wealthiest, not our poorest.

I'll just finish up on these two, because I've heard some elected officials say that infrastructure spending has collapsed in Canada. Actually, it has not. It's at its long-term average of 4% of GDP.

I'll skip over these very quickly.

The last one I want to deal with is the municipalities because they claim all the time that they're running out of money. Municipality revenues are exploding. Their population has grown 11% in the last 10 years; their spending has grown by 43% in the last 10 years.

Finally, my final point is GHG emissions. We're told all the time that we have to be more like the Americans. We are cleaner than the United States on GHG emissions per capita. They source 20% of their energy from coal, which is the dirtiest of the filthiest of the dirty. We only source 6%. We are cleaner than the United States. We want them to emulate us.

Thanks very much.

● (0810)

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

We'll turn to the Alberta Chambers of Commerce with Ken Kobly.

Mr. Ken Kobly (President and Chief Executive Officer, Alberta Chambers of Commerce): Thank you, Mr. Chair.

Thanks to the committee members for inviting me this morning to present on behalf of the Alberta Chambers of Commerce. For those of you who don't know, the Alberta Chambers of Commerce is a voluntary federation of 126 community chambers in the province of Alberta, which in turn represent in excess of 24,000 businesses in the province, and approximately 95% of those members are small and medium-sized enterprises.

Why am I here today? I am not here to ask for money. As my colleague mentioned earlier, I'm here to urge caution to the Government of Canada. When setting the budget for this coming year, be aware of the impact of cumulative effects and cumulative layering of costs on businesses.

Certainly in Alberta we're going through some issues right now with the oil industry, the price of oil being at a dramatic low level. One thing that doesn't get a whole lot of press play is the small and medium-sized enterprises that are currently suffering. Those small and medium-sized enterprises go the way of the oil. Right now they are not feeling that there's a whole lot of attention being paid to them and the issues they're facing.

I would ask you to avoid layering costs on top of businesses in Alberta. We are obviously feeling the effect of a low loonie, which affects input costs for most small and medium-sized enterprises.

We've recently had an increase in the corporate tax rate, going up by 2%. Again, that is only affecting large companies, some people would say. However, small and medium-sized enterprises in the province of Alberta are fed by larger corporations. If their corporate taxes increase, the amount of money that goes to small and medium-sized enterprises obviously decreases.

We're facing uncertainty as far as our minimum wage goes. As you probably know, we're going from $10.20 to $15 an hour by the year 2018, which adds a dramatic cost onto small and medium-sized enterprises. It doesn't affect only those who are paying at the minimum wage, but also those who are paying above minimum wage, because there's always pressure to increase.

As was pointed out by the previous presenter, we're also faced with increased municipal taxes, which is a cost that is burdened onto businesses in the province. We're also facing an increase in the carbon tax. Our province has had a long-standing carbon tax. It is going from $10 per tonne up to $30 per tonne within the next three years.

The Edmonton Chamber of Commerce put out a great press release yesterday. I would echo its words, that when it comes to what the Government of Canada is doing when it's drafting its budget, "Stop! Look both ways. Think before you tax."

On the issue of infrastructure, we support targeted infrastructure stimulus spending. We've heard a lot of comments around the issue of being shovel-ready. I would ask you instead to be shovel smart. Look at what infrastructure spending would provide long-term economic impact. Target those areas of the country that require stimulus and help.

Rex Murphy said about six or seven years ago that, when the cod fishery collapsed, the government didn't build an LRT in Saskatoon. I would ask you again to target those areas of the country that need assistance, that need a little bit of a kick-start on their economies.

Obviously, coming from Alberta, I think the biggest infrastructure project that could go ahead and not affect or cost the Government of Canada any money is obviously the construction of pipelines, because that would put a tonne of money into the economy. We have no control over the price of gas and oil. That's a world commodity. But with access to markets other than the United States, we could maximize and receive full market value in the global marketplace. It would have a side benefit of probably reducing the cost of energy in eastern Canada, given the amount of oil and natural gas that's currently imported into Canada.

I would use this time period that we're going through with higher unemployment rates to take the time to fix our immigration system. We will rebound—in my lifetime I've seen this rodeo about four times—and when we rebound, we will need access on a timely basis to immigrants who can help us with the labour shortage that we're certain to see when we come out of this thing. Think it out and develop it right, so we don't have another program where the rules are changed every six months.

● (0815)

Our full submission is available on the website at abchamber.ca. We've also submitted a full copy. I believe the committee has received it. Again, I would sum up my presentation by saying, “Do no harm in this budget, please.”

The Chair: Thank you very much, Mr. Kobly. The submission that you submitted will be transmitted to all members after it's translated. Thank you very much, a lot of good information there.

From the Canadian Association of University Teachers, we have Mr. Sylvain Schetagne.

[*Translation*]

Mr. Sylvain Schetagne (Associate Executive Director, Canadian Association of University Teachers): Mr. Chair, members of the committee, thank you for giving us the opportunity to present our suggestions for the next federal budget on behalf of 68,000 professors, librarians, researchers, professionals and other staff working in over 120 universities and colleges across the country.

The Canadian Association of University Teachers (CAUT) is actively involved in improving the quality of post-secondary education, by increasing accessibility and safeguarding academic freedom.

[*English*]

After years of austerity and attacks against science and scientists, Canada needs a new vision to get science right and improve accessibility and quality of post-secondary education.

CAUT welcomes the new government's commitments to unmuzzle government scientists, to make government science fully available to the public, and to ensure that scientific analysis is considered in decision-making. CAUT applauds the restoring of the long-form census. We were also pleased to see that the new science minister's mandate includes the examination of options to strengthen the recognition and support for fundamental research.

For years, CAUT has been raising concerns about the former government's direction in science policy that favoured narrowed commercial interest at the expense of basic research and the broader public interest. It is now clear that this strategy has not delivered the promised investments in jobs and Canada is falling behind other developed countries in science and innovation. More needs to be done to rebuild Canada's research capacity, starting with more investment in basic research.

An infusion of $3 billion of new research and development money would be needed in this country right now to bring us back to what was spent in 2006. Now is the time for the federal government to invest in Canada's knowledge infrastructure and boost Canada's scientific capacity.

More precisely, CAUT recommends that in this year's budget, the federal government invest an additional $250 million, $350 million the following year, and $500 million in three years in base funding for basic research to the three research granting councils. It should do so while ensuring research funding provided through Canada's research granting councils and decisions about priorities, projects, programs, and scholarships are made using peer-review processes by the scientific committee on the basis of merit.

We also recommend the federal government reinvest significantly in its own research. The former federal government cut about $1 billion and 4,000 jobs from government science programs. This has reduced the ability of the government's scientists to provide independent and reliable data, and to serve the public interest.

● (0820)

Finally, we believe that the Parliament of Canada would strongly benefit from a parliamentary science officer, or PSO. The PSO would be an independent officer of the Library of Parliament who would report to the Senate and the House of Commons. His or her role would be to provide advice and analysis to Parliament about the adequacy and effectiveness of the nation's science policy, priorities, and funding.

[*Translation*]

Investment in our knowledge infrastructure cannot happen in a vacuum. It must be combined with improved access to and participation in post-secondary studies.

In 1990, public funding represented up to 80% of the operating revenue of universities, compared to just under 50% in 2014. This step backward largely has to do with the reduced federal funding transfers to the provinces from the 1990s on.

The CAUT is urging the federal government to work with the provinces in order to develop and implement a national post-secondary education strategy, with one of the pillars being increased funding to overcome all obstacles, including financial ones, to access to and participation in post-secondary education.

The CAUT recommends that the Canadian social transfer be replaced by separate stand-alone funds for social services and post-secondary education. A new transfer for post-secondary education should be included in legislation on post-secondary education, modelled after the Canada Health Act, outlining the responsibilities and expectations of each administration, establishing national guidelines, enacting enforcement mechanisms and, above all, providing stable and long-term funding formulas.

Let me conclude by saying that the rising tuition fees have placed a disproportionate burden on students, especially on Canada's indigenous students. Funding provided to band councils to support First Nations students has remained flat despite the soaring tuition fees and demographic explosion. The result has been that thousands of eligible students remain on waiting lists to get the funding they need to pursue a post-secondary education.

It is time for the federal government to honour its historical commitments to Canada's First Nations by recognizing that education is a treaty right and by providing the necessary financial support.

Thank you, Mr. Chair.

[*English*]

The Chair: Thank you, Mr. Schetagne.

Turning to the Canadian Psychological Association, we have Ms. Cohen.

Dr. Karen R. Cohen (Chief Executive Officer, Canadian Psychological Association): Thank you.

Good morning. My name is Dr. Karen Cohen. I'm the chief executive officer of the Canadian Psychological Association. CPA is the national association of Canada's psychologists.

The federal government has an important role to play in Canada's mental health. We're pleased with its commitment to making high-quality mental health services more available to Canadians. If we want a health care system that will deliver cost and clinically effective care, then we must revisit policies, programs, and funding structures through which health care is delivered.

Mental illness affects one in five Canadians and costs the economy $50 billion a year, yet no province currently pays for assessment or treatment by psychologists outside of publicly funded institutions.

Research has found that psychological treatments are less expensive than and at least as effective as medication for the most common mental health conditions, and in some cases, work better. Psychological treatments do a better job for depression than medication in preventing relapse.

Psychological treatments work, but unfortunately only some Canadians have access to them. Access to effective health treatment should not depend on your employment benefits or income level. Those who cannot afford to pay for treatment end up on long wait lists, have to depend on prescription medications, or simply do not get help at all.

We have some solutions to this problem.

The CPA commissioned a report from a group of health economists that proposed several models of delivering enhanced access to psychological services for Canadians. The report provides a business case based on demonstrating positive return on investment and desired clinical outcomes.

In the past decade, the United Kingdom and Australia have made huge investments in publicly funded therapy. The U.K.'s improving access to psychological therapies program provides treatment to people with depression and anxiety disorders. The new health accord could improve access to psychological services by adapting similar programs here in Canada.

I also want to bring your attention to an issue that is extremely important to psychologists and their patients.

Budget 2013 included an unclear statement about changes to the GST on what is and is not considered a health service. Because of this change, psychologists and other health care providers have to charge their patients GST for some services. The new tax came into effect immediately and the government predicts that it will collect only $1 million in 2015-16 and $2 million in 2016-17. This tax policy runs counter to the government's agenda to advance mental health in Canada.

Despite the fact the tax came into effect three years ago, it remains unclear what services should be taxed and which are exempt. Advice provided to our members from the Canada Revenue Agency has been inconsistent and contradictory. For example, we are fairly certain that an assessment to determine the impact of child sexual abuse in adult survivors for the purposes of civil litigation is now subject to tax. Also taxed are evaluations for the purposes of establishing eligibility for disability, fitness to stand trial, and mediation in a divorce proceeding. In the spring of 2015, we were told by CRA that additional clarification was coming, but none has materialized. We hope that this situation can be rectified in the upcoming budget.

Investment in psychological research is also paramount to Canada's social fabric. Psychological research has broad and significant application to the well-being of Canadians and their communities, creating an understanding of people, human problems, and the many environments in which we live.

Finally, as has already been mentioned, a strong science culture relies on the availability of national statistics with common data points. The cancellation of national surveys, such as the university and college academic staff system and the survey of earned doctorates, to name just two, has left significant gaps in our ability to track the number and demographic distribution of academics in Canada, psychologists among them. Without such surveys, we don't know how many people have attained graduate degrees in psychology, who is working where, or if there are enough psychologists to meet current teaching, research, and health service needs of Canadians.

In closing, I will sum up our recommendations.

One, make access to psychological services the priority of the new health accord.

Two, target funding to assist the provinces and territories to improve access to psychological services. The funds could be used by the provinces and territories to adapt the U.K.'s improving access to psychological therapies program here in Canada.

Three, remove the new tax on psychological services. All psychological services have a health purpose and should remain exempt.

Four, invest in psychological research with continued, increased, and balanced funding for research via base funding for the granting councils, as well as stabilized funding for operating and infrastructure support.

Finally, we hope that this budget will include funding for Statistics Canada to reinstate the surveys that are critical to the development and maintenance of good programming and policy.

Thank you.

● (0825)

The Chair: Thank you very much, Ms. Cohen.

Manny, with the Heart and Stroke Foundation, the floor is yours.

Mr. Manuel Arango (Director, Health Policy and Advocacy, Heart and Stroke Foundation of Canada): Thank you, Mr. Chair and honourable members.

The Heart and Stroke Foundation is a national volunteer-based charity, led and supported by more than 125,000 volunteers across the country and close to two million donors. The aim of the foundation is to create healthy lives free of heart disease and stroke. We do this in three ways: the advancement of research, the promotion of healthy living, and advocacy work as well.

Despite an impressive 75% reduction in the death rate from heart disease and stroke over the last 60 years, every seven minutes a Canadian still dies from heart disease and stroke, and that's unacceptable. It amounts to more than 66,000 deaths per year. Heart disease and stroke is the leading cause of hospitalizations and the second leading cause of death in Canada. We have a lot more work to do. There's no doubt about it.

The foundation is proposing to work with the federal government on solutions that are consistent with the themes proposed by the finance minister for the 2016 pre-budget consultations—in particular, creating economic growth while ensuring our most vulnerable do not get left behind. Specifically, we're seeking to partner with the federal government to do two things: one, protect Canada's children by adopting a manufacturers' levy on sugary drinks; and two, invest in science by providing $30 million annually to support heart disease and stroke research in Canada.

To help protect Canadian children, we're recommending that the federal government adopt a manufacturers' levy on sugary drinks. Ideally, this tax should include various elements or best practices. It should be an excise tax based on volume, should increase according to the amount of sugar in the drinks, should be visible at the point of purchase, and should include a broad range of sugary drinks including fruit juices, which have just as much or more sugar than soda pop. A federal levy of 5¢ per 100 millilitres on sugary drinks, sugar-sweetened beverages, would raise almost $2 billion in revenue for the government, which is much needed revenue at this point in time.

Ideally, a portion of this new revenue stream would be redirected toward subsidizing healthy living initiatives such as a national healthy lunch program for students. There is strong and growing evidence that sugary drink taxation is working. In Mexico, for instance, a one peso per ounce, or 10%, excise tax on sugary drink purchases led to a 12% reduction in sugary drink purchases and as high as a 17% reduction among low-income people. This can work in Canada, too, to improve health and raise much-needed revenue.

Our second request deals with research. There are four areas that require investment: heart failure, creating capacity for the future, heart research for women, and nutrition. The foundation has a tradition of working with the Canadian Institutes of Health Research and leading universities and hospitals to fund the best researchers across the country.

In June 2013, the Heart and Stroke Foundation launched the universities and hospitals initiative, a unique collaboration in which the HSF committed to providing $30 million annually in heart disease and stroke research funding to Canada's top 20 leading universities and hospitals. Unfortunately, despite this commitment, the reality is that Canada is falling behind in high-impact heart disease and stroke research. Applications to CIHR in all fields of research have increased by 110% between 2000 and 2010, yet in heart disease and stroke research, it's only increased by 22%. As well, and more worrisome, the number of early investigators or new researchers in the field has reduced by 50% between 2002 and 2010, so we need more investment to encourage young researchers into heart disease and stroke.

What's the opportunity here? In addition to saving lives and improving Canadians' quality of life, this investment would create high-value jobs—70% of funds that go to research would go toward job creation. It would also help retain young researchers in the field. Finally, it would lead to as high as an almost 40% return on investment. This means that an investment in heart disease and stroke research could be fully recouped by the government within two years.

Mr. Chair, thank you for the time. I look forward to questions and discussion with the honourable members.

Thank you.

● (0830)

The Chair: Thank you very much, Manny.

We'll turn to Mr. Koss. I see that you took the parliamentary secretary's chair to the microphone. Maybe you want to do question period for him today, too.

Mr. Richard Koss (President, Hunter Wire Products Ltd.): Thank you. I haven't said a word yet and I've been promoted already.

The Chair: With Hunter Wire Products Limited, Mr. Koss, president, go ahead.

Mr. Richard Koss: Mr. Chair and honourable members, my name is Richard Koss and I am a small business owner from Winnipeg.

You have my written submission already. I won't speak to that except to answer questions if you have any, and I know I'm on the clock, so forgive me if I get right down to business.

According to recent reports, there are expectations from the Quebec government and from Bombardier that the federal government will match Quebec's contribution to Bombardier of $1 billion. That's $2 billion of taxpayers' money going to a company that has just announced a 7,000-person layoff, but strangely not in the sector that is trying to market an aircraft that itself is already $2 billion over budget.

If this were a one-time event one could be persuaded that there might be value in it. The reality is that Bombardier is constantly being fed public money and its appetite is insatiable. Between 1966 and 2009 they have received $1.14 billion already via 48 separate transactions from Industry Canada alone. De Havilland, which was acquired by Bombardier in 1992, has received an additional $1.1 billion, and Pratt and Whitney, which makes the engines for Bombardier's not-yet jet, has received $3.3 billion.

My intent is not to beat up on Bombardier, but to highlight the relative unfairness of these kinds of supports when there are so many viable and productive small businesses needing help far more than the Bombardiers of the world.

December 2012 Statistics Canada estimates placed the number of employer-owned businesses in Canada at 1.1 million, 98% of them classified as small or less than 100 employees. Other StatsCan reports state that these businesses employ over 7.7 million people, or 40% of Canada's total workforce. They contribute 28%, or over $500 billion, of the country's total GDP and account for 25% of its total exports.

According to Bloomberg Business, Bombardier employs 24,000 people in Canada and contributes $12.4 billion towards our GDP. That's impressive, but should we be paying them to do that?

Not all large corporations are receiving taxpayer-funded handouts and not all small businesses are in need of financial assistance, but many are or will be in the next short time span.

I have a personal perspective to this. In September 2014, my company, Hunter Wire Products, borrowed $350,000 from BDC to purchase an automated powder painting line. We encountered numerous difficulties with the paint contractor and finally locked them out of the building in May 2015. From that point on, we were in almost constant negotiations with BDC attempting to obtain the release of the balance of the loan proceeds, approximately $50,000, so we could hire another firm to complete the work. We were unsuccessful.

Eventually, due to other serious financial pressures added to the burden of the non-operational paint line and its loss of revenue, the company declared bankruptcy in October 2015. This resulted in the closure of a well-known, 70-year-old Winnipeg manufacturing business. For the lack of $50,000 we lost a company producing over $7 million in revenue, almost $1 million of that in exports, and 50 people lost their jobs.

Saving my 50 employees would have cost $1,000 per employee. In comparison, assuming Bombardier gets their requested financing, the cost is $83,333 per employee.

A survey released on Wednesday by the Winnipeg Chamber of Commerce cites 40% of its respondents as stating that access to financing is either somewhat or very difficult. Some of these companies are certain to go out of business due to lack of funding. You can do something about that in the upcoming budget. Make a point of creating or enhancing programs that fund small business start-ups. Small businesses create three and a half times as many new jobs every year as medium and large businesses combined. That's 77% of all private sector jobs created since 2003.

Ensure that there is adequate financing available to establish small businesses for their needs. This applies just as much to old wire manufacturing companies as to new 3-D additive manufacturing start-ups, and sometimes even more so.

Mandate that a certain percentage of federal government purchases must come from small business. This doesn't mean a small business front that is owned by a large corporation.

Offer more loan guarantees at reasonable interest rates to allow small businesses to invest in needed technology for the sake of productivity improvement. Report after report states how under-invested Canadian companies are in R and D and technology. It's because technology is expensive, and we need help.

● (0835)

Put a moratorium on grants and subsidies and loans to large corporations, especially publicly traded ones. They are able to go to the marketplace for capital, small businesses cannot.

Honourable members, you cannot solve all our problems. You cannot remove the risk of running a small business and we don't want you to. We're not asking for a handout, but sometimes we need a hand-up and this is one of those sometimes. Small business is a key driver of the Canadian economy, producing the wealth that many of the other presenters here are asking you to redistribute in their direction. Help us to do that. At the very least, don't forget or take for granted where it comes from.

Thank you.

The Chair: Thank you very much, Mr. Koss, and for a very personal story as well.

I couldn't help thinking when you were making your case on the problems with the need for $50,000, would a little common sense from BDC have solved the problem, rather than sticking completely to the rules and regulations?

Mr. Richard Koss: We thought so as well. We made no headway with that. We made numerous requests for somebody from Calgary to come to our plant and see what we were talking about. We couldn't get that. Nobody from BDC showed up at our facility. We would have days and in some cases weeks go by with unanswered emails, and this was a vital piece of our operation. It was incredibly frustrating.

I'm not here to trash BDC. We've been a customer of BDC since 1979. We've done lots of work with them, but it appears to us that something has changed in their philosophy and how they're operating. They seem to be more of a bank and less of a business person's friend.

● (0840)

The Chair: Thank you.

That's good information for us to have. I think anybody who is an MP, who has ever dealt with bureaucracy—even a minister for that matter, Ms. Raitt, a minister trying to deal with bureaucracy—runs into that all too often.

Turning to the first round, we have Mr. Ouellette for seven minutes.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, everyone, for being witnesses here. It's very much appreciated.

Mr. Lee, because you presented a lot of facts about some of the myths in the Canadian economy, I'd like to get a sense of what government should be allocating resources to that's perhaps going to get the economy growing at higher rates. What's going to have the greatest return on investment?

Dr. Ian Lee: I want to echo what Mr. Kobly said, and I've been arguing this in my research in different areas including social policy and for that matter account policy. I really think that you have to target. It's the same idea as in business; we talk about focus. I think there's no good argument for universality, whether we're talking CPP reform, where most people do not need help but some people do. That's an example of targeting.

To answer your question on infrastructure, I think you will go ahead with infrastructure and I think it's a great idea, but I think you have to do it in a very smart way and target. I'm drawing on Jack Mintz's excellent paper, which I hope all of you read, published only a couple of months ago. Infrastructure is projects that speed up the movement of goods, services, or people across distances.

Let me be really blunt. That rules out green infrastructure. It rules out social housing, and it's not because I'm against social housing. I'm not. We do it in Ottawa. But if you're asking me what will give you the better bang for the buck, it's focusing on infrastructure that moves stuff: roads, ports, railroads, pipelines, that sort of thing. If you want the economy to get moving again you're going to get a much bigger ROI on so-called traditional infrastructure.

To answer your question, because I think you were asking about infrastructure, I would deal with that.

Mr. Robert-Falcon Ouellette: I'm asking about everything.

Dr. Ian Lee: Number one is targeting, because to put it really bluntly you're wasting money.

If I can go back to CPP reform, because everybody knows about it and I've published two papers on this that are peer-reviewed, large numbers of us don't need it. Why would you want to reform CPP to make me pay more premiums, when I have a gold-plated pension at Carleton University that I think exceeds the Government of Canada's?

Why would I want to pay more into a CPP, which gives me less money in my pocket to spend on the economy in restaurants and on small businesses, because the premiums that you pay are taken out of the flow? Yes, they're reinvested, but I don't have them to spend. If you do go forward with a universal reform to CPP, you're going to slow down the economy for a whole bunch of people who don't need it. Instead, in that context, target the people who do need help, and there are people who do need help.

Mr. Robert-Falcon Ouellette: That's for people who are retiring today, but there are a lot of young people who don't have the type of employment to build up a pension. I was a university professor. I didn't get my five years in so I'm not getting a pension from the last five years. I didn't get a pension from when I was a teacher for two years. I didn't get a pension when I was in another employment for a couple years. I'm 39, so I do have 10 years of pensionable time with the military, but for the rest of that 18 or 19 years, it's not there. The pension that I'm going to get is going to be around $8,000 or $9,000.

Dr. Ian Lee: I promise you I will send the committee my two papers. I don't get royalties on this so this isn't about money, but I'll answer it very quickly.

There's another urban legend that Canadians are completely dependent on the so-called first two pillars, which are OAS-GIS and CPP. That's simply empirically not true. Empirically, the top three quintiles receive very small amounts from the first two pillars. The bottom two quintiles in Canada, the bottom 40% by income, are vitally dependent on the first two pillars I've described: OAS-GIS and CPP. There's no question about that, but the idea that the other three quintiles are dependant on those first two pillars is not true. I don't have the time to present the whole paper, but suffice it to say that we really do have two different pension systems in Canada operating parallel and we don't realize it. That's what the argument was in my paper.

We have essentially social welfare for low-income elder people. It's called OAS-GIS and CPP, and people in the top three quintiles have all kinds of other sources of income coming in. That's been documented in Kevin Milligan's research, in Jack Mintz's research, In Vijay Jog's research, and my research, to name just four.

• (0845)

Mr. Robert-Falcon Ouellette: Thank you very much.

My final question is for Mr. Koss.

How much did BDC actually lose by not investing the additional $50,000, and would it have actually saved your company? What did your company exactly do? Because it was value-added, I believe.

Mr. Richard Koss: We were a company that started off manufacturing steel wire products, things like display stands and newspaper racks, and way back when, we made sock dryers—if you're old enough to remember what a sock dryer is. We grew into steel fabrication. We were doing work for many agricultural companies. If you look at my written brief, I mention that we were doing work for Nortel, and we were a preferred supplier for Nortel. As a small company, that is amazing. We did work for John Deere, Motor Coach, New Flyer, etc.

We don't know what BDC lost. We haven't yet seen the determination. Even the way that they handled the dissolution of the business was—it's not too strong to say—reprehensible. They didn't manage it well at all. For a paint line that would have been worth $350,000, they got salvage value of $7,500. I'm serious. It was $7,500, because they allowed somebody to just strip out whatever parts they could get, and they did that on the last day.

Can the company come back? No, not in the same way that it was. I'm not sure that we want it to, necessarily, but to lose a 70-year-old family-owned business is just a shame, because if you look at the statistics, there are so few of them around and this is another one that now has become a statistic.

The Chair: Thank you.

We'll turn to Ms. Raitt for seven minutes.

Hon. Lisa Raitt (Milton, CPC): Thank you very much, Mr. Chair.

To Mr. Schetagne from the Canadian Association of University Teachers, obviously I'm from the previous government. You gave some strong points right off the top with respect to your disappointment in how we approached innovation. I would say this. Innovation, we know from the OECD, is difficult in Canada because we lack entrepreneurship and we lack commercialization of our basic research. That's the area we tried to focus in on. You view it as narrow Canadian commercial interests. We view it as trying to move from what's happening in the lab to putting it out into the real world.

But that's not my question. This is my question. In your presentation, I was struck by the fact that you're gearing it towards having more accessibility and greater enrolment in universities, bringing more people in. That is laudable, but the reality is that Canada does very well in that aspect. Indeed, we are number one in the OECD in terms of tertiary education. The fact is that women between 18 and 34 make up 66% of this, but do you know where I don't see women? I don't see them as university professors. What are you guys doing to make sure that female university professors are making it up through the ranks from assistant professor to associate professor to full professor, and why don't you come back to this committee with a proposal on how to fix that problem that we have in our university system?

I'd appreciate that. The next time you come in, instead of worrying about what we've done in the past, think about what's happening in the future. Take that as some advice to come in and talk to us about it, because I think it's a pressing issue. I think it's exactly why we have situations of chill with respect to women in science and we have chill with respect to women in these positions going through life, trying to figure out how to do maternity leave, still do research, and still be on that track for full professorship. I don't hear anything acknowledging that issue from you today, and I think it's a huge, pressing issue for Canadian universities.

That wasn't a question. It was my rant. Take it for what it's worth. You give me advice; I give you advice. That's the benefit of coming to a full MP panel. Thank you for listening and taking notes.

Mr. Lee, if you had any slides you wanted to spend some more time on, I'd be willing to cede my last couple of minutes to you so that you could give us some more information.

The Chair: You have quite a bit of time.

Mr. Schetagne, do you want to respond in any way to that...?

Hon. Lisa Raitt: Representation.

The Chair: The member called it a rant. We'll call it a representation.

Voices: Oh, oh!

• (0850)

Mr. Sylvain Schetagne: I have a couple of things.

I first would like to say that we are limited in terms of the time we have to make presentations. I would be thrilled if the FINA committee or the HUMA committee or any other committee would examine accessibility of post-secondary education and tenure-track positions for women in Canada as well as other equity groups. It would be our pleasure to testify and share our knowledge on this.

That being said, I will echo what was said by Ms. Cohen about the lack of data. There was the cancellation of the university and college administrative salary system, one of the sources of information we had used in order to know how many women were working in the university sector and how their pay compared with that of their male colleagues.

Unfortunately, those statistics were cancelled by the former government.

Hon. Lisa Raitt: Look it up in a handbook. You can figure out who's a woman and who's a man, and figure out your professors—

The Chair: Order.

Your next question, Ms. Raitt.

Hon. Lisa Raitt: I asked it already. I asked Mr. Lee if he would like to take some time on the slides he had.

Dr. Ian Lee: It's powered down. I'll need the technician to log back on.

Just quickly, if I may, we're fifty-fifty female-male, by the way, at the Sprott School of Business.

I just wanted to put that on the record for Ms. Raitt—

Hon. Lisa Raitt: Thank you very much.

Dr. Ian Lee: —because I thought it was a very important question.

Hon. Lisa Raitt: Are they fifty-fifty full professors?

Dr. Ian Lee: No, this is assistant, associate, and full, because we've been hiring a lot of female professors in the last five or seven years. I will submit to the committee a package of about 50 slides, all sourced from OECD or StatsCan, and not manipulated by me in any way, shape, or form, because that's the way I do my research. They are what I call urban legends, dealing with a whole series of issues that you'll be looking at in the finance committee: infrastructure spending, spending on science, and so forth.

It's very illuminating. I cut it down obviously because I only had five minute, but I will submit it to the committee after today, the full suite of slides. Every one is sourced with the full URL so that any MP can go and look at those graphs or slides and say, “Oh, my goodness!”

The one I really wanted to emphasize was on the diversification of the economy. There are two ways of looking at it. StatsCan is great. They produce great charts, graphs, and tables. You can look at the composition of the economy either by the number of Canadians employed in each sector or by the share of GDP. Either way it doesn't matter, we are overwhelmingly a services economy that is highly and extraordinarily diversified. I'm not saying we shouldn't be doing more. I'm just saying that the myth, the urban legend that we're not diversified, is just simply, empirically false.

Natural resources is a tiny share of Canada. I've been teaching for 29 years. Every year, I ask my students how many of them are going upstream into agriculture, natural resources, or manufacturing. In 29 years, I've had exactly zero students raise their hands. I have had, to my knowledge, zero of my students go into upstream—manufacturing, agriculture, or natural resources. They're all going downstream.

The way I like to put it, and I'll be very quick on this is that all those thousands and thousands of high-rise buildings across Canada, in Toronto, Calgary, Edmonton, Vancouver, are part of the services sector. They're not drilling for oil on the 50th floor of First Canadian Place and they're not growing potatoes on the Sun Life insurance building. That's the services sector.

So the next time an MP says we're overwhelmingly invested in oil and gas, look around at all the high-rise buildings in every city. That's where we all are.

The Chair: You wouldn't be saying that's not an important sector.

Dr. Ian Lee: Potatoes are very important, sir.

The Chair: I'm also talking about energy.

Dr. Ian Lee: Mr. Chair, I grew up on a farm so I think that's pretty important.

The Chair: Okay, I am told that we have all the slides on our iPads. This was a paperless committee last session. The only one who really knows how that system works is probably Mr. Caron. We'll have to have a workshop someday on that.

Mr. Caron.

[*Translation*]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Mr. Chair, when the slides are up on the screen, they are in English, without the French version. Is the presentation bilingual on TV? I am just wondering about that.

The Clerk of the Committee (Ms. Suzie Cadieux): Yes, it is actually in both languages.

Mr. Guy Caron: The two languages are available on our iPads, but on the screens, it wasn't bilingual.

The Clerk: I'm sorry. The information was supposed to be displayed in both languages in each place.

[*English*]

The Chair: They were supposed to be up, Mr. Caron.

Okay, go ahead. You have your time.

[*Translation*]

Mr. Guy Caron: Thank you very much.

Let me first turn to Mr. Schetagne.

I would like to follow up on the comments made by Ms. Raitt, who brought up an issue with research and development.

First of all, I must say that I am extremely impressed by an article by Barrie McKenna published last year in *The Globe and Mail*. That article stated that Canada is now an importer of research and development. That means that we are importing a lot more research and development products than we are exporting. This is the first time this has happened.

I don't think my colleague is wrong in saying that one of the problems with research and development, especially for the private sector, is the lack of entrepreneurship, and perhaps the fact that our companies are too risk-averse.

Furthermore, as you said, it is true that the government's contribution to universities and research has dropped over the past 10 years or so.

How can we solve the problem? Are businesses not investing enough in research and development? The government has reduced its contribution to research and development but we are trying to find our place despite everything. What is the solution? This seems to be an ongoing problem.

The Jenkins report on innovation came out. Does that report provide solutions that the government should adopt right away? Is that the right direction?

Could you take two minutes to summarize that for us?

● (0855)

Mr. Sylvain Schetagne: That is an excellent question. It is the fundamental debate in innovation: things like trying to identify the sources of innovation, the role of government, the role of private business and other players.

There have been some attempts in the last 10 years. There was one basic one, based on the argument that public money invested in research and development should be used to serve private business, commercialization, and so on. The objective was to increase private investment. With more public investment, it would spark an increase in private investment, hence the idea of partnership we hear so much about. The university invests more money if it finds private partners.

Unfortunately, after 10 years, we have not seen an increase in private investment. According to the data we have available, the formula that demands partnerships, that conducts public research in a targeted way, with the target being the needs of private business, has not provided the result that was anticipated, an increase in private investment. That formula does not work.

In Canada, the preferred formula, compared to the one in other countries, has been to give more and more tax credits for research and development. Our country is one of those that provide them the most. But that formula does not seem to be working either. So where are we headed?

We have to distinguish between what I call market-driven research and curiosity-driven research seeking to discover new ideas.

In the last 10 years, a lot of money has been invested in market-driven research at the expense of basic research. Unfortunately, in order to commercialize an idea, you have to find the idea first. The idea can come from anywhere, including from basic research. We believe that one of the fundamental errors we have made is to decrease investment in basic research.

We must start to invest in basic research again, at least in order to be able to build the system up again and increase our capacity for innovation. We think we have to start there. Afterwards, other measures can be put in place in order to increase Canada's overall capacity for research and development.

Mr. Guy Caron: I have a question that you will have to answer in 10 to 15 seconds.

In your opinion, which countries are doing things well and heading in the right direction in terms of research and development? What examples could we use to our benefit?

Mr. Sylvain Schetagne: That is an excellent question. We should use the example of countries that support public education, access and research, but also basic research by private business.

Mr. Guy Caron: Thank you.

Mr. Koss, I liked your presentation very much. It was very interesting in a number of respects. Those issues interest me too. I can see a problem with SMEs and your example is very clear. I have always found that SMEs in particular were often the victims of abuse from others. I will not mention the BDC, because Mr. Ouellette already did so. It is particularly the case with employment insurance. People often make that claim to me, and not just in my constituency, but everywhere.

If we give business owners access to employment insurance, we have to make sure that there are no abuses. In my constituency, I have maple producers whose work is very seasonal. Because they are owners, they have no right to claim employment insurance, even though they are only working five, six or seven months a year, when their business is going at top speed.

It is more or less the same with family business transfers. It has not been described like this, but, at the moment, if you want to transfer the family business to your children rather than to a stranger, you are taxed as if it were a dividend rather than a capital gain. That is a problem. On the other hand, the decision to tax everything like a capital gain gave rise to abuse in the past. That is why we were forced to distinguish between the two types of transaction.

A Liberal member had introduced a bill. We on our side are also studying options. But this is the first time that I am hearing someone say that it should not be taxed at all.

In your opinion, instead of taxing family business transfers like a dividend, should they be taxed like a capital gain, thereby granting a lifetime exemption of $1 million and then taxing half the gain itself, or should we completely remove all tax from family business transfers?

● (0900)

[*English*]

Mr. Richard Koss: A capital gains tax would be an improvement, but I don't know that it's ideal, particularly when we're talking about family-owned businesses such as the family farm, or, in my case, a business that's worth under $10 million.

For instance, it's difficult for my children to come up with the money. They have to go to somebody who's willing to lend them that money, which is difficult, so we may do an “earn-in”. It may be a delayed kind of thing, but if I want to give them true ownership of it, I'm deemed to have disposed of it immediately and taxed immediately, whether or not I have a dollar in my pocket.

That's problematic, and it passes a burden on to the next generation that frankly isn't fair. We worked for however many years. I've worked for Hunter Wire for 30 years. We pay our taxes. We pay all of our employee contributions. We pay all of the other things we have to pay, and then, for the sake of that, we get to pay again so that the next generation can take it over and have the same kinds of struggles.

Those things tend to weaken the business, and it's no wonder that second- and third-generation businesses are so rare. It's so difficult to pass them on, and the burdens get passed on generation after generation.

If you allow those businesses a leg up—say we pay taxes for 30 or 40 years, and now my family can take it over without taking on those burdens again—it makes them stronger. Then we can look at growth, more employment, hiring more people, and investing in more technology. We give them a boost. We give them a head start, rather than penalizing them so that they're starting all over again. It's a like a business game of Snakes and Ladders. You climb that ladder, and then you get to that point and go down to the bottom and start all over again.

I understand the need for taxes, but to go back to your point about targeting, let's target it. It doesn't have to apply to everybody, but certainly to small businesses at a certain threshold. Maybe we scale that so that as a business gets larger, the tax percentage that is payable is higher, but for a lot of small businesses that are worth a few million dollars, I think we can forgo those taxes to give them an opportunity to survive long into the future and change the statistics of second- and third-generation business survival, which are so poor .

The Chair: Thank you, Mr. Koss.

Mr. Grewal, you have seven minutes.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair, and thank you to all the panellists for coming today and providing your testimony. My first question will be to Manuel.

I found your recommendation to tax the manufacturers of sugary drinks really interesting. You can correct me if I'm wrong, but I believe you recommended the percentage be based on volume and sugar content. You said there would be an estimated $2 billion worth of revenue. You also said that there's a correlation between an increase in taxes and a decrease in the purchase of sugary drinks in other countries that have implemented this tax on sugar.

Are there any studies of the impact on the manufacturing sector, in terms of job losses, because of this new tax? The reason I ask is that when I used to work as a financial analyst for a corporation that provides sugary drinks, I always knew that if you decrease revenues by increasing taxes, there will be an offset somewhere in the chain, whether it's job losses, cutting the input product, or something else.

Is there any indication in the studies to show that if we do this to ensure there's less sugar being consumed by the Canadian public, we may suffer *x* number of job losses?

● (0905)

Mr. Manuel Arango: That's a very good question.

What we've learned in the past is that businesses have to innovate all the time. They have to change their product lines in response to new consumer demand or a changing business environment, etc. The reality of the matter is that with changing consumer demand, a lot of companies are now going to sugar-free products, so if you do apply a tax to sugary drinks, there's a great bonus in terms of health for Canadians, there's great revenue generation, and those companies will innovate. They always assume costs on an annual basis to develop new products. Simply, their money and investments would go into the production of new products that consumers are more interested in, such as sugar-free products and diet drinks.

There is no evidence of any job losses across the world as a result of a sugary drink tax, whether in Mexico, Finland, or most recently in Berkeley, California.

Mr. Raj Grewal: I agree with the innovation argument, and there is an uptake in diet beverages and beverages for a more health-conscious consumer. I just think your business case for implementing a tax is strengthened if there's a study done on that. That's my personal opinion from a financial perspective.

My next question is for you, Mr. Lee. Thank you very much for talking about evidence-based policy. I think we all benefited from your quick yet rather informative PowerPoint presentation, and I look forward to reading the slides.

On the municipal revenue and spending slide, from what I read really quickly, revenue increased by 11%, and spending increased—

Dr. Ian Lee: Population increased by 11%.

Mr. Raj Grewal: Yes. Spending increased by 43%.

The Chair: That's correct.

Mr. Raj Grewal: Okay. My question was on population growth over the period. [*Technical difficulty—Editor*]

Sorry, Mr. Lee.

What's going on, Mr. Chair?

A voice: We found the problem. I'm sorry. It was my fault.

The Chair: Okay. Go ahead. We're okay now.

Mr. Raj Grewal: My apologies.

What was the revenue growth in terms of municipalities over the same time?

Dr. Ian Lee: I'm sorry. What was the question?

Mr. Raj Grewal: You said that spending had increased by 43%—

Dr. Ian Lee: Spending went up by 43% in the last 10 years, in that 10-year period, whereas population growth is a proxy for needs, right? If the population grows by 11%, *ceteris paribus*—all other things being equal—revenues and expenditures should grow by that much or by some approximately equivalent level, but it went up by four times the population growth. I'm not going to get hung up on the precise and exact 43% or 41% or whatever. My point is that I don't think the argument made by municipalities across Canada that they are desperately short of revenues is supported empirically by the evidence.

Let me just do a follow-up to that, very quickly. I obviously have a very personal interest in this. I say “obviously” to me, because here in Ottawa I was the one who led the fight against Lansdowne Park, which involved $300 million of public funds from us, the taxpayers of Ottawa, to build a football stadium, when the mayor admitted that we had $300 million of deferred obsolete sewers sometimes dumping raw human waste into the Ottawa River. My fear now is that if we give municipalities a lot of unaccountable money, they will spend it in a profligate and irresponsible manner.

Now, I had a vested interest. I was opposed to the development of Lansdowne Park because they were using $300 million of our money to build a frivolous thing. I'm not anti-football—in fact, I'm a huge football fan—but I don't want to pay for it. I want the millionaires and the billionaires to pay for the football stadium, not me. I want our money to go to sewers or roads or ports.

I put those numbers in there to caution you, because I'm seeing that some of the mayors are saying every night on *Power & Politics*, “Give us the money, no strings attached.” That really makes me extremely nervous, having gone through the experience with Lansdowne. We ended up suing the city of Ottawa. We lost. We appealed to the Court of Appeal in Toronto, lost again, and finally gave up, but only because courts are very reluctant to overturn legislators, as you know.

My larger point is that I think you should proceed very cautiously in giving a lot of money to municipalities with no strings attached. That's my underlying message.

Mr. Raj Grewal: I appreciate that. To an extent I agree with the message as well, but there are always going to be strings attached.

Dr. Ian Lee: Hopefully.

● (0910)

Mr. Raj Grewal: The thing is, the government position is that the funding formula needs to be changed because, as in your other argument, there's too much regulatory burden right now on the funding transfer and on the one-third agreement for federal, provincial, and municipal funding.

The problem I have with your empirical data on that slide is that it's too short-sighted. I'm sure there might be more backup, and once I get a chance to review it, I'd love to touch base offline, because in my opinion there is actually a great deal of pressure on municipalities in regard to infrastructure spending and the infrastructure shortage across the country. I know—

Dr. Ian Lee: Agreed.

Mr. Raj Grewal: You talked about targeted infrastructure, which makes a lot of sense—

Dr. Ian Lee: Yes.

Mr. Raj Grewal: —and there were comments about how infrastructure spending that moves goods has a better return on investment, which I agree with.

However, there's also a need for affordable housing and for retrofitting these homes, because a big percentage of the Canadian population needs access to this stuff.

In a similar way, your other slide said that 83% of Canadians don't really need CPP, right? Well, there's still—

Dr. Ian Lee: That was additional CPP.

Mr. Raj Grewal: Yes, additional CPP. Right. But there's still the 17%, in my opinion, that need benefits from the Canadian government. The government will take a proactive targeted approach to ensuring that we help all Canadians across the board. The mandate letter talks about growing the economy while helping the most vulnerable Canadians succeed, and I fully agree with that.

I'm sorry, but I have to move on. I have one last question.

The Chair: I'm going to have to cut you both off there and go to Mr. Liepert. We're only about a minute over.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you, Mr. Chair.

Dr. Lee, I can't help but spend a couple of minutes challenging you on some of your comments.

While I agree with an awful lot of what you say, I have to go back to the beginning of your presentation, where you talked about the number of people who work in the oil and gas industry or in the energy industry or natural resources.

Dr. Ian Lee: Natural resources, yes.

● (0915)

Mr. Ron Liepert: If I used your analogy of who worked in what industry, the only people who would work in the airline industry would be the guys who drive the airplanes.

When you talk about a 5th Avenue high-rise in downtown Calgary being a service sector, the guys who actually are drilling the holes for oil wouldn't know where to drill if it weren't for the guys sitting in the 5th Avenue high-rise. The facts are that in 2014, with 10% of the population, Alberta was responsible for 20% of the GDP. If you're going to go out and make these kinds of statements....

As I say, I agree with an awful lot of what you say, but my view is so coloured after hearing the beginning of your presentation that I would ask you to briefly respond to that.

Dr. Ian Lee: Sure.

Mr. Ron Liepert: Then I want to give Mr. Kobly an opportunity to respond to what I just said, because I think he's going to agree with me and not you.

Dr. Ian Lee: I appreciate the question.

My best defence, of course, is this is StatsCan data, using the input-output data as the basis of setting up the NAICS codes. The NAICS is the North American Industrial Classification System, which chops up the Canadian economy into all of the different sectors and subsectors and industries and so forth. This is not my data. This is StatsCan's data. That's point one.

Here is point two. I hope nobody's eyes glaze over at this word “methodological”, but you did raise an important methodological question. If you're in a high-rise tower in downtown Calgary working for an oil company, are you classified in the oil sector, or are you classified in the services sector?

My understanding, and I'm not a statistician at StatsCan, is that if you are working for an oil company with an NAICS code for oil and gas, every last one of you, even if you're a finance accountant in that company, is classified in oil and gas.

It's just like General Motors is in manufacturing. Even though many people might be in marketing or sales rather than on the production line, they're still considered manufacturers.

To answer your question, and to come back to you, the StatsCan data show that 370,000 Canadians, a third of one million, are all employed in upstream areas. That's timber, that's all natural resources, molybdenum, gold mining, the whole bit.

I'm not suggesting that there aren't spinoffs downstream. If you want the full figure, natural resources is 12% of GDP, but remember that 80% of Canada's GDP is in the downstream services sector—banks, education, health care, and so on.

Mr. Ron Liepert: I come back to the point of who pays for that. It comes out of the fact that the revenue is generated. Your salary is certainly not paid 100% by tuition fees at Carleton.

Dr. Ian Lee: No.

Mr. Ron Liepert: It's paid by the taxpayer revenues that come from that kind of industry.

Dr. Ian Lee: But I'm not suggesting that gas isn't important.

Mr. Ron Liepert: I have a couple of other questions. I want to go to Mr. Kobly briefly to ask which one of us he agrees with.

The Chair: Mr. Kobly, the floor is yours.

Mr. Ken Kobly: Since Mr. Liepert is a former cabinet minister in the province of Alberta, I would definitely agree with him.

If you want to take a look at how many people's jobs are affected by oil and gas, look at the unemployment rate currently in the province of Alberta. We are sitting north of 7% in a province that two years ago was sitting at 4.9% and where we had areas in the province that were sitting at an unemployment rate of 2.9%. That's your answer right there.

Mr. Ron Liepert: Mr. Easter could vouch for that.

The Chair: I'm not going to take time from you, Mr. Liepert. I'll give you the time back, but I want to comment on that point, because I hear all the time about the unemployment rate in Alberta.

If you look at our unemployment rate in Atlantic Canada, you will see that it has jumped as well, and it's because of what's happening in Alberta. It isn't only the numbers in Alberta that matter. It's also the numbers in the other areas where those workers come from.

Mr. Liepert.

Mr. Ron Liepert: I have a brief question for Mr. Arango.

You mentioned the sugar tax. I'd like to turn it the other way around. There has been a lot of talk over the years about our doing a lot more to encourage activity, and I think I'm probably correct that as much as heart issues are caused by the wrong foods, they are also caused by the lack of ability to be active.

What's your view on using incentives through the taxation system to have Canadians be much more active?

Mr. Manuel Arango: For heart disease and stroke, nutrition and physical activity are both equally important. For obesity, it's a bit more on the nutrition side, because if you're overeating, it's very difficult to compensate with physical activity.

Mr. Ron Liepert: But it's not just overweight people who have heart attacks.

Mr. Manuel Arango: You're absolutely correct. Both are important.

Here is a very important incentive to increase physical activity. It has actually been raised indirectly here by a couple of folks. The issue actually relates to shovel-smart infrastructure investments. This was mentioned a little earlier.

Currently in Canada, we have a coalition that's asking for investments in active transportation infrastructure. This means sidewalks, bike lanes, and bike paths. This will help people commute to work more easily by having access to public transit rather than having to depend on cars all the time. They'll be able to walk to the store, etc. What does this do? It reduces greenhouse gas emissions, reduces air pollution, creates jobs, and makes people healthier and therefore more productive.

A very important incentive is to invest in shovel-smart infrastructure that promotes active living. That's much preferable to the road to nowhere, which has no return on investment other than creating jobs. We've got to create jobs, but we also have to be smart with our infrastructure investments.

The Chair: Thank you both.

Francesco, so that we can get three people in, I'm going to go to four minutes in this last three.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Good morning, Mr. Chair. Thank you, panellists, for your thoughtful remarks. I'll try to be as pointed and as quick as possible.

Dr. Lee, thank you for your slides. They were very insightful. As an economist myself, and someone who's worked in the finance and capital markets sector for 25 years, I understand where you've gotten your data.

In reference to the poverty slide, our platform is going to do more work on the poverty side—that is, bring it down. We've come out with the Canada child benefit, which will be introduced this year. It will lift 300,000 children out of poverty. I think it's a worthy endeavour. I think it's great policy.

There is the announcement on the guaranteed income supplement for single seniors. Those are worthy endeavours on the policy side by the federal government. I think it is a great slide to bring out. We need to do more work in reducing the poverty rate in Canada, and that's what we're going to do.

The Canadian economy in the 1970s grew by about 4% in real GDP; in the 1990s, it grew 3%; in the pre-financial crisis, it was about 2%. I remember working on the bond desk when everything was imploding in the U.S. We're now growing at about 1%.

What are three things that can get the economy growing, quickly? I have some follow-up questions, so please be quick.

● (0920)

Dr. Ian Lee: I'll just shotgun them. We do talk about this issue. There are many economists talking about it right now. How can we move the needle?

One is restructuring. That's not austerity. Restructuring means opening up the economy, getting rid of interprovincial trade barriers, having more free trade agreements, and doing anything that encourages, fosters, and facilitates economic growth, including pipelines.

Two is immigration. The younger population grows faster than the older population, whether you like it or not, and I'm sure everyone does. That's a reality.

The third one is infrastructure. I do agree with infrastructure as long as it's targeted.

Those are my three.

Mr. Francesco Sorbara: Spending on infrastructure that gets goods and services to markets, such as ports and rail, etc., is very important.

We know the numbers. A $1 investment in infrastructure provides $1.60-$1.64 in benefits to the economy. Right now, the Canadian economy needs it. I'm of the personal view that we need infrastructure on the maintenance side, because there's a maintenance backlog, an infrastructure deficit, but at the same time, we have to take the longer view. Whether it's a 4-year, 8-year, 12-year, or 20-year horizon, we need infrastructure dollars flowing to where we have gridlock. If goods and services can't get to market—call it the GTA issue—it's costing our economy billions of dollars. It's important that we do something about it. That's what we're going to do.

I'll end my remarks there. How long do I have?

The Chair: You've got a minute and a bit.

Mr. Francesco Sorbara: Mr. Arango from the Heart and Stroke Foundation, how can we get this number lower in terms of preventing people from going to the hospital with heart disease and heart attacks?

It seems that every morning we wake up to hear that someone we know has passed away from a heart attack, a stroke, and so forth. Is it more education? Is it a lifestyle change? Is it a marketing campaign?

I know you've advocated the sugar sales tax. I'm not going to touch on that. How do we further get this reduced?

Mr. Manuel Arango: As with anything, and I would use the example of tobacco control, it's a multi-pronged approach that works.

Yes, public awareness and public education are important, and that's an important starting point. As well, we have to make sure that the environment we live in makes the healthy choice the easy choice, so price is important. You need to have affordable foods and you have to ensure that the unhealthy foods are not as affordable. With regard to the difference in the price between milk and sugary drinks, especially in northern communities there's a huge disparity, so we have to improve that.

Affordability is important. Accessibility of healthy food, accessibility of healthy living and health-promoting infrastructure, as I just mentioned, are all important. There are a number of things we have to do, but basically the easiest way is to use public policy to change our environment.

Another example, which has been raised by the government and on which a commitment has been made, is to put restrictions on the marketing of unhealthy foods and beverages to kids. That's another example that can improve health and improve heart disease and stroke in the long term.

Mr. Francesco Sorbara: As the father of a three-year old and a five-year-old, I know quite well the advertising aimed at young children. I'm with you on that.

The Chair: Thank you both.

Mr. Aboultaif, you have four minutes.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): Thank you very much. There were great presentations from the panel.

Mr. Lee, I'm grateful to hear a lot of positive news on the economy at large and to see the economic performance and the indices that you presented, although I believe that the economy is a full cycle. Everybody works for everybody, so everybody, at the end of the day, makes the economy as good or as bad as it is.

You've touched on the middle class and poverty reduction and the great job that previous governments have done. For the last 10 years, we've operated to reach, at the end of the day, a balanced budget.

That brings me to my question. Based on the evidence that you provided—and we will look into the details at some point—it looks as though we don't have to introduce a deficit budget. We probably can easily have a balanced budget. Is that the message I'm hearing from you today?

● (0925)

Dr. Ian Lee: I'm releasing a paper next Monday for The Macdonald-Laurier Institute. I'm making an argument along that line and putting forward, which no one has put forward thus far, to my knowledge, in Canada, an actual test. I'm not against deficits, but we talk about them and we say we need a deficit and we say we have to stimulate, but nobody explains when or why or how. What we're doing in this short paper is arguing that deficits are necessary and useful in extreme circumstances, so we put forward a test and we give examples—the Depression, 1980-81, 2008-09—when there is a national systemic collapse or dramatic decline in the economy.

If the economy is growing—which it is right now, at 1.5%, and it's scheduled to go to 2%—as I said on *The Exchange* last night, and forgive me for quoting myself, “Crisis? What crisis?” It's like the Supertramp album. Where is the crisis?

There is a crisis in Alberta. I'm not trivializing Alberta and the problems of Alberta. That calls again for a targeted solution, and I have no problem with targeted solutions. The GIS improvement from your government is a great idea. It's targeted.

To answer your question about the deficits, in this short paper we are arguing that the current economic conditions do not meet the test. We're growing at 1.5%. Are we just going to say, every time we are unhappy about the growth rate, “That's it, we have to go into deficit and stimulate like crazy”? There should be an objective, principle-based test. We're arguing that you have to have negative GDP; it has to be systemic across the whole country and not regional in orientation; and it must be a very dramatic decline—not something hovering around minus 0.1%, but a systemic, dramatic, sustained decline nationally. That's when you stimulate. The year 2008-09 had the most recent example of that situation, and today those conditions are not being met.

Mr. Ziad Aboultaif: I hear, basically, that this is no time for panic. I think we should take our time and really be thoughtful over what kind of budget we need to introduce.

On the other hand, I have a short question for you. Do we have a revenue problem or a spending problem?

Dr. Ian Lee: I argue, because of the views I've developed, that governments typically face spending problems, because there are always more demands than you can possibly meet. There are going to be hundreds of groups coming before you at this committee saying, “Spend, spend, spend, or the the world's going to come to an end. The end is nigh.”

My joke about professors and MPs is that you have to learn the most difficult word in the English language, which is the shortest word in the English language: “No, I am not changing your grade”, or “No, I am not giving you the money, because it's not justified”.

The Chair: Thank you.

We are turning to Mr. MacKinnon for the last round.

Dr. Ian Lee: He knows the word “no”.

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Clearly, Mr. Schetagne, our friends opposite did not fully grasp the criticism when they formed the previous government and they are grasping it even less fully today.

I would like to bring up the long-form census with you. Can you briefly describe the impact that the discontinuation of that form, that census, had on academics and scientists?

Mr. Sylvain Schetagne: Our members have talked about that impact on a number of occasions.

Various studies were underway, such as labour market integration, employment equity—but not necessarily employment quality—and understanding other life circumstances. Every study on those questions was affected. The impact was significant because there was an interruption in the data, an interruption that unfortunately cannot be repaired. The quality of the data produced was so poor that most people refused to use them.

Despite the interruption, the return of the census will allow us to continue to study precise phenomena. More importantly, it will also allow us to provide the data that I hope will be useful to you in making the political decisions with a view to improving the lot of Canadians.

Mr. Steven MacKinnon: So you are talking about a return to evidence-based decision-making.

Mr. Sylvain Schetagne: Exactly.

Mr. Steven MacKinnon: Thank you very much.

[*English*]

Mr. Kobly, welcome, and thank you for travelling here today.

All of us, wherever we come from in the country, are affected by and dislike this boom-and-bust cycle. Have you reflected on it at all, or do you have any thoughts on it for this committee?

Governments, at any level, run up big surpluses when commodity prices are high and go into deep deficits when commodity prices are low. Even Mr. Lee would agree that the reality is that things are a little smoother than they look on the surface. From the perspective of an Albertan, do you have some thoughts on how Alberta could perhaps better prepare itself for bust cycles in the future than it has in the past?

● (0930)

Mr. Ken Kobly: Certainly the province of Alberta, through our heritage fund and our stability fund, was able to shelter from it.

When you have a material drop in commodity prices like this, it's very difficult to find shelter from that. To some degree that dramatic drop in commodity prices was aggravated by the fact that we have no access to tidewater for our natural resources, so we're forced to take the price that is offered when we export to the United States. Certainly we would have the ability to smooth that out a bit if we were able to access world markets.

Mr. Steven MacKinnon: I think that's clear. I also think that government reliance from royalty income, as opposed to other sorts of revenue, is a factor. Is that something you've considered?

Mr. Ken Kobly: Sorry, I didn't quite hear that question.

Mr. Steven MacKinnon: I know, for example, that Saskatchewan is projecting a deficit this year after a great run-up in potash and oil prices. Obviously Alberta is having the same sort of difficulty, as well as Newfoundland and Labrador. It is all seemingly due to the run-on effects of an overreliance on royalty revenue as opposed to other sources of revenue.

Do you have any thoughts on how these provinces could smooth their fiscal paths?

Mr. Ken Kobly: Again, going back, we published a paper about eight years ago calling on the provincial government to dramatically upgrade a portion of the royalty revenues that are received, put them aside, and basically take them out of the spending stream and allocate them into savings before you have folks knocking on your door asking you to spend it.

When you take a look at it, you see there certainly were substantial periods of high royalty revenue, but there were also high periods of expenditures that went along with the fact that we were into a huge boom in our economy.

Former Premier Stelmach often referred to the fact that when people move to Alberta, they don't bring their hospitals and schools. We had a province that had to cope with that high growth during that period. With 20/20 hindsight, if we had taken that money and basically squirrelled it away, there may have been higher taxes in the province of Alberta. I guess the lessons that we learned in the past will hopefully inform our decision-making ability in the future and improve it. The reality is that at this point in time, we have a critical issue.

It's not about royalties in the province of Alberta. It's the reality that we have a low oil commodity price, which is dragging down our economy. The effect on the provincial treasury is an important part of that, but certainly it's not what is causing the unemployment in the province of Alberta.

Mr. Steven MacKinnon: Thank you very much.

The Chair: Thank you both. We will have to cut it there.

I have one quick question, and maybe Mr. Liepert might even have the answer to this.

It's been mentioned several times by several witnesses that the discount to the price of oil in Canada is a result of not having access to tidewater or not being able to get product to market.

How much is that discount? What's the cost to the Canadian economy as a result? Does anybody have those figures?

Mr. Ron Liepert: The discount varies, but on average it's in the range of 10 to 15 bucks a barrel.

A Voice: It's $9.60.

Mr. Ron Liepert: It was $9.60, but it has gone a lot higher. There is a number out there. I can't recall it off the top of my head, but it's in the tens of billions of dollars.

● (0935)

The Chair: Mr. Kobly.

Mr. Ken Kobly: One of the other facts is the difference in the price of the oil and gas we sell and the price that eastern Canada pays on importing oil and natural gas. They're paying more than what Alberta sells it for in the United States.

Ontario imports 67% of its natural gas from the United States, which is a ridiculously high amount, given the fact that we have tons of the stuff in Alberta.

The Chair: I wish we had more time, but we are going to the next witnesses.

I wish to thank everyone for their presentations. It's always interesting when we have a few lively discussions when witnesses are here as well, so thank you all.

I would ask the next witnesses to come forward.

● (0935)

(Pause)

● (0940)

The Chair: Could we come to order, members and witnesses? I'm running a wee bit behind.

First, I'll ask witnesses not to go too fast in their statements. The interpreters are having a job keeping up. People are trying to get through their remarks in the tight five minutes, and I recognize that.

With that, we'll start this round of hearings.

We will start with Mr. Gupta, from the Information Technology Association of Canada. He comes to us by video conference from Toronto.

Mr. Karna Gupta (President and Chief Executive Officer, Information Technology Association of Canada): Thank you, Mr. Chair.

Good morning to everyone in Ottawa. My name is Karna Gupta. I'm the president and CEO of ITAC, the Information Technology Association of Canada.

We represent the ICT sector in the country, which has about $160 billion in annual revenue. We invest about $4.8 billion annually in private sector R and D, which is more than any other sector in the industry. We create about 1.1 million jobs across the country. The average salary in this sector is running over $70,000. While most other sectors are declining, we're continuing to grow. Currently we have an unemployment rate of probably around 3%, which means we can't find people.

In terms of the presentation I'll walk you through today, I have sent my pre-budget submission to all of you. You probably have it. I'll discuss where I'd like to see government have active engagement in investment. The second area will cover some policy areas where we believe, as the ICT sector, we could continue to collaborate with the government to develop the right policies.

Let me start with the areas where we think the government needs to invest more. They come in three topical areas. We talk a lot about infrastructure. Digital infrastructure is absolutely critical. Second is talent. Most knowledge economies require talent. That is the ultimate resource. Finally, there's the intellectual property. More and more we're dealing with the trading of ideas rather than the trading of physical goods.

Let me start with digital infrastructure. On capital cost allowances, we recommend that they be increased as in any other sector. We recommend that CCA rates go up to 50% of the capital investment in most areas, and 100% in those areas identified by the Department of Innovation, Science and Economic Development as underserved in its Connecting Canadians broadband initiative. This change will support the business case for ICT companies to provide more service to Canadians.

There are direct economic benefits. These small and medium-sized enterprises will have a greater adoption of technology. It will create jobs.

There is also a significant amount of social benefit. It will serve telehealth, e-learning, and engagement in both social and political discourse online, which is particularly beneficial for remote communities, including first nations.

Under digital infrastructure, we also recommend that the government join the provinces and private sector in investing in the next-generation 5G network. Canada lags behind other industrial nations in that 5G will build our capacity for innovation and commerce. It will also serve such critical areas as the Internet of Things, or IoT, and cybersecurity. As well, 5G will allow Canadians to develop valuable intellectual property to further our knowledge economy.

The second area I'll focus on is talent. While most other sectors are shrinking their workforce and laying off people, the ICT sector is growing. Currently we have 54,000 jobs available across the country. Recent research from the ICTC declares that over the next four years, 100,000 jobs will need to be filled. If we focus on Canadians learning the skills, it will not only lower Canada's national unemployment rate but also help our unemployment in the youth sector, which is very critical.

There are two specific programs I'll mention that government could put some funds behind. The first is called CareerMash, where we promote to high schools that kids can go into technology as a career choice. The second is business technology management, which delivers curriculum to universities and colleges that creates hybrid knowledge of technology and business. Business technology management now runs across 20 universities around the country. It has enrolled 3,500 students. It is growing 25% year over year. It graduates about a thousand students a year. This next variable is very important: the placement rate is 90%, higher than in any other faculty.

● (0945)

Industry has supported this program in cash and kind for over $1 million during the last several years. Business technology management, or BTM, is currently funded by the Department of Employment, Workforce Development and Labour , and it is critical that these programs be continued under the current budget for about $5 million per year for the next several years. This way it can be refreshed and expanded beyond the 50 universities that have been targeted.

This will ensure that Canadians, particularly young Canadians, can fill the existing job vacancies and join the high-paying, skilled workforce in the ICT sector.

Let me now move to intellectual property. This is the backbone of a knowledge economy. We are not trading in physical goods; we're trading in ideas.

Canada's IP regime must—

The Chair: Mr. Gupta, I'll have to get you to sum up as quickly as you can. We're considerably over.

Mr. Karna Gupta: Okay, thank you.

Canada's IP regime is not comparable with that of the other OECD nations. We need to create an IP regime that is consistent with others. I think the government should think about lower tax rates for revenue generated from intellectual property, relative to any other revenue.

There are two more areas where we need to engage with government. One is the SR and ED tax credit. It was reduced under the previous government. The government needs to revisit this decision and restore the tax credit.

Second is stock options. There is a tax consideration here. It is the only way we can attract, retain, and reward the top talent.

Finally, there is the Canada Health Infoway, which is critical for digital health. I think this needs to be looked at from a recapitalization point of view.

Mr. Chair, these actions will allow Canadians to access the prosperity and opportunity of the digital economy, which will fuel growth through Canada's innovation agenda.

Thank you.

● (0950)

The Chair: Thank you very much.

We turn now to Mr. Dussault, as an individual. He is former chief actuary of Canada.

Go ahead. The floor is yours. Welcome.

[*Translation*]

Mr. Bernard Dussault (Former Chief Actuary of Canada, As an Individual): Thank you, Mr Chair.

Thank you for giving me the opportunity to present a major plan to you this morning. The intent is to alleviate rates of poverty, not only among seniors, but also among all Canadians. The plan could be carried out completely within the context of pensions in Canada. It has three distinct components.

Allow me to specify that Statistics Canada data indicate that the poverty rate among seniors is in the order of 5%. This is not bad, and compares well with the rest of the world. However, despite the low rate, at least one third of all seniors receive guaranteed income supplement benefits. That basically means that, although their actual poverty is alleviated, they cannot be said to be living with dignity.

The first of the three components of my plan is to put back on the table a plan that the federal government introduced in 1996 called the seniors benefit program. This program would merge the pension benefits from the old age security program and the guaranteed income supplement, in a way that would provide benefits only to those who need them.

Old age security benefits, unlike the guaranteed income supplement, are not based on need. They are provided to every Canadian who has lived in the country for a minimum number of years. This program is not really necessary. However, if a program like the one considered by the federal government in 1996 had been in place for 20 years, poverty would be alleviated a little more than the guaranteed income supplement does at the moment. We could improve it a little more and, quite surprisingly, we could save $10 billion annually. We would not save $10 billion from the beginning, however, it would be progressive.

The second component of my plan is an initiative that has been talked about for a long time and will likely be implemented either this year or next. This is to expand the Canada Pension Plan. This will certainly alleviate poverty. I want to point out here that, according to Liberal party resolutions, the expansion would be done in a way that would exclude workers earning less than $30,000 per year. This is based on the fact that they do not really need it because the guaranteed income supplement begins to be paid at age 65.

First, we must realize that the people earning less than $30,000 in any given year will not automatically be the same in subsequent years. Therefore, excluding people below a certain income level is not a good way to go.

Second, we are better off using the guaranteed income supplement, what I like to call the “Robin Hood” approach, as little as possible. We will always need it, as there will always be those who are poor. However, the more we can use other ways, such as helping people to save, for example—or rather, compelling them to save because they will not do it if they are not compelled to—the better things will be.

In that sense, expanding the Canada Pension Plan will help to reduce the number of people receiving the guaranteed income supplement. The percentage at the moment is between 33% and 35%, but it could be reduced to 25%. Of course, the people earning less than $30,000 in a year do not have the flexibility they need to put money aside and to pay additional Canada Pension Plan contributions. This problem of the working poor mostly goes back to the minimum wage, which is only $10. I understand that, for employers, paying people more than $10 per hour involves operating costs and that disturbs the economy. But the fact remains that paying a person $10 per hour, whatever kind of work they do, does not allow them to live with dignity.

The third component is about employer-sponsored defined benefit plans. This area is facing major financial problems. At both federal and provincial levels, this is principally because contributions holidays are still permitted. In other words, the sponsor of these programs is allowed to withdraw surpluses and pocket them, so to speak. That is a sure recipe for financial disaster, as the world of pensions amply proves. Defined benefits plans are in serious difficulty.

● (0955)

So these contributions holidays should be prevented, and the surplusses should instead be amortized, as is done with deficits by decreasing or increasing the contribution rate.

One last, more broader point concerns these three systems, and that is the age of entitlement to benefits—

[*English*]

The Chair: I don't want to interrupt, but can you make it fairly quick? We are on time.

[*Translation*]

Mr. Bernard Dussault: Instead of being changed drastically at one point of time, the age of entitlement should be based on the year of birth. The later people are born, the longer they will live. So the age of entitlement should be based on the year of birth, for example 65 years for people born in 1950, by increasing it by two or three months depending on the year of birth.

Thank you for your attention.

[*English*]

The Chair: Thank you very much.

I just want to say to committee members that you have a presentation as well that the members will be receiving.

We'll turn to Ms. Zatylny, from the Association of Canadian Port Authorities

Ms. Wendy Zatylny (President, Association of Canadian Port Authorities): Thank you, Mr. Chair.

Good morning, ladies, gentlemen, and Mr. Chair. Thank you very much for the opportunity to speak with you today.

As you can tell by our name, the Association of Canadian Port Authorities represents the 18 port authorities across Canada that make up the national port system. We're grateful for the opportunity today to provide our input to this committee as you continue your pre-budget consultations.

In our pre-budget submission, which you have received, we specifically request that the government work with Canada's port authorities to remove the existing barriers to financial flexibility to help us improve and continue to improve our port infrastructure and to maintain the existing high level of port security. We believe that these investments would see Canada become one of the World Bank's top 10 countries in the world for transportation logistics and supply chain efficiency. In short, we have an opportunity before us that we believe we can leverage through some additional investments.

First, let me give a little context.

The reality is that with more than 90% of everything we buy travelling by ship at some point, maritime trade underpins the global economy, and Canada's world-class port authorities are very much at the heart of this economic opportunity.

Our port authorities handle nearly two-thirds of Canada's waterborne cargo and are pivotal in driving our country's economic growth. In fact, Canada's port authorities in total handle over $400 billion worth of goods every year, trading with more than 160 countries. This contributes to Canada's economic growth, and we create more than a quarter of a million direct and indirect jobs that pay higher-than-average wages, so ports are powerful drivers of job creation and economic growth in every region of the country.

We're very proud of the partnerships we've built in the private and public sectors, as well as the commitment we have made to the communities we operate in, but the shipping world really is changing dramatically. Expanded trade is making our world smaller, and traditional trade patterns are shifting. Remaining competitive in a rapidly changing world will require us to strengthen our port facilities and continue to find ways to improve our supply chain efficiencies.

How do we do that?

First, we propose removing barriers to give ports much-needed financial flexibility. This will allow our ports to react nimbly in a highly dynamic and very competitive environment. Amending the Competition Act would allow port authorities to collaborate, with an eye toward maximizing asset utilization to help ease the burden of uneven pressure and demands that are exerted on ports by shifting global trade patterns.

As well, challenges for ports include current caps on borrowing limits, which are set much lower than what port development projects actually require, as well as a long and opaque process to obtain supplementary letters patent amendments.

As I said, ports are and will continue to be powerful trade enablers for Canada, but to do this effectively, we need the flexibility to adapt to rapidly changing commercial market forces.

Second, financial support of strategic port infrastructure is needed to maximize Canada's economic output. It takes a wide range of partners to support such infrastructure projects, and the federal government is a crucial element of that patchwork quilt of financing.

A 2012 ACPA-Transport Canada study showed that there was a capital investment need of $5.8 billion just to cover the development projects of the ports. This is not $5.8 billion requested from the federal government; it's simply the sum total of the port development projects. Within that, one-third, or $1.9 billion, was needed simply for the rehabilitation of existing port assets, as opposed to developmental projects. These relate primarily to wharf substructures and berth-face structures, but the challenge for ports is finding the financing for these necessary rehabilitative projects, as opposed to development or growth projects for which it's easier to find financing partners.

The reality is that these rehabilitative projects are shovel ready now, and ultimately an investment in port infrastructure will have a multiplier effect. An initial injection would go into supporting not only the local economy through the initial construction and work, but there's a second bounce that comes from the ability of the port to grow its cargo.

There's a very compelling OECD study that has shown that every additional one million tonnes of new cargo going through a port can lead to the creation of up to 300 new jobs in the port hinterland, so truly it's a win-win scenario.

Lastly, we believe that as Canada continues to negotiate its free trade agreements with countries around the world, ports will be called upon to manage an ever-growing volume of cargo and passengers. It's essential that ports continue to be able to maintain a very high level of security. As technology evolves, we need to stay ahead of the curve to make sure that security stays optimal so that we can continue to ensure the safety of Canada's economy within what is a constantly evolving threat environment.

To do that, we are requesting the establishment of a suitable funding program. It would essentially be a return to an existing security funding program that had existed to support the port security regime, including adapting to such emerging threats as cybersecurity challenges.

● (1000)

As Canada's trade agenda continues to pick up steam, it's crucial we take the necessary steps to ascend that ladder and improve the position as a leading trading nation.

We believe we really do have the opportunity as a country to break into the World Bank's top ten trading nations in terms of supply chain efficiency. We are confident we can improve our position with the Government of Canada on board.

I'll end with that, Mr. Chair, and thank you again for the opportunity to speak today.

The Chair: Thank you very much.

Next, we have the Canadian Agri-Food Trade Alliance, Ms. Citeau.

[*Translation*]

Ms. Claire Citeau (Executive Director, Canadian Agri-Food Trade Alliance): Thank you for inviting me today to speak on behalf of CAFTA, the Canadian Agri-Food Trade Alliance.

[*English*]

CAFTA is a coalition of organizations seeking a more open and fair international trading environment for agriculture and agrifood. Our members represent farmers, processors, and exporters from the major trade dependent sectors, including beef, pork, grains, oilseeds, sugar, pulse, soy, and malt. Together we account for 80% of Canada's agriculture and agrifood exports, about $50 billion in exports, and an economic activity that supports hundreds of thousands jobs across the country.

What I would like to imprint on the committee today is the importance of competitive access to global markets for the export-oriented sector.

As you know, the Canadian agriculture sector depends on trade for the large part. Over half of everything we produce is exported. That's 50% of our beef, 70% of our pork, 75% of our wheat, 90% of our canola, and 40% of our processed food products. Being competitive in international markets is not a choice, it's a requirement.

In the current environment of trade liberalization, the competitiveness of our sector depends on the timely negotiation and implementation of trade access to the markets that our competitors are also after. What we lived through with Korea cannot happen again, as this billion-dollar market was cut in half virtually overnight, and our competitors, namely the U.S. and Australia, had access and tariffs eliminated, when we did not.

It is critical that Canada ratifies the Trans-Pacific Partnership agreement quickly. CAFTA strongly supports the TPP and believes it is integral to the future viability of our export-based agriculture sector.

The TPP region absorbs 65% of our exports. It includes some of our largest traditional markets, such as the U.S., Mexico, and Japan, but also some of our largest competitors—the U.S., Mexico and Australia—and some of these countries already do have free trade agreements with one another. The more TPP drags, the more we fall behind. Ultimately, if we're not part of the TPP, Canada will fall behind.

We strongly encourage the completion of the respective legal and political processes related to the Canada-Europe free trade agreement, CETA, while simultaneously completing technical discussions, so that the stated benefits of the agreement can be realized in the form of commercially viable access for all exporters.

CAFTA strongly supported CETA, as it's expected to result in significant benefits for exporters, this assuming that negotiated outcomes will provide commercially viable access for our members. Outstanding technical issues to allow real access to the EU remain and we are confident that the Canadian government is working hard to resolve these issues before CETA is implemented. Our support for the implementation of CETA will be based upon the extent to which the negotiated outcomes will result in commercially viable market access for Canadian agriculture and agrifood exporters.

Our recommendations for the Government of Canada to contribute to a globally competitive agriculture and agrifood sector in Canada are as follows.

The Government of Canada should allocate proper resources to the functions in charge of negotiating free trade agreements, specifically the team of negotiators working on the TPP, CETA, WTO, and the next generation of future agreements for Canada.

The Government of Canada should allocate proper resources to the functions in charge of implementing free trade agreements, and maintaining and restoring market access. Typically, once free trade agreements are implemented, we see multiple non-tariff barriers arise. It's essential that adequate funding be allocated to the market access secretariat, MAS, so it can continue its critical work of minimizing technical barriers to trade and restoring real access for exporters. It must be noted that MAS depends on the Canadian Food Inspection Agency, CFIA, to deliver the technical support. Proper CFIA resources would be a component of that.

The Government of Canada should allocate proper resources to the network of Canadian representatives abroad, particularly the embassies and agriculture trade commissioners. Canada's ability to build a competitive industry depends in large part on how well the country will open doors abroad and leverage relationships with relevant government and industry influences.

The Government of Canada should also continue to support relevant ministers and senior-level officials in their activities to build and cultivate relationships at a high level in foreign markets. This is critical to enhance trade and market development efforts for Canadian exporters, particularly in Asian countries.

● (1005)

In closing, our sector encourages financial policies that expand our ability to competitively market our products to the world.

Thank you.

The Chair: Thank you very much, Ms. Citeau.

Mr. Laurin from the C.D. Howe Institute, the floor is yours.

[*Translation*]

Mr. Alexandre Laurin (Director of Reseach, C.D. Howe Institute): Mr. Chair and members of the committee, thank you for inviting me to appear before you today.

[*English*]

You will see my submission once it's translated, so I will go through it very quickly, highlight the main recommendations, and boil it down for you. A lot of the concepts are in the submission or in other literature. You're always invited to read what I wrote on these topics.

First of all, let me talk about the personal income tax system. You'll all agree that reforms should be conducive to economic growth, especially in this tough environment. Here we have both good news and bad news stories.

The good news is that the reform of federal child benefits, as promised in the new government's election platform, will actually do something good for the economy, good for work incentives. The money reinvested from the UCCB and the family tax cut will serve to lower the clawback rates, or the benefit reduction rates, that are reduced with income. The clawback rates will be reduced significantly. Those clawback rates act like hidden tax rates. When you take all contributions, all tax, and those hidden tax rates that are benefit clawback rates, and sum them up, at their very low end, at between $25,000 and $45,000 in family income, the effective tax rates can be as high as 70% for some families.

This is really high. It hinders work incentives. The reform, as proposed in the election platform, mentions a reduction in clawback rates in the range of 5% to 17%. This is significant. It would have a positive impact on work incentives, so a positive impact on the economy. It would be important to see that the reform effectively does reduce clawback rates and does not only make the system more generous.

That's the good news. The bad news is that overtaxing top incomes is economically inefficient. I have written a lot about this. Tax rate hikes at the top, when the rates are already approaching 50%, are economically damaging. Using a measure of behavioural response that is consistent with the economic literature, I estimate that the four percentage-point increase in the top tax rate will yield about $1 billion in new federal revenues but will cost provincial governments $1.4 billion. That's a net loss, a consolidated government net loss, of $400 million. That means we have reached the top. We cannot go higher. We're pretty much at the point where we extract as much as we can from top earners.

Ironically, it also means that reducing the top tax rate, or even reversing the latest increase, would be a cost-effective way to provide fiscal stimulus at this point in time. I know it's ironic, but it would be a cost-effective tax reform.

Now that we're talking about deficits, there's definitely a need for the government to tightly manage its internal operation costs. You will agree with me that when times are difficult, you need to manage your own house very effectively. One of the things we've been repeating at the C.D. Howe Institute for many years is that the total compensation package for federal employees results in average compensation per hour much higher than what is found in the private sector. For federal government services jobs, the average compensation per hour is $64. That comes from Statistics Canada. For professional, scientific, and technical services jobs, it's $40 per hour. In the finance and insurance industry, it's $45 per hour.

● (1010)

There is a significant difference, but that difference is not attributable to wages and salaries. It's mostly attributable to the cost of pensions and the cost of other future benefits. That's the important thing here. Those costs represent about 43% of wages and salaries for federal employees.

It's very high, and if there is something to do, it is to work on this aspect of the compensation package. Ottawa should continue its reform of the sick leave management system, the reforms that are currently under way. They should continue because they lead to major savings, and pension plan contributions as an employer should be capped at 50% of what is available for people saving in RRSPs and people in DC pension plans, which is 9% of pensionable earnings, along with a move to a shared employee-employer governance, as is found elsewhere in the public sector.

Finally, let me talk a little bit about infrastructure spending because there is a lot of talk about it. Infrastructure spending is good. It would provide economic benefits that are greater than the costs of the investment. It can improve productivity in the long term, and that's a good thing. It can also increase demand in the short term, so it's a good stimulus, but the scope for such action is limited if the investments are in big capital investment projects in partnership with provinces and municipalities when these projects are not shovel-ready, so we need to be careful of that. We need to focus on federal infrastructure when we know that the implementation times will be quick, and that's when we will get the bigger bang for our buck.

Thank you very much.

● (1015)

The Chair: Thank you, Mr. Laurin.

We'll turn to the mayor of the City of Barrie, on behalf of the Large Urban Mayors' Caucus of Ontario.

Mr. Lehman, the floor is yours.

Mr. Jeff Lehman (Mayor, City of Barrie, and Chair, Large Urban Mayors' Caucus of Ontario): Thank you very much, Mr. Chair, and members of the committee.

That's a nice segue from Mr. Laurin's testimony on infrastructure.

I want to recognize and thank MP John Brassard, the member for Barrie-Innisfil, for being here today as well.

Thank you for allowing me to speak to you.

On behalf of Ontario's big city mayors, we are the mayors of the cities in Ontario with 100,000 or more population, which represents two-thirds of Ontario’s population. As you all know, our cities in Canada are being asked and called upon to meet new challenges. The issues that affect us as mayors are the issues that affect everyday Canadians: affordable housing, jobs, and infrastructure. I will say a little bit about each today.

I want to start by saying that it’s very encouraging to see the federal government’s focus on ensuring prosperous and secure communities. Investing in our cities strengthens our economy and ensures our long-term prosperity.

Municipal finance is very complex, but the major fiscal challenge affecting us, Ontario’s big cities, is straightforward. We're spending less than half of what is needed on existing infrastructure, which has led to an infrastructure deficit. With a renewed federal partnership, Ontario’s cities are ready to get shovels in the ground quickly on major infrastructure renewal. Mr. Laurin and I did not coordinate our testimony; that just happened.

The list of projects are long, and the urgent need for reinvestment in existing road and water networks, building new transportation links, and community infrastructure cannot be overstated. As Ontario's big city mayors, we're very encouraged by the Liberal Party's platform of infrastructure investment, which we believe is based on collaboration with municipalities and vows to address the critical issues facing our community, such as affordable housing.

However, what cities need is long-term, predictable, sustainable, and dedicated infrastructure funding mechanisms similar to the permanent and indexed gas tax fund. We also need streamlined and faster approval processes and greater coordination and consistency between federal and provincial infrastructure funding programs. We do not need a process of political-based decision-making nor do we need to create application processes and agreements that are so lengthy and complex that we lose the 2016 construction season.

I want to say to the committee that I also believe that it is really time we stopped treating our basic economic infrastructure in this country like it's something to only be invested in or maintained during periodic stimulus periods. The productivity gap that is holding Canada's economy back is partly a result of our under-investment in the fundamentals of a strong, modern economy. Chief among them is the ability to move goods, people, and information at the speeds demanded by modern businesses. A permanent increase in gas tax funding with criteria that tie this investment to economic infrastructure would allow all three levels of government to engage in building our economy and in making Canada more competitive.

In addition to urgently needed investments in infrastructure, Ontario's big city mayors believe that, although all levels of government are working to create jobs and grow the economy, too often this is still done in isolation. We're in need of a diverse and robust jobs strategy for Ontario and Canada with clear actions to address labour market reform through skills training, apprenticeship reforms, immigration reform, and expansion of international trade and foreign direct investment through a new coordinated trade agenda shared by federal, provincial, and municipal governments.

While we need to invest in the roads and pipes that keep our cities working, we also need to consider the basic needs of the people who live there. Affordable housing is a critical issue affecting cities across Canada. With housing markets in overdrive, many Canadians are priced out of our major cities, and indeed, many of our smaller ones. Worse, low-income Canadians cannot find housing at all and face long wait times for social housing. Rents in Barrie, for example, are the seventh highest in Canada. Our wait-list for social housing is more than 1,500 households long in a city of 55,000 households. Low-income seniors face a wait of up to five years for a unit. This is not acceptable in a modern Canadian city.

Municipalities are ready to work with our provincial and federal partners to solve the housing crisis. According to FCM, public investments in housing are one of the best ways to grow our economy. For every dollar invested in housing, Canada earns $1.40 in GDP. In collaboration with FCM, we are calling for a comprehensive national housing strategy that provides for greater policy coordination, collaboration, and the necessary resources for actions and results.

● (1020)

In addition, there are innovative approaches to affordable home ownership that can be explored through federal tax policy that support lower-income families, give them pride of ownership, and build equity. Some examples include down payment assistance grants, renovation cost credits for adding secondary suites to existing housing, and removing the GST on certain housing-related costs such as construction materials for affordable housing. But it is only through a meaningful investment in capital projects in the affordable housing sector that we can address this crisis.

In closing, the Ontario big city mayors face the same issues that face Canadians across the country. To move forward, we believe we must put investment in infrastructure at the heart of our national economic strategy.

Overcoming Canada's biggest challenges requires close collaboration among all levels of government. Ontario's big cities look forward to true collaboration and partnership with the newly elected government in working together to move forward with this shared agenda.

I thank you, Mr. Chair.

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

We'll go to our first round of questions, and we're going to try to hold everybody to five minutes. That way we can get everybody in. That would be eight questions at five minutes.

Steven.

Mr. Steven MacKinnon: *Merci*, everyone. There have been a great variety of submissions and, as usual, they are of very high quality.

Mr. Gupta, we've heard a number of interventions about capital cost allowance and connecting rural communities, allowing more Canadians access to broadband and high-speed Internet and other things. I'd like you to expand, if you would, on your capital cost allowance recommendation and perhaps discuss a little about what barriers there may be in the private sector, on the telcos, for example, to getting something like that implemented.

Mr. Karna Gupta: Thank you for the question.

There are several measures to encourage the use of technology, such as the 2006 telecommunications policy review panel. They particularly identified ICT adoption with a lot of the tax credits that are tied to the CCA rate, and the conclusion was that it would directly help the adoption of technology, particularly among the small and medium-sized businesses. Therefore, we are asking the government to look at the across-the-board CCA rates and the several classes of depreciable assets that relate to communication network equipment, including the broadband networks. We recommend increasing them from the current rate base to 50% for capital investments.

It is not only telcos. There are cable companies and satellite providers. Communications are multi-dimensional now. Also look 100% in the areas that are particularly identified by the department of Innovation—the old Industry Canada—as underserved in connecting Canadians to broadband. These, we believe, will definitely change the way we connect communities and serve them for health, education, and even job creation.

You find that in other sectors people go to jobs. In technology, particularly in the ICT sector, jobs will go to people, so we want to make sure that people are connected to the new broadband network so they can do the work, the innovation, and contribute to the communities directly, as required.

Mr. Steven MacKinnon: Thank you very much.

[*Translation*]

I would like to move on to the second part of my questions, which are for Ms. Zatylny of the Association of Canadian Port Authorities. As Mr. Laurin pointed out, I think it is important to invest in our port infrastructures, among other things.

I learned yesterday that Port Metro Vancouver was reporting very good results. Obviously, we're talking about the Asia-Pacific gateway and corridor initiative. We are having the same kind of conversation in Quebec and Montreal about the Port of Montreal.

Could you tell us a little more about the importance of investing in our port infrastructures and our ability to export? I would ask Ms. Citeau to comment on this as well.

● (1025)

[*English*]

Ms. Wendy Zatylny: Thank you for the question.

[*Translation*]

I will answer in English, if I may.

[*English*]

As I said earlier, the reality is that ports are very much economic generators. We are facilitators of trade and economic activity in two ways. It is through the cargo that we move, and as the port authorities have evolved their business models, they have also become export developers in their own right. They will go abroad, bring local businesses with them, and help develop export markets abroad as well as bringing cargo into Canada.

By virtue of playing that facilitator role, the port therefore contributes not only to its community but to the broader economy. However, in order to be able to do that, the ports do require the capacity to grow. We represent a very wide range of ports, a lot of them within city limits. They need space to grow. They need to be able to have the flexibility to trade land parcels so that it works best for the municipalities and the people living there, as well as for the port. In addition, they need to be able to invest in information technology that will allow them to simply manage the movement of goods more efficiently. When it comes back to investments in infrastructure and the importance of that, by being part of the funding blend for ports, it simply becomes an additional enabler for ports to grow.

We talk about P3s. Ports typically invest in what I call P6s. Their funding model is a combination of federal, provincial, and municipal funding, private sector resources, and borrowed funds. It's a patchwork. Federal funding is an important part of that. It's a catalyst.

The Chair: We're going to have to leave it there and come up to you on another question, Ms. Citeau.

Mr. Liepert.

Mr. Ron Liepert: Thank you very much.

Mr. Laurin, I'd like to explore a little bit more your comments relative to the highest taxable income earners in this country. I'm an Alberta member of Parliament, and we just had a situation on January 1, where we went from a 10% flat tax to a progressive tax. The so-called rich that we always hear about, that higher income tax bracket is actually not that high when you hit that level at a relatively low taxable income.

How do we compare at that level, if you combine both federal and provincial to the American tax system?

Mr. Alexandre Laurin: You're absolutely right that the income threshold in the U.S. is the highest tax rate. It's a higher income threshold than in Canada. For our high income tax rates, their tax burden would be lower in the States. That's what matters, really.

Mr. Ron Liepert: What impact does that have on the brain drain from our country?

Mr. Alexandre Laurin: The higher the tax rate is on talent, the higher the incentives for talent to move where it's most financially advantageous. I know it sounds obvious, but it's the truth. It doesn't mean that everyone's going to move away. That's not at all what happens, but you just need a few to make a dent in your expected tax revenues from the hike, and that's enough to lower the tax base. It's enough to sometimes create a shortfall or sometimes create tax revenues that are negligible, compared to what they would have been without a behavioural response.

Mr. Ron Liepert: Ms. Citeau, as an elected official, if asked a question by the media that's prefaced with "if", I refuse to answer it because it's hypothetical. However, I'm going to put my reporter's hat on and ask you a question that starts with "if".

What if the Trans-Pacific Partnership agreement is not ratified? What are the impacts on our agricultural community in the next five years?

● (1030)

Ms. Claire Citeau: If the TPP is ratified and Canada is not part of it, we will fall behind. What specifically the numbers will look like is difficult to determine at this point.

But look at, as I mentioned, what happened with Korea. In 2011 this was our fifth-largest export market for agriculture, a $1-billion market, and literally overnight our exports were slashed in half. That loss was directly attributed to the fact that our competitors, the U.S. and Australia, had signed and implemented agreements with that market.

The Korea-Canada agreement was implemented January 1, and we've slowly been able to regain market access, but it will continue to take time. Who knows what will happen? But we know that if the TPP is ratified and Canada is not part of it, the impacts will be devastating for our sectors. For farmers who depend on trade, and that's 90% of them, the impacts will be very negative and very devastating.

Mr. Ron Liepert: Do I have more time?

The Chair: Yes.

Were you going to share a little time with Mr. Brassard?

Mr. Ron Liepert: I'm happy to.

Mr. John Brassard (Barrie—Innisfil, CPC): Thank you, Chair, for the opportunity.

Mayor Lehman, you spoke about the gas tax fund, the potential for faster streamlining and making sure that it's not politically based. You also mentioned the importance of the construction season. Most municipalities, as I understand it, have now finished their budget process.

I'm wondering if you could expand a little bit more on the comments you made. What would LUMCO like to see with respect to some of the points you brought up?

Mr. Jeff Lehman: Thanks for that, Mr. Brassard.

As to the construction season, we're tendering as we speak. I think tendering will begin in earnest in the next couple of months. Toronto just passed its initial vote on the budget yesterday. I think the loss of the construction season pushes you back by a full year. The easy way to do this is to have a straightforward formula. We need something that is per capita, that allows the funding to flow. We want to make shovel-smart, economically beneficial investments in transportation and infrastructure. I agree with Mr. Gupta that broadband is an excellent investment. I think you will find that cities in Ontario and across the country have long lists of things to do and would welcome any assistance.

What is very important, though, is the agreement process. This may sound like a little detail to some members of the committee, but the agreement process itself often takes a long time so that the actual economic benefits take a lot longer to realize than they should. It's not enough that the application process is straightforward; the agreement process needs to be straightforward as well. I want to emphasize that point. We can't move ahead with an incremental investment in Canada's infrastructure until there is an agreement in place.

That's why we favour the gas tax, because it's an existing mechanism that you could simply amplify.

The Chair: Thank you both very much.

Mr. Caron.

[*Translation*]

Mr. Guy Caron: My question is for Mr. Laurin.

I will continue on a bit from where Mr. Liepert left off concerning the tax bracket that was created for income over $200,000.

Mr. Laurin, what you spoke about makes sense theoretically, but empirically, can we see this? Have we seen this phenomenon of a higher tax creating a brain drain in the recent past?

Mr. Alexandre Laurin: There are a lot of empirical studies on the reaction of taxpayers to taxes.

In my own study on this, I collected 11 or 12 serious empirical studies that used two best practices methods in particular. The economic profession agrees with the fact that these are good methods and that the data used are excellent. So they are good studies.

The reaction of taxpayers was clearly observed. We know what it is. The results of the study can be used to make fairly accurate estimates.

● (1035)

Mr. Guy Caron: I'm curious about these 11 or 12 studies you mention. Were they North American, European or global studies?

Mr. Alexandre Laurin: Initially, they were from the United States, but then there was a study from the Department of Finance of Canada. Other studies were conducted by Canadian professors. Another study was conducted by the United Kingdom government.

Mr. Guy Caron: From an empirical standpoint, is it not more probable that this higher tax rate associated with creating new tax brackets is thwarted by changes in behaviour? For example, people can use tax shelters more wisely. People who earn such income can obviously get help from tax specialists. It would be easier than transferring all of it to another jurisdiction.

Also, has this change in behaviour led to lower incomes than those expected by the Liberal Party, the current government, when it did its fiscal framework.

Mr. Alexandre Laurin: Yes. You're right. Some of the behaviours relate to fiscal planning.

The economic reactions are still important, in my opinion, meaning that people may work less, make less effort, take fewer risks, invest less in the future, and so on. Those are economic reactions.

There are also real reactions that happen. It's a whole mix.

Mr. Guy Caron: So when we talk about a brain drain, that's not necessarily what will happen. A lot of other things may occur, such as spending more time with your children, more recreational activities. It may also simply be a change in behaviour to make sure you pay less tax, so not paying as much as the 33% bracket would have us pay.

Mr. Alexandre Laurin: There are all kinds of possible changes.

Mr. Guy Caron: Thank you very much.

Mr. Dussault, I only have a minute left to ask you some questions.

We've heard a lot about a possible increase in contributions and benefits to the Canada pension plan and, by extension, the Quebec pension plan. What we're hearing overall is that it will harm small businesses, and business in general. We don't have the means to do this. The matter has been studied thoroughly for some time. The last federal-provincial finance meeting again raised conducting a one-year study before we begin to think about making a decision next year.

What are your comments on this?

Mr. Bernard Dussault: The fear is justified, but it doesn't really happen that way.

When the Canada and Quebec pension plans were launched in 1966, and when tax rates increased from 3.6% to 9.9% between 1987 and 1989, it was difficult for small businesses, but they were able to absorb these additional costs.

I don't see why a minimal increase like the one anticipated, which would cost 3% or 4% of the salary, so 2% for the employer, could be a major obstacle. The increase could be absorbed by not giving salary increases for three or four years. In fact, ultimately, the employees are the ones who still absorb the costs.

So it's a problem, but I don't see it as a major obstacle.

[*English*]

The Chair: That's it. We'll have to cut it there.

I'll turn to Mr. Sorbara.

Mr. Francesco Sorbara: Thank you for your presentations, everyone.

I could ask a question for everyone, but I'll try to limit myself to three.

This is for Wendy Zatylny.

Having grown up in the town of Prince Rupert, British Columbia, I know how important the ports are and know the port of Prince Rupert and what its growth has done and what it did for that town after the devastation from the pulp mill closures and the downsizing of the fishery.

In terms of the things most important to keep our ports competitive with Long Beach or Newark, New Jersey, what are the top two?

● (1040)

Ms. Wendy Zatylny: That's almost like being asked which of my children are my favourites.

Mr. Francesco Sorbara: You have to pick sometimes.

Ms. Wendy Zatylny: Exactly; it's difficult.

I would say it's two-fold. One is ensuring that the port authorities themselves have the financial and regulatory flexibility to respond very quickly within changing market conditions.

You mentioned the competitor ports on the U.S. west coast. Ships travel, and shippers will seek the most effective, fastest, and cheapest route to get cargo to destinations. For the port authorities to be able to respond to this and to ensure that level of competitiveness, the financial flexibility to allow them to purchase land, expand, or change as required is extremely important. A part of this, as we've noted in our submission, is being able to amend their letters patent quickly to manage land transfers and that sort of thing, as well as borrowing limits.

That's the first part of it. The second part of it is being able to have as much access to various levels of funding as possible. I mentioned P6s. It's infrastructure funding. Federal infrastructure support is extremely critical to that.

Mr. Francesco Sorbara: Thank you.

For Ms. Citeau, obviously, Canada's a trading nation. We depend on it and we prosper from it. Is the agrifood sector ready in terms of its labour force?

We've heard all week references to the temporary foreign worker issues, the review that our government is going to undertake because of the changes that were made that seemed to have wrecked the system and impeded what the system was suppose to be.

I've heard this from the Cattlemen's Association, and the beef farmers associations, and my concern is that we may not actually have the labour force in place in the scenario where the TPP is ratified and the European trade agreements are completed. We may not be able to take advantage of the opportunities that present themselves with these trade deals.

Can you talk about the labour aspect, please?

Ms. Claire Citeau: Whether it is labour or things like infrastructure, to some extent, these can be considered barriers for our sector and their ability to get products to market, for example. This is something that is handled by our members directly. The meat sector in particular is not a CAFTA mandate at this point.

Mr. Francesco Sorbara: For Bernard, your comments on OAS and GIS, we sometimes forget that those are funded from government revenues, where CPP contributions are funded from workers.

GIS and OAS were put in place to help the neediest of the neediest. Where would you see any chance of reform to old age security in terms of, first, having the goal of incentivizing older workers to stay in the labour force and, second, providing more resources for those seniors that need it?

Mr. Bernard Dussault: As I said in my presentation, I have tabled a brief to that effect. The OAS is paying money on the basis of residence tests rather than need. The goal of OAS and GIS should be mainly to address poverty needs.

Whatever changes we make to those programs, I don't see how they could achieve what you are suggesting, the incentive for people to stay at work. Those incentives come naturally because people are in need and they work longer.

The other factor that is taking more and more room is the fact that people live longer and are in better health. They are induced to work more because some people, a lot of them, enjoy working. They enjoy it and make more money.

Mr. Francesco Sorbara: For Mr. Lehman from Barrie—and I'm just down the street there in Vaughan.

Regarding the gas tax, it is a simple, straightforward mechanism that everyone enjoys. The City of Vaughan receives about $8 million from the gas tax. Are you calling for an expansion of the gas tax in your comments?

Mr. Jeff Lehman: We believe that the funding allocation within the gas tax.... Are you asking if we think you should raise the gas tax?

● (1045)

Mr. Francesco Sorbara: No, I'm asking about the allocation.

Mr. Jeff Lehman: You are asking if the allocation to the municipalities should be larger? Yes, that's what we're suggesting.

The Chair: Ms. Raitt.

Hon. Lisa Raitt: Thank you, Chair.

Could Mr. Laurin and Mr. Dussault give me their points of view, very quickly, about guaranteed annual incomes because there's been a lot of talk in the newspapers these days about looking at that.

Perhaps Mr. Dussault could begin and then I will get Mr. Laurin on the topic.

Mr. Bernard Dussault: The guaranteed income supplement program is very well designed. Any country would benefit from a program like that to alleviate poverty amongst seniors. The program is doing a very good job, although the level of support might be increased a little bit.

Hon. Lisa Raitt: Mr. Laurin, you know that I'm talking about the basic income supplement for everybody.

Mr. Alexandre Laurin: The guaranteed annual income has been studied for many years. The biggest problem is the cost. It's extremely expensive. It's very difficult to implement. We've looked at numbers in the past and it was.... You eliminate everything. You eliminate welfare, you eliminate EI, and any type of income support. Then you only have one payment through the fiscal system, the guaranteed annual income.

It doesn't work. The math never really works because it ends up being more expensive if you want to make a difference. You cannot eliminate poverty. You cannot have a guaranteed annual income that is high enough to bring all these people out of poverty. Then, of course, you have to watch the clawback rates. You don't want a clawback rate that is too steep because then it would have a huge impact on incentives to work.

It's a real puzzle. It's not an easy solution. I haven't seen a credible study yet that would show that it could work here in Canada.

Hon. Lisa Raitt: Thank you.

Ms. Zatylny, I'm going to ask a port question, of course.

Everybody thinks of the big guys: Vancouver, Montreal, and Halifax. Why don't you tell us a bit about the smaller ports, which are equally important to the fabric of moving goods in our country?

Ms. Wendy Zatylny: Thanks for the question.

The association breaks down into two major groups, really. The smaller ports, running all the way from Oshawa to Saguenay to Thunder Bay, for example, are as integral to their communities as the large ports are to theirs. In fact, they play a big role in the economic development of their communities, and also in the investment of their communities. Oshawa brings in the road salt, for example. Saguenay is actually receiving cruise passengers during the summertime. It's a huge investment in the communities.

The reality is that they have the same needs for expansion, growth, and investment that the large ports do, and in fact, in some cases, they have a bit of an extra challenge, by virtue of their size, in getting the financing portion to be able to grow.

Hon. Lisa Raitt: I'm not going to put you on the spot, because you can't be political, but I can be political.

I would say that in my experience, every province in this country, including Alberta and Saskatchewan, understands the importance of having ports, except for one, and that's Ontario. Perhaps the government can hear me when I say that they should be talking to their cousins about issues around ports and the great investments that can happen in Ontario.

I do the politics. You don't have to, but you can follow up with facts and figures on that.

Voices: Oh, oh!

Hon. Lisa Raitt: Thanks, Mr. Chair.

The Chair: Thank you very much, Ms. Raitt.

Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

I'm probably going to sound like a broken record to my colleagues here, but this is for Mr. Lehman in terms of the application process of budgeting for municipalities and infrastructure. I did over 10 budgets, I think, when you combine municipal and then my regional ones.

You talked about the stable funding, but also, in having these parameters.... We've heard from some witnesses who say not to freely give cash to municipalities to spend however they like. Even under the gas tax program, there are strict parameters. You are audited by EMO and FCM—in Ontario, anyways, it's EMO—to ensure that you meet compliance.

One of the funding models that's missing, or one of the parameters that's missing, which we always found was an issue in Durham, is eligibility for getting projects shovel-ready. The costs to do the engineering for a road or a bridge or to do the environmental assessments are not eligible as a total project cost, but they can be sometimes millions of dollars for a visionary project.

Has the Large Urban Mayors' Caucus taken a position not on moving away from the application process but on expanding the eligibility so that the funds can actually go towards the total cost of the project and not just the shovels in the ground?

● (1050)

Mr. Jeff Lehman: Thank you very much for that question. It's very insightful.

Yes, we would like to see the design costs, the upfront costs, included.

There's a lot of focus on the word “shovel” because we all think about the construction aspect, but infrastructure, of course, has knock-on benefits. I mean, the goods that we use—the cement, the steel, and everything else—have to be manufactured. There are manufacturing jobs. There are the jobs that spin out of manufacturing jobs. There are also, as you say, the professional, scientific, and technical jobs that are created in engineering and so forth by the eligible architecture and the eligibility of design costs.

When you are investing in infrastructure, there are broad impacts across the economy. The change you suggest, which we do support, would absolutely broaden the economic impact in the infrastructure investment.

Ms. Jennifer O'Connell: Thank you.

Following up on that, in regard to affordable housing, Ontario is in a different situation than other provinces are because it is solely municipal funding. I don't know what it is for Barrie, but just on the backlog in terms of investment in the current stock, let alone building new, how do we get around the fact of ensuring that all provinces are treated relatively equally given the fact that there are provincial differences in the amounts of funding?

For example, if the federal government gives funding for affordable housing and Ontario doesn't kick in and it's municipal, how do we get that balance in comparison, say, to other provinces that invest?

Mr. Jeff Lehman: It's a fair question. I don't have an answer for other provinces. My caucus is Ontario.

I would tell you that the equity can be, I believe, designed through the type of funding that the CMHC provided in the eighties and nineties. The approach that saw the assistance, the per-door approach, is straightforward. Again, if we're focused on results and on evidence-based spending and policy, then on that kind of approach, if you follow it all the way through, regardless of whether you're partnering with the province, a regional authority in Ontario or Alberta, or a municipality, the end result should be the same. I think that's the best answer I can give you.

Ms. Jennifer O'Connell: Thank you.

Could you provide us with more details on the per-door approach and the CMHC study? I don't know if it's FCM or who might have it.

Mr. Jeff Lehman: Absolutely.

Ms. Jennifer O'Connell: Thank you.

The Chair: Just provide it to the clerk and she'll give it to the committee members.

Mr. Aboultaif.

Mr. Ziad Aboultaif: Thank you.

I do have a couple of comments to make on Monsieur Dussault's.... I definitely don't agree that poverty is caused by low minimum wages and is a call for an increase in low minimum wages, or the expansion of CPP. Relatively all that is going to end up on the lap of taxpayers or consumers, basically. That's going to cause additional poverty, and at some point some kind of inflation that is unfavourable by economic measures.

Ms. Zatylny, you're calling on the federal government to invest in ports. It's part of the infrastructure plan maybe to keep upgrading, updating, and to be on top of things when it comes to such important transportation and supply management. Have you considered private investment? Has it been attractive enough for private investment to come and invest in such a thing instead of using public money?

Ms. Wendy Zatylny: In fact, it's not an either-or. Private investment plays a very large part in any port development or port infrastructure projects. As I mentioned earlier, port-financing models for infrastructure projects really are a patchwork quilt. They're almost like P6s. Private-sector financing is an important part of that, as is, however, municipal, provincial, and federal.

● (1055)

The Chair: Mr. Gupta, we haven't forgotten about you. You're still on our monitors here, so if there are questions for you, fire ahead, anyone.

Go ahead, Mr. Aboultaif.

Mr. Ziad Aboultaif: Affordable housing investment calls on the federal government to invest. Again, I'm in favour of private investment in that under the P3s, so rather use the money of the private sector instead of using public money.

I'm not sure if there are any comments from Mr. Lehman on that.

Mr. Jeff Lehman: In terms of public-private investment, I'm actually a big supporter of that. You will find many supporters among the Large Urban Mayors' Caucus of Ontario. We had some concerns with mandatory P3 screens, but I believe that you're watching municipalities already implement a variety of P3 approaches, and they are relevant not just for the largest projects. This is something that I think is a misconception.

PPP Canada has done excellent work to try to encourage medium-sized cities across the country to be innovative with projects. Regina has built a bridge. We were able to build a bus maintenance facility by bundling it with an operating contract. That has worked very well, so I would actually encourage the use of those tools to continue, to be explored.

The Chair: Okay.

We'll turn to Mr. Ouellette.

Mr. Robert-Falcon Ouellette: Thank you very much.

My question is actually for Alexandre Laurin.

[*Translation*]

I have a few questions about the inequality between households.

Might this have an impact on people's health? Can it make their health worse or better if there is a larger inequality in incomes?

Mr. Alexandre Laurin: There are indeed social costs if the inequality in incomes is too large.

I would like to comment briefly on that. Yes, income inequality is important, but we have to remember that Canada's government services—so health, education and so on—make up 35% to 40% of the GDP. There are many government services, and they constitute 35% to 40% of our gross domestic product. Most of these services are universal. So there are income inequalities, but the governments in Canada do a pretty good job of combatting that. They manage this not only through income supplement programs, but also through government services.

Mr. Robert-Falcon Ouellette: It's all very well to speak of a brain drain to the United States, but sometimes the quality of life is at stake. It is extremely important to consider society. It's more nuanced than simply talking about the economy. People don't think only about their wallet. They think about many other things, such as citizenship and quality of life.

Mr. Alexandre Laurin: You are absolutely right, and it is the most important nuance to make. Studies were done in the early 2000s on the brain drain. That was the most important reason why many talented people stayed in Canada. It was because they preferred Canada's social climate. It is an important reason and a distinction to be made.

[*English*]

Mr. Robert-Falcon Ouellette: My next question is for the president of the Association of Canadian Port Authorities.

Could you talk about the Port of Churchill? It's an arctic port. It is one of the ones that is quite far inland. Could you talk about some of the difficulties it's facing and perhaps some of the potential solutions?

Ms. Wendy Zatylny: First of all, I have to say that the Port of Churchill is a private port. It is not a port authority. They don't fall under our jurisdiction. However, I suspect they face a lot of the same kinds of challenges that many of the ports do around climate change and being able to find an operating season that allows them to be profitable. My understanding of the port right now is that they have a limited shipping season, simply because of their location and winter. They have, as I've said, similar challenges to the rest of Canada's ports.

● (1100)

Mr. Robert-Falcon Ouellette: You mentioned that you operate 18 or 15 ports.

Ms. Wendy Zatylny: Eighteen port authorities, yes.

Mr. Robert-Falcon Ouellette: Why are you no longer operating the Port of Churchill?

Ms. Wendy Zatylny: That was a federal government decision when it devolved the various ports and harbours. There were an original 17—now 18—that were considered of strategic significance and were devolved into port authorities, which are shared governance organizations related to the federal government. The federal government at the time made the decision to allow the Port of Churchill to go private.

The Chair: I'll have to cut you off there, Mr. Ouellette.

I do have to ask one question to Mr. Gupta.

How difficult is it to get to the so-called last mile? There are a number of us here from rural areas. What we're finding in rural areas is that we are losing endless business opportunities because we don't have the broadband for those businesses to operate in the modern world. I see the information highway as being as important as the railway was at one point in time.

How difficult or expensive is it to get to that so-called last mile, if I could put it that way?

Mr. Karna Gupta: Thank you for the question.

In today's environment it should not be that difficult because the satellite transmission and the wireless side has come down, particularly if you start looking at the next generation 5G network. Today, most networks in Canada can only transfer 400 megabytes at high speed. When you go to 5G, you're talking about 10 gigabytes or a terabyte level of movement. Those networks' costs are coming down, and that's why we're starting to look at investing in next generation networks.

Also, as you invest in physical infrastructure—I hear this when I talk to the P3 people working on private-public partnerships—every time there is construction going on, laying the fibre in the ground along with it should be almost mandatory. If you're making holes and digging for pipes and roads, put a fibre down as it happens. Reaching that last mile is a lot easier now. Cost has come down tremendously and satellite transmissions are also cheaper nowadays to reach extremely remote areas.

The Chair: Thank you very much for that information.

I'd like to thank the witnesses. This has been a very productive morning in terms of information. I wish you all the best.

The committee will reconvene at 12:30 p.m. in Room 253-D. Grab a bite to eat in the lobby, or you'll go hungry.

Thank you all. The meeting is adjourned.