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The Honourable Wayne Easter

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● (1100)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): Order, please.

Pursuant to Standing Order 108(2) and our study of the report of the Bank of Canada on monetary policy, we're pleased to have as witnesses this morning the Governor of the Bank of Canada, Mr. Poloz, and Senior Deputy Governor Ms. Wilkins.

The floor is yours. Welcome. Thank you for appearing.

Mr. Stephen S. Poloz (Governor, Bank of Canada): Good morning, Mr. Chairman, and thank you.

Good morning, committee members. Senior Deputy Governor Wilkins and I are happy to be back to discuss the bank's monetary policy report, which we published last week.

I extend particular greetings to the new members of the committee, which I think is almost everyone. I look forward to being with you twice a year to talk about the Canadian economy and our monetary policy.

Carolyn and I were last in this committee about 12 months ago. It has certainly been a tumultuous year for the Canadian and global economies. Let me start with a quick review.

As you know, the Canadian economy has been dealing with a massive shock to our terms of trade, which was brought about by a sharp drop in the price of oil and other commodities that began in late 2014.

[*Translation*]

Given that Canada is such an important producer of resources, particularly oil, this shock was a major setback. It set in motion a difficult adjustment process that has been very disruptive for many Canadians. Investment and output in resource industries have fallen precipitously, the decline in national income has curbed household spending, and the resource sector has seen significant job losses. These negatives have clearly outweighed the benefits of lower energy costs for households and businesses.

From a monetary policy perspective, the shock posed a two-sided threat to our economy last year. First, it was a clear downside risk to our ability to reach our inflation target. Second, by cutting into national income, it worsened the vulnerability posed by household imbalances, as seen in our elevated debt-to-income ratio. To address both threats and to help facilitate the necessary economic adjustments, we lowered our policy interest rate twice last year, bringing it to 0.5%.

[*English*]

While we recognized the possibility that this reduction could at the margin exacerbate the vulnerability posed by household imbalances, the more important effect of lowering the policy rate last year was to cushion the drop in income and employment caused by lower resource prices.

Another natural consequence of the shock to our terms of trade has been a decline in the Canadian dollar exchange rate. It's important to note that this is not unique to Canada. Indeed, many resource-reliant countries have seen similar depreciations in their currencies.

Both our policy moves and the lower currency have been helping to facilitate the economic adjustments that have been playing out over two tracks. While weakness has been concentrated in the resource sector, the non-resource economy continues to grow at a moderate place. Within that, non-resource exports are clearly gathering momentum.

By the time we reached the new year, there was a clear sense of anxiety among many financial market participants. The outlook for global growth was being downgraded again, and commodity prices were plumbing new lows. At the bank, we had new intelligence that Canadian energy companies would be cutting investment even more than previously thought. In this context, we said that we entered deliberations for our January interest rate decisions with a bias to easing policy further, but we decided to wait to see details of the government's fiscal plan.

Since January, we've seen a number of negative developments.

First, projected global economic growth has once again been taken down a notch for 2016 and 2017. This includes the U.S. economy, where the new profiles for investment and housing mean a mix of demand that is less favourable for Canadian exports.

Second, investment intentions in Canada's energy sector have been downgraded even further. True, oil prices have recovered significantly from their extreme lows, but Canadian companies have told us that even if prices remain around current levels, there will be significant further cuts beyond what we foresaw in January. By convention, we incorporate the average oil price from the few weeks before we make our forecast, letting us see through variability in markets. Because of all this, our oil price assumptions are only $2 to $3 per barrel higher today than they were in our January forecast.

● (1105)

Third, the Canadian dollar has also increased from its lows. Our assumption in our current projection is 76¢ U.S., which is 4¢ higher than we assumed in January. While there are many factors at play, including oil prices, most of this increase appears to be due to shifts in expectations about monetary policy in both the U.S. and Canada. The higher assumed level of the dollar in our projection contributes to a lower profile for non-resource exports, as does lower demand from the U.S. and elsewhere.

As the bank's governing council began its deliberations for this month's industry announcement, we saw that these three developments would have meant a lower projected growth profile for the Canadian economy than we had in January. Now, this may sound counterintuitive given the range of monthly economic indicators that started the year strongly; however, some of the strength represents a catch-up after a temporary weakness in some areas during the fourth quarter, and some of it reflects temporary factors that will unwind in the second quarter.

The other new factor we had to take into account was the federal budget. For the purposes of our MPR and interest rate announcement, we took a close look at the finance department's projections of the multiplier effect of the fiscal shock. Our analysis is that the department's projections are reasonable, and that they are within the range of estimates you would find in the economic literature, as well as in our own staff research. There is, of course, greater uncertainty as to how the budget measures will affect growth in the longer term, particularly since they will need to work their way through the household sector. In our report, we outlined the risk that households may be more inclined to save than historical experience would suggest.

[*Translation*]

Taking all of these changes on board, our projected growth profile is generally higher than it was in January. We are now projecting real GDP growth of 1.7% this year, 2.3% next year, and 2% in 2018.

Our forecast suggests that the economy will likely use up its excess capacity somewhat earlier than we predicted in January, specifically, sometime in the second half of 2017. However, there is more than the usual degree of uncertainty around that timing. It is always tricky to estimate an economy's potential output, and the difficulty is compounded when the economy is going through a major structural adjustment, as Canada is right now. We know that the collapse in investment in the commodity sector will mean a slowdown in the economy's potential growth rate. In the near term, we've lowered our estimate of potential output growth from 1.8% to 1.5%.

● (1110)

[*English*]

In terms of the bank's primary mandate, total CPI inflation is currently below our 2% target. The upward pressure on imported prices coming from the currency depreciation is being more than offset by the impact of lower consumer energy prices and the downward pressure coming from excess capacity in the economy. As these factors diminish, total inflation is projected to converge with core inflation and be sustainably on target sometime in the second half of next year.

To sum up where we are, while recent economic data have been encouraging on balance, they've also been quite variable. The global economy retains the capacity to disappoint further. The complex adjustment to lower terms of trade will restrain Canada's growth over much of our forecast horizon, and households' reactions to the government's fiscal measures will bear close monitoring. We've not yet seen concrete evidence of higher investment and strong firm creation. These are some of the ingredients needed for a return to natural, self-sustaining growth with inflation sustainably on target.

With that, Mr. Chairman, Carolyn and I would be happy to answer your questions.

The Chair: Thank you very much, Governor, for the fairly in-depth overview.

Starting the first round of questions, we have Mr. Sorbara for seven minutes.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Good morning, everyone.

Welcome, Governor and Ms. Wilkins.

My first question deals with the efficacy of fiscal stimulus. I won't get onto the topic of fiscal multipliers, Governor, because I believe you've answered a few questions on that and have talked on that in the last few days.

In an environment where we have excess capacity and where interest rates are at the lower bound, can you comment on the efficacy of the government implementing a fiscal stimulus plan?

Mr. Stephen S. Poloz: In general terms, we've known since Keynes wrote about the Great Depression in the 1930s that monetary and fiscal policy have their moments when they have their greatest impact. Monetary policy has its least impact as interest rates get close to the lower bound, which is to say people have already borrowed to buy homes or to buy cars, companies have borrowed to do investments, and so on. Lowering interest rates a little further has only a marginal impact on the side.

It is in that context, when we're in that neighbourhood, that fiscal policy has the largest impact of all the possibilities one could contemplate. The reason is simply that when we have models of the economy, and we simulate fiscal policies, normally we start from a position of equilibrium. We are far below Canada's equilibrium at this time. We have plenty of excess capacity.

In this context, there are no other movements anticipated, such as interest rates or exchange rates, that would partially offset a fiscal change. It's in that sense that it has more power for the amount of fiscal action one takes than monetary policy has in this setting.

Mr. Francesco Sorbara: I'll move on to my second question and briefly touch on inflation. If I look at the wage pressures faced in Canada, I believe we're running at about a 3% clip. Please correct me if I have that incorrect. That number is a strong number. I know they monitor that data in the United States quite closely. We are having some wage pressures pop up, but in a sense we still have a lot of excess capacity.

My concern is this. Is there a chance—and you've touched on this in your opening remarks—for the core inflation overshooting that 2% earlier than you've projected?

● (1115)

Mr. Stephen S. Poloz: At this time we would put a very low risk against that eventuality.

We have a range of estimates for the level of capacity in the economy. We take a mid-range of that range of estimates, but there's considerable uncertainty about how much there is.

The situation is quite in contrast to that of the U.S., which is, I would say, a good year ahead of us in this process of converging. Of course economists watch all of those signals, as you mentioned. As you approach full capacity, you may begin to see wage settlements beginning to pick up. It's one of the early signs that inflation is getting ready to recover. It's at that time the risk management approach to monetary policy sounds that warning and you begin to deal with that.

Bear in mind it's not as exact a science as we tend to convey. We think the level of potential will be growing later this year and next year because of the investment happening in the rest of the economy. That moves that eventual limit on the economy farther out.

Mr. Francesco Sorbara: Going back to economic growth, we had a terrific Q1. I think it was a 2.8% growth that was recorded in the Canadian economy. Your forecast, or the bank's forecast, for Q2 is 1% and 2% for the year, and you've noted temporary factors. I think the word was unsustainable.

I'm a little curious in terms of the deceleration, going from Q1 and handing off to Q2. It seems to me that going from 2.8% to 1% is a marked deceleration. I don't know if the word is that the bank is being too bearish. I was wondering if you could comment on that.

I think some of the private forecasts have bumped up the Canadian growth rate for 2016. I'm wondering if, maybe, the recovery in commodity prices, the strength of the hand-off, and the strength to the non-resource sector is stronger than the bank may be estimating. I'd like your comment on that one, as well, please.

Mr. Stephen S. Poloz: Even the 2.8% that you mentioned is still a forecast. We have some time to go before we know these things.

Carolyn, perhaps you'd like to walk through some of the details.

Ms. Carolyn Wilkins (Senior Deputy Governor, Bank of Canada): Clearly always throughout history you see ups and downs in quarterly growth. To do monetary policy well you need to look at the factors that are reflecting underlying momentum, and one of the factors appeared to be contributing to quarter-to-quarter volatility, and that's what you've observed.

Specifically in this instance we see a couple of things. I don't want to go through them all, but there's volatility in the inventories through Q4 and Q1 that will affect that quarterly pattern going into Q2. We've also seen some other factors with respect to autos and auto production that clearly don't look as if they would be sustainable.

I think the third factor is exports. Exports started the year very strongly and if you compare it to what you would expect exports to be, given what we think foreign demand is, and in particular foreign demand from the U.S., it looks as if exports were a little stronger than you would have expected. So we've taken a cautious approach to that outlook and think there will be some give-back in subsequent quarters. Of course that could be overly cautious. We see the volatility in that export data. The last data point we saw wasn't that great, but I think the bottom line is that we try to define the best quarterly pattern, given the underlying factors we're seeing. On the export side we have identified that as a potential upside risk going forward because we've been cautious in our outlook.

The Chair: Thank you.

Ms. Raitt you have seven minutes.

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

Governor and Senior Deputy Governor, it's very nice to meet you both, and thank you for being here today.

I'm going to focus on one aspect of your analysis, and it has to do with determining whether or not the measures the government has introduced in the budget are going to add to growth in the country. In your report you indicate correctly that it's about $11 billion in infrastructure investments, and about $12 billion in households, and you think that the effects will be felt in 2016. That forms a basis for your analysis that in a sense it's going to help and overwhelm the negative factors we're seeing in the economy, but you also have two really important caveats in there, and one has to do with households and whether or not they're going to be spending.

You also point out in the very next section that household debt has gone up in this country because more mortgages are being taken on in Ontario and B.C. Of course we're seeing the negative effect on housing markets in the oil-producing provinces. With all of those taken into consideration I want you to expand a little on your comfort level saying that putting money into the hands of families in this country is necessarily going to be spent in the economy and moved along when we're looking at such high levels of debt. There's a propensity for people to save or pay down that debt because they are concerned about whether jobs are being created. I would overlay that with one anecdote. It's very difficult to see cousins and brothers and sisters and friends across the country losing their job and seeing a lot of discussion about the oil sector. You refer to it as a structured change in our economy. They're seeing that and they're very concerned about what that means to them.

So tell me a little about how the council ended up deciding that people will spend this money instead of saving it. I would say one last thing; the tax cut we have before us that the government has introduced amounts to 90¢ a day for an individual, and I fail to see how that's going to spur great economic growth that's going to counter what we're seeing in terms of the losses in our country.

With that I'll turn it over to you.

● (1120)

Mr. Stephen S. Poloz: Many of the things you mention are important factors in this analysis. I think we've been very clear that this analysis has a certain amount of uncertainty associated with it. As you mentioned, that is why we chose to highlight one of the risks, which is that people may save more than the average through history.

We saw an experiment that was similar to that a year ago. When the UCCB changes went into place we began with an assumption, which is really what it is, that perhaps around half of that money would end up being spent and the other half might be saved, in the context we found ourselves. That turned out to be not too far off the mark, so when we put this in we don't assume everyone spends all of the money. This is a multiplier that is less than one, which is, some of the money is inevitably saved, and it would depend on house to house, and as we say, it would depend through time. It is not just right away. In the beginning, people may be more cautious than they are longer term.

Therefore, yes, there is uncertainty there, but our monetary policy doesn't require that we have our forecast exact. It is about what the boundaries are and what the risks are around our forecast so that our monetary policy is appropriate for a range of possible outcomes.

Hon. Lisa Raitt: Last year, when you appeared before our committee, Governor, you talked about the housing market and you had an interesting statistic with respect to concerns in the housing market. You said in your report that the markets were overpriced by about 10% to 30%.

I know my former colleague, James Rajotte, and you had a discussion about that at committee. I'm wondering if you think we have a housing bubble in Canada at the moment, because things certainly have deteriorated in the economy since then. We are seeing severe situations in the Prairies and Alberta, for example, where my colleague Ron is from. I'd just like to get a sense from you where the housing market is a year on from when you appeared before this committee last.

Mr. Stephen S. Poloz: Let me just clear up something on the facts, then I'll turn it over to Carolyn.

A year ago, we were reporting a new piece of research that we had published that made an attempt to analyze housing markets globally, not just Canada's, but global housing markets, in cases where there had been periods of overvaluation and then adjustments. It's an attempt to understand the fundamentals.

That came in the context of a number of other studies that others reported where there was a wide range of estimates as to whether the Canadian market was overvalued and whether you could even say something like that about the Canadian market since it varies so much from region to region.

Our conclusion was that those kinds of figures are very risky to appeal to, given the variety of experiences we have across the country, and that there are a number of significant differences from market to market that aren't actually incorporated in models like that.

With all of that as background, perhaps I'll turn it over to Carolyn for an update on how the housing market has evolved and what our current standing is on it.

● (1125)

Ms. Carolyn Wilkins: We continue to look at the housing market very closely because of the potential financial stability implications. What we've seen over the last year is what you would expect, given the transformation of the economy going from more energy based to non-commodity based. You noted, quite rightly, that in places that are dependent more on energy, not only Alberta but other provinces, you see their housing market conditions slowing quite considerably. It's what you would expect as people become unemployed, perhaps move to other provinces to find new employment, or just go home to where they originally worked before they moved to Alberta. There is a lot of that going on and you see the slowing there.

If you look at elsewhere in the country, there are two other things going on. You have major cities like Vancouver and the greater Toronto area, where the markets are actually going very strongly, and we're watching that closely. The context there is that how strong that is is just a function of the supply and demand dynamics that have been going on for years. Adding to that is the interprovincial migration of people and the fact that their employment is up and their economies are doing relatively better than the energy-dependent places.

When you look at that and try to make an assessment of the market you really need to take into account those supply and demand dynamics. The supply constraints are well known in Vancouver and Toronto. It is because of geography, because of the permits, and because of the interest people have in working and living there.

Clearly, from a monetary policy point of view it is something we look at and we take into account. At the same time, given the localized nature of the things that we're really focusing on right now, monetary policy as a tool really is just too blunt for that. Maybe there are other tools.

As you know well, the government has taken some actions recently that just came into force, so we'll be watching it closely.

The Chair: Thank you.

Mr. Caron.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Welcome Governor and Ms. Wilkins.

In the previous Parliament we had lots of interesting exchanges on the need to include or not to include certain tools in the bank's tool box. At one point we were talking about quantitative easing.

Last year you commented on the possibility of, or your openness to, considering negative interest rates. Some countries are currently experimenting with this, including Sweden, Japan, and Denmark, as well as the eurozone. There seems to be a growing consensus. I would ask you to comment on your evaluation of the experiments so far.

The consensus I'm seeing is that, in the short term, it might actually provide the help that's needed and is sought, but mid-term, we're losing that efficiency. There is an adaptation to that reality that actually brings about a loss of efficiency in stimulating the economies and interest rate, while trying to get the investments needed.

Could you comment on what you're seeing so far?

Mr. Stephen S. Poloz: Certainly.

In terms of the tool box that you referred to, our tool box was laid out back in the midst of the crisis in 2008. Last fall we undertook a project to update it in light of experience since that time. Most of the experience that we referred to, happily, was not in Canada, but was in other countries where the problems have been more serious.

In the institutional context we have, we now believe that our markets would continue to function more or less normally at interest rates as low as -0.5%, whereas we used to think of 0%—or 0.25%, actually, to be specific—as the actual physical lower bound. That means we have on the order of 75 basis points more room to manoeuvre, as you suggest, for relatively short-term issues. It's true that the distortions that may emerge grow with the length of time that is there, and possibly the effectiveness of this policy would diminish for a longer time period.

It's in that context that we think of quantitative easing. We've had some very interesting uses of quantitative easing that have had a significant impact on performance in various economies.

We don't say concretely which of those tools we would appeal to if the situation arose. We just start with saying that fortunately our outlook is that none of that is necessary. Our outlook is quite a positive one. But if there were a significant negative shock to the economy, we know we have a tool kit available to help buffer the effects of those things, and what order we might use those things in, or in which combination would depend on the circumstances and what seemed best at the time.

Mr. Guy Caron: Speaking still about that tool box, I remember comments that you made once again in the last Parliament about the fact that we are in a new normal right now with lower economic growth. You're currently negotiating with the Department of Finance for a renewal of the inflation target which comes to an end by the end of November. That inflation target has always been at 2%, plus or minus 1%, of course, but that was set back in the 1990s. At the time, I would submit it was a different normal than what we're experiencing.

Is there an evaluation being made on the possibility of actually giving the bank more flexibility by adjusting the target at least for the next five years, maybe to a higher level so that you would actually have more flexibility in the establishment of the nominal interest rate and more influence in terms of the real interest rate? I've seen the documents that the bank has released but it was a while ago.

Mr. Stephen S. Poloz: That's a live issue for us at this time. I won't go into the conclusions of that work, but some of the working papers have already been published.

There are three issues that we've set out that need to be addressed this time before we renew that agreement.

First, what's the right measure for inflation? Should we change from the CPI that we've used traditionally?

Second, what is the level, which is the question you've just raised; 2%, or some other number?

Third, how do we integrate financial stability issues into that policy framework?

The one about the level is perhaps the most prominent issue, and it's because of the experience of the last few years when central banks, including ourselves, got to the lower bound. If interest rates had been one percentage point higher when it all started, you would have more room to manoeuvre. That's an important consideration. That experience has of course been historically quite rare, but now it has happened so everyone has to think about it.

The other side of that discussion is now that we understand that negative interest rates are possible, that also gives us more room to manoeuvre than we thought we had before. So it's those two sides of the coin that need to be assessed. What are the relative costs and benefits about that extra flexibility? What would it buy us? That's the question, especially when we have unconventional tools in the tool box that can be used if need be.

● (1130)

So it's a live question still. We're just at the stage where we'll begin concrete discussions with the Department of Finance in the next month or two.

Mr. Guy Caron: I know you don't comment on fiscal policy, which I agree with, but we are doing work here that is being listened to by the Minister of Finance—or so we hope. Do you think it would be relevant for this committee to actually study the possible impacts of modifying that inflation target, maybe for advice to the finance department? Is there a lively debate right now that this should be taking place?

● (1135)

Mr. Stephen S. Poloz: We would welcome further input on that question. We've had various academic studies and so on that have been prepared. We've added a lot of input on that. I would just say that for me the bar for changing this framework is very high. It has performed very well for Canada for 25 years now, so we won't take this question lightly, but of course, any further input that the finance minister would want to take into account would be very welcome.

The Chair: Thanks to both of you.

Mr. MacKinnon, please, for seven minutes.

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

Governor, Ms. Wilkins, welcome to the Standing Committee on Finance, and thank you for your very detailed presentation.

In your presentation, you talked about some of the specific challenges Canada is facing in today's world. You attended some meetings of the International Monetary Fund at which macroeconomic trends were discussed. I wonder if you could talk about what came out of those meetings.

Also, after reading your brief, I noticed a certain sense of relief—although I doubt you would like to comment on that—in terms of the Canadian government's efforts to invest in our economy. Generally speaking, what are other countries doing in terms of public investment to generate economic activity?

Mr. Stephen S. Poloz: The International Monetary Fund recently trimmed its forecast for global growth. The accelerating development of the global economy will once again be more moderate. The slowdown we have seen in recent years is discouraging, and there has been a general lack of performance.

China has been the focus of much of the world's attention recently, because it has become a major global driver of growth. The growth factors driving its economy have changed. It has made a huge and crucial shift. Its past situation was unsustainable.

Other countries continue to have difficulties. In Europe, for example, the economy remains weak, but there are some encouraging signs. We have seen some progress thanks to monetary policies and public investment. Infrastructure programs have been brought in. Even the United States, which is enjoying strong economic performance right now, modified its tax policy to implement projects like the highway bill. This project is in addition to other infrastructure projects.

These examples from other countries are encouraging. Things have been improving over the past few months.

Mr. Steven MacKinnon: Thank you very much.

What I understood from your intervention is that now is the time to invest in strategic infrastructure renewals in order to revive our economy. Our committee is looking, and will look more closely, at this growth factor. As you just pointed out, we are going through a period of weak growth.

Do you see any potential barriers to growth in the structure or regulations of the Canadian economy? Are there any specific issues or factors that stand out as barriers to growth? Is there anything we could address in order help the Canadian economy get out of this phase of weak growth?

● (1140)

Mr. Stephen S. Poloz: Yes, some barriers do exist, and they can be divided into two categories: natural barriers and unnatural barriers.

Natural barriers include things like population growth, which is slowing down at the moment and will continue to slow. Baby boomers born in the 40s and 50s are retiring. That is a global phenomenon; this situation is not unique to Canada. Global growth potential has been re-evaluated at 3.25%, down from about 4% five years ago. That is a pretty significant slowdown. In Canada, the potential growth rate is 1.5%. The question is, what are we going to do to raise that rate?

Some of the other less natural barriers include things like domestic and international free trade agreements as well as regulatory opportunities. At the G20, when it comes to government priorities, we talk about structural reforms. That is the most important thing. Countries have long lists of things they can do to increase growth. Growth of just 0.1% or 0.2% may seem insignificant, but over the long term, it's important.

Ms. Wilkins, would you like to add anything?

Ms. Carolyn Wilkins: You explained things very well, Mr. Poloz.

I would just like to add that Canada's demographic profile is not very conducive to growth, which means that output becomes very important. At the same time, what is unique to Canada is the transition we are currently going through. We are in a destruction phase in the sense that part of the energy economy is diminishing. We are trying to transfer all of those resources, in other words, labour and capital, to the part of the Canadian economy that is growing.

Anything that encourages businesses development, including the movement of labour and the things the governor talked about, is especially important right now.

[*English*]

The Chair: Thank you. We're substantially over time.

Mr. Albas, five minutes, if you could.

[*Translation*]

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

I would like to talk about economic growth, and more specifically, free trade.

[*English*]

Governor, you talked in the media last week about your concerns about perspectives in the public sphere around free trade. Could you elaborate a little about that and what that might mean to economic growth prospects for Canada if other countries, and particularly Canadians, start to look more negatively in that area?

Mr. Stephen S. Poloz: Canada has always been and always will be highly dependent on international trade. In relative terms we're a small country and can't sustain our standard of living without being able to tap into foreign markets in one way or another. Anything that puts that at risk would be something we'd need to take very seriously.

The way I think of it is that the best defence is a good offence, and that is to say aggressively pursing trade agreements with all countries and with all those who are interested at the multilateral level, which is a difficult process. Having that energy always there and also pursuing bilateral arrangements, which simply adds to the momentum through the back door, is something we're likely to benefit from disproportionately. The bigger the country we're dealing with, the more the benefits favour the smaller country.

● (1145)

Mr. Dan Albas: When we discuss terms like the Trans-Pacific Partnership obviously...my riding is in the province of British Columbia and the premier of British Columbia has come out in fierce support of the Trans-Pacific Partnership.

I also note in your report, both in terms of job growth and economic growth, that British Columbia is set to lead Canada as a province.

Do you think that aggressive path...because we have been part of the TPP, do you think arrangements like these are where we should be focused?

Mr. Stephen S. Poloz: I do, and the comments you refer to from the weekend were around this. If those possibilities are somehow in doubt, or under threat from others, it is our duty as policy-makers to explain them to people as best we can, so they have a clear understanding of what is at issue rather than something that may be motivated by something more political or partisan in certain settings.

I think economists understand free trade so well they almost treat it too simply. Of course it's good, but to those who have to go through the adjustment it sounds like they don't understand the situation on the ground.

We know when we liberalize trade, people's lives change as a result, some positively and others negatively, but the entire nation benefits. It's that second part that often is lost in those discussions. Our income growth allows us to provide cushions, and safety nets, and so on to help the transition, just as we're doing at the moment to help the transition from the energy sector to the rest of the economy.

[*Translation*]

Mr. Dan Albas: There is another subject that is important to me.

[*English*]

That is free trade within provinces, internal trade.

There has been a variety of different reports over the past several years. Groups like the Canadian Chamber of Commerce have been asking for more comprehensive agreement since the Chrétien government signed the original agreement on internal trade in 1994.

Is there a potential, particularly given that we are seeing so much foreign direct investment washing out of Canada, where it would be an opportunity for domestic producers to scale up, grow their exports to other provinces, and thus our economy?

Mr. Stephen S. Poloz: I haven't studied the exact question you're asking, but as a principle, the kinds of interprovincial trade barriers are exactly barriers to growth of some form or another, as the other member was talking about. As with all things, they help some people while hurting other people. By changing those things there is always a certain amount of angst around those things.

I think the important principle to bear in mind is that if it's good for the economy as a whole, there's room to manoeuvre around cushioning the blow for those who are affected negatively. That's an important thing that is often forgotten.

[*Translation*]

Mr. Dan Albas: Thank you.

[*English*]

The Chair: Thank you both.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you Governor and Deputy Governor for your testimony today.

I'm going to comment on the report a bit. On the Canadian economy it says that the projection for economic activity through 2016-17 has been revised up. Slower foreign demand growth, the higher Canadian dollar, and a downward revision to business investment all had negative impact on the outlook, but are more than offset by the positive effects of the fiscal measures announced in the federal budget.

I'm going to focus on the Canada-U.S. exchange rate. I won't ask what the ideal exchange rate, is because that is determined by the market. Can you comment on if the Canadian dollar is low, or if the Canadian dollar is above the U.S., what are the negative and positive effects on the Canadian economy in both scenarios?

Mr. Stephen S. Poloz: We think of the Canadian dollar as a general equilibrium variable. I know that sounds like a technical thing, but what I mean is that virtually everything that is going on in the world economy or in our economy has some feedback effect on the currency. That is why it is never simplified in the way you describe.

Oil prices, say, go down, and that causes the Canadian dollar to go down. The Canadian dollar didn't go down by itself, so there are two things happening at the same time. We know that lower oil prices are unambiguously a negative for the Canadian economy. The decline in the Canadian dollar helps to cushion that blow, but in the end we still have a negative for the Canadian economy.

Usually, when people ask questions like that, they think, “Well, if the exchange rate moves all by itself, is that good or bad?”

It is always a double-edged sword because for somebody it's good, and for somebody else it's bad. It is best not to think of it that way. It is more about its usefulness as a thing to keep things moving where they belong and, as you say, markets decide that best.

When the dollar is on the weak side, it is promoting exports of companies for which that matters. There are some that have a lot of imported inputs, so it matters less. For those who are thinking of investing in capital equipment, maybe an imported machine, it would cost more. The lower dollar causes them to slow down that decision, which would be good for economic growth if they did it, while at the same time speeding up demand for their products, which is obviously good. For every company, it is different.

Then, of course, there are the households, because the price for your imports, whether it is a vacation outside of Canada or simply fruits and vegetables, varies according to the exchange rate.

This is an extremely complex question, and I hope you will forgive me for not giving you a simple bottom line.

● (1150)

Mr. Raj Grewal: I appreciate that.

Moving on to a comment that my colleague made—and I am wearing my non-partisan turban today in an act of good faith to Ms. Raitt—historically, what has the multiplier been?

She commented that a lot of the tax cut measures in the budget may not be spent into the economy because of the high levels of household debt. We are making an assumption—every financial forecast has an assumption, whether you are forecasting at a private company or you are forecasting, in our case, the Canadian economy in the budget.

Historically, what has it been? If the government implements a tax cut, how much of that money is seen to trickle into the economy?

Ms. Carolyn Wilkins: As the governor said earlier, the multipliers for the tax cut are a bit smaller than the multipliers you would see from another type of government expenditure.

You can look at it in a whole pile of ways. All I can give you is a range. If you look at the literature or at the models that the Bank of Canada itself has—there are a number of them that you can look up—historically, in the first year the range is 0.1 to 0.4 percentage points, and 0.1 to 0.6 percentage points in the second year. That is the range.

Of course, those ranges don't take into account.... They are coming from the literature and from models that talk about tax cuts and that are very broad, and if the tax cuts are particular to a group of households that tend to spend more out of their income—modest and lower-income households—you would expect the multipliers to be higher.

The Chair: I am going to have to cut you off there, Mr. Grewal.

Mr. Liepert, you have five minutes.

Mr. Ron Liepert (Calgary Signal Hill, CPC): I have three fairly quick questions, and then if there is a bit of time left, my colleague will have a very brief question.

First of all, thank you both for being here.

In the budget, we have heard a lot about the number of jobs that would be created. That has certainly been challenged, in some respects.

I was curious about your report containing no job figures. I just want to ask if you did an analysis. If you did not, can you explain why? If you did an analysis, can you explain why there are no job numbers in your report?

Mr. Stephen S. Poloz: The real question is, what do we need to do monetary policy? That's what the monetary policy report is, our key tool. So for us, what we do is we translate those shocks, such as the oil price shock, or such as the fiscal changes, into the implications for economic growth. That economic growth then is combined with our estimates of how much potential growth there is in the economy to determine what inflation will do as a result of those changes, and that then gives us the full policy discussion.

So for us, although it's interesting it's not a key factor, how many jobs are being created.

Now, the potential output thing that we talked about has a clearer labour market connection, which is that output comes from people working and the productivity that they generate. As all the adjustments in the economy work their way through, we have a convergence on the economy operating at full capacity, and the labour market operating at full capacity also, and that creates jobs of course along the way.

● (1155)

Mr. Ron Liepert: In the past you've been quite outspoken relative to the jobs being created by the private sector. This budget talks a lot about government creating jobs. I'd just like to hear a little more.

Obviously we would have liked to see incentives that would have had the private sector create jobs because I think we all recognize that's not a strength of government. I'd just like to know if you have any comments relative to that. What kinds of things might have been in the budget that would have incented the private sector more than it did?

Mr. Stephen S. Poloz: I think it's not for me to comment on the actual policies that were embedded in the budget. For us, as I mentioned a moment ago, what we need to understand is what the change will be in aggregate demand in the economy as a result of the budget, and that therefore is just one ingredient that we have to consider, along with exports, investment, and all those things.

So whether different details would give you something different, long run or short run, is really not our purview.

Mr. Ron Liepert: Did you take into account in your assessment any form of carbon tax? I know, as an example, there's a carbon tax coming in Alberta in 2017. I think there are various other provincial initiatives. We're expecting something from our friends across the way within this term.

In your out-year projections, was carbon tax factored into that at all?

Mr. Stephen S. Poloz: Well, it's something that is beginning to enter. For us, for the moment, primarily the way it would enter is on our monitoring of inflation. For instance, if there were an additional tax in each litre of gasoline that was related to a carbon tax, that would affect the CPI. It would affect it in a "once and for all" way. CPI would go up the day it went in, and so the inflation rate would be higher for 12 months, and then it would fall back out again, just like any other tax change. We have acknowledged that in our thinking, but it's not an important factor in the underlying inflation story at this stage.

The Chair: Mr. Ouellette, five minutes. You get another round in.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, Governor, for coming here today.

I have two central questions, and I'd like to put them in context a little bit.

As we all know, the Bank of Canada's mandate and that of other central banks is to keep inflation low, and while the bank has been trying to intervene in the Canadian economy and stimulate borrowing and investments with low interest rates, it's also the case that the bank may intervene in the economy when it appears that the economy is too hot; that is, when employment drops to "low the end" or when there's a threat that wages might rise and therefore drive up inflation.

Now, some Canadians might be surprised by this because they generally think that if the Bank of Canada and the government were going to intervene in the market, it would be to create more jobs with better wages, and not deliberately to act to increase unemployment and prevent wage increases.

An economist, Arthur Okun, who was a member of the President's Council of Economic Advisers, wrote in 1976, "The crusade against inflation demands the sacrifice of output and employment."

Joseph Stiglitz, the Nobel Prize-winning economist, has written:

> A focus on inflation puts the bondholders' interests at center stage. Imagine how different monetary policy might have been if the focus had been on keeping unemployment below 5 percent, rather than on keeping the inflation rate below 2 percent.

Now, the Cambridge economist, Ha-Joon Chang, has written:

> Lower inflation may mean that what the workers have already earned is better protected, but the policies that are needed to generate this outcome may reduce what they can earn in the future. Why is this? The tight monetary and fiscal policies that are needed to lower inflation, especially to a very low level, are also likely to reduce the level of economic activity, which, in turn, will lower the demand for labour and thus increase unemployment and reduce wages. So a tough control on inflation is a two-edged sword for workers—it protects their existing incomes better, but it reduces their future incomes. It is only the pensioners and others (including, significantly, the financial industry) whose incomes derive from financial assets with fixed returns for whom lower inflation is a pure blessing. Since they are outside the labour market, tough macroeconomic policies that lower inflation cannot adversely affect their future employment opportunities and wages, while incomes they already have are better protected.

It would appear to me that the Bank of Canada's core mandate since the 1970s has been to put a thumb on the scales in favour of investors, especially established investors, at the expense of everyone in the labour market. The switch to this policy was a turning point in countries like Canada, the U.K., and the U.S., when wages for the most part started to stagnate and the income of CEOs and investors started to increase. It could be argued that this change marked the end of the era of inclusive growth after the end of the Second World War, when as the economy grew it grew for everyone, and the beginning of a new era in which the benefits of economic growth were concentrated in the hands of a few. Inflation has not been a problem in the economy for decades, and in the 1970s it was driven by deliberate manipulation of oil markets by OPEC.

My question is: is it a consequence of the Bank of Canada's anti-inflationary policy and low-inflation target that you will intervene in the economy to sacrifice workers and wages in order to protect investors, as per your mandate?

● (1200)

The Chair: The floor is yours. There's a lot of background there. Go ahead.

Mr. Stephen S. Poloz: Thank you.

The choice of inflation targets as a regime for monetary policy in Canada is now over 25 years old. It grew out of a horrific experience with high inflation. It is unambiguously accepted in the economic literature that lower inflation over the last 20 years has led to better economic performance for all participants in the economy—all—whether they're working, whether they're retired, whether they hope to retire, everybody. That is unambiguous.

Many of the very fine points that you have made are what I would call disequilibrium points; that is, they are partial equilibrium: it's true that if this happens, then this happens. It must, however, be considered in the context of the entire economy and whether the economy has achieved an equilibrium that will stay.

Our belief, very strongly held, is that the economy does not stop moving until inflation is stable and the rest of the economy has adjusted to that level. That defines what we call the "divine coincidence", in which we have maximized employment—

Mr. Robert-Falcon Ouellette: So, Governor, how would your—

The Chair: Robert, we're out of time. You will have the opportunity again.

Mr. Caron, you have three minutes.

Mr. Guy Caron: Let me go back to the impact of deficit spending on infrastructure, and tax cuts that have been announced by this government. You stated there are some times, and this is one, where we have to observe what fiscal policy rather than monetary policy could do. On the other hand, we will need to see the results of what has been announced, especially in terms of where the money will go, how efficient the investments will be.

We know there is some lag, some time between the investments themselves and the benefits or the impact they will have. How long are you going to wait to see what results we get from those decisions, the initial assessment of the success, and how long before you make a definite assessment that it had worked or not worked to the extent that we hoped it would?

Mr. Stephen S. Poloz: Monetary policy-making is fundamentally data-dependent and by that I mean not the individual bits that we refer to, but the entire economy. Now we know fiscal actions are being taken. Some of them will happen quickly. Some will take longer, but they are happening. For us now, they're just in the mix.

We will watch the economy and see if the economy measures up to our expectations and as long as it does, then everything's fine, but if there is for some reason a shortfall in growth, that of course will mean that it will postpone our achievement in the inflation target and we will then have to reconsider whether or not monetary policy requires adjusting. If the opposite occurs, such as an upside surprise, which would be very pleasant for a change, then of course we would have the opposite situation.

That is to say the monetary policy is alive throughout that piece, not the precise individual parts, depending on how the data evolve.

● (1205)

Mr. Guy Caron: I understand, but the way I see it is that the bank will take the back seat right now to see how this will work. But at some point you will look at the growth, the impact, the effect it will have, and eventually you will have to make an assessment that it worked or not.

I understand the need to wait for the data, but on the other side, there is an argument to be made that you will have to...even if the data moves in one direction or the other, the temptation will still be there to say let's wait a little more and a little more to see if it will impact.

The lag might be shorter or longer depending on your assessment, so this is why my question of the timing is important. How much time are you going to give those measures before making or considering getting into the play rather than taking the back seat?

Mr. Stephen S. Poloz: The implication of your question is that monetary policy is conducted very finely, almost as an engineering exercise, and I would resist that interpretation. It's more a question of the risks. So today, we have a forecast that includes the fiscal inputs and if we go six months and we're seeing the economy is behaving less well than we thought, then we would say there's a downside risk there, but don't forget this could happen. Those are just risks.

We have to make our decision every six weeks on the basis of what we have in front of us and our live judgment about how things are unfolding. We're watching a lot of other moving parts other than just government spending. In particular, exports are expected to contribute two-thirds of the growth that we're predicting and so that of course is our big preoccupation. Investment spending by firms will be the second thing as that comes in.

All those things have to be analyzed on a continuous basis and it will be in the aggregate. So there will be fiscal results in that mix. It's very hard to disentangle, if you understand. Thank you.

The Chair: Thank you very much. I do have one question.

You said earlier that part of the economy, the energy economy, is diminishing. You also said, in the Bank of Canada's “Monetary Policy Report” published on April 13, that investment in the energy sector is expected to decline by 60% from 2014 levels. I come out of the commodity industry as a former producer, and we see ups and downs, booms and busts. We see that in the energy sector as well, although there's a lot of global pressure in energy.

I'm just wondering about something. This may be a controversial question, and it may be something that you don't want to, or can't answer.

Have you looked at what the investment situation would be if an Energy east pipeline were in place, or other pipelines? Yes, there would be the investment from putting in place the pipeline itself, but would that have any impact on the oil economy in terms of easier access to market, or in the case of Energy east, putting oil into the refinery in eastern Canada? Can you tell me if you look at those scenarios, or do you know anyone who does?

Mr. Stephen S. Poloz: Chair, I don't have an answer to that question for you. That's a complicated analysis, better put to people in the industry or associations related thereto. Right now, what we're dealing with is low prices, and I think that's the most important driver here.

Low prices for oil mean that the economy has to re-adapt. The size of the energy economy will be smaller as a share of the total economy, and other parts of the economy will grow faster for a period to fill in that space. That's a process that we expect to take several years to complete.

How a pipeline project may or may not fit into that picture is a very complex analysis that we haven't done.

● (1210)

The Chair: No problem. I just thought I'd ask. If you don't ask, you don't get any answers.

Mr. Champagne, you have five minutes.

[*Translation*]

Mr. François-Philippe Champagne (Saint-Maurice—Champlain, Lib.): Thank you, Mr. Chair.

Governor, Ms. Wilkins, thank you for being here with us today.

The media have reported that you said that measures contained in the latest budget will have a noticeable and positive impact on the Canadian economy. Can you elaborate a bit on that for the committee? What measures were you referring to? What measures will have a positive impact on Canada's economy, not only in the short term, but also on our long-term economic growth?

Mr. Stephen S. Poloz: This is a two-part question.

First of all, in the short term, it will boost the economy.

Second, if this spending represents an investment, for instance in infrastructure or something like that, it could promote a trend in growth. A 0.1% or 0.2% increase over the long term would have a very important cumulative effect. It is hard to estimate, but it's certainly positive if it contributes to growth, as I said earlier.

[*English*]

Mr. François-Philippe Champagne: I hear you've just come back from Washington. Is it fair to say that while you were at the G7 or G20 meetings a number of economies were looking at Canada to see what Canada has been proposing in terms of restarting growth?

We know that Madame Lagarde said we're facing mediocre growth. A number of nations are looking at things that could be done in order to grow the economy, not just in the immediate term but in the long term.

What other kinds of measures are people talking about? I know that people have singled out Canada as a poster child. We saw that in the *Wall Street Journal* and the *Financial Times*.

Could you elaborate a bit on the feeling of people sitting around the table?

Mr. Stephen S. Poloz: I won't comment on specifics for other countries, but the general thrust is that there are three fields of policy that should be working together in this situation.

Monetary policy is clearly very stimulative globally, and is close to its maximum ability.

Fiscal policy is less widely engaged, except in certain places that I mentioned before.

The third, and probably most important policy at this stage, is structural change to the economy to overcome the barriers to growth that we talked about earlier. The contention of the IMF, and of those around the table, is that those three can work together.

That is, a structural policy on its own may just have some positive effects long term, and possibly negative effects in the short term. Using fiscal policy with it to cushion the blow and add some extra impetus to the economy helps offset the negative effects while ensuring the long-term effects are good. Monetary policy is there to keep the system well prepared, and to nurture the process.

Using just one of them is not the recipe. The important thing is to have all three operating. That's the nature of our discussions.

Mr. François-Philippe Champagne: I think you mentioned three things that I noted in particular. You talked about innovation, productivity, and exports. Can you expand a bit on the impact of investing in fostering innovation and productivity, on measures that are helpful when we look at these three components of our economy? I know the productivity gap in Canada compared with the U.S. What are the possible positive impacts on the economy when you invest in these three things?

You talked about innovation, and you mentioned exports being fundamental to the Canadian economy as well as productivity. Can you expand a bit on that?

Mr. Stephen S. Poloz: Any investment that makes it easier for firms to grow is going to add to that productivity line, and every little bit counts and adds up. Second, anything you can remove that is an impediment to growth adds to that process.

Finally, I think the most important aspect of all is to nurture the process of creation of new companies because historically it is new companies, young companies that have had the giant leaps in productivity that have made our agri-productivity statistics stronger. That process has been slow since the crisis. In the U.S., it has begun to pick up nicely. In the U.K., it has picked up nicely. We're a bit behind that process. I'm confident it will happen here, too. But the most important phase is where productivity is fostered.

Policies that favour young companies and allow them to grow faster—and there's a wide menu of those—I think, are the main things we should focus on.

● (1215)

The Chair: Thank you.

Ms. Raitt. Five minutes.

Hon. Lisa Raitt: Governor, the other aspect of your report from April 13 talks about the economy's potential growth rate, and you downgraded it from 1.8% to 1.5%, which I think is a significant number. I'd like you to comment on that.

Secondly, when you say later on in the release that we're going to hit capacity in the second half of 2017, does that mean you think you'll be in a position to increase interest rates when the economy comes to full capacity?

So, the first part is, why the downgrade from 1.8% to 1.5%, which, by the way, is much lower than our historical cruise rate of 2%, to quote Barrie McKenna? And what happens in 2017? Are you looking at returning to your normal 2% inflationary rate?

Mr. Stephen S. Poloz: I'm going to ask Carolyn to address the revision of potential and what that means.

I would just say, in general terms "potential" is a very uncertain concept, so it's not a brick wall somewhere out there. It can be affected by many things that we've talked about in committee today, a lot of things that can mean more potential as the economy reaches its full stride, and that postpones that point where we're going to run out of extra resources, such as 120,000 youth who have withdrawn from the workforce. That's not early retirement. That's a discouraging effect. Bringing them back in will make all the difference.

Carolyn, why don't you walk through a couple of the numbers?

Ms. Carolyn Wilkins: On the downgrade in potential and the range for potential, I'd like to emphasize our potential is really reflecting, primarily, the downgrade that we made to business investment, because that business investment that we still have in there represents what we call capital deepening, which means that labour productivity improves.

Now, the downgrade in the investment is primarily in the energy sector, and so it's what I was talking about before, which is we're in this destruction phase, or the phase where the negatives in the energy sector are really outweighing the positives in the other part of the economy. You'll notice that those ranges stay lower for a while but then start to move back up as that transition progresses. You'll see potential output growth, that range, moves up starting in 2018 and going up to 2020, which is the end of our estimate.

I think another factor here is just labour. The more people you have in the labour force, the more you have adding to potential.

What we've seen is a lot of people were discouraged and out of the labour force. Over the last year, we've seen many prime-aged people come back to the labour force. It's possible that even more will come back, particularly younger people who left the labour force after the crisis and over the last couple of years.

The Chair: We'll go to Mr. Aboultaif for the rest of the time.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): I do have one short question. It's a very common question. Where will the government be borrowing the money from? Can you brief us on the mechanism behind it?

Mr. Stephen S. Poloz: Where will the government borrow money from? The government borrows money on the market. Pension plans invest in government bonds, individuals invest in government bonds, foreigners can buy government bonds, so literally everybody. Canada has a very strong credit rating and the appetite for Canadian debt...and a very low level of indebtedness, so it's seen as a very strong credit.

● (1220)

Mr. Ziad Aboultaif: We've seen the falling of commodity prices, which basically stunted resource investments in Canada at large, and specifically in Alberta and other places. That led to a lower Canadian dollar. Do you expect, with this scenario, with the status quo, that you'd expect that there would be other investments coming in because of the lower dollar, which we don't see? That's a puzzling scenario I don't think we have even anticipated.

What measures can we take from generic knowledge that in this case you have to lower business taxes in order to attract investment, which is what the government had proposed is not going to happen from the budget, or unless a miracle happens somewhere around the world that is going to enhance the Canadian economy? Would you encourage lowering business taxation across Canada?

Mr. Stephen S. Poloz: I won't comment on a specific fiscal initiative such as that. I would just say that what we're expecting in our outlook as outlined in the MPR is that investment in the non-energy, non-resource, part of the economy is primed and ready to pick up strongly. Our surveys tell us that people are almost at capacity, and that they need to upgrade their equipment. The order book is strong from the growing export sales. Therefore, all the ingredients are present for the second half of this year to start stronger investment in the non-resource economy.

I've no doubt that this will be participated in by foreign investors as well, especially because, as you mention, with the dollar lower it makes that sort of investment a stronger value proposition for a foreign investor than it would have been while the dollar was stronger. For us, what matters is that the investment happens, new equipment happens, productivity rises, and our capacity increases, and more jobs are created. That's the magic combination that we're forecasting to be picking up speed now. That's what we'll be watching very closely, and foreign investment will be part of that picture.

The Chair: Thank you, both. We're quite over time there.

Mr. Caron and Mr. Sorbara, we'll split the remaining time, if we could, between the two of you.

Go ahead, Mr. Caron.

Mr. Guy Caron: Thank you.

I do have one quick question, but the answer might be a bit longer. When we talk about the inflation, target inflation, negotiations, right now, you said it would take a very high bar to actually change it from the 2%. But you alluded to the fact that right now the definition of that CPI is actually under consideration. Right now the CPI that's being used by the bank excludes the most volatile elements, which has its advantages and its drawbacks as well. One big drawback that I can see is that in that evaluation you're basically evaluating the cost of living that is not actually experienced by the average Canadian.

My question is, besides the status quo, which is a possibility, what are you exploring in terms of possibilities? What are the options that you're currently looking at? Also, can you comment quickly on the benefits and drawbacks of what you're looking at?

Mr. Stephen S. Poloz: Let me just start by saying that the CPI is still the central measure of inflation. As you say, it's the one that captures what everybody buys. When we're talking about different alternatives, what we're talking about is the operational guide, which tries to see through some of the noise.

Carolyn, do you want to talk about the candidates?

Ms. Carolyn Wilkins: Sure. There are a number of different candidates. We originally chose CPIX because it was a way to measure a core that we focus on most, that excludes volatile items. What we've seen over the last couple of years is that the usefulness of this measure as an operational guide—we can see through the volatility and the total CPI index and set monetary policy to see through that so we don't change interest rates for something that will be over by the time it has an affect. That's what we're doing.

The usefulness of that has declined for a number of reasons, which we've talked about in research that's been published. So we're looking at other measures. Some of them are highly statistical measures that use more complex econometric techniques. We're also looking at measures that crop.... Instead of excluding the same items every time, they crop the items that increase the most and those that increase the least in any particular period, in doing statistical tests to see which ones perform the most, the best, and will serve us well. That research is ongoing but a lot of it's on our website, if you want to have a look.

● (1225)

The Chair: Thank you.

The last question goes to Mr. Sorbara.

Mr. Francesco Sorbara: Governor, you commented on the three tools, if I could call them that: monetary policy, fiscal policy, and structural change. On the fiscal policy side, your estimates from the April monetary policy report, incorporating the budget and fiscal measures in the budget, was for about 0.5% boost to growth in 2016, which is line with the finance department, and 0.6% boost for 2017, which is under by 0.4% from the finance department's estimate of 1.0%. So there's a slight change there.

I want to touch on one thing that you had mentioned a few months ago about infrastructure investment being an enabler for long-term economic growth, and you had commented on that to the parliamentary secretary as well; how important investment in infrastructure is to enabling long-term economic growth and improving our productivity.

In that vein, in terms of the productivity front, and with reference to your comment on structural changes, what measures or areas could you see improving the Canadian economy to deal with the structural changes that you may have mentioned? I know you mentioned free trade. Could you comment on the efficacy of our tax system, not on specifics?

Mr. Stephen S. Poloz: Okay. I'll be brief, Chair. That could keep us busy for quite a while.

To begin with a factual. First, the estimates that you referred to are the effect of the budget on the outlook, on growth rates, whereas the effect that was described in the budget and in the footnote—I think footnote 8 or somewhere around there in the MPR—is that the effect on the level of GDP is 0.5% the first year and 1.0% the second year. In growth rate terms it's roughly 0.5% and then another 0.5%. So that reconciles the numbers you discussed. They are all the same. It's level versus growth rates.

Second, I had talked previously about infrastructure as an enabler of growth. To me infrastructure can be a fluid concept. I guess it's any kind of investment that can be linked to future potential economic growth. So there's a wide range of examples from the most obvious, things like transportation—bridges or high-speed trains or rail or airport investments—or day care facilities, which enable parents to re-engage in the workforce, which gives us more potential. All those kinds of things are investments that can add to our potential growth and therefore good things.

In terms of the third leg of the stool, which is structural reforms, it's things that promote labour market mobility among provinces that relates to interprovincial trade. The labour mobility is not perfect, nor has it necessarily helped. There are policies that could make it move faster when we're trying to adjust to things.

Of course, more generally, as we discussed earlier, interprovincial free trade would help our economy adjust and perform much more efficiently.

Those are just some ideas, Chair. There are lots.

The Chair: Thank you very much. We'll have to end there. On behalf of the committee, Governor, Deputy Governor, thank you for your presentation and your answers to questions. Beyond that, thank you, as well, for what you do for the stability of the Canadian economy, in terms of monetary policy. Thank you once again.

We'll suspend for about three or four minutes while the parliamentary budget officer comes forward.

● (1225)

(Pause)

● (1235)

The Chair: Order. During this session, we'll basically be doing two studies or two orders of reference with the parliamentary budget officer. We'll break it into two sessions. First, we'll deal with Standing Order 108(2), the study on economic and fiscal outlook. In the second half of the session with the parliamentary budget officer, we will shift to Bill C-2, an act to amend the Income Tax Act, and comments from the parliamentary budget officer and staff in that area.

I understand, Mr. Fréchette, you have one opening statement that will cover the two. To introduce who is at the table: parliamentary budget officer, Jean-Denis Fréchette; Mr. Askari, assistant parliamentary budget officer; Mr. Matier, senior director, economic and fiscal analysis and forecasting; Mr. Cameron, economic adviser and analyst, economic and fiscal analysis; and Mr. Jacques, director, economic and fiscal analysis.

Mr. Fréchette, the floor is yours. It's been a long time since we used to work at the agriculture committee together.

Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Library of Parliament): Thank you, Mr. Chair. It's the first time you called me Mr. Fréchette so I'm really happy with that.

[*Translation*]

Mr. Chair, vice-chairs, and members of the committee, thank you again for the invitation to appear and discuss our April 2016 Economic and Fiscal Outlook, which was released today.

As you have already mentioned, today I am joined by a number of members of my team, who will be pleased to respond to your questions.

● (1240)

[*English*]

Since our November 2015 report, the outlook for the global economy has deteriorated further and commodity prices over the medium term have been revised lower. Despite this weaker external outlook, we anticipate that the combination of fiscal measures in budget 2016 and the accommodative monetary policy will help bolster the Canadian economy.

We project that growth in real GDP will rebound to 1.8% in 2016 and then rise to 2.5% in 2017. Growth in the economy is then expected to moderate over 2018 to 2020, reflecting the tapering of fiscal measures and the normalization of the monetary policy.

The level of nominal GDP, which is the broadest single measure of the tax base, is projected to be almost $20 billion lower each year on average between 2016 and 2020 compared to our November report. However, relative to the government's planning assumptions for nominal GDP in budget 2016, our projection is on average $40 billion higher per year over 2016 to 2020. The difference is most pronounced in 2016 and 2017, reaching close to $50 billion in those years.

Our November 2015 fiscal outlook provided an independent status quo planning assumption for the start of this 42nd Parliament. We have updated our fiscal outlook to include measures announced in budget 2016 as well as measures announced prior to the budget.

[*Translation*]

We estimate that there was a small surplus in 2015-16 and we are forecasting a budgetary deficit of $20.5 billion in 2016-17, which is primarily attributable to the introduction of new measures since the government's fall update.

The deficit is then projected to rise to $24.2 billion in 2017-18 as the result of moving to the seven-year break even mechanism for EI premium rates, as well as increases in direct program expenses.

Over the remainder of the planning horizon, we project the deficit to decline to $12.4 billion based on the government's forecast that direct program expenses, in particular the operating costs of departments, will remain flat over the period from 2017-18 to 2019-20.

Compared to budget 2016, our outlook for budgetary deficits over 2016-17 to 2020-21 is $4.5 billion lower on average. The average difference is roughly in line with the $6-billion fiscal impact of the government's adjustment to the private sector forecast of nominal GDP.

[*English*]

Budget 2016 highlights the government's commitment to returning to balanced budgets and to reducing the federal debt-to-GDP ratio to a lower level by 2020-21. To provide a broader perspective on the sustainability of the government's finances, we have extended our projections beyond 2020-21 to show the long-term trajectory of federal debt relative to GDP. Our projections show the federal debt-to-GDP ratio declining continuously over the next several decades under current policy. This indicates that the federal fiscal structure underlying budget 2016 is sustainable over the long term.

We would be pleased to answer your questions concerning our economic and fiscal outlook, or any relevant matter such as Bill C-2 or, again, our current or future mandate.

Thank you, Mr. Chair.

The Chair: Thank you.

If we could, committee, because I think you have different people to come to the fore for Bill C-2, could we keep this round of about 40 minutes or 35 minutes to the economic and fiscal update?

Mr. MacKinnon, for seven minutes.

[*Translation*]

Mr. Steven MacKinnon: Mr. Fréchette, I want to thank you and your staff for being here today, and especially for your hard work and continued support of the members of Parliament. You are doing excellent work. Parliamentarians and all Canadians very much appreciate your efforts. Your contributions to our analyses have become invaluable.

I'm going begin with the burning question.

There is an inconsistency between your analysis and that of the Bank of Canada, which is more in line with the projections from the Department of Finance when it comes to fiscal multipliers and the impact that the various government measures will have on Canada's economy as a whole. I wonder if you could comment on that, and please, don't hold back.

Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Office of the Parliamentary Budget Officer, Library of Parliament): Thank you for the question.

Indeed, there are always some discrepancies in the multipliers in the various models. Our multipliers are a little lower than those of the Department of Finance. Representatives from the Bank of Canada said they used the same multipliers as the Department of Finance. Accordingly, there is difference in terms of the level of multipliers and the impact on the economy.

● (1245)

Mr. Steven MacKinnon: What I was really asking for was an explanation for the discrepancy between your assessment of the multipliers and that of the Department of Finance. How do you explain this discrepancy regarding the impact of the budget measures?

Mr. Mostafa Askari: We use different economic models. Every forecaster uses different economic models, and the assumptions are different. There is usually a difference between the various multipliers, depending on the model used. I don't really have a more specific explanation than that. It is because of different models.

Mr. Steven MacKinnon: There are variables in any model. In your analysis, are there any variables that would underestimate the impact of the budget measures, or conversely, are there variables in other models that might overestimate it? I am try to identify where the discrepancy lies.

Mr. Jean-Denis Fréchette: Before I hand the floor over to Mr. Matier, who will provide more details on this, I would like to say that the use of models and multipliers is more a question of judgment than details. The same thing goes for our forecasts, which are different than the Department of Finance's forecasts. That being said, that department has a lot more people working for it, and their model is much more sophisticated than ours.

Mr. Matier will be able to provide all the details in that regard.

[*English*]

The Chair: Mr. Matier.

Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis and Forecasting, Office of the Parliamentary Budget Officer, Library of Parliament): We don't have the detailed results from the Department of Finance, but we suspect that there are differences in terms of the leakages in the economy. That is to say when there is an increase in aggregate demand that can be met in several ways through increased imports into the economy, a drawdown in inventory stocks, or increased production. As well, if you're looking at it from the household perspective, increases in disposable income through, let's say, lower taxes, that increase could either flow through into increased household savings, or increased household consumption. So the models will differ in terms of their sensitivities to these leakages.

As well, I think it would be helpful to see the Bank of Canada's more detailed analysis to which the governor referred today. While they do say that they believe the estimates to be reasonable, I think our estimates in terms of the impacts on real GDP in terms of the multipliers are fairly close to the department's in the first year. Anyway, they're identical, and in year two we're talking about an impact of 0.8% versus 1%. There are some differences on employment, and again the sensitivity to how the labour market responds to changes in aggregate demand and output will also be affected. I think in terms of this debate as an economist it's fascinating. I think it would be a very helpful contribution to see the Bank of Canada's detailed results, as well as their literature review on this.

Thank you.

[*Translation*]

Mr. Steven MacKinnon: Thank you very much.

One area where there seems to be no difference of opinion is the fact that investments at various levels, particularly in infrastructure, will help boost growth in Canada. Investments will translate into better performance for the Canadian economy than if we don't invest. Would you agree?

Mr. Jean-Denis Fréchette: I agree. We also talk about this on page 2 of our report, where it states that this increase is mostly attributable to $13.2 billion of new measures.

You were talking about forecasts, but I think we are a little more optimistic than the Department of Finance. That may not be the case for employment, but that is definitely the case when it comes to economic growth.

Mr. Steven MacKinnon: We appreciate hearing you say it directly, Mr. Fréchette.

I do not have much time left, but I would like to go back to what I would call the prudence issue.

The previous government did not show such prudence when it presented its budgets, unlike Mr. Martin, for example, who did so during the 1990s and 2000s.

Our Minister of Finance wants to go back to exercising prudence. You are clearly saying that he might have been a bit too prudent with regard to growth. He is underestimating the country's economic opportunities. I would argue that being prudent when making budget projections is an excellent tool for any fiscal manager, such as our finance minister.

Could you comment on the return to prudent budget projections as compared to the practices of the previous government? How do you feel about this issue?

● (1250)

Mr. Jean-Denis Fréchette: I will not make any comments about the previous government.

I will talk about the report. We found that being prudent is a good thing. However, excessive prudence is undesirable because it creates expectations or a certain long-term outlook, which could be just as harmful as not being prudent at all.

That is essentially our message. We must be prudent, but excessive prudence is not desirable, and that is what we said. Our calculations are made with a reasonable level of prudence. I am talking about our results on growth and the deficit. Our calculations differ by about $6 billion over the next few years, compared to the department's numbers. That is primarily due to this excessive prudence.

[*English*]

The Vice-Chair (Mr. Ron Liepert): Thank you.

Lisa Raitt.

Hon. Lisa Raitt: Welcome. Thank you very much for being here.

I'm sorry, I'm going to do this, but I'm noting I'm the only woman at the table. I'm hoping that with the next round of people coming to the table, you're going to have a woman with you. I'm seeing nodding, okay, I'm going to take it. Next time you come to committee, you know what you have to do. You have to find them and bring them in.

Mr. Jean-Denis Fréchette: You'll see them in the next part of the meeting today.

[*Translation*]

Hon. Lisa Raitt: Thank you.

[*English*]

I'm going to ask you about your economic and fiscal outlook that was published this morning, specifically your appendix F. I wanted to get some clarification and clarity on your fiscal and outlook comparisons.

What we see in front of us is the PBO on budget 2016 fiscal outlook comparison, taking your...in the budget and putting them together, you end up with a delta. I'm going to ask about three areas: personal income tax, children's benefits, and then I'm going to talk about public debt charges.

I'm wondering if you can give me some perspective about why you diverged from the budget in terms of how much personal income taxes the government will be collecting over the next couple of years. I do note, it's a significant increase in personal income tax collection, from $135 million to $177 million. It's a significant increase in income taxes, but yours is even higher. I'm wondering if you can comment on that, please.

Mr. Jean-Denis Fréchette: I will ask Scott Cameron to answer your question. He has 40 seconds. Somebody else will provide more information after that.

Mr. Scott Cameron (Economic Advisor, Analyst, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): That should largely reflect just the different nominal GDP bases and, within nominal GDP, the different shares accruing to households versus firms. The difference between us, the delta between us and Finance, would probably be attributable to its risk adjustment, which is spread proportionally over tax revenues.

Across those tax categories, you have to lose $6 billion from somewhere. We're not sure exactly where, but they have mentioned in the past that it's proportionally across, so about a $1-billion difference over the five years is what you'd expect from the forecast adjustment that Finance does.

Ours is an unadjusted economic forecast underlying the fiscal.

Hon. Lisa Raitt: Thank you.

In terms of the children's benefits, again we see a divergence, whereby you have children's benefits increasing, if I take a look at it, as you go through to 2020-21, but yours is actually lower than what is anticipated in the budget.

● (1255)

Mr. Scott Cameron: Because this is quite a new program, we don't have any historical data to work with yet, and we have a very limited subset of tax forms and CRA data to work with, compared with the Department of Finance. I would attribute most of those differences, then, just to our not really knowing what we're working with yet in terms of actual households, income distributions, and how the take-up will be amongst the different income brackets.

I think we're within a very small range, basically, in the difference between us and Finance. I don't know the exact percentage, but it's fairly close, I would say. Given that it's a $22-billion program, I think being within $300 million or $400 million.... I would say we're roughly the same as Finance.

Hon. Lisa Raitt: For the public debt charges, what is the interest rate assumption that you applied?

Mr. Scott Cameron: In appendix A, on page 18, we have the outlook for the three-month treasury rate and the 10-year government bond rate. We have an equation that maps the duration of the bonds onto the effective rate that we apply to the government debt. We look, then, at borrowing in the market and how the effective balance between those short- and long-term bonds maps into the rate that the government ends up paying on their debt.

Hon. Lisa Raitt: The Library of Parliament kindly provided some preparation materials for today that indicate that a sustained one point percentage increase in interest rates increases public debt. I'm wondering, since we had the governor in this morning and he talked about our returning to economic capacity in 2017, which one would assume could include an increase in the Bank of Canada interest rate, whether that was taken into account in this.

Mr. Scott Cameron: Chris will be able to tell you the exact kind of path of policy rate that we assume, but certainly we have the effective interest rate on government debt increasing over the outlook period.

Mr. Chris Matier: Our assumption is that the Bank of Canada doesn't start increasing interest rates until the end of 2017. I think this would be consistent with the accommodation of fiscal policy. The Bank of Canada has used the Department of Finance's estimates of the economic impacts on the economy. Those estimates are based on the assumption that interest rates don't change. Perhaps implicitly that is also the assumption underlying the monetary policy report, but we don't know that for certain.

Hon. Lisa Raitt: You've done a costing of how much changing the policy on old age security is going to be costing in the future. Can you give us an insight into what that is?

Mr. Scott Cameron: In terms of its overall sustainability picture, which is the way we like to evaluate the overall impact of these policy changes, the government debt path was sustainable before the change and continues to be sustainable after. The cost in the first full year of the program, 2028-29, I think we had at $11.2 billion, but as a share of GDP that's only about 0.35%.

That is the most costly it ever gets to be, because after that we start to see the demographics and the parameters of the program move in such a way that the costs decline very quickly, from about 0.35% to 0.2%, down to even as low as 0.18%, I think. I don't have it in front of me, but you see a kind of downward path.

That partly leads to the graph we have toward the end of the report, in which you see the debt declining over time. The way the demographics and program costs move is such that you start to get quite a quick fiscal consolidation, once we get over those humps in the demographics.

Hon. Lisa Raitt: In terms of direct program spending—

The Vice-Chair (Mr. Ron Liepert): Time's up. Thank you.

Monsieur Caron.

[*Translation*]

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

I would like to thank all the witnesses for meeting with us here and for the work they have done, which is extremely useful.

I would like to start with a few remarks, particularly to respond to Mr. MacKinnon's comments.

I would call the current approach to budgeting policy "Paul Martin 2.0". This is where we can agree. In fact, this increasingly reminds me of the budgets tabled by that former finance minister.

We are not talking about prudence here, but rather about forecasts that are miles apart from what can be projected. Paul Martin calculated deficit forecasts by overinflating tax expenditures. I am talking about all the tax credits and revenues that the government hands out through tax measures.

In this case, things are being done differently, namely by inflating or lowering the estimates. As you yourself noted, we are talking about a difference of $40 billion per year for the projected level of nominal GDP. We even go up to nearly $50 billion per year in 2016-17. We are then back in the same situation. We are no longer talking about prudence now. This is my personal opinion, but I think we are witnessing a deliberate strategy intended to change people's expectations. An overly large deficit that calls for prudence is announced, but ultimately the result at the end of the year is somewhat better than what was originally announced. People are consequently relieved. In addition, this makes the government look good and eases its conscience.

Not being prudent enough is problematic, but being overly prudent becomes a deliberate political strategy. Since I know what your role is, I will not ask you to comment on these issues. However, since you are still in contact with the Department of Finance, I would like to know where this extremely conservative estimate of nominal GDP comes from.

Moreover, the contingency fund totalled $3 billion in the past. This amount was reduced to $1 billion under the Conservatives. However it has now inflated to $6 billion. Based on your conversations and the information you receive for your analysis, could you tell me where these figures come from?

I had the opportunity to ask the Minister of Finance, Mr. Morneau, some questions, but I never received an answer. It looks like these figures just fell from the sky.

● (1300)

Mr. Jean-Denis Fréchette: Thank you for the question.

In our case, we are not saying that it is deliberate, but rather that it is excessive. I understand your point. As I said before, that created certain expectations. It is quite clear that inordinately underplaying GDP growth for the next five years will create lower expectations. Then, with the results that can be achieved, expectations can be raised.

In terms of the information we have, we published some interesting data two weeks ago, shortly after the budget was released. We showed the private sector projections for the nominal GDP over a period of five years. There was whole lot of confusion on the subject. They spoke of both overestimation and under-estimation. As for us, we were saying that the first and second years of their projections had been continually underestimated over the years, that is, for 40% of the time. This is really something to consider.

I would now ask Mr. Moskari to take it from here.

Mr. Mostafa Askari: Thank you.

We do not really know why the Department of Finance decided on an adjustment of $40 billion. That said, governments have used private sector forecasts for 20 years to give fiscal forecasting an element of independence.

However, when the adjustment is very large, this element of independence disappears completely. Moreover, when we change a significant variable, such as the nominal GDP, the other variables from private sector forecasts become inconsistent with the level of GDP. In short, such forecasts are problematic.

Mr. Guy Caron: Thank you.

I will probably come back to this, if I get the opportunity to participate in another round of questions.

I would like to talk about transparency. Where do the figures and parameters used by the Department of Finance come from? We do not know. This may raise questions about transparency and accountability.

You raised another issue about transparency or the lack thereof. In fact, you raised two issues. One of them was partially addressed. I wonder if you are satisfied with the answer you got from the finance department, following your complaint about not having all the numbers.

The other issue is the impact of the fact that the government shortened the time horizon for its cost estimates to two years from five years and the repercussions this will have not only on budgeting, but also on your work as Parliamentary Budget Officer.

● (1305)

Mr. Jean-Denis Fréchette: Thank you for your question on transparency. That is a good question. I would like to take 30 seconds to explain what we went through regarding transparency during that time.

When we saw that the budget contained only a two-year plan and not a five-year plan, as is normally the case, we were surprised. We had no idea this would happen.

The second surprise was actually pleasant, because we asked for the figures and we received them for a five-year period. Transparency certainly became more real than it was before.

The third surprise was to be told, when we received these figures a few days later, that we could not use them. We went through something of a cycle, namely pleasant surprises, less pleasant ones, and finally, following an official request, obtaining the data.

There may have been some lack of transparency at the outset. After that, the government realized that it was not being transparent. The fact that we obtained the figures we asked for satisfied us because that enables us to inform Parliament on the state of the five-year plan.

That said, pretty much everyone should perhaps learn something about transparency, whether we are talking about the government or anyone doing financial planning. Over the coming months we will see in the updates and in other documents whether that element of surprise will be eliminated and whether the PBO will always be happy to have those figures.

Mr. Matier can answer your previous question right away, if you like.

[*English*]

Mr. Chris Matier: I have spoken to Department of Finance officials, and I don't have direct knowledge of where the $3 billion came from. My guess is that it is essentially a holdover from the $3-billion contingency reserve that was used by previous governments, and it was just easily mapped into roughly $20 billion or $3 billion on federal revenues into the current forecast adjustment.

On your point about prudent forecasts in the budget, our reading is that the use of the forecast adjustment isn't really for prudence. At least, I couldn't find an explicit mention of that in the budget. Rather, it is about taking account of the downside risks. If you look back at the 2015 fall update and the February Canadian economic outlook, that is the way the language is presented, which is what you want to do as a forecaster. It is in that sense that we thought this forecast adjustment, specifically in the first year and the second year of the horizon, was excessive, and that this, at least on the surface, wasn't really about prudence. It was to balance the risks. You would really have to have a very negative scenario with a high probability of its being realized to justify a downward adjustment of $40 billion like that.

The Vice-Chair (Mr. Ron Liepert): Thank you.

We'll go to Mr. Sobara, for seven minutes.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

I wish to quickly speak about something Mr. Caron mentioned, about this being potentially Paul Martin 2.0. I think if we are entering a period of Paul Martin 2.0 here in Canada, and for the next several years we see strong economic growth and a number of good things, the strengthening of CPP and working with the provinces on a number of matters, I think that's a great thing for Canada and for my riding of Vaughan—Woodbridge. So I will applaud that. Thank you, Mr. Caron.

On the issue of prudence, in a former lifetime I was a bond analyst, and one of our jobs was to look at tail risk and to look at what may happen on the downside. I think if you look at last year and the last 18 to 24 months, and you've seen where commodity prices have gone, and you continue to see a transition with the Chinese economy going from an industrial-like economy to a consumer-driven economy, and some of the challenges that we've seen in volatility in emerging markets, the 2016 budget contained an amount of prudence, the $40-billion adjustment to nominal GDP. From my point of view, it is actually being very prudent to taxpayers. It's being prudent in terms of the economy and in terms of making sure that we look at it from the big-picture approach, but it's also taking into account the issues at hand in terms of the volatility. I do want to put that on the record, and I'd be happy to hear your comments.

I also wanted to ask Mr. Cameron, again, regarding the issue in terms of the adjustment in old age security and GIS from age 67 to 65. Can you just reiterate what that actually meant on a "per cent of GDP" basis going out on that, because I think it's important for us to note?

● (1310)

Mr. Scott Cameron: Certainly. On that note, we started off at 0.35% of GDP in 2029, and by the end of our outlook here—I think we showed up until 2065—that drops to 0.15% of GDP. So it halves, basically, over the outlook. That's a result of these demographic movements in the program parameters.

Mr. Francesco Sorbara: I think it is a point worth taking. Developed economies across the world do face demographic challenges, but this adjustment in policy in returning the old age security and GIS from ages 67 to 65, where we do note that our predecessor announced this change in Switzerland, without consultation with Canadians, actually does not in any way impair our financial wherewithal or flexibility as we move forward. That's my interpretation. You don't have to comment, but I just wanted to put that out there as well.

Mr. Chair, I do wish to give a minute of my time to Mr. Champagne.

[*Translation*]

Mr. François-Philippe Champagne: Thank you, Mr. Chair.

I thank Mr. Fréchette and all his colleagues for being here with us.

You know that we have a great deal of respect for your work and we are happy to see you here today. I can assure you that the work you do, namely to inform Canadians and parliamentarians, is important to us. I can assure you, Mr. Fréchette, of our full co-operation, now and in the future, for everything you do.

I would like to get back to the issue of prudence, which is very important. Before meeting with you, we met with the Governor of the Bank of Canada, who told us about the volatility of the global economy. The Canadian economy is about 2% of the global economy. We examined the significant risks in the global economy. We talked about China and the United States. We could also talk about Brazil. The International Monetary Fund recently downgraded its projection for Canada's economic growth.

How have you integrated the macroeconomic risks in the global economy in your projections? It is important to look at what is happening in the world. All economic players agree that there is a lot of volatility. Ms. Lagarde spoke of a low-growth era. Therefore we think it appropriate to be prudent.

Please tell us about the macroeconomic measures you have considered or the risks associated with the global economic volatility that you took into account in your projections.

Mr. Jean-Denis Fréchette: Thank you for your support to the Parliamentary Budget Officer. Also, we are very happy to see that, in your election platform, you spoke of a clearer and stronger mandate. We appreciate that.

I will ask Mr. Matier to speak about prudence. He is Mr. Prudence in the parliamentary budget office. That is one of his interests, so he will talk about it in detail.

Thank you.

[*English*]

Mr. Chris Matier: In our projection we incorporate the external outlook essentially through the U.S. economy and through commodity prices, as well as the economy of the rest of the world, which we look at, and it is informed by the International Monetary Fund.

In our recent projection, we made significant downward revisions to the outlook for U.S. real GDP growth from 2.6% to 2.1%, and from 2.6% to 2.3%. As well, we reduced significantly the outlook for commodity prices, reflecting the weaker global environment.

These are the main channels that are the global macroeconomics that are affecting the Canadian economy.

At the same time, we have a fiscal policy that provides an increase to aggregate demand in the economy and a monetary policy that maintains its interest rate at current levels to accommodate this. This provides an offsetting stimulus to the economy.

On the question of prudence, our projections are what we call balanced risk, in that we think the upside and the downside possibilities are roughly balanced. As a forecaster, this is what you want to do if you are concerned about forecast accuracy. If you want to minimize the size of your errors, you want to take into account the balance of risks.

A prudent forecast is different in that it wants to ensure, with a high degree of probability, meeting or exceeding a target.

They may sound like the same thing, and it may sound prudent in both cases, but we think of them as distinct approaches to forecasting.

In the current budget, our reading of it, based on the fall update and the February backgrounder, is that the forecast adjustment had been used to balance the risks the government sought to the private sector outlook, and not so much as prudent budgeting. If the government's decision is to make this adjustment to increase the degree of prudence, or ensure with a high degree of probability achieving its target, then it can be transparent and say, “We are making a prudent decision”. In my reading, and doing a word search in the budget document, the word prudent does come up, but not in that context.

● (1315)

The Chair: Thank you.

If you are suggesting the minister use the word prudent more often, there is no question.

Mr. Aboultaif.

Mr. Ziad Aboultaif: Thank you very much.

We know you run into big uncertainty over what's happened with the international economy and the decline of commodities, which were for the longest time the main engine of what's going on, and I know the kind of growth that we've seen in the past.

We have a federal budget that suggests we're borrowing $30 billion. Canadians are asking about this large sum of money that we are borrowing just the first year and moving forward for the next years. The question always arises, what is the estimate of the economic impact of this new Liberal spending?

It's important to know that from the expectations, or the estimates that the budget has come up with, versus what you can see from your perspective. How can we balance those views? Do you see that the estimate was wishful, or what is the basis of reality?

Mr. Mostafa Askari: Thank you.

We have taken into account the impact of the fiscal measures the government introduced in the budget and before the budget, so our projections reflect those. We have shown the impacts as being 0.05% growth in the first year, in 2016, and about 0.03% in the second year, in 2017.

That's slightly different from what the government had proposed, but as we said earlier, those kinds of small differences in terms of the impact are a function of the assumptions that you are making in your models and the multipliers you get from your models. It is explicable. You can explain those differences, it's not major.

Mr. Ziad Aboultaif: The next question comes about the job creation. There is an estimate there. I believe you took aim at the finance minister on the job creation calculations. Can you explain how he got it wrong?

I believe in the United States they went through the same thing in the past, in 2008-09, and there was at least some calculation method over spending, or a stimulus package versus job creation. How did the finance minister get it wrong in Canada since, in my opinion, the numbers don't add up? Probably your opinion is the same or close enough on the same level, too.

● (1320)

Mr. Mostafa Askari: Sir, we wouldn't say that he got it wrong. It is an estimate. We have an estimate that is slightly different. As I said, you have to look at these kinds of estimates and results as a range of possibilities rather than precise estimates.

When the Department of Finance estimates jobs at 100,000, it is something that is coming from the models they have, with the assumptions they have made. We have an estimate of about 60,000. You can look at it as a range of possibilities, not necessarily precise numbers.

Mr. Ziad Aboultaif: There is a huge gap right there. Really, anyone can say, this is the way I measure, and this is the result I expect. On the ground, Canadians need some clear answers. They expect strong, solid, grounded answers to what the spending is and what the outcome is going to be.

Mr. Mostafa Askari: Unfortunately, these things cannot be precise. Another thing is that over time, it will be very hard to determine who was right or wrong, because things will change over time. In the next two years, we won't know whether 100,000 jobs were created because of the programs, or 60,000. It is impossible to do that.

The Chair: Okay. I have to cut you off there.

I will take two more questions in this discussion period, from Mr. Grewal and Mr. Liepert. Then we are going to move to Bill C-2, and we'll limit the questions to three minutes, if we could, to keep it pointed on Bill C-2.

Mr. Grewal, go ahead.

Mr. Raj Grewal: Thank you, Mr. Chair.

I am going to jump right into it. In your report this morning, you are forecasting lower deficits than the minister and the government are. You are saying that it is predominantly because of the $6-billion fiscal impact that the government has put in place.

Are you saying that building in a fiscal impact is not a good decision? The government has made a commitment to be open and transparent with Canadians. As economic conditions change, we will update Canadians.

The $6-billion fiscal impact, although larger than in previous years, is meant to ensure.... There have been a lot of fluctuations in global commodity prices, which will affect the Canadian economy.

Why is it that you are building a lower fiscal impact into your report, given that international commodity prices are still very volatile?

Mr. Jean-Denis Fréchette: Chris, go ahead.

Mr. Chris Matier: I'll respond quickly. I think it is helpful to look back. There have been significant revisions to oil prices and commodity prices since the late 2014 period. Now we are at a level where it is unlikely that we are going to see the same kind of downward revisions. I don't think the price of oil can go negative. We are around $40 right now.

Subtracting that $40 billion from nominal GDP is, in some ways, almost like thinking that oil is going to keep falling to minimal price levels. It is a possibility. It could be a tail risk, but again, tail risks have very small probabilities attached to them.

Mr. Raj Grewal: You are basically saying that because the oil price has levelled off at $35 to $40 per barrel, the government is doing too much in its $6-billion fiscal impact assessment.

Mr. Chris Matier: Essentially. In late 2014, remember, oil was over $100, and now it is down to $60. Over that period, that's a nominal GDP, I think the revision might be around $80 billion for 2016 or 2017 levels. It is almost like thinking of below $20, maybe $10 per barrel.

Mr. Raj Grewal: I still think it is prudent budgeting on the part of the government to ensure that there is this flexibility. In a previous career, I was an analyst. We always used to build these things in, even on the smallest things. I used to be at a beverage company. We used to do it on our commodity, which was, at that time, the price of oranges, the fluctuation there and the exchange rate.

I still think it is very good fiscal policy to ensure that the $6-billion contingency is honest with Canadians. We cannot control certain things in terms of commodity prices, but let's not belabour the point. Let's move on.

You also say in your report that the federal debt-to-GDP ratio will be at a lower level by 2020-21; that moving forward—you have extended your projection over five years—given current fiscal policy and current fiscal structure, the government is doing a good job to help grow the economy; and that our investments are sound, given our economic position today. Is that true? What are your comments on that?

● (1325)

Mr. Jean-Denis Fréchette: That's what we said. What we said is that in terms of fiscal sustainability in the long term, if everything stays as it is right now and you don't introduce new measures, what we know right now and what you see as maintained over the long term is exactly the graph you have in figure 6. Eventually the debt-to-GDP ratio will go to zero. That means that the government has fiscal sustainability.

By the way, we are going to have a report in July or June, our fiscal sustainability report, which is the report that covers all the details of those kinds of measures.

The Chair: Thank you both.

We'll go to Mr. Liepert, but I expect that when we're into the next round of questioning we may still need you, Mr. Matier and Mr. Cameron.

Let me ask Ms. Lao and Ms. Malanik to come to the table as well, so that they are here for Bill C-2.

Mr. Liepert.

Mr. Ron Liepert: I just want to pursue a little bit more the modelling you used relative to jobs, because one of the things we continue to hear is that this particular budget is an investment in infrastructure, and yet in the first two years, if my eyesight is still correct, the actual investment in infrastructure is only in the range of $10 to $12 billion.

There is, however, other government spending, which would include—I don't know—CBC, as an example; presumably, for that extra several hundreds of millions of dollars annually, there are going to be jobs created there.

Did you do any modelling as to where these new jobs, whether it's 50,000 or 150,000, are going to be created, how much is really going to come out of infrastructure spending, and how much is going to come out of other spending?

Mr. Chris Matier: Yes. In preparing our estimates of the job impact, we followed Finance Canada's mapping of the measures into the targeted sectors, and so in preparing those estimates we have a jobs impact by high-level sector. If it was measures to support low- and modest-income households, there would be a measure for that.

Other government spending, as you indicated, would have a jobs impact number as well. I don't have those numbers in front of me, but we could provide the detailed breakdown.

Mr. Ron Liepert: I would like the breakdown, because I think it's important that we know, if we're going to be running a deficit of $30 billion, as an example, how many of those unemployed electricians who are no longer working in the oil sands are going to be working in Mr. Sorbara's riding building new condos in Toronto.

Mr. Chris Matier: We have the breakdown by the targeted area, but we don't have results by sector or by geographic region.

Mr. Ron Liepert: What do you mean by targeted sector, then?

Mr. Chris Matier: Let's say sectors such as the manufacturing sector or agriculture. Our model is a very highly aggregated macro model.

Mr. Ron Liepert: Then, what do you have?

Mr. Chris Matier: We have estimates of the impact on the employment level for the entire Canadian economy, and we're able to link those job numbers with the measures that were proposed, using Finance's mapping showing whether the increased spending is going to show up in investment in non-residential structures or in residential structures. That kind of detail we would have.

Mr. Ron Liepert: I'd be interested in it as well.

Here is another quick question before we move on.

Also in your modelling, did you do any work around...? There's considerable debate on the new child tax benefit and the actual benefits to an average family, I guess is the best way to put it, versus the tax benefits that were cancelled in this budget.

Was there any modelling of how those two would compare?

● (1330)

Mr. Mostafa Askari: We are working on a report that will look at the new child benefits program, with a distribution analysis of it. That will be ready, hopefully in the next few weeks. We haven't finished it, but it will come out.

Mr. Ron Liepert: Would you also be incorporating under that, the fitness tax credit, the arts tax credit, and income splitting as well, or would it be strictly for the two kinds of child tax benefits?

Mr. Jason Jacques (Director, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): To follow up on the point made by Dr. Askari, we're actually working on two requests right now. The first is a detailed micro-distributional analysis, both pre and post child tax benefits. As well, to your point, we're doing a more comprehensive overview of the tax changes seen in budget 2016, both on a pre-imposed basis and on a micro basis for specific types of families.

Mr. Ron Liepert: Perfect.

The Chair: Thank you very much. You'll have to remain in suspense for three or four weeks, Mr. Liepert, for the outcome.

We will turn to bill C-2. On my list I have Mr. Lefebvre first, then Ms. Raitt, and then Mr. Caron. We'll try to hold it to four minutes each during this round if we could.

Mr. Lefebvre.

Mr. Paul Lefebvre (Sudbury, Lib.): Thank you, Mr. Chair.

I want to talk about the TFSAs. Bill C-2 addresses that and reduces the limit from $11,000 to $5,000.

By income group, what percentage of Canadians are currently contributing the maximum amount to their TFSAs?

Mr. Mostafa Askari: Well, in general, about 18% of people who hold TFSAs have maximized their contribution.

Mr. Paul Lefebvre: What are their income profiles?

Mr. Jason Jacques: Again, we're working with data identical to that of Finance Canada, which they offered in their testimony to the committee last week. That's the 2013 CRA data.

By income group, you roughly see that individuals who filed T1 returns and who claimed that they had a total income of $45,000 or less, on average maxed out their TFSAs at a rate of around 15% overall. The rate for individuals who were claiming higher income on their T1 returns, above $45,000 per year, was roughly 19% to 20% overall.

So, of one in five Canadians who had a TFSA in 2013 and who reported income of more than $45,000 a year, roughly one in five of those was maximizing their TFSA.

Mr. Paul Lefebvre: Regarding the limit reduction from $11,000 to $5,000, how would that affect the aggregate savings of Canadians?

Mr. Jason Jacques: I think the short answer is that we don't know. So, it's difficult to know based upon people....

We have historical data about what was happening when people were able to set aside $5,000 or $5,500. We don't actually have access to data with respect to the doubling of that rate to $11,000 per year.

What we can point back to, of course, is our publication from last year with respect to the TFSA program. What you saw, in particular for the first few years of the program, was that people were actually transferring wealth, accumulated wealth from non-sheltered accounts into their TFSAs.

As we pointed out in that paper, one would presume that over time, as that stock of wealth that was previously unsheltered slowly dissipated, the contribution rates and maximization rates would begin to drop.

Mr. Paul Lefebvre: In the estimates you had when you were looking at the TFSAs, if they had been allowed to continue to grow, how much of that wealth would have been put into those TFSAs, based on the average of what is occurring right now?

I know that you had projected how much money would have been taken out of the economy and would not have been taxable if the $11,500 limit had been allowed to continued over the years. How much would that have hurt the Canadian tax base?

Mr. Jason Jacques: The long term estimates—and, again, going back to our publication from last year—would put us pretty much on par with the existing RRSP program, going up to 2075. Overall, that would be roughly 0.6% to 0.7% of the GDP.

● (1335)

The Chair: We'll have to leave it there.

Ms. Raitt.

Hon. Lisa Raitt: Thank you very much, Mr. Chair.

I'm going to talk about TFSAs as well if you don't mind. I'm going to give a great commercial for the *Globe and Mail* today, who has a very nice centrefold with respect to how you can actually save money in a TFSA, how much to put in at the beginning, and what kind of returns you can get. I would commend that to the government to take a look at the opportunity cost that we are now going to experience as a result of lowering the level.

My questions is, in analyzing TFSAs, did you do a comparison with the United Kingdom's own approach to TFSAs?

Mr. Jason Jacques: No, we didn't do a direct comparison with the individual savings accounts. It was something that we did cover in the annex of the paper we published last year, looking at the examples from the U.K., the U.S., and Japan.

Hon. Lisa Raitt: Have any of those countries rolled back or have they increased their ability to input to the TFSA? Have they increased their limits? Are you aware of it?

Mr. Jason Jacques: I'm not aware—

Hon. Lisa Raitt: They have. The answer is yes, they have. Just to let you know.

Mr. Jason Jacques: You seem credible.

Hon. Lisa Raitt: Thank you. They don't think so. That's unfortunate.

The other question I had was with respect to TFSAs. Your understanding of TFSAs in the paper that you produced is that TFSAs are significantly different from RRSPs, in that you can take out the benefit or the income you're generating on the TFSA and use it for whatever purpose that you may want to use it, and it's tax free. Do you talk about different kinds of examples of what you're saving for as opposed to focusing on retirement?

Mr. Jason Jacques: No, that was outside the scope of the paper. We were primarily or almost exclusively focused on the fiscal impacts or the fiscal cost.

Hon. Lisa Raitt: Sure.

Finally, you do mention TFSAs were put forward as a tool for sheltering retirement savings when you convert at a certain age group. Do you know what economist out there, at what company, was the one who wrote the paper and recommended that approach be taken as a tool and the utility of it? He knows the answer.

Mr. Jason Jacques: No, I don't know the answer, but I'm betting you do.

Hon. Lisa Raitt: I do. It was Morneau Shepell who said TFSAs were a great way in order to make sure that you shelter your...that's why he dropped it. Thank you very much.

Thank you, Mr. Chair. I'm done.

The Chair: You're done. You have no more answers to give us?

Hon. Lisa Raitt: Well, if I have a minute, I can spend the rest of my time refuting the suppositions your government members have said, but nonetheless, I appreciate your humour.

The Chair: Before we get into that, we'll turn to Mr. Caron.

[*Translation*]

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

I am particularly interested in Bill C-2.

I would like to thank you once again, Mr. Fréchette, for your thoughtful work to answer to my question. Indeed, you compared the provisions of Bill C-2 on the reduction to the second income tax bracket, which ultimately affects all income above $45,000, the one for income between $45,000 and $90,000, with the measure we proposed, specifically, a 1% cut for the first tax bracket, which would affect 83% of Canadians.

This is being touted as a tax cut for the middle class, but people with incomes under $45,000 do not see a penny in tax relief. Ultimately, I would like you to confirm, based on the figures from the studies you have done, that someone who earns $210,000 would receive more in tax cuts than someone else earning $62,000 per year.

Mr. Jean-Denis Fréchette: Thank you for your question.

[*English*]

I would ask one of our colleagues, Helen or Carleigh, to answer that question.

Ms. Helen Lao (Economic Analyst, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament): Is the question, is someone earning $210,000 and getting more from...?

[*Translation*]

Mr. Guy Caron: Yes. This person would receive a greater total tax cut than someone earning $62,000, despite the fact that there is another bracket starting at $200,000 with a 33% tax rate.

According to my calculations, someone who has an income of $210,000 will be eligible for a significant tax cut that will be higher than that afforded to someone earning $62,000.

[*English*]

Ms. Helen Lao: Okay. Someone who is earning above $210,000 in this case will be benefiting from the middle tax cut with the reduction of 22% to 20.5%. If they are earning above $200,000, they'll be paying 33% on the additional amount that is above $200,000.

● (1340)

[*Translation*]

Mr. Guy Caron: Can you confirm that, as a result of these changes, the income at which people at this income level will start to pay more tax is $217,000?

A voice: Yes.

Mr. Guy Caron: It has been confirmed, then. Everyone with income between $200,000 and $217,000 will benefit from this change. In the case of the solution that I asked you to study, the proposed reduction of 1% in the first tax bracket would have ensured that people who earn more than $200,000 would pay more taxes than they pay now.

[*English*]

The Chair: I might say, Guy, for the record, when you folks shake your heads, it isn't in the record. You might want to say yes or no.

Dr. Askari.

Mr. Mostafa Askari: Yes, with your first point, people under $217,000 will benefit from...yes, definitely, and the 33% will essentially start after that.

[*Translation*]

Mr. Guy Caron: Ultimately, about a third of taxpayers will benefit, but two thirds will not see anything and do not benefit in any way from the proposed tax cut. Is this what you find as well?

You said that about 30% of taxpayers would benefit.

Mr. Jean-Denis Fréchette: It is actually 31% of the population.

Mr. Guy Caron: The measure we are proposing, specifically lowering the tax rate for the first bracket from 15% to 14% would benefit 83% of taxpayers. Is that what you find?

Mr. Jean-Denis Fréchette: That is exactly what we wrote in our report. Lowering the first bracket rate from 15% to 14% would benefit 83% of taxpayers. Obviously, starting at a lower level, we would capture certain taxpayers and that also implies that the other brackets would be affected.

Mr. Guy Caron: In short, Bill C-2 seeks to tax about 1% of the population more heavily in order to redistribute money to about 25% of the population in a significant way, let's say to 31%. Therefore 70% of the population will not necessarily see a change, despite the claim that the bill will benefit the whole of the middle class.

Mr. Jean-Denis Fréchette: If I remember correctly, in our report the 83% referred to the first bracket. In our report, we said that if we started with the second bracket, as proposed by Bill C-2, 43% of taxpayers would be affected. Once again, those 43% do not just include taxpayers in the second bracket, but also those in the third bracket and others.

Mr. Guy Caron: Okay.

[*English*]

The Chair: Thank you all.

Mr. Ouellette, four minutes.

[*Translation*]

Mr. Robert-Falcon Ouellette: Thank you, Mr. Chair.

[*English*]

I'd like to know what the impacts of high or low federal debt on economic growth are, and what factors the federal government should consider in determining an appropriate for the federal debt-to-GDP ratio?

Mr. Mostafa Askari: There is no optimal level of federal debt-to-GDP ratio. It's something that's hard to determine, and it depends on the situation and circumstances. There are some estimates out there. Some people are talking about 80% or 60%, but it's not determined what the optimal rate is. That's not something we are focusing on in our reports. What we look at normally is whether the GDP ratio is stable or whether it's declining, which sort of determines whether the fiscal structure is sustainable or not.

[*Translation*]

Mr. Robert-Falcon Ouellette: What would be the impact of extreme poverty in Canada on economic growth?

[*English*]

Mr. Mostafa Askari: That is not something we have looked at unfortunately, the impact of poverty on economic growth.

Mr. Robert-Falcon Ouellette: Is that something that should be taken into account?

Mr. Mostafa Askari: I think what we are doing typically is looking at the economic conditions and doing our projection, but we are not looking at a specific part of the population and how that would affect overall growth in the Canadian economy. Certainly there are impacts of poverty and people cannot spend money, but it's not something we have looked at.

Mr. Robert-Falcon Ouellette: From what I understand, you were looking at things from a uni-directional or uni-dimensional regard, or looking at the whole issue surrounding economic growth in the budget?

● (1345)

Mr. Mostafa Askari: Our real interest at the end is the budgetary matters. To do fiscal projection, and to see how the fiscal situation is evolving, we need to have a view of the overall macroeconomic conditions and development, and that's what we focus on. A detailed micro-analysis of the different groups and different income groups in terms of how they're going to affect the economic growth is not something we have done. It would be interesting to do, but that's not something we have done.

Mr. Robert-Falcon Ouellette: It could be conceivable, for instance, if we had more investment in trying to eradicate a lot of the extreme poverty that exists in Canada, especially among children. The long-term benefits to economic growth might come about that might see a long-term increase in the economic potential of Canada, and eventually all Canadians.

Mr. Mostafa Askari: As I said, certainly, those are all possibilities, that investment in education, investment in health, and investment in children may eventually add to productivity and economic activity, but those are for general principles, yes.

Mr. Robert-Falcon Ouellette: Okay, thank you very much, and I'd just like to share a bit of time with the parliamentary secretary.

The Chair: We'll have time to come back to him.

I'll go to Mr. Aboultaif and then we'll come to Mr. Champagne. That way you will have a little more time.

Mr. Ziad Aboultaif: Thank you, again. The question is how do we identify middle class in Canada in terms of income structure and in terms of the overall Canadian economy. Can you advise us the percentage of Canadians who could be considered as middle class?

Mr. Mostafa Askari: The definition of middle class really is a political definition, not a mathematical or economic definition. Depending on what ranges of income you decide, what level of wealth, people have different views of the middle class. There is really no one definition of middle class. I mean it's not something that we focus on, deciding exactly what the middle class is, which income level. That could vary in different circumstances. Unfortunately, I cannot advise you on what the middle class is.

The Chair: Go ahead, Mr. Liepert.

Mr. Ron Liepert: In the modelling that you would do fiscally, I'm presuming there's a time frame that you would like to use for a new program whereby there's kind of a maximum take-up on it, if you will. The TFSAs are a relatively new program, about seven or eight years or something like that. In your estimation what time frame would you need to really assess whether people are aware and have the ability and are maximizing their ability to contribute? What would be an estimate that you might say would be fair?

Mr. Mostafa Askari: It's very hard to really put a time limit on this, but the fact of the matter is that with any kind of program like the TFSA, which essentially is a savings program, over time as that limit of savings increases, it's a reality that people who have higher income and higher wealth can benefit more from that program. It's much harder for an individual with a $50,000 income to find $10,000 savings every year than for somebody who is making $200,000 a year. So yes, in the beginning of a TFSA program, people move their assets from what they have already saved into a TFSA to take advantage of the interest-free return, but over time it becomes more and more difficult for those people and the benefits will go to higher-income people. But exactly what time frame will show that, I cannot say, unfortunately.

Mr. Ron Liepert: I would like to, on that same modelling, get your opinion on this. One of the criticisms, or one of the reasons for ratcheting back the decision to increase the maximum was that people were not contributing to their maximums. Would you say, given the short time frame that it was there, that it wasn't given a fair assessment?

Mr. Mostafa Askari: What we have seen is that, after 2013, 18% of people who had a TFSA had maximized their contribution. What has happened since then, we don't have that information, so we can't really tell. As I mentioned, in principle, as we move on, that percentage probably is going to drop because fewer and fewer people will have the capacity and the financial resources to benefit from the maximum amount of TFSA.

● (1350)

The Chair: Thank you very much.

Mr. Champagne.

[*Translation*]

Mr. François-Philippe Champagne: Thank you, Mr. Chair.

Mr. Askari, please refresh my memory. I think that only 6.7% of Canadians contributed the maximum cumulative amount of $41,000 to a TFSA.

Could you confirm that this is indeed the case?

[*English*]

Mr. Jason Jacques: No, I believe that statistic, although technically correct, actually includes a base of all Canadians including those who haven't actually opened TFSAs. When you look at the individual Canadians who have opened TFSAs, the statistic from the Canada Revenue Agency as of 2013 was closer to 18%.

Mr. François-Philippe Champagne: However, 6.7% is still a valid point of reference; you just disagree with the premise, but it is a valid statistic, as we look at it. You might, then, agree that we have decided to do things differently to cover more people.

[*Translation*]

Mr. Fréchette, the tax measures we announced regarding tax cuts for the middle class affect about nine million Canadians, if I'm not mistaken. Do your figures show the number of Canadians who will benefit from the positive impact of the tax cut for the middle class?

Mr. Jean-Denis Fréchette: We did not do that calculation.

As we said before, we certainly did not determine what the middle class is either. Since we did not define the middle class in our reports, we did not come up with that figure.

Mr. François-Philippe Champagne: With regard to the macroeconomic impact of tax cuts in Canada, did you calculate what impact this measure could have on the Canadian economy? Would it stimulate economic growth in Canada? Did you do any analyses in that regard?

Mr. Matier, could you perhaps talk a little bit about the macroeconomic impact that a measure like this would have on the country?

Mr. Jean-Denis Fréchette: Our report takes into consideration all of the tax measures announced in the budget. What you see in our report today is an aggregate measure. It includes that part of the tax cut but not just that amount.

[*English*]

Mr. François-Philippe Champagne: I think what you said is that we believe that ultimately these measures will have a sizable impact on the Canadian economy. Since you were commenting on that—and I think it was a quote taken from your report—can you expand on the measures you were referring to to say that they will have a positive sizable impact on the Canadian economy?

[*Translation*]

Mr. Jean-Denis Fréchette: All of the measures that were announced in the budget are included in what you just quoted me as saying. All of the measures in question are set out in table 3 of the summary of our report.

Mr. François-Philippe Champagne: Are you basically saying that all of the measures set out in the budget will have a positive effect on the Canadian economy?

Mr. Jean-Denis Fréchette: The seven measures or the main commitments that we are talking about that were announced for the next two years are those that were taken into consideration in our report.

Mr. François-Philippe Champagne: Great.

Thank you, Mr. Chair.

[*English*]

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

I have one last question, Mr. Fréchette. I don't think there's any question that most of us believe the parliamentary budget office should be an ally for Canadians, and actually for the Department of Finance, in terms of improving our transparency and the visibility of the numbers to Canadians, and shouldn't be an opponent.

In a report on, I believe, April 6 you outlined a number of concerns regarding the presentation of the federal fiscal plan. Have the concerns you raised at that point been addressed? If they haven't, which ones are yet to be addressed, from your perspective? I know there are always different opinions here.

Has the Department of Finance sufficiently addressed the concerns you raised?

● (1355)

Mr. Jean-Denis Fréchette: Yes, they did. As I said previously in this meeting, the problem is that we received the data and after that were not able to use it. Afterwards, with our communication with the department, it was okay to use the data and to provide it to Parliament. Therefore, this has been solved.

We will continue our relationship and discussions with departments. Believe me, we have excellent relationships with some departments; I could mention a couple of them. They are very open and transparent: we receive the data we ask for.

I would like to take the opportunity to mention the confidentiality. There was some attack against the PBO that we would not release confidential data. That is true. It is in the legislation, the Parliament of Canada Act, in section 79.4. Anything we receive on a confidential basis from departments we cannot release and will not release; however, we can use it to help us do our calculations, and that's what we're doing.

The Chair: Thank you for that answer.

I would remind committee members that if any of the parties have amendments on Bill C-2, they have to be in to the clerk by 4 p.m. today.

With that, I want to thank the parliamentary budget officer and all of the witnesses for being here, and also for the good work you do on behalf of Canadians.

Thank you very much, everyone.

The meeting is adjourned.