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Chair: Mr. Peter Fonseca

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**Monday, March 21, 2022**

• (1100)

[*English*]

**The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)):** I call this meeting to order.

Welcome, everybody, on this first full day of spring. Welcome to meeting number 32 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) and the motion adopted in committee on January 12, 2022, the committee is meeting on inflation in the current Canadian economy.

Today's meeting is taking place in a hybrid format pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. The proceedings will be made available via the House of Commons website. Just so that you are aware, the webcast will always show the person speaking rather than the entirety of the committee.

Today's meeting is also taking place in the webinar format. Webinars are for public committee meetings and are available to only members, their staff and witnesses. Members enter immediately as active participants. All functionalities for active participants remain the same. Staff will be non-active participants and can therefore only view the meeting in “gallery” view.

I'd like to take this opportunity to remind all participants in this meeting that taking screenshots or photos of your screen is not permitted.

Given the ongoing pandemic situation and in light of the recommendations from the health authorities as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, all those attending the meeting in person are to maintain two-metre physical distancing and must wear a non-medical mask when circulating in the room. As well, it is highly recommended that the mask be worn at all times including when someone is seated. Everyone must maintain proper hand hygiene by using the hand sanitizer provided at the room entrance.

As the chair, I'll be enforcing these measures for the duration of the meeting. I thank members in advance for their co-operation.

To ensure an orderly meeting, I'd like to outline a few rules to follow. Members and witnesses may speak in the official language of their choice. Interpretation services are available for this meeting. You have the choice at the bottom of your screen of the floor, English or French. If interpretation is lost, please inform me immediately, and we will ensure that interpretation is properly restored before resuming the proceedings. The “raise hand” feature at the bottom of the screen can be used at any time if you wish to speak or alert the chair.

For members participating in person, proceed as you usually would when the whole committee is meeting in person in a committee room. Keep in mind the Board of Internal Economy's guidelines for mask use and health protocols.

Before speaking, please wait until I recognize you by name. If you are on the video conference, please click on the microphone icon to unmute yourself. For those in the room, your microphone will be controlled as normal by the proceedings and verification officer. When speaking, please speak slowly and clearly. When you are not speaking, your microphone should be on mute.

I remind everyone that all comments by members and witnesses should be addressed through the chair.

With regard to a speaking list, the committee clerk and I will do the best we can to maintain a consolidated order of speaking for all members whether they are participating virtually or in person.

The committee has agreed that during these hearings, the chair will enforce the rule that the response by a witness to a question should take no longer than the time taken to ask the question. That being said, I request that members and witnesses treat each other with respect and decorum. If a member thinks the witness has gone beyond the time, it is the member's prerogative to interrupt or ask the next question and to be mindful of other members' time allocation during the meeting.

I also request that members not go much over their allotted question time. Though we will not be interrupting during a member's allotted time, I'd like to keep you informed that our clerk has two clocks to time our members and witnesses.

I'd now like to welcome today's witnesses.

Appearing as individuals are Vivek Dehejia, associate professor of Economics and Philosophy at Carleton University; and Andy Yan, director of the city program at Simon Fraser University. From Bâtir son quartier, we have Edith Cyr, general manager; from C.D. Howe Institute, William B.P. Robson, chief executive officer; from the Ottawa Community Land Trust, Ray Sullivan, executive director; and from the organization The Shift, we have Leilani Farha, the global director.

At this time witnesses will have the opportunity to provide us with five minutes of opening remarks. We will start with the individuals.

Mr. Vivek Dehejia, go ahead, please, for five minute.

● (1105)

**Mr. Vivek Dehejia (Associate Professor of Economics and Philosophy, Carleton University, As an Individual):** Thank you, Mr. Chair. It's a real pleasure to be here. Thank you for inviting me.

There's no doubt that consumer price inflation is a major concern in Canada today. When I wrote a warning back in the fall about the inflation problem, it was at about 4.7%, and now we're at 5.7%, the latest number from Stats Canada, which came out last week. These are the highest inflation rates we've seen since the early 1990s. They're rising. The issue is real, pressing and getting worse.

Now, we can all agree that inflation is a problem. I think where disputes arise is in trying to understand its causes and its roots. I'll just say very briefly that, in my judgment, the roots of the crisis go back to the very unconventional policies followed after the global financial crisis: QE, the large-scale asset purchases; interest rates at or near zero; and forward guidance, which is signalling about future policy. In layman's terms, central banks made credit available almost for free and flooded the financial system with cash.

Loose monetary policies had their own perverse effects, which were to distort the real economies of places like Canada and bloat the financial sectors, and, with assets like property in fixed supply, we've had huge asset price inflation bordering on bubble territory. In some places, we've had stock markets at record highs.

I contend that in fact we have two inflation problems: CPI inflation and the asset price inflation that makes, for example, even owning a home increasingly out of reach for poor and middle-class households, and for a big increase in wealth inequality.

Now, today's high CPI inflation is quite simply a response to the explosive growth from the Bank of Canada's money supply. To check the data, M1+, meaning currency in circulation plus chequing accounts, basically, is growing at 14% year on year. That's a jaw-dropping number, well above the 5% to 6% that would be consistent with low, stable inflation. The current interest rate, 0.5%, is well below the Bank of Canada's own estimate of the neutral rate that would keep inflation steady at about 1.75% to 2.75%, so the central bank's [*Technical difficulty—Editor*]

I would just say that the U.S. Fed has seen the danger signal south of the border. Mr. Powell said last week that he's acutely aware “of the need to return the economy to price stability and determined to use...tools to do exactly that”. Those are pretty strong words.

Governor Tiff Macklem did conclude his remarks here at this committee earlier this month by saying that the bank was going to “control inflation”, but it's hard to understand how the bank can do that in a case where its policy stance is highly inflationary by any measure.

I'll just conclude by saying that inflation is indeed a global problem, but our inflation problem is very much made at home here in Canada. The solution lies at home, and it can't be outsourced.

Thank you very much, Mr. Chair.

**The Chair:** Thank you, Mr. Dehejia.

We are now going to hear from Andy Yan, appearing as an individual, for up to five minutes.

**Mr. Andy Yan (Director, City Program, Simon Fraser University, As an Individual):** Thank you so much, Mr. Chair.

Good morning. Thank you for the opportunity to address the honourable members of the Standing Committee on Finance.

I would like to acknowledge that I am speaking to you from the traditional, ancestral and unceded territories of the Squamish, Tsleil-Waututh and Musqueam nations.

My name is Andy Yan. I'm the director of the city program at Simon Fraser University as well as an adjunct professor in urban studies and a registered professional planner.

Inflation in the current Canadian economy is an increasingly serious matter for Canadians. Wages for many have stagnated as the costs of living have continued to increase. This can be most vividly seen in housing. Income has become decoupled from housing prices and rents, not only in Vancouver but increasingly across the country. I will concentrate my comments on my research in housing policy and urban planning in British Columbia, but I think the sobering lessons for the rest of the country are pertinent to this conversation.

For a growing number of young and new Canadians, the dream of home ownership has been going out of reach. For renters, their housing tenure is increasingly precarious, if affordable and livable rent is available at all. Since March 2020, the pandemic has been a disruption in the lives of all Canadians, accelerating economic and urban trends and amplifying pre-existing economic vulnerabilities and inequalities between Canadians.

It's from this overall state that I'm focusing on three observations that I think frame my conversation today. The housing challenges faced by Canadians follow a specific timeline, with specific actions and inactions, and intended and unintended consequences, within the local, national and global actors and practices.

In 1990, relatively speaking, Canadian city regions were remarkably clustered together in terms of housing-to-income measures, largely ranging from between three to five times price-to-household income. Of course, today it's been widely extended. You'll find that a place like Vancouver, based upon the last census, was 11 times that multiple, and most likely with the next census it will be far higher. Underlying this is fundamentally beyond not only inflation but also how fundamentally housing values and rents have really outsped the role of income.

Canada's housing challenges are about not just the delivery of supply but also a combination of changes in behaviours and actors in supply, demand and finance. Outdated and inflexible zoning and land use practices are only part of the problem. The problem of housing and its solutions need to be grounded to the question and the answers around whom we are trying to house. It's clear that there are acute housing shortages for particular populations in Canada. In Vancouver, two-thirds of what gets approved to be built in the city is affordable to only 40% of incomes.

The additional demand types that we've seen emerge in the last 10 years have similarly added additional pressures towards the costs of housing in terms of rent and mortgages. We find that such activities as speculation, flipping and short-term rental—a.k.a. Airbnb—have eroded rental stocks and have made housing in urban, suburban and rural communities across the country go from a difficult situation to one that is worse.

Finance has itself been a major challenge, in terms of our really understanding that housing has increasingly become commodified and financialized. Really, the realm of homes now is having second, third or more homes, and we have Canadians who have no homes at all. Again, within this conversation, one has to note the role of global capital blending in with local lending practices. Within this environment, renters face the prospect of becoming a financial underclass in terms of credit and underfunded retirement.

Third, public policies have an effect. There are no panaceas, but tool boxes can offer instruments that need to be able to adapt to local conditions. While building will take years to achieve at the best of times, there are fundamental changes through which public policy can make a sizable difference.

● (1110)

British Columbia has been able to break a 40-year pattern of ever-increasing vacant and underoccupied units through a mix of provincial and municipal policies on vacant home taxes, speculation and school taxes. In terms of vacant and underoccupied homes, we find that those policies have led to a decline in that population by 8%, while in jurisdictions that don't have these policies—an example would be found in the city of Toronto—numbers have increased by 40%.

Fundamentally, this discussion about housing supply and dealing with the issue of affordability comes at the same time that British Columbia has been able to see starts and completions over the last three years higher than any previous 30 years in the province. Indeed, that is in the most recent set of data.

● (1115)

**The Chair:** Thank you, Mr. Yan. There will be a lot of time to inform the members more during question time.

We are moving to Bâtir son quartier with Edith Cyr for five minutes, please.

[*Translation*]

**Ms. Edith Cyr (General Manager, Bâtir son quartier):** Thank you, Mr. Chair.

Good morning, everyone.

I thank the members of the committee for inviting me to testify.

Bâtir son quartier is a social economy enterprise and a non-profit organization whose mission is to meet the housing needs of low and moderate income households through the construction of community housing. To date, we have completed 450 projects totalling 14,000 housing units.

The current context is a great source of concern. The last 20 years have been good for housing, due to low inflation and low interest rates. Despite this, there are currently more than 1.8 million Canadian renter households paying more than 30% of their income for housing, including nearly half a million in Quebec. We have entered a less favourable period that could last. This is therefore a great source of concern for the poorest in society, who are already struggling to find adequate housing and food.

Concretely, in the Montreal metropolitan community, we are talking about a 4.2% increase in rents, which is the highest increase since 2003. The vacancy rate for affordable housing and family housing is barely 1%, whereas the normal break-even rate is 3%. This is compounded by rising construction costs due to supply difficulties, high market activity and labour shortages.

In our projects in 2019, the average construction price was about $180 per square foot. Now, in 2022, it is over $270 per square foot. This means that for a two-bedroom unit, it costs just over $100,000 to build the same unit.

In addition, there is the increase in financing costs due to rising interest rates. For example, for a 1% increase in the interest rate, although there are many nuances in life, you will still have to increase the rent on a unit by $52 per month to not run a deficit, not to mention the increase in heating and insurance costs and other housing-related expenses.

There are therefore consequences for the development of real estate projects, but also for the organizations managing low-rent buildings. In Quebec, the mismatch between rising costs and government funding is paralyzing the delivery of 10,000 housing units, nearly half of which are in Montreal. We sincerely believe that low and modest income households are bearing the brunt of rising costs.

The national housing strategy is an achievement that we can count on, but the investments that flow from it require adjustments to allow us to act adequately and protect the most vulnerable households from a rising cost of living. It would be desirable to reallocate funds to target these households and adapt the design of some existing programs.

We believe that housing production must be accelerated and increased. We want a major housing project, and we believe that cohousing can play an important role as a bulwark against the precariousness of Canadian households by intervening in a sustainable manner.

Thank you for your attention.

**The Chair:** Thank you, Ms. Cyr.

[*English*]

We are moving now to the C.D. Howe Institute and William Robson for up to five minutes, please.

**Mr. William Robson (Chief Executive Officer, C.D. Howe Institute):** Thank you very much for the invitation to be with you. I hope my observations will be helpful to the committee in its work.

I'd like to say, by way of background, that monetary policy and inflation have been central to my work at the C.D. Howe Institute since I was a much younger person, all through the high-inflation eighties, to the tightening that reduced inflation in the 1990s, and the inflation targeting since then.

I chair the institute's monetary policy council, which offers advice on the Bank of Canada's interest rate settings. Over the period that I've been working on it, things improved. Inflation got lower and more stable. We had fewer episodes of tight and loose monetary policy, which also made the economy more stable. As last week's CPI report underlined—an unpleasant surprise—that achievement is now, at the very least, at risk.

To prepare for our discussion, I have three thoughts.

To start, people hate inflation. I start there, because we sometimes hear that inflation is not so bad. Some economists think people should accept it, and reject the tighter monetary policy that would reduce it. I think those arguments miss the basic fact that people want their money to have a predictable value.

If you ask people how money's value should change over time and how much inflation we should have, most people will say that it shouldn't change. They want it to be like other weights and measures. If we step on a scale, if we're measuring flour for a recipe, or checking the temperature before we decide what to wear, we take for granted that the kilograms, the cups and the degrees are going to mean the same thing today that they did yesterday. That's why governments regulate weights and measures; it's so we can rely on them. People want the same with money.

That's why the high inflation of the seventies and eighties became a political issue. The cure was painful, but the disease was worse. It's understandable that Canadians dislike inflation, and it should be lower.

My second opening comment is going to echo some of the things that Professor Dehejia said. The macro view is that inflation means that money is losing its value. If you have more growth in the supply of money than the demand for it, its value is going to fall relative to the things we spend it on, and that's what's happening right now.

I emphasize that because daily experience doesn't feel like that. We notice that gasoline costs more when we're filling up than it did last time. Go to the store and lettuce is the surprise; last week, it might have been milk. It feels like different products are taking differently sized bites out of our dollar, rather than the dollar shrinking over time.

I mention that because people often focus on what's up lately, as though that caused inflation and as though subsidies or price controls could fix it. We saw attempts like that in the 1970s, but monetary policy stayed loose and inflation stayed high.

I will underline that if you look at the CPI in the latest readings, about three-quarters of the items are up by more than 2% year over year. That's more than at any time in the last 30 years. It's not just specific products; it's a decline in the purchase power of the Canadian dollar.

My last comment before taking your questions is that many advanced economies have inflation rates similar to ours, not because it's inevitable, but because they did similar things in reacting to the pandemic. Choices about monetary policy and fiscal policy got us here, and we are in control of those choices in the future.

To elaborate the point, energy and food are expensive everywhere, supply chains are stretched everywhere, but inflation isn't the same everywhere. It's in double digits in some countries, with Argentina and Turkey as examples. It's above 1,000% in Venezuela, it's about 2% in Switzerland and it's less than 1% in Japan. Inflation is high where monetary policy has been inflationary, and it is low where it has not been.

We're seeing inflation now above our 2% target because our response to the pandemic overshot. I think we need tighter monetary policy to respond to it.

I look forward to any questions you have about that, or any complementary policies that would make it easier or harder, but my closing comment is that we can do it and I believe that we should.

Thank you.

● (1120)

**The Chair:** Thank you, Mr. Robson.

Now we'll hear from the Ottawa Community Land Trust and Ray Sullivan for up to five minutes, please.

**Mr. Ray Sullivan (Executive Director, Ottawa Community Land Trust):** Thank you very much, Mr. Chair.

I want to focus my statements on how the national housing strategy is impacted by inflation, and its companion, higher interest rates. These are forces that will compromise the goals of the national housing strategy unless the Government of Canada makes adjustments. These adjustments, in my view, will have to be made in the upcoming federal budget.

I'm speaking to you from the unceded territory of the Algonquin Anishinabe people. I'm grateful for the opportunity to live and work in this territory, which is also home to Inuit, Métis and first nations people from across the continent.

Since my comments focus on the national housing strategy, I also have to point out that the Government of Canada has yet to deliver on a non-distinctions-based urban indigenous housing strategy. The national housing strategy remains incomplete until that work is done. I and many others look forward to seeing a significant commitment on that in the upcoming federal budget.

I'm not a banker. I'm not an economist. I'm just a guy who has spent over two decades managing and building affordable non-profit housing. I'm currently the executive director of the Ottawa Community Land Trust. Most recently, I was executive director of a large non-profit housing company. I don't pretend to understand big finance and economic forces, but I do very much understand affordable rental housing. I know what it takes to create non-profit housing.

The programs under the national housing strategy were developed five years ago under historically low interest rates, and at a time when rates were stable or even declining. This has changed, and so the programs themselves must also change if we're to meet the goals of this strategy.

I have three specific recommendations.

First I want to begin by addressing affordability and inflation from a renter's perspective. Rents were already rising faster than wages before this period of rapid inflation: 40% of tenants across the country can't afford the rents they're paying now. When everyday costs are also rising, this leaves low-income renters in the position of having to choose between rent and groceries each month.

The national housing strategy created a national housing benefit, a modest allowance to help low-income households cover their rent. My first recommendation is that with rising inflation, this needs to be expanded to cover a greater number of households, and it needs to be strengthened to provide more assistance. It has to keep pace with the current need.

Secondly, when the national housing strategy returned CMHC to direct-lending, low-interest government loans to create new affordable housing, that was a big deal. These lending programs need to adjust to an environment of rising interest rates. Under the national housing co-investment fund, for example, a non-profit can lock in a 10-year interest rate at the time of its first advance, so after construction has started. Waiting as long as possible was an advantage when rates were stable or declining, but now that rates are rising, it transfers risk from the government to the little non-profits that are trying to create affordable housing. Government needs to commit and lock in borrowing rates much earlier, especially in the current context.

Higher interest rates and higher construction and operating costs are squeezing out affordability and limiting our ability to reduce rents. It now costs more to borrow the exact same amount of money as it did compared to two years ago, and it costs more to build at the same time. When the national housing co-investment fund was launched, government officials went through great efforts to stress it was primarily a loan program, even if modest grants were also available.

Well, when the cost to borrow rises and construction costs also rise, there's no cushion in affordable housing. Government will have to make up the gap with richer grants. My second recommendation is that lending programs need to be redesigned in reaction to the current climate of inflation and rising interest rates.

My third and final point is about a long-term strategy for countering rent inflation and about helping us transfer existing properties into non-profit ownership. In the Ottawa region, for every one new home built with assistance from the national housing strategy, we lose seven affordable homes in the private market. Creating new affordable housing is definitely important, but it doesn't help the majority of modest-income renters if the supply of affordable housing is dropping overall at the same time. If governments work with non-profits to purchase existing rental housing, which is already at modest rents, that allows us to stop the erosion of affordable housing in the marketplace.

Right now, CMHC lending programs aren't available for acquisitions, only for new construction, but acquisition is an effective and very efficient option that allows us to buy and preserve affordable housing in the marketplace right away. Ramping up inflation and interest rate increases are creating serious challenges for housing affordability.

I've made three recommendations focusing on the national housing strategy, all of which I hope can be included in upcoming budgets: one, expand the housing benefit program; two, rework CMHC direct lending to account for rising interest rates; and three, allow CMHC direct lending for non-profits to purchase existing affordable market housing.

Thank you very much for your time.

● (1125)

**The Chair:** Thank you, Mr. Sullivan.

Now we'll hear from The Shift, Leilani Farha, for up to five minutes, please.

**Ms. Leilani Farha (Global Director, The Shift):** Thank you for inviting me into this conversation.

In my capacity as the global director of The Shift, much of my work has focused on the financialization of housing or the nexus between housing, finance and human rights. I'm also the former United Nations special rapporteur on the right to housing, a position I held for six years between 2014 and 2020.

Let me start here. Canada, like most western developed nations, is characterized by a central contradiction. We have a relatively robust economy as a top 10 performing country in terms of GDP, with an impressive growth rate of about 6.7 per cent as we come out of the pandemic. With this kind of strong economic performance, we would expect to see the distribution of this growth across all social strata. That is, after all, the point of economic growth.

So it's counterintuitive that instead we have growing homelessness and increasing housing unaffordability for low-income renters and also for higher-income earners. This contradiction has deepened with pandemic-related inflation as captured perfectly through the recent celebration by Bank of Canada head Tiff Macklem, who noted the country's strong economic performance derived through real estate transactions and debt, which have caused housing prices to skyrocket.

This fundamental contradiction can be traced to the values embraced by successive governments in Canada, as articulated through laws and policies in the housing and finance sectors, which benefit institutional and other investors. As a result, Canada now has a housing system that has become overly financialized, operating separately from household incomes and housing need.

A financialized housing system is present when single- and multi-family homes become an extractive industry like mining, such that housing is used by domestic and global actors to extract wealth, mostly by those who already have an abundance of it, like pension funds and investment trusts.

The financialization of housing is rooted in the assertion that, given the right legislative and policy conditions, the market will provide what's necessary for the people of this country. The right conditions are things like low interest rates, preferential tax treatment for investors, no regulations on monopoly ownership, weak tenant protections and a seat at political tables for investors to advise governments.

Obviously the facts on the ground now prove that this has been a failed experiment. Value extraction has been confused with value creation, allowing investors to call themselves “value creators” and in the process extract value. Douglas Porter, the head of BMO, recently said—and I'm paraphrasing—that the supply narrative as a solution to the housing crisis that the industry continues to peddle is a myth, a myth that happens to benefit those propagating it.

So what's to be done? It seems obvious that when one set of values no longer produces reasonable outcomes, governments need to embrace another set that will achieve better outcomes. Human rights is the only framework that has as its goal housing equality, inclusion, affordability, adequacy and security. Human rights redefines value creation. It sees value in housing as home. It reorients finance and housing policies to focus on individuals experiencing housing need, not investor or shareholder interests, as is the case in a financialized system. It requires that supply-side solutions are led by and targeted by household demand, not by investors.

Across the world I've seen states grappling with the financialization of housing trying to curb the trend, recognizing that housing is a different sort of business. It's a human rights business that requires proactive measures by government.

● (1130)

Denmark enacted legislation that prevents investors from raising rents for five years. Singapore has introduced heavy taxation on multiple home purchases by a single investor. New Zealand has asked its central bank to consider housing in its setting of monetary policy. Spain has enacted national right to housing legislation, which penalizes owners who leave homes empty and imposes rent caps on landlords across the country. The city state of Berlin is contemplating the socialization of private market units.

I'll end by emphasizing this. If you embrace the human rights framework as articulated in the National Housing Strategy Act, and if you breathe life into it by committing to ensure that every fiscal and monetary policy or law has, as its end goal, ensuring adequate, affordable and secure housing for those in need, you cannot make a wrong step.

I look forward to taking your questions. Thank you.

**The Chair:** Thank you.

Thank you, Ms. Farha, and to all of the witnesses for your opening remarks.

Now we are moving into members' question time, the first round of questions. Each party will have up to six minutes to ask questions of our witnesses.

We're starting with the Conservative Party, MP Albas, for six minutes.

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** Thank you, Mr. Chair, and thank you to all of our witnesses for making their time available for Canadians today.

I'm going to start with Professor Dehejia. Hopefully, I have your name right, sir, but I do appreciate the submission you made earlier on.

First of all, there's a recent research paper, “Not Your Parents Real Estate Market”, by TD Asset Management, which explains how low interest rates and quantitative easing are the two main reasons that house prices have significantly increased since the global financial crisis of 2008-09.

The paper also expressed the opinion that Canada's housing market was currently in a speculative state in which prices are derived from extrapolating recent trends rather than fundamentals.

Sir, do you believe that low interest rates and quantitative easing are the two main reasons that housing prices have significantly increased since the global financial crisis of 2008-09? If not, what do you believe are the main reasons for the state of the Canadian housing market today?

● (1135)

**Mr. Vivek Dehejia:** Thank you, Mr. Chair.

I absolutely do agree with that. In fact, in my submission I pointed to it in my brief remarks to unconventional monetary policies as drivers of asset price inflation. Quite simply, when you flood the financial system with all of that cash and you drive interest rates down almost to zero, and signal that they are going to stay at zero or low for a long time to come, it really dries up credible investment opportunities in the real economy, because basically money is free to borrow. What that does is drive all of that cash into different kinds of asset markets. Stock markets, even during the pandemic, were reaching record highs. Property prices are at record highs and in bubble territory.

When I hear the argument that low interest rates are good for homeowners, or good for those who want to buy a home, I find that quite strange, because, yes, it's true that for a given value of your home a lower rate is good for you, but lower rates have actually inflated property prices. So, yes, at the margin you benefit from a lower rate, but if your house has tripled in value, a new homeowner is just locked out of that market.

Indeed, I would point to those as principal drivers of.... We have distorted the real economy of Canada and many other countries. I think that unconventional policies were well intentioned. They made sense for the first couple of years, but they are now well past their sell-by date. They are a cure worse than the disease at this point, Mr. Chair.

**Mr. Dan Albas:** Thank you for that.

I appreciate how you've gone from the macro picture in terms of the overall money supply and into some of these policies like quantitative easing, and how that's changed it, and how it really affects particularly certain markets like housing.

Getting to housing, how is mortgage insurance contributing to the imbalance between housing supply and demand by encouraging banks and other financial institutions to offer households more mortgage credit without taking the limited housing supply into account?

**Mr. Vivek Dehejia:** That certainly contributes.

Sorry, Mr. Chair, I should speak through you.

I would say in my judgment at the margin that's certainly a factor. I think it has been noted by several of the speakers earlier that there's a serious mismatch between housing supply and housing demand. You can't blame that entirely on monetary policy, but my point again remains that when you have a relatively fixed stock of housing at a given point in time, and all of that cash is pouring into that market, it becomes a kind of self-fulfilling prophecy: Prices are going up, more cash comes into that market, people buy more property and it goes up even higher. The real paradox, Mr. Chair, is that it was a housing market bubble—the U.S. subprime mortgage crisis—that caused the financial crisis, and then our response to it paradoxically is again recreating the problem that we tried to fix. I find that very perplexing.

I would say, Mr. Chair, that at the margin there are a number of factors, and the way that mortgage insurance works certainly is part of that. Again, without sounding like a broken record, I would point to the real distortions that almost zero interest rates and flooding the market with all of this cash.... We have monetary aggregates just off the charts. Money is growing like crazy. That's going to distort the economy and make housing unaffordable, Mr. Chair.

**Mr. Dan Albas:** Thank you.

Just before I finish my round, Mr. Chair, I'd like to ask Mr. Robson a question in regard to the “Intelligence Memos” he has sent in.

One thing that inflation seems to do is reward those who are servicing high levels of debt, like those people who have gotten into the market or, in this case, a Liberal government that has gotten heavily into debt.

Would you agree with that?

**Mr. William Robson:** Yes, low interest rates certainly make it easier to borrow.

With respect to the housing issue particularly, when interest rates get very low, the effect on asset values becomes noticeably non-linear. It's geometric. I think that it's very realistic to say that low interest rates are responsible for some of the valuations we've seen in housing markets and have generated that momentum.

When interest rates go up even by modest amounts, I think we're going to see quite a marked charge in that area, for better or for worse. Much of the commentary here has been concerned about those high asset prices.

On the question about interest rate changes, they certainly do tempt people to borrow more. It makes saving less attractive. It makes consuming in the here and now a good deal more attractive. Part of the difficulty we are going to face as monetary policy tightens is that people are going to feel the pinch from those higher interest rates. That's why there will be concern among people generally who have floating rate mortgages or are otherwise exposed. The government is going to find that the cost of its financing is above what was predicted. It already is, with long bond rates where they are now.

There's going to be a certain amount of commentary saying that if only monetary policy would ease up, fiscal policy wouldn't have to be so tight. I don't look forward to that debate because it seems to me that inflation being low and stable really has to take priority. That's fundamental. You don't want to undermine that target because it makes it harder for the government to borrow.

● (1140)

**The Chair:** Thank you, Mr. Robson and MP Albas.

We're moving to the Liberals now with MP MacDonald for six minutes, please.

**Mr. Heath MacDonald (Malpeque, Lib.):** Thank you.

Thank you to all the guests here today.

I'm going to start with Mr. Yan.

Relevant to your expertise and education in the field of planning, can you share with us any areas of the country where planning decisions have been taken in a manner that effectively preserves and expands affordable housing options?

**Mr. Andy Yan:** The examples that have occurred have very much occurred when multiple levels of government have worked together to produce affordable housing.

This is where we can find the kind of history where the federal government worked together with the provincial and local governments. One of the best examples is in the False Creek South neighbourhood of Vancouver.

You'll find that by working together and coordinating their policies towards development and land acquisitions, multiple levels of government have been able to produce a level of affordability and inclusion.

**Mr. Heath MacDonald:** Thank you.

Recently, you were quoted in a Globe and Mail article discussing wage inflation and labour market impacts of so many young Canadians leaving the large cities.

What can governments do to try to entice the demographic back to our cities? What may the risks be to the economy and labour force if we are unable to do so?

**Mr. Andy Yan:** You'll see an exodus of talent. I think part of this is understanding that there is tremendous diversity within this population of young people. Within this type of consequence is the inability to actually start your career and grow it in Canada and the exodus into countries that offer higher wages.

I think this is one of the biggest challenges we have in operating in a global economy.

**Mr. Heath MacDonald:** Thank you.

Can you speak to the phenomenon of foreign-owned property, particularly in Vancouver? What is it doing, basically, to that city and the housing products?

**Mr. Andy Yan:** It has made a pre-existing condition worse. You have properties wherein, depending upon when they were built and what they are, upwards of 20% of certain stocks are owned by folks who don't live in Canada. That really has another distortive effect, which various policies at the provincial level in British Columbia have attempted to address.

Now there's evidence that it has actually moved eastward, particularly to markets like Toronto, which I'm happy to talk about later on. Some of my latest research has shown how it has spread out into the rest of the country.

**Mr. Heath MacDonald:** Yes, certainly. We're even seeing it as far east as Prince Edward Island, so it's very interesting.

How many years does this go back? When did this start? How many years have we actually been dealing with this problem, though it's really surfaced in the past 10 to 15 years?

**Mr. Andy Yan:** That's precisely it, Mr. Chair.

It's an issue that has a particular timeline and it started approximately 10 to 15 years ago. My existing research talks about how it has accelerated. It's fundamentally not only about foreign money, but how foreign capital has mixed in with local lending practices. The issue isn't only about foreigners per se, but about foreign capital and how capital from around the world is landing in Canada for safety. In that type of safety, it's distorting property values.

● (1145)

**Mr. Heath MacDonald:** Do you have any examples you could share with us, where you know first-hand of the consequences of this?

**Mr. Andy Yan:** I think, fundamentally, you can see it in Vancouver. The speed of this type of increase in housing values—compared with local incomes—has been most acute in the city of Vancouver. Through certain policies at both the local and provincial levels, we've seen at least some staunching of that. At the same time, of course, other factors have now replaced that, which are also drive up housing values.

It's really about how we've dealt with the issue of foreign capital. It still remains a sizable challenge when looking for policy and leadership at the federal level.

**Mr. Heath MacDonald:** How much time is left?

**The Chair:** You have a minute and a half.

**Mr. Heath MacDonald:** The government of the day introduced the underused housing tax. What are your thoughts on the taxation of underused homes?

**Mr. Andy Yan:** I think it is a policy that can be directed into particular markets. The issue of underused homes mixes in with the emergence of disruptive technologies and the role of property technologies, or prop-tech, whether short-term rentals through Airbnb to.... These platforms are distorting the rental expectations of prospective landlords in terms of faulty algorithms that really maximize the amount of rents, as opposed to connecting up with those who need rental housing.

**Mr. Heath MacDonald:** I see in an article from CBC that you were supportive of B.C.'s new cooling-off period. Do you think this practice would work elsewhere across the country?

**Mr. Andy Yan:** I think it goes directly to transparency, consumer protection and the role of the federal government to produce a level of leadership in terms of ensuring that Canadians are protected in the biggest purchase of their lives.

**Mr. Heath MacDonald:** Thank you.

**The Chair:** Thank you, Mr. Yan and MP MacDonald.

We are moving now to the Bloc and Monsieur Trudel for up to six minutes.

[*Translation*]

**Mr. Denis Trudel (Longueuil—Saint-Hubert, BQ):** Thank you, Mr. Chair

I thank all the witnesses for being with us today.

Ms. Cyr, thank you for your presentation. I'd like to begin by asking you to explain the particular features of technical resource groups, or TRGs, for the benefit of our friends in English Canada. Your organization, Bâtir son quartier, is one of them. Twenty years ago, I think there were TRGs all over the country, but now they only exist in Quebec.

What is the importance of TRGs in delivering community and affordable housing projects?

**Ms. Edith Cyr:** Thank you for the question.

Technical resource groups are instruments, tools for the development of cohousing. We are on the lookout for needs, and based on an expressed need, we accompany the groups to carry out projects aimed at building housing, whether it is a question of finding a plot of land or a building, putting together the financial package, coordinating all the professionals or providing training in property management.

This is the tool that has allowed Quebec to develop just about everything related to community housing over the years.

**Mr. Denis Trudel:** Thank you.

The federal government invested a lot in social housing before the 1990s, in the 1960s, 1970s and 1980s. There was a pause in investment around 1993, hence the national strategy that was launched five years ago. Indeed, it had been 25 years since the government had invested in social housing.

According to a report by the Front d'action populaire en réaménagement urbain, or FRAPRU, in Quebec, with which you are no doubt familiar, if the government had not stopped investing, we would have 80,000 more social housing units on the market in Quebec alone right now. We can certainly say that we would have fewer problems related to the scarcity and affordability of housing in Quebec if these units had been built.

Isn't this precisely proof of the importance of the federal government's commitment to the construction of social and affordable housing in Quebec?

**Ms. Edith Cyr:** Yes, you are absolutely right. It is absolutely necessary for the federal government to maintain its investments and redirect them. The programs were designed and thought out in a specific context. Beyond the evaluation that can be made of them, at present, if we want to achieve the targets set in the strategy, we have to review the programs in certain cases. Sometimes adjustments have to be made. We need to refocus the support measures.

I agree with Mr. Sullivan that, given the rising costs, additional subsidies are needed. In addition, there is a need to improve the support measures for individuals. We also need to intervene on what exists, save the affordable housing stock and create tools to acquire new ones.

● (1150)

**Mr. Denis Trudel:** Federal programs such as the National Housing Co-Investment Fund and the Quebec Low-Rental Housing Program are generally based on the median market rent. As a result, a rent of $2,225 per month in Montreal, for example, is considered affordable, which does not make sense.

Don't you think that the ability to pay of households should be the basis for federal government subsidies instead? After all, it is public money.

**Ms. Edith Cyr:** There are indeed two issues with the National Housing Co-Investment Fund.

Part of this fund is to help the lowest-income households, and the rest is to help finance that part. Rents can be very expensive to help finance about 30% of the housing that is a bit cheaper.

You are right. For some time now, we've been talking about affordable housing all the time, while the price of what is considered affordable is increasing as the average price of housing increases. However, incomes do not increase accordingly. The definition of affordable housing should be reviewed in relation to the ability to pay of tenant households.

**Mr. Denis Trudel:** As you said earlier in your presentation, according to the most recent data, material and labour costs have caused maintenance and renovation expenses to jump by about 25% in Quebec this year, in the rental sector, for example.

Do you have any projects that have been put on hold due to current inflation?

**Ms. Edith Cyr:** Yes; Bâtir son quartier has had to put approximately 1,460 housing units on hold. These are projects that were well advanced but stalled because the funding was not indexed. In addition to these units, another 5,000 were put on hold. Real estate is not developed one year at a time; it is prepared and worked on in the long term. So we need predictability.

The projects we have been working on are therefore at different stages of completion. The 1,400 units I was talking about are at a very advanced stage, but there are another 5,000 that are expected to follow. When I was talking about 10,000 units in Quebec, I wasn't even counting the ones that are in development or in preparation. The cohousing field needs predictability.

**Mr. Denis Trudel:** In Quebec, the Réseau québécois des OSBL d'habitation, FRAPRU, which was mentioned earlier, and the federations of housing cooperatives think that, in general, the federal government's programs are far too oriented towards private developers. They believe that more trust should be placed in organizations such as technical resource groups, for example, which are more aware of the needs of the community. They therefore suggest that funds should be redirected to groups that really know the needs of the community and are also able to ensure long-term affordability.

What do you think?

**Ms. Edith Cyr:** What I have always said is that all Canadians should be able to afford decent housing. However, if a government is going to make budgetary choices, it needs to target its assistance and provide it to the poorest, those who need it most.

When I talk about helping the most needy, we have to be careful, because the current trend is to target what I call clienteles, such as abused women or people experiencing homelessness. This is a good thing, because we need to address the needs of these groups, but we must never forget the people who have no particular need other than the essential need to have affordable housing that is large enough not to be overcrowded.

**Mr. Denis Trudel:** Thank you, Ms. Cyr.

[*English*]

**The Chair:** That is the time.

We're moving to the NDP.

Welcome, MP Garrison, to our committee.

You have six minutes.

**Mr. Randall Garrison (Esquimalt—Saanich—Sooke, NDP):** Thanks very much, Mr. Chair. It's always a pleasure to be at the finance committee. Although it's been quite a long time since I've been here, it's always a pleasure to be able to address the issues of housing in my riding.

Right now, our definition of affordability is that 30% of a household's before-tax income is affordable. We all know that. But if you look at my riding, the median household income is about $72,000, which means that what's affordable is $1,800 per month by that definition, except that's below the average cost of a one-bedroom apartment. So not only is it a strange way of figuring out what's affordable, it doesn't even meet the average costs if you're paying an "affordable" amount of rent in my riding.

I'm going to ask my first question of Mr. Yan. How do we as a committee and a Parliament address the gap between this affordability definition and the actual prices people have to pay to get housing.

● (1155)

**Mr. Andy Yan:** Fundamentally, it's about going into the inefficiencies of measuring unaffordability. You have to look at that, but if I put on another hat, some of this is really about expanding the idea that we also need to consider housing adequacy.

Some of the leadership that's being done in this field is by the statistics bureau in New Zealand, where they've begun to understand that there is an issue of housing adequacy as opposed to just housing affordability, and that how you deal with the issue of housing adequacy is by looking at the specifics. For instance, what are these units that people are able to purchase as opposed to just a raw unit itself, and what's the format? Are they one, two or three-bedroom units that are ready for families?

Part of this is also looking from the federal government's perspective not only at the funding and the acquisition of housing, but also fundamentally looking at infrastructure, looking at elements such as public transportation as the means of dealing with and controlling living costs. I think that is a way of understanding the full cost of living in the various communities in Canada.

**Mr. Randall Garrison:** Thanks very much.

We've seen the spectacle in my riding of landlords suggesting to people when they show up to look at a unit that if they're prepared to pay more than the advertised rent, they can be the successful bidder. In fact, we've got bidding going on, a kind of black market bidding to get housing.

The result is that those with double incomes and no kids, who of course need housing like everybody else, are able to pay a higher price, so they can secure those units. We have lots of people who are, in effect, excluded from the rental housing market in my riding.

My second question is about how investments in social housing both would help to house those people and how these investments might bring down costs in the housing market in a broader sense.

**Mr. Andy Yan:** Fundamentally there is another element of the deficit. There is a non-market housing deficit, which has not been paid off for almost 20 years and which we've only now slowly begun meeting, but nowhere at the pace at which that needs to happen.

That is really where direct investment in construction as well as acquisition of housing for the non-market sector offers the greatest solutions in the fastest, most expeditious time.

**Mr. Randall Garrison:** Mr. Yan, would you say that CMHC is capable of doing that as it's now constituted, or are they going to have to make some fundamental changes in their approach?

**Mr. Andy Yan:** It's about enabling CMHC to expand its programming not only towards construction costs, but then also really in looking at the role of unit acquisition, of having the right for first purchase. There is the role in government to enter the realm of offering stable, affordable housing at local cost. That is one of the ongoing challenges—really the role of providing non-market housing across the spectrum, not only in terms of supportive housing, but then into elements and alternative market arrangements like co-op housing.

**Mr. Randall Garrison:** Thanks for raising co-op housing. We have a lot of co-op housing units in my riding in Victoria that were built 30 years ago. They're relatively low density. There are some creative co-op boards who have been looking at trying to leverage the low density by building a higher density on their current sites and offering some more one-bedroom units, for instance, when there are mostly three-bedroom units. But they're finding difficulty in financing that change, to finance that kind of redevelopment.

Is there anything CMHC could do to help finance those innovative ways of renewing co-op housing?

**Mr. Andy Yan:** That's a similar type of process where you enable, as well as empower, CMHC to allow for that type of development, for that redevelopment as well as long-term supports for developments like co-ops. You'll find that in False Creek South, there is a very active citizens group that is looking very much toward the role of densification of redevelopment that really does enable and extend the amount of non-market housing in Vancouver.

● (1200)

**The Chair:** Thank you, MP Garrison.

Members, we are moving into our second round of questions. In this round, members will have five minutes, and some two and a half minutes.

We're starting with the Conservatives and MP Stewart for five minutes.

**Mr. Jake Stewart (Miramichi—Grand Lake, CPC):** Thank you, Mr. Chair.

My questions are for associate professor of economics and philosophy at Carleton, Professor Dehejia.

Professor, do you think the inflation that Canadians are facing today is transitory?

**Mr. Vivek Dehejia:** No, I don't think it's transitory [*Technical difficulty—Editor*]

**The Chair:** Mr. Dehejia, can you repeat the answer, please? We lost you for about 20 seconds.

**Mr. Vivek Dehejia:** Sure. I think I heard an echo, but I think that's stopped.

Mr. Chair, I certainly don't think that our inflation problem now is driven by transitory factors. I think when you look at the reality of it.... In fact, Mr. Robson mentioned correctly that some three quarters or more of the basket in the CPI has gone up in price. That isn't just because of the war on Ukraine, or oil or supply disruptions from the pandemic. My back of the envelope calculation would be that maybe 1 percentage point of our current 5.7% inflation rate is caused by factors that may disappear, but when the money supply is growing at 14% to 20%, it is basically a monetary phenomenon. We're just printing too much money, so I'd say no, it's not transitory.

**Mr. Jake Stewart:** Thank you, Professor.

Can you tell the committee why you think inflation won't go away any time soon?

**Mr. Vivek Dehejia:** I would say that we've seen this movie before, and it doesn't end well. Think back to the late 1980s and the early 1990s, when we were having similar conversations about whether the problems then were just going to be temporary and disappear. Then Governor John Crow really took charge and engineered maybe one of the most important disinflation experiences in the history of any modern country. He did succeed. He had the moral support of the then prime minister of Canada and his government, but it was very costly. Some of the side effects were that the dollar became more overvalued, which led to the recession, that had to occur. That correction was necessary and the tough medicine did work, but it was a painful process.

I think the more we kick the can down the road and say it's transitory and that it's something else, the worse the problem will get, Mr. Chair.

**Mr. Jake Stewart:** Thank you, Professor.

Do you think that government overspending and lack of monetary policy has been a major contributor to inflation in Canada?

**Mr. Vivek Dehejia:** Mr. Chair, I would put it this way: Government spending, in a sense abetted by loose monetary loose policy, is worsening inflation. When government spending is monetized, when the Bank of Canada buys up all of that government debt and then pumps it back out into the economy into the financial sector, that monetizing of government spending absolutely is worsening inflation. There's a kind of symbiotic relationship between them that goes back to the financial crisis where, for better or worse, that wall between finance and the central bank broke down, as they coordinated in trying to fend off the crisis. However, that symbiosis has remained, unfortunately, Mr. Chair.

**Mr. Jake Stewart:** Thank you, Professor.

Government is continuously insisting that everything with respect to inflation is related to the pandemic. Do you have any comments on that topic?

**Mr. Vivek Dehejia:** Mr. Chair, I certainly would strongly disagree with that view. It's very tempting to blame something that's beyond the control of the government of the day or the central bank, but, again, the facts speaks for themselves.

If you look at money supply growth, after being a steady for 5% to 6%—sort of where it should be—some aggregates have been growing at 40% or 50% until recently. That has nothing to do with the pandemic, Ukraine or supply disruptions. That is just excessively inflationary, loose monetary policy—also monetizing government spending. Really, that's 99% of the problem, Mr. Chair.

**Mr. Jake Stewart:** Professor, do you believe that oil prices will impact the prices we pay in the grocery aisles? If so, how?

**Mr. Vivek Dehejia:** Mr. Chair, there certainly will be a feed through effect of higher oil prices. It costs more to get stuff here. We have supply disruptions already through the pandemic, and the Russia-Ukraine conflict is not making that any better.

Again, if I were to parse the increase in prices, of the 5.7% year-on-year inflation we have now, I would [*Technical difficulty—Editor*] and the rest of it is really a bad monetary policy, Mr. Chair.

● (1205)

**The Chair:** Thank you.

Thank you, MP Stewart. That's your time.

We're moving to the Liberals, and MP Dzerowicz is up for five minutes, please.

**Ms. Julie Dzerowicz (Davenport, Lib.):** Thank you so much, Mr. Chair.

I'd like to thank all of our panellists today for the excellent discussion and presentations. I appreciate your being here.

I would just start off by mentioning that there are a number of diverse opinions out there about our emergency measures and spending. If you hear from Stephen Poloz, who is now a special adviser at Osler and a former governor of the Bank of Canada, he would say that Canada's ability to navigate the pandemic should be very commended. He very much lauds the work that we have done with the emergency measures.

I do think it's important for everyone to note that since last summer—actually, it's been more than a summer—we have been tightening up our emergency measures funding. It's been far more targeted. We know that it needed to be targeted.

I think it's also important to note that, based on the learnings we have from the 2008 financial crisis, it was very important for our government to try to ensure that we create a foundation from which businesses could pivot. We wanted to make sure that we tied employees to their places of business. That was also a key concern. We tried to take some of the learning from 2008 and create that foundation. We've found that it has been very successful, when we look at how many jobs have actually come back and at GDP growth in Canada.

I think it's also important to note—because I believe we should always be tackling income inequality—that you get economic historians like Adam Tooze of Columbia University, who lauds Canada for doing a great job in a more equal distribution of our emergency funds.

It should be noted that at every point our government tried to do its best in a very unpredictable economic environment and an unpredictable pandemic. Of course, there are going to be some unintended consequences. I think we are talking about one of them. Housing is a huge issue for our government. It's important to note that we all believe it should be addressed.

There have been a lot of dollars and resources—appropriately so—allocated to tackling the housing crisis that we have now in Canada, and the affordability crisis, with $4 billion allocated for the housing accelerator fund and $2.5 billion for a rapid housing strategy. There's lots of money in terms of renewing co-op agreements and paying for current Toronto community housing maintenance and a few other things.

I think my first question is going to go to Ms. Farha.

Ms. Farha, I fundamentally also believe that every Canadian should have a right to affordable, safe, accessible housing. How would you suggest that we proceed with that in Canada, given the fact that all three levels of government have different tools to be able to address the housing crisis? Could you provide advice on how to proceed on that?

**Ms. Leilani Farha:** The federal nature of this country does make housing complicated at times. There isn't always a really good synergy between the different levels of government. I work a lot with city governments in this country, and I hear a lot from them about the lack of synergy.

I would say that it is the federal government's role to show leadership. Even though they don't have constitutional jurisdiction over housing, they certainly have constitutional jurisdiction over the spending power. Even though those numbers you gave us were somewhat impressive compared to yesteryear's, I still don't find the quality of conversation and policy moves to be as ambitious as they need to be to solve this crisis, to be perfectly honest.

One thing that hasn't been discussed at all is the role of real estate investment trusts and how they are driving up the cost of housing and, in particular, of rental accommodation that is in fact somewhat affordable for people across the country. That's a direct result of preferential tax treatment. It's pretty much the only kind of trust in this country that doesn't actually have to pay income tax. That gives them a leg-up, coupled with all of the conversation we've already had about low interest rates and free and cheap money.

The combination of those, supported by the CMHC, which is giving mortgage insurance for these acquisitions by these investors, is creating incredible pressure on tenants. I do see the need for the CMHC to look at this when they're giving mortgage insurance and to attach some conditions to that mortgage insurance. Also, the federal government could change the tax regime around real estate investment trusts. Those would be two big moves that could really move the country forward.

● (1210)

**Ms. Julie Dzerowicz:** Thank you so much.

**The Chair:** Thank you, MP Dzerowicz.

We're moving to the Bloc and MP Trudel for two and half minutes, please.

[*Translation*]

**Mr. Denis Trudel:** Thank you, Mr. Chair.

My question is for Ms. Cyr. It is also to enlighten my colleague from the Liberal Party, who believes that the government's programs are currently hitting their targets.

As part of the National Housing Strategy, a committee was formed to assess whether the strategy's objectives are being met. The National Housing Council published a first mid-term report on this major ten-year housing strategy about a month ago.

According to the report, only half of the housing funded by the National Housing Co-Investment Fund could get families and single people out of core housing need. It was not a housing lobby group that said this, it was the National Housing Council, the group formed as part of the National Housing Strategy.

It also says that about a third of the investment could help low-income households in core housing need. What is far worse is that almost none of the housing in the National Housing Strategy-funded projects gets single parent families, whose numbers are steadily increasing, out of core housing need. This is outrageous.

What do you think of this report, Ms. Cyr?

**Ms. Edith Cyr:** Through the National Housing Strategy, the Government of Canada has indeed invested money in housing, but the report allows us to see that some targets are not being met.

In my opinion, affordable housing is one of the important priorities of the government. Therefore, programs need to be evaluated and reoriented to properly meet the targets. Existing co-investment programs need to be looked at more closely and changes made. Some initiatives are somewhat better at meeting their targets. What makes the targets reachable should be studied.

Personally, I think one of the ways to create affordable housing is to target community housing, social housing. The very mission of the organizations that are dedicated to this is to meet the needs of households through the production of affordable housing. We should team up with the organizations in this sector and direct the funds to better meet the needs.

**Mr. Denis Trudel:** Thank you, Ms. Cyr.

[*English*]

**The Chair:** That is the time. It goes quickly.

We're going to move to the NDP and MP Garrison, for two and a half minutes.

**Mr. Randall Garrison:** Thank you very much.

I'd like to start by thanking Ms. Farha for her work on emphasizing the right to housing. She gave the committee a couple of very specific things on reducing the demand side, which might help, by taxation of real estate trusts, and she raised the question of some things that CMHC could do. I wonder if she has other specific suggestions on that demand side for the committee.

**Ms. Leilani Farha:** Sure. There's a lot that could be done on the demand side. Some of my co-panellists have already articulated some of these things.

One thing that shocks me about Canada is that we don't have a sense of who is in need and where they are in need. I think there needs to be a national audit, city by city, region by region, place by place, that enumerates who is in need, what their income brackets are, and who is living in homelessness, etc. We do point-in-time counts across the country that are orchestrated nationally. We could do the same with a national audit. I wanted to say that.

Also, it strikes me that none of the programming to date, none of the policies, the national housing strategy and decisions taken by Finance—and those need to be better melded together, because they're operating in different fields at the moment—are taking a look at what your human rights obligations are and what is actually required of government. Once you do that, you end up in the place that Madame Cyr was talking about, targeted approaches.

In my opinion, any new unit that's built at this point has to go to those who are in need. It has to. This isn't just light stuff; this is a major crisis confronting this country: 235,000 people living in homelessness is an embarrassment in such a rich country. We have people living in parks. We have people who've never been homeless before who are falling into homelessness because they can't pay their rent.

I think every move that is made by Finance or by the national housing strategy folks needs to be targeted to those most in need.

● (1215)

**The Chair:** Thank you, MP Garrison. That's the time. We're moving to the Conservatives and MP Chambers for five minutes.

**Mr. Adam Chambers (Simcoe North, CPC):** Thank you very much, Mr. Chair.

Thank you to our witnesses for coming today. Unfortunately, we have a limited amount of time, and we have some wonderful folks here.

I'm going to focus my questions on Mr. Robson to start with.

Mr. Robson, I commend you for a well-timed opinion piece in The Globe and Mail today. I'd like to spend a little bit of time talking about that. Perhaps before we get there, though, I will say that we've had a number of economists before this committee, including some chief economists of financial institutions such as the Bank of Canada, who have painted a picture of the economy that is very different from the one the Department of Finance is painting.

Growth is robust. The slack has been absorbed in the economy. Unemployment is below where it was prior to the pandemic. These are all good things, so why is it that we need to continue with significant amounts of deficit spending?

**Mr. William Robson:** Well, I personally would prefer to see the deficit disappear quite quickly. There was a reference earlier to what happened in 2008-09, and what I very much liked about what the federal government did after that episode was that it did, after having run a deficit much bigger than it wanted to, get the budget back to surplus; and that meant that a lot of the bills that would have otherwise been passed forward indefinitely were paid more by the people who benefited from some of the fiscal stimulus at the time.

I'm not seeing that same approach this time, and it does concern me—not just that some of the pandemic-related spending has gone on perhaps longer than it should have but also that we're seeing other types of spending as well. The federal government's own operating spending—the federal government employment is way up—and those things are going to be very hard to reign in when the time comes to get the budget back to balance.

**Mr. Adam Chambers:** Thank you very much. So what I'm hearing is that the fiscal plan of this federal government is to spend at every single stage of the business cycle, which clearly is not a sustainable fiscal path. You, in your op-ed today, had a recommendation with regard to what you would like to see as a fiscal anchor. Would you like to comment on that, please?

**Mr. William Robson:** I think there is no substitute for having a target on the bottom line. I would like to see that be zero when it comes to the amount borrowed, and that means, practically speaking, having a small surplus. My two main reasons for that are, first, that the debt-to-GDP ratio has not proved to be a very serious constraint and, second, that when you have a particular target on the bottom line, such as zero, every dollar of spending needs to be justified in terms of the dollar that you don't spend somewhere else or the dollar of revenue that you will raise to pay for it. At the moment, we're operating in a bit of a spirit of money appearing to be free. Because of the conversation on housing, I'll just say I'd be wary of any program that relies on decades of big federal government subsidies, because I think the money is going to dry up at some point and that pinch is going to be less serious the sooner we get on with getting the budget back to balance and the debt under control.

**Mr. Adam Chambers:** Okay. Thank you. Let's talk about inflation for a minute. Your initial testimony indicated that many people don't like inflation, but in fact, there are some entities that are significantly benefiting from a windfall of revenues. Who might those be?

**Mr. William Robson:** What I didn't say in my testimony is that there is a protected class. MPs are actually part of it. You have indexed pensions. Federal employees have indexed pensions. Most people don't. So for people who don't have indexed pensions, a long period of high inflation is extraordinarily stressful and destructive. Debtors do benefit from surprise inflation. At the moment, one of the big questions—and it relates to the earlier question about transitoriness—is, if inflation continues, how much is it a surprise? At the moment, long-term interest rates are quite low, but they are rising. Something that concerns me about the current episode is that if inflation expectations start to rise and we start to see that feeding through into long-term interest rates, it will get harder for the Bank of Canada to bring inflation back down. If people are still expecting 2% over the long run, then it's not that jarring a change, but once people have started to build increases of 4%, 5%, 6% or more into their wage and pricing plans, getting inflation down gets a lot more painful.

● (1220)

**Mr. Adam Chambers:** Okay. Thank you. I have one final question, Mr. Robson. The federal government is actually seeing its revenues increase substantially in this time of inflation. In fact, there is some discussion about governments around the world preferring to let inflation run hot so that it helps them pay off their debts. The Bank of Canada quietly released a paper in early March in which it talked about the credibility of the central bank and not wanting to bend to fiscal policy. When the Bank of Canada was presented with a fiscal plan that doubled the size of the national debt, do you think that the bank really had much choice other than to purchase government bonds if it wanted to keep interest rates low?

**The Chair:** Give a short answer, please.

**Mr. William Robson:** The Bank of Canada needed to create liquidity in the short run because of the pandemic, but I have a lot of concern that they seem to be taking responsibility for long-term interest rates and not just the overnight rate they use for monetary policy. To that extent, I think they are getting into problematic territory. The credibility of the low inflation target would be much greater if the government's debt weren't seen as potentially unsustainable.

**Mr. Adam Chambers:** Thank you, Mr. Chair.

**The Chair:** Thank you, MP Chambers.

We're now moving to the Liberals.

MP Baker, you have five minutes, please.

**Mr. Yvan Baker (Etobicoke Centre, Lib.):** Thanks very much, Chair.

Thank you to all our witnesses for being here today. I wish I could ask questions of all of you, but I won't have time.

I want to start by clarifying something with you, Mr. Robson. In your points about monetary policy, it sounded as though you said that you believe there's been too much government spending. In other words, the fiscal policy has been too expansionary.

I've been thinking in this discussion, and in prior meetings of this committee, about what the alternative would have been, during COVID, for example, if we'd not had that expansionary fiscal policy. For the folks watching at home, what we mean by expansionary fiscal policy is the government spending significant sums of money to support businesses, to support individuals who lost their jobs and to buy vaccines and that sort of thing. Most of that went into supports for businesses and individuals to prevent bankruptcies, insolvencies, homelessness and that sort of thing.

My question for you is this: Do you believe that the government should not have done those things? Is that what you're saying? Or are you saying something different? I don't want to put words in your mouth. I want to make sure I'm clear.

**Mr. William Robson:** No, I was very supportive of many of those initial steps. In fact, on the wage subsidy, I was on the record as having said that the early proposals weren't strong enough to create that continued labour market attachment.

I think many elements of that initial response to the pandemic were very well done. I would cut quite a bit of slack, given the speed at which they had to happen, for some of the problems in design that were inevitable with that kind of a fast rollout.

Having said all that, though, problems recur regularly, including fairly substantial crises. Russia's invasion of Ukraine reminds us of that. So I would like to see—I mentioned the 2008-09 parallel—a fiscal policy that gets the budget back towards surplus more quickly than is currently in prospect. As I mentioned already, a lot of the spending initiatives that we have seen have not been to do with the pandemic, including the expansion of the federal government's own operating costs. That has a long tail—for example, much higher pension costs going forward. The difficulty I have is that it doesn't appear that we're going to be robustly positioned for whatever comes next. Whether it's another pandemic, war, climate change, or other challenges that will be out there for future Canadians to deal with, they should have the fiscal capacity to deal with them.

**Mr. Yvan Baker:** What I hear you saying, I think, and I don't mean to oversimplify, is that you're comfortable with the past decisions around COVID-related spending. It's more forward-looking where you would like to see more fiscal restraint. Is that a fair way to summarize it?

**Mr. William Robson:** Yes.

● (1225)

**Mr. Yvan Baker:** Okay. Thanks for that.

I have two minutes left, if I'm not mistaken, Chair.

If I may, I'll direct my questions to you, Mr. Yan. I was very interested in some of the things you were saying about foreign capital in our housing market and foreign ownership of housing. Are you able to quantify for us in any way the impact of foreign capital on prices in our housing market?

I think you're muted, sir.

**Mr. Andy Yan:** Thank you.

I think it's something that any number of researchers have been attempting to look at and are beginning to quantify. I think fundamentally we see the beginnings of this data in the Canadian housing statistics program. We've discovered that in certain markets, with certain product types of housing, 20% of, say, condominiums in Richmond, British Columbia, are owned by people who don't live in the country.

I think it kind of begins with this type of initial research. This is still in its embryonic stage. I think we still need to fundamentally get on top of and follow the lead of any number of countries in dealing with foreign capital in our residential real estate markets.

**Mr. Yvan Baker:** What I hear you saying is that, to your knowledge, that hasn't been quantified yet to the extent of being able to give even a precise range. Is there a range of the impact on prices or the number of people who are crowded out as a result?

**Mr. Andy Yan:** We're slowly moving into this process. We've discovered, for example, that the amount, again in the case of a specific measure, is that $75 billion of residential real estate in Vancouver is owned by individuals who don't actually live in Canada. Again, that begins that type of conversation. It's something that is part of the new leadership that has occurred with regard to the investments in measuring systems within just the last four years. This is a process that we still need to continue.

**Mr. Yvan Baker:** Thanks very much.

**The Chair:** Thank you, Mr. Yan.

Thank you MP Baker. Your time is up.

Members, we are now moving into our third round. First up for the Conservatives, we have MP Fast for five minutes.

**Hon. Ed Fast (Abbotsford, CPC):** Thank you, Mr. Chair, for the opportunity to ask a few questions.

My questions are directed to Messrs. Dehejia and Robson.

The governor of our central bank recently appeared before us and effectively denied that his monetary policy has contributed to higher inflation. Actually, when given an opportunity to implicate excessive government stimulus spending, he similarly demurred.

Perhaps a question to you, Mr. Robson, is Mr. Macklem correct in suggesting that the Bank of Canada's policies have not contributed to skyrocketing inflation?

**Mr. William Robson:** It seems hard to absolve the Bank of Canada from responsibility. I would cut it some slack. As I said, I would cut the federal government some slack, because at the beginning of the pandemic, it wasn't clear how much liquidity was going to be enough. Under the circumstances, erring on the side of providing more was understandable.

What we are clearly seeing now is that we are supporting desired spending in the economy, with nominal GDP up 12% year over year. This is far in excess what the economy can actually produce in terms of goods and services. It's up 3% in real terms year over year. The difference between the 12% and 3% is a 9% increase in the level of prices, when you measure it across the entire economy.

The Bank of Canada has to take some responsibility for that. We've recently seen that inflation is well ahead of what it projected in its last monetary policy report. The logic to that suggests that it should also be ready to tighten policy by more than it has been suggesting.

**Hon. Ed Fast:** Mr. Dehejia, you stated that large-scale asset purchases by the central bank have flooded the market with liquidity. I'm assuming that the conclusion we can all draw is that it has spawned the inflationary pressures we are presently experiencing.

**Mr. Vivek Dehejia:** Yes, indeed. I would add that we have two inflation problems that have been spawned by unconventional policy. We now have rising CPI inflation and also asset price inflation. Both have been very problematic.

**Hon. Ed Fast:** Mr. Dehejia, I noted the distinction you've made.

The government has suggested that inflation is actually a global phenomenon, effectively absolving it of any responsibility for the current inflationary pressures we're experiencing in Canada.

Yet, I believe your testimony, Mr. Dehejia and Mr. Robson, suggest otherwise. Am I correct?

● (1230)

**Mr. Vivek Dehejia:** Yes, indeed. The claim that it's a global problem would seem to imply that it absolves the government or the central bank from doing anything about it. It's a global problem, because many countries have had very loose monetary policies well beyond where they should have tightened up. It's a global problem, because other central banks have also been very loose with their policies.

Our problem is made in Canada and can only be solved here. I find it to be a sort of a cop-out, the claim that it's a global problem.

**Hon. Ed Fast:** Mr. Robson, do you have any sense as to how high interest rates would now have to go to get inflation under control?

**Mr. William Robson:** As time goes by, I am increasing my estimate of what that would be. I am not a forecaster, but what is relevant is the level of the Bank of Canada's overnight rate compared to inflation expectations. That's why I said earlier, if inflation expectations stayed down around 2%, then the Bank of Canada doesn't need to raise its overnight rate all that far in order to contain the problem.

At the moment, though, it seems to me that inflation expectations are likely rising. Even the Bank of Canada's last forecast doesn't have inflation getting back to 2% for a couple of years plus. The higher inflation expectations begin to go, the higher the overnight rate itself needs to go. At this point, I'm getting concerned that we might need to see an overnight rate of 3%, maybe 4%.

That's not as high as it got during the last disinflationary episode, but it's quite a bit higher than what people are ready for. It's certainly higher than what the government is expecting in its fiscal plans, and the cost of servicing its own debt.

**Hon. Ed Fast:** Mr. Robson, your institute issued an “Intelligence Memo” dated January 25 in which you are quoted as saying, “Inflation is high where monetary policy has been inflationary, and low where it has not.”

You mentioned Switzerland as a jurisdiction where inflation has been kept low. Canada's is high and going higher. What is it that Switzerland has done to control inflation that Canada has not?

**The Chair:** Give a short answer, please.

**Mr. William Robson:** My short answer is that every country that controls its own central bank is in charge of its own inflation rate, because it's a matter of supply and demand for money. The euro area has a common currency, so to some extent, they can say it's a bit of an international problem affecting the euro area, but every central bank controls the value of its own currency. We have our own central bank. We sometimes talked about adopting another currency, such as the U.S. dollar. We decided not to, because we wanted control over our own currency.

We have control over our own currency. It's up to us to determine our inflation rate.

**The Chair:** Thank you.

Thank you, MP Fast. That's the time.

We are moving over to the Liberals.

Welcome, MP Sorbara. I know you were a long-time member of this committee. You have five minutes.

**Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.):** Thank you, Chair.

It's great to see so many of my colleagues this morning.

I'd like to make a couple of quick comments. On the related topic today of monetary policy, that was my speciality during my graduate studies. At the University of Toronto, I did my thesis on monetary policy, so it's very relevant to the world we live in. I also worked through and experienced the 2008-09 financial crash. I interviewed on Wall Street during the 1997 October crash. I worked through the ABCP, asset-backed commercial paper freeze-up here in Canada, which was a $30-billion freeze-up. I was also a survivor and worked through the events of 9/11 when I worked down in New York. Coming through COVID has been another experience here, now more on the practitioner, government side.

To the C.D. Howe Institute, as a monetarist, I've read everything from Friedman to von Hayek, and Dodge to Larry Summers most recently. I think the inflation we're dealing with here pertains to a lot of supply chain issues. You look at used vehicle prices, chips and new vehicle prices. What's happened there is very important.

I agree that we need very well-anchored inflation expectations. That is very important. Money is a store of value, a store of wealth for Canadians, but I would argue that global inflation has been largely caused by the supply chain global issues.

Mr. Robson, I think you would agree that we needed to have a bazooka-type response to the pandemic when, nearly overnight, a third of the Canadian economy and a large chunk of the world economy froze up. We needed to have an appropriate fiscal and monetary response.

I would define those two measures as appropriate, as an economist by training and as a practitioner in the global financial markets for 20 years before I became a member of Parliament, and having worked and lived through the other financial crises that occurred. Those responses were pertinent.

Would you not agree that the responses were pertinent? After that, we'll get to today.

● (1235)

**Mr. William Robson:** I've already said with respect to the fiscal and monetary measures that I think, under the circumstances, they were broadly appropriate. When it comes to whether they were exactly right, I would cut people quite a bit of slack, because they were operating on such a scale and under such time pressure.

Having said that, though, we now have a situation where nominal spending is growing far more quickly than the economy's ability to produce goods and services. I would express what you did about supply chain issues a little differently. It's true that some are spectacularly worse than others—particularly in energy markets right now—but across the board, what we're seeing is a constrained ability of the economy to produce goods and services. The labour market has come back very strongly, but business investment has been very weak and productivity growth has been weak.

The ability of the economy to generate goods and services in real terms is constrained. If you continue to run a monetary policy and fiscal policy that presume that the economy can grow a lot more quickly in a sustained way, you'll end up with inflation, because you've got too much money chasing too few goods and services.

**Mr. Francesco Sorbara:** We all know about the aggregate supply versus aggregate demand side of the economy and what's happening there.

I would argue that one of the very positive outcomes of the pandemic is that we have limited scarring of the economy. Whether it's measured by our labour market or by GDP, the Canadian economy is obviously now larger than where it was pre-pandemic and so forth.

Obviously, there are indirect consequences for credit markets when you have to lower rates— and I'm not speaking for the Bank of Canada, nor would I do so. Obviously, we need to look at measures for helping Canadians to ensure that they can afford to purchase a home, especially first-time buyers. We do know that 70% of Canadians own their homes and have paid off their mortgages. The home ownership rate in Canada has hovered around that 70% rate, and 95% of our housing market is actually private housing market with no government interaction at all with participants so we do have a healthy housing market, but we do have issues that we're addressing.

I look forward to seeing some of the measures that we put in our platform on blind bidding, the housing accelerator fund, and many measures to that extent.

I have read your “Intelligence Memos” from January and February. They're very thoughtful, and I do agree that we need to have well-anchored inflation expectations both for the business side....

In terms of your comment on productivity, Mr. Robson, it has been a long-standing issue under successive governments that we need to address our productivity challenge or gap versus the United States. I put out some of my own thoughts on how we should do that. It's great to see the digital adaptation program our government put out and the women entrepreneurship loan fund.

We have more things to do and I look forward to doing those things over the coming years.

If you have any more thoughts on the productivity question, I'd love to hear them.

**The Chair:** Thank you, MP Sorbara. That is the time.

We are moving to the Bloc.

We have MP Trudel for two and a half minutes.

[*Translation*]

**Mr. Denis Trudel:** Thank you, Mr. Chair.

Ms. Cyr, you talked in your presentation about a major project. I would like you to talk to us about it in a more comprehensive way.

There's a lot of talk about housing affordability, the fact that it's expensive and scarce, and we're looking for solutions. To me, a major building project implies that governments need to do more than they are doing at the moment, that more housing and public investment is needed to tackle the current housing crisis.

When you talked about a major building project, is that what you meant?

**Ms. Edith Cyr:** They say that inflation is here to stay, that it's clear that low-income people are being hit hardest, and that housing is a major expense for Canadian households.

However, we need to house everyone. We must therefore implement a major project that will mobilize all of society and all of the different players, where government investments will target those who need it most.

It seems to me unavoidable that we undertake such a project at this time. When I say I want to see a mobilization of all actors, I mean all parties. We are often concerned about private property ownership. It is true that everyone has the right to own property. However, if there are choices to be made, I repeat that we must first think of the poor, of those who receive a monthly cheque for $1,000, more than half of which goes to pay for housing. What are they left with to meet other needs?

We have a collective obligation to find solutions to ensure that all Canadians find housing, especially those most in need.

● (1240)

**Mr. Denis Trudel:** There is a particular phenomenon in Quebec, namely community support for housing. This support is particularly given to people experiencing homelessness.

However, the statistics tell us that if we simply find housing for a person who has lived on the street for years, but we don't help them make a budget, pay their rent, pay their bills, and so on, that person is very likely to return to the street after a few months. So people who have experienced homelessness need to get used to having a normal life. If we fund this community support—and in Quebec, we do it well—it leads to savings in social costs, particularly in health care.

Can you tell us more about this community support?

**Ms. Edith Cyr:** Community support helps people who have not yet developed much independence, let's put it that way. Everyone needs decent housing and to manage it independently. However, in some cases, people have a bit more difficulty.

Community support provides support services to help people who are at risk of becoming homeless, or who are already experiencing some homelessness, or who have health problems. It enables them to get treatment and support so that they can remain in their homes independently. At the same time, it saves the health care system several thousand dollars.

**Mr. Denis Trudel:** Thank you, Ms. Cyr.

[*English*]

**The Chair:** Thank you, MP Trudel.

We are moving to the NDP and MP Blaikie.

Welcome back. You have two and a half minutes.

**Mr. Daniel Blaikie (Elmwood—Transcona, NDP):** Thank you very much.

I'm glad to be back.

Having just spoken in the House on a motion about imposing a surtax on banks, profitable oil companies and big box stores as a result of the pandemic, I feel compelled to say.... I know there has been some conversation around the table about getting the deficit under control, but of course the other side of that equation is the revenue side of the equation. It's one that is too often neglected in those conversations, particularly in light of the growing gap in wealth distribution between the top 1% in Canada and the bottom 40%, who are sharing just 1% of the wealth produced in Canada. Among those 40%, of course, are some of Canada's most vulnerable people.

At the end of her exchange with my colleague, Mr. Garrison, Ms. Farha was talking about how new initiatives need to be targeted to make sure they make sense and provide real and tangible help to some of those populations.

I wonder if she would like to pick up where she left off and talk about some of the ways good public policy might be able to target those groups. Does she have specific recommendations for this committee to pass on to government?

**Ms. Leilani Farha:** To reconvene that idea, it indeed seems to me that there is not going to be a silver bullet to all of this. A multi-pronged approach is necessary.

I do want to reiterate something around investment in housing. I really think we have to take a big step back in this country and understand that the way investment in housing is working right now is not working for people who are low income or even for higher-income earners. In fact, what's happening is that only wealth is being extracted.

While I understand the concerns around foreign ownership, I want us to be very clear. There are many domestic actors here. We're talking about Canada's pension funds. We're talking about real estate investment trusts. We're talking about individual investors who are now able to own multiple properties—10 properties. All of this is decreasing affordability, decreasing affordable housing stock and making it much harder for low-income people to just eke out an existence. These are people who have played by the rules. They've gone to school. They have jobs. They just can't make ends meet.

I think there has to be a real pivot in approach. So many of the policies that exist right now benefit those investors. That needs to be looked at. I'd love to see a finance committee hearing focused on the financialization of housing or a HUMA committee hearing that really drills down on what we can do to curb the investment in housing. To me, that would be an important emphasis.

**The Chair:** Thank you.

Thank you, MP Blaikie. That's the time.

Members, we have two more members who will ask questions. We'll go to the Conservatives and then to the Liberals. I just want to say that we will have to leave a few minutes just at the end because we have to adopt a couple of budgets for our committee.

Up next is the Conservative's MP Albas for five minutes.

● (1245)

**Mr. Dan Albas:** Thank you, Mr. Chair.

Earlier in today's testimony we heard a member opposite say that we are experiencing “a healthy housing market” in Canada.

We found out last week that the national housing data just released by the Canadian Real Estate Association shows that home prices are now up 29% from last year, which is the the fastest pace of increases on record. Once again, housing price inflation is widespread. In Toronto, home prices are up 36%. Montreal is up 20%. Vancouver is up 21%. Calgary is up 16% and Ottawa is up 16%. These are just some of the major municipalities that have seen this.

First of all, let's go to Professor Dehejia, please.

Does Canada have a healthy housing market, in your view?

**Mr. Vivek Dehejia:** Mr. Chair, the housing market, like a whole range of asset markets in Canada and around the world, has been distorted really beyond recognition by unconventional policy, by quantitative easing and by the zero-interest rate policy, so I would say no. Growth rates of property prices that are that high are pricing out middle-class people who, as someone said just now, earn an income, have gone to university and have graduate degrees.

Where I live now in downtown Ottawa, I bought in the fall of 2019 shortly before the pandemic. If I had to buy today, I couldn't afford to buy where I'm living right now, so something is wrong with the housing market.

I would again trace it to a generalized distortion in our financial system thanks to loose monetary policy, Mr. Chair.

**Mr. Dan Albas:** As you know, there are so many people who make good money in this country, young people, who are living in their parents' basements. They're paying through the nose on rent right now, so to me it just seems to be out of touch that members of the government side would say that we have a healthy housing market.

Mr. Robson, the C.D. Howe Institute recently put out a report on the housing market and how it's displacing our productive economy, meaning that if an entrepreneur says they have $100,000 to invest and puts it into their business, the rate of return on it is not at the same rate that you would get with housing.

Would you say that Canada has a healthy housing market right now?

**Mr. William Robson:** Well, we may have too much of a good thing. I don't mean to contradict anything that many of the housing experts in this group have been saying, but we have seen spectacular spending on residential investment over the last number of years, especially since the pandemic, and what concerns me is that it has eclipsed all other types of business investment for the first time in our history.

When I talked about the supply constraints of the economy, that was one of the things that was motivating my concern. We just are not seeing the investments in plants and equipment. We are not seeing the investments in intellectual property products that we need for future productivity growth, and I'm doubly concerned about that, because we are seeing those in other countries, especially in the United States. There's something else going on in Canada.

To try to square the circle, it seems to me that one of the reasons we want to focus on the supply side is that, on the supply side, many of the things that constraints apply to on the ground affect modest-income housing—less valuable in market terms—more than they do the big stuff. If you can build only a certain number of units, it's natural that you're going to be looking for the ones where you can make the most money. Some of the supply concerns that people talk about—for example, zoning bylaws and so on—probably add to that distortion. We have a lot of investment in housing, but not enough of the kind that many of my colleagues on this panel have been advocating.

**Mr. Dan Albas:** Professor Dehejia, do you feel that inflation is a made-in-Canada problem? Why or why not? Specifically, does this also relate to housing?

**Mr. Vivek Dehejia:** Mr. Chair, yes, it's very much a made-in-Canada problem. You just have to look at how rapid the growth of any kind of measure of money has been.

It's very much made in Canada. A large part of that, a sort of a parallel problem, is, again, housing price inflation. That doesn't show up fully in the CPI. These are asset prices that aren't fully captured in the bundle of spending. I would say that the housing problem, the housing price problem or the asset price problem, and the CPI, yes, are a product made in Canada by the Bank of Canada, for the most part.

**Mr. Dan Albas:** Who will be hit hardest by inflation?

● (1250)

**Mr. Vivek Dehejia:** I've been crying this from the rooftop for months. It's the working poor and the middle class who are hurt the most by inflation. The wealthy have ways to hedge against inflation: fancy financial instruments that they can put their money into. Inflation actually hurts the poor and the middle class the hardest, Mr. Chair.

**The Chair:** Thank you.

Thank you, MP Albas. That's the time.

We're moving to the Liberals and our last questioner.

We have MP MacDonald for five minutes.

**Mr. Heath MacDonald:** Thank you.

I have a question for Mr. Robson.

I think it was last week that you had a column in the Financial Post and you talked about how residential investment outpaced all other forms of business investment combined in Canada, and the size of the residential mortgages far outpaced the size of business loans. Can you expand on the impacts that such developments have on the Canadian economy?

**Mr. William Robson:** Well, the concern that I have.... Housing is great, and we have a number of housing experts on this panel who've been emphasizing how important it is, so it feels funny to be complaining about how much residential investment there has been, but the concern expressed in that column has to do with the fact that we are now investing more in housing than we are in every other type of business investment, as I said earlier.

It's the other types of business investment that are underpinning our income growth over time. It is quite literally the tools that workers need to do their jobs. Business investment, outside housing, has been quite low for a long time, and the capital stock per worker has been falling. That's a very unusual thing historically; it certainly doesn't seem consistent with rising living standards over the long haul.

One of the things we say—because you referenced the credit market—is that the CMHC's mortgage insurance could be more risk based. The taxpayer is backstopping way too much at the moment, and it would make sense for the CMHC to look again at that system and for the government to look again at that system. If I'm a potential lender and I have in front of me an entrepreneur and a potential mortgage borrower, there's a guarantee on one side and not on the other, and that does skew the credit market towards lending to mortgages rather than to businesses.

**Mr. Heath MacDonald:** Thank you.

I have another question. Even as house prices have increased, we've had several economists talk about a lack of upward pressure on inflation and the consumer price index. Can you just explain a little bit what they mean by that?

**Mr. William Robson:** If there's an afterlife and I ever have a chance to ask God how you should measure housing costs in the consumer price index, I'll be intrigued at the answer, because no human has figured it out.

You can weight the value of new houses relatively heavily or you can go to more of a rental-equivalence measure, because it's not obvious. Housing isn't something that you use up all at once like a cup of coffee; but on the other hand, if you only look at it over the life of the housing stock, then you're going to miss some of that upfront cost. Every country has its own way of trying to deal with this.

What we can say, though, about the inflation numbers that we're seeing right now is this. The fact that housing has gone up so much means there will be continued upward pressure, and measured inflation for a long time as a result of it. That's one reason that we worry about inflation expectations becoming unanchored, because some of these things have a long tail; and the longer inflation stays above 2%, the likelier it is that people will say that they just don't believe the 2% target anymore.

**The Chair:** Mr. MacDonald, you have two minutes.

**Mr. Heath MacDonald:** I'm going to go back to my colleague's question that you never had an opportunity to answer, because it is important. It is on productivity, and it's been an issue that I think every government in the past few decades has been dealing with. I want to get your opinion on the productivity issue relevant to the question of my colleague earlier, if you wouldn't mind finishing that.

**Mr. William Robson:** Business investment and productivity growth are very strongly correlated. If you look over time or across countries, you see that in countries where productivity growth is rapid, business investment is high, and in countries where productivity growth is slow, business investment is low. There are both cause and effect at work there. Businesses will invest more if the opportunities appear greater, and then putting new tools in the hands of workers—the most up-to-date software, the most up-to-date machinery—helps workers to be more productive.

You can argue the cause and effect side of it, and people do, but at the moment I'm seeing very low investment rates in Canada as a sign of concern. I mentioned that the capital stock per worker is dropping. That has never happened before over a period of years the way that it has lately, and that makes me concerned about future productivity growth and future income growth, including the incomes we'll need to get our fiscal house back in order.

At the moment, since we're talking about inflation, the concern is just that the supply side of the economy is now growing very rapidly, so as we're stimulating demand, we're getting more inflation than we want and not as much real growth as we want.

● (1255)

**Mr. Heath MacDonald:** Thank you.

**The Chair:** That's the time, MP MacDonald. Thank you very much.

To our witnesses, on behalf of the Standing Committee on Finance, the members, the clerk, the analysts, the interpreters, the staff, we do want to thank them a great deal for their testimony, for their answers to the many questions, and for helping us inform our study on inflation in the current Canadian economy.

Have a great day.

**Mr. William Robson:** Thanks for having us.

**Ms. Leilani Farha:** Thank you.

**The Chair:** Members, I just need your time for a little bit longer.

On Friday, the clerk distributed two budgets that we need to adopt: one for the inflation study and one for the Emergencies Act study.

I'm looking to members. Could we adopt those?

**Hon. Ed Fast:** I just want to know if those budgets are balanced or not.

**The Chair:** These are balanced—

**Hon. Ed Fast:** If they're not, I suggest that they should be.

**The Chair:** The funds are available. They are balanced. They are very prudent, as we do great work here.

**Hon. Ed Fast:** Good.

I move the approval.

**Mr. Dan Albas:** Mr. Chair—

**The Chair:** Yes, MP Albas.

**Mr. Dan Albas:** Mr. Chair, just briefly, though, could you have the clerk confirm that these budgets have reasonable expenditures given the work we're going to be doing—nothing glamorous or different?

**The Chair:** Okay, go ahead, Clerk.

**The Clerk of the Committee (Mr. Alexandre Roger):** The budgets are for phone lines, headsets and the food that's in the back, and those amounts are the same for every committee, so it's nothing different.

**Mr. Dan Albas:** Thank you.

**The Chair:** Thank you, MP Albas.

It looks like we are good.

Shall we adjourn?

**Some hon. members:** Agreed.

**The Chair**: Okay, we're adjourned.