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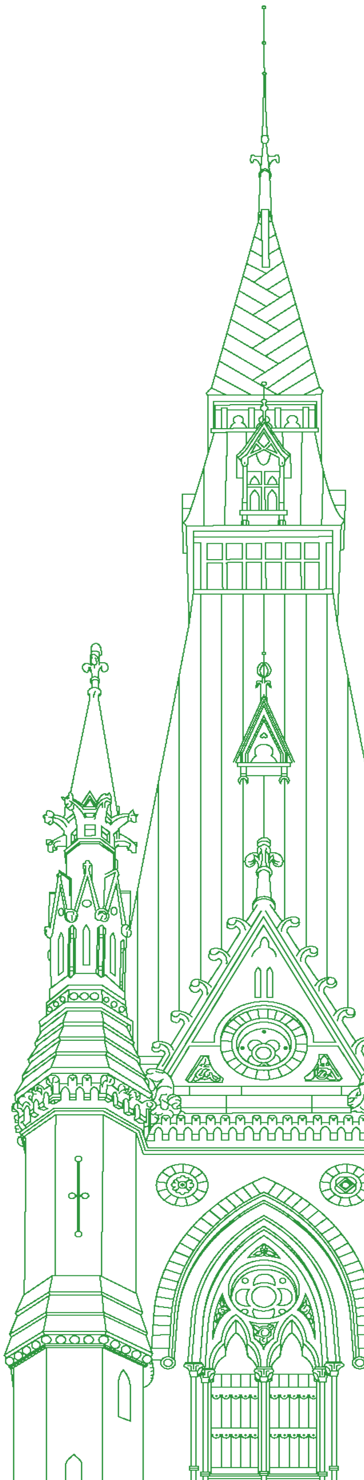

Chair: Mr. Peter Fonseca

Standing Committee on Finance

Thursday, October 5, 2023

● (1100)

[*English*]

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

Welcome to meeting number 103 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 83.1 and the motion adopted by the committee on Thursday, June 8, 2023, the committee is meeting to discuss the pre-budget consultations in advance of the 2024 budget.

Today's meeting is taking place in a hybrid format pursuant to the Standing Orders. Members are attending in person in the room and remotely using the Zoom application.

I would like to make a few comments for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking.

For interpretation for those on Zoom, you have the choice at the bottom of your screen of floor, English or French audio. For those in the room, you can use the earpiece and select the desired channel.

Although this room is equipped with a powerful audio system, feedback events can occur. These can be extremely harmful to interpreters and cause serious injuries. The most common cause of sound feedback is an earpiece worn too close to a microphone. We therefore ask that all participants exercise a high degree of caution when handling the earpieces, especially when your microphone or your neighbour's microphone is turned on. In order to prevent incidents and safeguard the hearing health of our interpreters, I invite participants to ensure that they speak into the microphone into which their headset is plugged, and to avoid manipulating the earbuds, by placing them on the table away from the microphone when they are not in use.

I will remind you that all comments should be addressed through the chair. Members in the room, if you wish to speak, please raise your hand. Members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can, and we appreciate your patience and understanding in this regard.

In accordance with the committee's routine motion concerning connection tests for witnesses, I've been informed that everybody has been tested and everybody is good on the sound.

With us today are our witnesses: as an individual, senior fellow at the Macdonald-Laurier Institute, Mr. Philip Cross; also as an individual, associate professor of economics and philosophy at Carleton University, Vivek Dehejia; from the Canadian Federation of Agriculture, Keith Currie, president, and Brodie Berrigan, director of government relations and farm policy; from the Échec aux paradis fiscaux collective, Monsieur Philippe Hurteau, member of the coordination committee, and Mr. Edgar Lopez-Asselin, coordinator, via video conference; from the Council of Canadian Innovators, Laurent Carbonneau, director of policy and research, and Nicholas Schiavo, director of federal affairs; and from the Public Service Alliance of Canada, Chris Aylward, national president, and Michele Girash, national political action officer.

Welcome, all of you. You'll have an opportunity to make a statement of testimony for up to five minutes.

We're going to start with Mr. Philip Cross, please, for five minutes.

Mr. Philip Cross (Senior Fellow, Macdonald-Laurier Institute, As an Individual): Thanks for inviting me back.

Inflation as measured by the CPI accelerated from 2.8% in June to 3.3% in July and 4% in August. The upturn was widely expected by analysts, including those at the Bank of Canada, because of base year effects. Basically, the drop in gasoline prices last year is being replaced in the index by this summer's high gasoline prices. However, more than energy prices are pushing up inflation. Measures of core inflation remained stubbornly near 4% even as lowered gasoline prices pulled down headline inflation. The cost of services rose 4.3%, led by a surge in shelter, notably a 6.5% increase for renters as Canada's housing shortage worsened.

It is remarkable that the Bank of Canada and the Federal Reserve board in their latest projections do not see inflation returning to its target level until 2025. This admission of failing to achieve their inflation target for another two years was not accompanied by a change of policy. However, the growing realization that inflation will be higher for longer is pushing up longer-term interest rates anyway.

It was predictable that the deceleration of inflation during the first half of 2023 would not last. Most of the easing of headline inflation was due to the resolution of some supply issues, notably in the energy sector after Russia's invasion of Ukraine. The underlying trend of demand has barely slowed outside of new home construction, suggesting that interest rates still are not high enough to substantially lower demand.

This is especially true in an environment in which governments continue to run deficits, notably in the U.S., where the federal deficit of 8% of GDP in the year ending in July is stimulus that is usually associated with wars and not an economy operating at full employment. Meanwhile, households still have substantial savings accumulated from excessive government transfers during 2020 and 2021. One result is that, after an initial downturn in the spring in response to higher interest rates, house sales began to heat up again over the summer after the Bank of Canada prematurely indicated that it would pause in further interest rate hikes.

The ongoing imbalance between aggregate demand and supply is reflected in continued low levels of unemployment. Low unemployment puts upward pressure on wages, with increases in average hourly earnings remaining close to 5%. The upward pressure on wages is continuing to build, with several high-profile strikes across North America. While an understandable reaction to higher inflation, continued high wage inflation risks making it difficult to return to 2% inflation. Jerome Powell, the federal chair, recently said that wage increases of 3% to 3.5% were consistent with its 2% inflation target. The implication is that sustaining current wage growth of well over 4% is not.

It is difficult to analyze the labour market after the pandemic. Many workers left their jobs during the pandemic, especially workers in such low-wage service jobs as accommodation and food and retailing. There was speculation that these workers would move to higher-paying jobs or upgrade their skills by returning to school. In the short run, we did see severe labour shortages in these industries. However, there has been no improvement in aggregate labour productivity. In fact, labour productivity has worsened significantly since early 2021, with eight declines in the last quarters. The only increase was 0.1%, for a total drop of nearly 6%. The slump in productivity cannot be blamed on the pandemic, as labour productivity fared markedly better in the U.S. than in Canada.

Comparing Canada and the U.S. also shows another glaring missed opportunity. Oil and gas production in the U.S. has risen 40% since 2017, fuelled by the technological innovation of fracking and higher prices, especially in Asia and then Europe after Russia's invasion of Ukraine. Faced with these same opportunities, oil and gas output in Canada eked out less than a 10% gain, hampered by a lack of pipeline capacity and regulatory uncertainty surrounding oil and gas extraction.

It is striking that the same circumstances produced such different results in Canada and the U.S. The surge in the U.S. shows there clearly was a business case to increase production. Nor did higher oil and gas production prevent the U.S. from substantial reductions in greenhouse gas emissions during this period, down 14% from its 2005 baseline versus only a 5% drop in Canada. Canada's attempt to straddle the middle of the road between the opposing lanes of faster economic growth and lower emissions led to it being run over in both directions: We achieved little economic income growth without lowering emissions significantly.

● (1105)

Underachieving has become habitual in Canada over the past decade as we have ignored or even been outright contemptuous of entrepreneurship and innovation.

Thank you.

The Chair: Thank you, Mr. Cross.

Now we'll hear from Mr. Dehejia.

Mr. Vivek Dehejia (Associate Professor of Economics and Philosophy, Carleton University, As an Individual): Thank you, Mr. Chair.

Canada's economy today stands at a crossroads. For the last quarter for which we have data, our GDP actually contracted. Inflation just clocked in at 4%, which is still well above the Bank of Canada's target. More rate increases, therefore, could be on the horizon.

Households in Canada have among the highest debt of any G7 country. Coupled with high house prices and insufficient new housing, many middle-class families can no longer afford to own a home, and many are fearful they won't be able to afford the monthly payments on homes they already own as rates keep ticking up and staying high.

There is a homelessness and drugs crisis on our streets making people feel unsafe. You only have to walk about five minutes from here to see that for yourself.

Meanwhile, the government's massive fiscal stimulus has reaped mixed dividends at best. A recent Fraser Institute study shows that most of the job creation in Canada since the pandemic has been in the public sector, not the private sector. In other words, not only is our economy becoming more socialized, but we haven't created enough new good jobs and new business to power growth into the future. In fact, Canada is probably at present the worst performer in the G7 after Germany.

I warned as long ago as the fall of 2021 in the National Post and before this committee about a year ago that the Bank of Canada needed to get serious about inflation. It was not transitory and supply shocks and Ukraine. The bank, in my judgment, began acting too late, and the problem has gotten worse. It now has to be more aggressive to fix the problem, which is making life more difficult for all of us who owe money—that's most of us—while profiting only the wealthy, who have spare cash to invest.

Where do we go from here? There's a real danger we will fall back into stagflation. That is stagnation in the economy and high inflation. We saw this movie before in the 1970s and again in Canada in the 1980s, and we know it doesn't end well, as we saw with wage and price controls at that time.

We seem to have forgotten the important lessons that were painfully learned. The recipe for success is prudent fiscal policy, sound money and sensible regulation that protects consumers while not stifling business in red tape. That is the formula we used in Canada to right the ship under governments of different parties.

In Canada now, we have the opposite situation. Profligate government spending, the long-lasting, harmful effects of loose money and stifling regulation are giving us low growth, high inflation and a “doing business” environment that chokes new business creation and gives us low growth compared to our G7 peer group. This means that prospects for many young people coming into the workforce or looking to start a business are increasingly dim.

In thinking about the next budget, my suggestion to the committee is to look at the things we did right that gave us a booming economy, and what is wrong now. We need a combination of sensible tax cuts and spending cuts that help us balance the government's books in a prudent manner while lifting the burden on average Canadians. We need to hold the Bank of Canada accountable for its mandate to protect the value of our currency and not allow loose, irresponsible monetary policies that have created our present inflation and affordability crisis. Finally, we need to pare back excessive government interference in the economy, which kills entrepreneurship and holds the economy back.

Thank you, Mr. Chair.

● (1110)

The Chair: Thank you, Mr. Dehejia.

Now we'll go to the Canadian Federation of Agriculture and its president, Mr. Keith Currie, please.

Mr. Keith Currie (President, Canadian Federation of Agriculture): Thank you, Mr. Chair.

For those of you who do not know me, yes, the chair did introduce me, but I am an eighth-generation farmer here in Canada, and I represent the Canadian Federation of Agriculture, which is Canada's largest general farm organization, representing nearly 190,000 farmers, farm families and ranchers right across this great country of ours.

For those of you who had the benefit of eating today, on behalf of our farmers we thank you for choosing good-quality Canadian food. Thank you.

Our sector, like many others, has emerged from the global pandemic into a high inflation and high interest rate environment. As a result, the cost of critical farm inputs, such as fuel, fertilizer, feed, machinery, crop protection products, land and even labour have increased dramatically over the past few years, putting tremendous pressure on producers' farm financial health.

Recent numbers from Statistics Canada have shown that our net income dropped by almost 10% in 2022, mostly due to the growth in expenses that outpaced the rise in farm incomes. Coupled with an increasing series of extreme weather events that are testing the limits and effectiveness of Canada's suite of risk management programs, Canadian farmers are challenged like never before to meet Canada's ambitious climate change objectives.

In this context, our pre-budget submission lays out a series of recommendations aimed at ensuring farmers have the flexibility and tools they need to weather the current financial climate and support the transition to a low-carbon economy. At the end of the day, our concern is that we don't want financial insecurity to undermine our sector's ability and commitment to producing affordable food or supporting our sustainable objectives.

I'll focus my comments on a subset of recommendations that illustrate our priorities for budget 2024.

First, under the theme of helping farmers manage the increased costs of production, we're recommending that this government continue to support farmers through the advance payments program. Specifically, we need the interest-free limit for advances under the APP to be increased on a permanent basis to a level commensurate with today's increased costs of production and high inflation around critical farm inputs to ensure the program maintains its utility as a source of critical cash flow support.

Furthermore, one of the most effective ways to meet the dual challenge of increasing productivity while at the same time reducing emissions is through technology and innovation. That's why our second priority recommendation is that the Government of Canada introduce a permanent accelerated capital cost allowance across all classes of farm equipment that would allow producers to depreciate 100% of their capital allocated to purchases of farm equipment for the first fiscal year. This would support farmers in making necessary investments in technologies that improve their environmental performance at a time of increased financial pressures that would otherwise make access to working capital a real challenge.

Our third priority falls under the theme of ensuring risk management programs are responsive to today's threats. Increasing incidents of extreme weather events across Canada are having a direct impact on Canadian producers on a scale not seen in generations. That's why we're recommending that AAFC start the process of revising key risk management programs, including in particular AgriRecovery, to ensure they are more timely, responsive and predictable in the face of increasing disaster-related events caused by climate change.

Our fourth priority falls under the theme of ensuring that sustainability issues are farmer focused and provide support to help them adapt to the effects of climate change. If the sustainable agriculture strategy is going to position the sector to advance agriculture's capacity as a climate solution provider while remaining competitive, we need to ensure that a whole-of-government approach is put in place to support robust incentives for the adoption of best management practices, alongside investments to advance research and extension services to ensure farmers have on-the-ground support for best management practices adoption.

Finally, under the theme of supporting farm succession and the next generation of farmers, we're recommending that the lifetime capital gains exemption be increased to reflect inflation in farmland values and other capital costs, and that provisions advanced through budget 2023's commitment to regulate intergenerational transfers do not discourage genuine family transfers from taking place. Taken together, these measures will create a more favourable tax environment for younger generations of farmers seeking to enter the sector and continue the long tradition of farming here in Canada.

Thanks for this opportunity to speak today. I'll be happy to answer any questions you may have.

● (1115)

The Chair: Thank you, Mr. Currie, for your opening statement. The 200,000-plus farm families you represent really appreciate that.

Now we'll hear from the Échec aux paradis fiscaux collective. I believe it's via video conference. Mr. Edgar Lopez-Asselin will be providing a statement for up to five minutes.

[*Translation*]

Mr. Edgar Lopez-Asselin (Coordinator, Collectif Échec aux paradis fiscaux): Thank you, Mr. Chair.

Good morning, honourable members.

As the chair mentioned, my name is Edgar Lopez-Asselin, and I am the coordinator of the Échec aux paradis fiscaux collective. Joining me today is my colleague Philippe Hurteau, who is in charge of research at one of our member organizations. He is also on the collective's coordination committee.

We are here today representing the Échec aux paradis fiscaux collective, a coalition of union and community organizations in Quebec. Our mandate is to foster public debate on the use of tax havens, and to develop and support solutions to shut them down. Our collective has some 20 members, representing a total of 1.7 million people across Quebec.

I'd like to start with a few figures that illustrate the extent of tax avoidance in Canada. According to the Canada Revenue Agency's overall federal tax gap report, released in June 2022, the net tax gap for 2018 is between $18.1 billion and $23.4 billion Canadian. That same report indicates that reporting non-compliance by large corporations alone—and that obviously includes big multinationals—accounts for 70% of the corporate income tax gap.

Our collective looks at the problem from a rather unique perspective. We apply a citizen-centred democratic lens to the fight for tax fairness. To address a problem all too often seen as the exclusive domain of experts, we take an approach built specifically on policy. Our approach can be summed up in three keywords.

First, in order to crack down on tax havens, we need to expose them. That means shining a light on mechanisms that make it possible to engage in tax avoidance.

Second, we need to penalize—use the means available through the criminal justice system to deter those who engage in tax evasion.

Third and finally, we need to collect, in other words, recover the money that tax avoidance represents and use it to fund public services and social programs.

Those three keywords are reflected in a series of recommendations—13, to be exact—that appear in the brief we submitted for the pre-budget consultations in advance of the 2024 federal budget.

I do want to point out that the Parliament of Canada and the Standing Committee on Finance have made progress in a number of areas related to our recommendations. The creation of a Canadian beneficial ownership registry, provided for in Bill C-42, and the modernization of the much-discussed general anti-avoidance rule represent two of those areas. Those are both measures that our collective has long supported. The bills have yet to be passed, of course, with Parliament still needing to examine an area. Nevertheless, when it comes to cracking down on tax havens in Canada, we see it as a huge step forward that the discussion has reached this stage.

I'll wrap up this short presentation with a few of our collective's priorities for the coming year. I'm referring to two things in particular, the recent legislative consultations and the UN's role in international tax co-operation.

As far as the recent legislative consultations are concerned, the collective worries about the democratic deficit associated with the recent legislative consultations on tax policy, specifically, consultations on the reform and modernization of Canada's transfer pricing rules and on the implementation of the global minimum tax.

By paving the way for dialogue on a wide range of issues in this area, the federal government has gotten the public used to a more democratic approach. Unfortunately, the recent consultation process largely limited the opportunity for dialogue, focusing on draft legislation informed by OECD discussions instead of a genuine dialogue with civil society stakeholders. However, well-known solutions to address both of those issues already exist and are being discussed at the international level. We feel the Canadian public should be able to debate the issues in an open and democratic forum.

Lastly, with respect to the UN's role in international tax co-operation, we urge Canada's elected representatives to pay close attention to efforts aimed at strengthening the UN's role in this arena. For its part, the OECD has done a significant amount of work to clean up tax relationships between states, through the base erosion and profit shifting project and the two-pillar solution.

Nevertheless, these efforts have not led to the reforms civil society wants to see. In our view, the talks regarding the UN's taxation initiative are an opportunity to deliver the reforms initiated under the auspices of the OECD. It is our hope that Canada will duly consider the possibilities this renewed momentum opens up.

Thank you.

● (1120)

[*English*]

The Chair: Thank you, Mr. Lopez-Asselin.

Now, we will hear from the Council of Canadian Innovators. I believe it's Mr. Nicholas Schiavo who is going to be speaking.

You have up to five minutes, please. Thanks.

Mr. Nicholas Schiavo (Director, Federal Affairs, Council of Canadian Innovators): Good morning to the chair, vice-chairs and members of the Standing Committee on Finance. Thank you for the opportunity to present the recommendations of the Council of Canadian Innovators in advance of the 2024 budget.

My name is Nick Schiavo. I'm appearing today as the director of federal affairs on behalf of CCI. I'm joined by my colleague Laurent Carbonneau, our director of policy and research.

CCI is a national business council representing 150 of Canada's leading technology companies. We are dedicated to advocating for policies that promote innovation, economic growth and long-term prosperity for all Canadians. Our member companies are headquartered here in Canada. They employ north of 52,000 employees across Canada and are market leaders in the sectors of health, clean and financial technologies, cybersecurity, AI and more.

Last week these 150 CEOs were in Ottawa for Canada's CEO Summit to share the successes and challenges that face their businesses, their priorities and how the Government of Canada can support them in their global pursuit of scale. I look forward to sharing some of these discussions with you today.

As we approach budget 2024, CCI recognizes that Canada's economy faces real challenges. Despite our strengths, slowing productivity growth is a threat to Canadian prosperity and our standard of living. Likewise, shifting geopolitical tensions underscore the need to take security and the digital world much more seriously. There has never been a greater need for a strong, stable domestic technology industry that can create long-term economic growth.

Our nation possesses a wealth of talent, creativity and innovation potential, but Canada must develop and implement a smart industrial strategy that builds wealth and resilience in coordination with the provinces and territories. A smart industrial strategy begins with recognizing that in a globalized knowledge- and data-driven economy, companies compete on realizing the value of intangible assets like intellectual property rather than raw materials. Canada must ensure that our most innovative companies can scale and compete, catalyzing a flywheel of reinvestment and business know-how that will build wealth and serve as a solid foundation for a more competitive Canadian economy.

Acknowledging this, CCI developed our budget 2024 recommendations around three key themes—unleashing economic growth by enhancing marketplace frameworks, increasing the global competitiveness of Canadian businesses by expanding access to customers, and increasing return on investment by streamlining access to government capital.

Let's delve deeper into some of the recommendations from our pre-budget submission, starting with artificial intelligence. Despite the pan-Canadian artificial intelligence strategy launch in 2017, the Canadian government's efforts have not adequately bolstered domestic firms in the commercialization of intellectual property. This oversight has resulted in a regrettable exodus of talent and patents to other jurisdictions, severely compromising the competitiveness of the Canadian AI industry. To remedy this, we propose the development of a dedicated AI commercialization and IP strategy with a focus on scaling our domestic AI technology firms. I encourage you to review “A Roadmap for Responsible AI Leadership in Canada”, our recent road map that provides comprehensive insights into this crucial endeavour and understanding the innovation economy driven by IP, data and other intangible assets.

Staying on this topic, in the intangible economy, foreign direct investment, or FDI, requires careful analysis to understand both the positive and negative impacts to domestic technology firms. Unlike in the tangible, production-based economy, where most foreign investments result in positive economic spillovers, the innovation economy often sees FDI take the form of a business in one country gaining ownership of a foreign branch plant in another, leading to negative spillovers. We strongly advocate for a comprehensive examination of the adverse consequences of FDI in the technology sector, particularly with regard to talent acquisition.

Moreover, in the upcoming budget we hope to see a commitment for a comprehensive review of innovation programs to eliminate duplication and establish “freedom to operate” structures, or FTOs. FTO is indispensable for encouraging increased business expenditure on R and D, thereby fortifying our economy's productivity. Likewise, the imminent launch of the Canada innovation corporation should prioritize addressing FTO issues, which have hindered increased business expenditure on R and D by Canadian companies.

I've included a copy of our recent economic newsletter, Mooseworks, which focuses specifically on the freedom to operate challenges of high-growth companies. I was informed by the clerk that my email didn't go through, so my apologies to members of the committee. I will follow up on that.

Complementing the review of innovation programs should be a comprehensive review of all capital programs designed to support innovators, encompassing the scientific research and experimental development tax credit, or SR and ED; the Business Development Bank of Canada; the strategic innovation fund; and the development agencies.

● (1125)

Our members believe the government should prioritize grants over loans, augment funding thresholds where it makes sense, and mandate the formulation of strategic IP plans to yield sustained economic dividends for Canada.

In conclusion, these recommendations are more than mere policy proposals. They serve as a strategic blueprint to revitalize Canada's innovation ecosystem, foster economic growth and secure our nation's prosperity. Our members want to collaborate with the government and this esteemed committee to implement these pivotal measures, all of which are designed for the benefit of all Canadians.

Thank you for your time today. We look forward to addressing your questions and engaging in further discussion regarding these recommendations.

The Chair: Thank you, Mr. Schiavo.

Now we'll hear from the national president of the Public Service Alliance of Canada, please, Mr. Chris Aylward.

Mr. Chris Aylward (National President, Public Service Alliance of Canada): Thank you, Chair, and thank you to the members of the committee for this opportunity.

The Public Service Alliance of Canada is the largest federal public sector union, representing over 230,000 workers. Today, I will speak about three critical issues that impact these members in the federal public service. Our submission provides additional information, which I hope the committee will also consider.

First, the release of the 2024 federal budget will occur just before the eighth anniversary of the onset of the Phoenix pay disaster. There have been errors in each and every pay period since it was implemented in 2016. Tens of thousands of public sector employees, including some now retired, in other jobs or deceased, have yet to receive outstanding pay. This has impacted their benefits, their retirement pensions, their severance pay and their ability to advance in their careers, yet the government is currently focused on recovering overpayments, regardless of the ongoing harm to its own employees, even though it is still unable to pay its employees either correctly or on time.

While some increases in hiring of pay advisers have occurred, the government must find ways to not only hire and train these employees but to also retain them. Attrition is too high, resulting in constant turnover and loss of expertise from the pay centre program.

The negotiated memorandum of agreement on damages expired in April 2020, yet pay problems continue for federal workers in all bargaining groups. The memorandum of agreement needs to be renewed.

Finally, it is time for a national inquiry into why this crisis happened, how it could have been prevented and, most important, why eight years later it has not yet been fixed. Only through a thorough investigation will Canadians be sure that such a problem will be prevented in the future.

Second, and equally concerning, there are the proposed cuts to the federal public service announced in budget 2023. Cutting $15 billion from the federal public service would create significant pressure to downsize the workforce at a time when the pressure on these services has never been greater.

Over the past year, increasing attention has been paid to the lack of a national government staffing plan and the reliance on private contractors to provide public services. While the 2023 budget committed to significantly cutting outsourcing, there was no obvious corresponding investment for in-house staffing.

A system-wide staffing plan should be developed that considers the needs of all who receive services, both within the government and in the public. This plan should acknowledge the evidence that in-house provision of public services, including management consulting, results in a better quality of service at a more appropriate cost. No cuts should be planned until a system-wide analysis of staffing needs, developed with bargaining agents, is in place.

Finally, budget 2024 needs to put public safety officers employed by the federal government, including National Defence firefighters and CBSA border officers, on par with their counterparts who work in other jurisdictions. It has been several years now since Treasury Board made a commitment to these workers that they would be eligible to retire with full pensions after the same length of service as all other public safety officers within and outside of the federal government.

This promise has yet to be fulfilled. Firefighters and border officers often put their lives on the line and face unique health and safety risks that increase with each additional year of service. By the time they reach eligibility for retirement, they are often managing a serious illness or coping with a disability. The workers who keep us safe by battling fires and protecting our borders deserve to retire in dignity.

Thank you for your time today. I look forward to your questions.

● (1130)

The Chair: Thank you, Mr. Aylward.

Now there is going to be a lot of opportunity for questions. We're moving into our first round.

For our witnesses, each party in our first round will have up to six minutes to ask you questions.

We're starting with MP Morantz from the Conservatives, please.

You have six minutes.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

Mr. Dehejia, I want to ask you a question about Bill C-56 in the context of the comments you made about loose money, the money supply and the effect that this could have on inflation. This bill is the so-called affordable housing and groceries act.

It might be reasonable for Canadians who are reading the title of this act to conclude that this bill is designed to make housing more affordable and groceries more affordable, but the reality is that it doesn't do either of those things.

I want to draw your attention to the comments of Michael Osborne, the chair of Cozen O'Connor's Canadian competition law practice. On this point, he says that “competition law...is not designed to solve macroeconomic problems like inflation.”

What he's referring to is an amendment to the Competition Act that would.... There are a number of amendments, but the main amendment would be to get rid of something called the efficiencies defence, which is an argument that large corporations will make to support the idea that government should permit a merger.

Mr. Osborne goes on to say, “By design, competition law cannot limit increases in the money supply; that’s the job of central banks.” He also says, “If a lack of competition is responsible for rising grocery prices, then competition law might be able to help. But the evidence doesn’t support this.”

Can you give me your view of those comments?

Mr. Vivek Dehejia: Certainly. I share concerns about this bill and the attempt to alter the competition law of Canada. Keeping in the spirit of my remarks, I think we've really unlearned the lessons that we learned in the 1970s and 1980s. We saw wage and price controls under a previous government in the 1970s, Pierre Trudeau's government, and that just didn't work. This is a basic lesson that economists have known for decades or longer: that wage and price controls never fix inflation or lower prices, that all they do is cause scarcity.

Again, our previous flirtation with wage and price controls—it was the same thing in the U.S. under President Nixon—was disastrous. You can't fix inflation until you recognize that loose monetary policy, let loose after the financial crisis in the pandemic, is the real culprit. Wage and price controls or tinkering with competition won't fix that problem.

Mr. Marty Morantz: I think that's consistent with the point that Mr. Osborne is making.

I know that the Business Council of Canada has also been highly critical of the bill. It has said that Ottawa wants Canadians to think that the bill will improve affordability for families by giving consumers more choice, but this is not its purpose or what it will achieve. There are a lot of concerns about the bill.

Of course, Conservatives support the idea of removing the efficiencies defence, but we would never claim that it would be a tool to actually reduce the price of groceries, because that would be a false claim.

Mr. Cross, I want to make sure that we get you back on the record about some of the things that you've said in the past. You said, “One manifestation of chronic weak business investment and low productivity is the OECD’s forecast that Canada’s per capita GDP growth between 2020 and 2060 will be the lowest among its 29 member nations”.

This is something that I think we really need to sound the alarm bells on. It's a very disturbing trend. One of the things you said that I thought was really quite apt was this: “There is a growing [sentiment in Canada] that Canada has wasted a decade of low interest rates on [more] government debt” rather than investing in “business investment”.

Can you elaborate on those sentiments?

● (1135)

Mr. Philip Cross: Sure. Before I get to your question, one thing I'll add to the previous response is that just because something is given a name doesn't mean that's what the intent is. Biden has created something called the Inflation Reduction Act. It is the most inflationary source of upward pressure in prices in North America today, so just because an act is called a certain thing doesn't mean anything.

To go back to your question, I think the most telling remark I've heard recently is the comment by former Maclean's columnist Paul Wells that if you run a successful business in this country, you are made to feel like you have done something wrong. I can't think of anything that summarizes better what has gone wrong with the climate for business investment and entrepreneurship in this country.

Mr. Marty Morantz: I've heard you reiterate Mr. Wells's comment before. I think what you're touching on is a cultural difference between Canada and the United States. You're absolutely right. For my four years in the House of Commons.... Every day, I sit there and listen to Liberal and NDP politicians beat up on successful business people, when, really, their accomplishments should be lauded in our society. They are lauded in American society.

I think the sentiment you and Mr. Wells described is quite correct.

Thank you for your responses, gentlemen.

● (1140)

The Chair: MP Thompson, you have six minutes.

Ms. Joanne Thompson (St. John's East, Lib.): Thank you.

Welcome to all the witnesses.

I'm going to begin with the Council of Canadian Innovators.

I'll ask you what your thoughts are on the competition aspects of Bill C-56 and the amendment.

Both of you, please feel free to speak.

Mr. Nicholas Schiavo: I'll say this: We didn't come here to address that bill specifically. That being said, the CCI believes we need greater competition in Canada. We agree that removing the efficiencies defence is a good first step. The reality is that we have several sectors here in Canada that are monopolies. This costs Canadians more. For example, for financial services, we were promised open banking in Canada by January 2023, but we have yet to see that. This means there is less competition, innovation and security, and all of that costs Canadians more.

We support the spirit of the bill, in terms of creating more competition and innovation.

Laurent, I don't know whether you have anything to add.

Mr. Laurent Carbonneau (Director, Policy and Research, Council of Canadian Innovators): I would simply add this: The problem with the Canadian economy is certainly not that there has been too much competition in key oligopolistic sectors over the last several years. As Nicholas said, we're broadly supportive of changes to the Competition Act. We made a submission last spring pursuant to that. I especially think that removing the efficiencies defence is a very good place to start.

Ms. Joanne Thompson: Thank you.

We realize there are some innovation challenges, but what are your views on competition reform in driving prosperity and innovation in Canada?

Mr. Nicholas Schiavo: One of the things that are unique to our industry is the fact that intangible assets like data are very different from raw products. Every dataset you own makes the previous one more valuable. They accentuate each other. Without competition, it tends to favour those data-hungry foreign multinational giants.

There is, I think, a unique element to our industry and the intangible economy that may be different in some other sectors.

Mr. Laurent Carbonneau: I can add to that, as well.

Zooming out on the broader dynamics of innovation, it's been pretty well observed over decades that there is a certain “winner take most” effect to innovation-heavy industries—especially, as Nicholas said, industries where you have assets like data and IP that have the function of locking competitors out. To some extent, that's a healthy dynamic. If you innovate and create a good product or service, and if you're able to commercialize that effectively, that's good.

However, there are limits to this. I think what we've seen, especially with the big tech giants, is that they're sitting on IP they've extracted from this country via hiring. They create these research branch plants, commercialize the IP abroad, and then sell the products back to Canadians while sitting on data assets that are the products of a very large program of surveillance. This is essentially bad for Canadians and competition.

The innovation dynamics of competition, I think, are a bit underappreciated in competition policy discourse in this country. That's why we made our submission this spring, to try to change the channel a bit and increase awareness of how our sector is particularly impacted in the competition policy space.

Ms. Joanne Thompson: What are the benefits of a modernized Competition Act, particularly when you're supporting Canadian scale-ups?

Mr. Nicholas Schiavo: Canadian scale-ups are the anchors of economic activity. Our problem here in Canada is that we have many strengths and a wealth of research and talent. We have more start-ups per capita than many countries in the OECD.

However, when they start to scale—when they start to commercialize and create products that are viable, or create economic activity—is often when we see them struggle. They move to foreign jurisdictions or get bought out.

Without commercializing those products and services, and without creating the intellectual property that will create those economic rents for the long term, we're not going to see that effect on prosperity in the economy as a whole. Our budget submission is around how we help these companies receive the freedom to operate to scale, in order to succeed and ultimately feed back into the Canadian economy.

Ms. Joanne Thompson: Do you have anything that you want to add?

Mr. Laurent Carbonneau: I would say that we talked a bit about smart industrial strategy in Nick's opening statement. Having a more open competitive innovation economy is part of that. Zooming out, we have to look at these kinds of dynamics, but none of them in isolation, because Canada has had a long-standing productivity growth and innovation problem. It didn't happen overnight. It's a product of industrial structure and public policy over many generations. Some of that is that we're swimming against the current. Some of it is that we've made bad choices.

All that is to say that the competition policy is very much part of the discussion around marketplace frameworks that we should be having. It's not the only one, but I think there are definitely some steps in the right direction around efficiency.

● (1145)

Ms. Joanne Thompson: Thank you.

In your opening comments, I picked up on two things. One was grants over loans, and you've referenced that, but you also mentioned talent acquisition. Would you just provide some more background on that and why it's important?

Mr. Nicholas Schiavo: Often, what happens is that when you have these foreign multinationals that come into Canada and operate a branch plant, not only are they gobbling up the intellectual property and the ingenuity that creates those economic grants, but they also gobble up talent. Ultimately Canadians want them to have good-paying jobs, and they're free to go where they want, but, by gobbling up that talent, you're pulling from that ecosystem, and all those smaller players, those scale-ups, are now starved for the talent they need to grow. As a result, they are either shutting their doors or considering other options in other jurisdictions.

Again, when we talk about foreign direct investment, when we talk about these foreign multinationals, we are for a level playing field. Of course they're welcome to come here and invest, but we need to make sure that we take into consideration those adverse impacts on the economy as a whole and on the labour force.

The Chair: That's time. I know it goes quickly.

MP Thompson, thank you very much, and thanks to the witnesses for that testimony.

Now we're moving to the Bloc, with MP Ste-Marie, please.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

I have a point of order, to start. It's a question for the clerk. Last week, officials from the Canada Mortgage and Housing Corporation, or CMHC, appeared before the committee. They were asked to provide information broken down by province. They were asked about the minister's authority. Finally, they were asked to update their study to take into account more current population growth rates.

We were told an updated study would take CMHC a few weeks, but I'd like to ask the clerk whether we've received any information from the agency in response to the other questions.

Thank you.

[*English*]

The Chair: Thank you, MP Ste-Marie.

I'll go to the clerk.

[*Translation*]

The Clerk of the Committee (Mr. Alexandre Roger): We haven't received anything yet, Mr. Ste-Marie. Since they need a few weeks, I'm not sure whether they're going to wait and send everything at the same time. I can reach out to them to see whether they can send us what they have now and get back to us with the rest later.

Mr. Gabriel Ste-Marie: Thank you, Mr. Roger.

That's all for my point of order, Mr. Chair.

Yet again, we have a very informative panel.

Good morning to the witnesses. Just because we don't have enough time to ask you questions doesn't mean that we won't include your recommendations in our report on the consultations. We are taking notes, and we thank you for being here today.

My questions are for the Échec aux paradis fiscaux collective representatives, Mr. Lopez-Asselin and Mr. Hurteau.

Thank you for your presentation and your written submissions, gentlemen. Under the policy proposal put forward by the OECD and G20, multinationals would be subject to a global minimum tax rate of 15%, which you say is too low.

I believe members of the U.S. Congress didn't want to endorse the proposal.

Can you tell us where things stand on the global minimum tax?

Mr. Edgar Lopez-Asselin: Thank you for your question, Mr. Ste-Marie.

On the situation in the U.S., I'll say quickly that the updated rules to implement the global minimum tax took into account the much talked-about global intangible low-taxed income regulations the U.S. adopted or is in the process of adopting. It's therefore important to keep in mind that, for the time being, what the OECD has put together—so the sources, figures and data elements—takes into account the passage of a bill similar to the OECD's proposal, but not identical.

In Canada, the federal government is getting ready to adopt the main rule. It's clear that there's somewhat of a consensus around the matter in G20 countries. Nevertheless, the 15% threshold, in particular, has drawn significant criticism from civil society stakeholders and non-governmental organizations. The rate is seen as much too low, as compared with the actual tax rates set by most OECD countries. That is all the more true in developing countries. One problem is that the OECD forum for these discussions isn't open enough for developing and certain other countries to contribute to the talks in a fair way.

That's where things stand currently. There is an agreement within the OECD, a consensus. Now we need to see whether the UN's efforts will bring about the additional reforms that are needed.

● (1150)

Mr. Gabriel Ste-Marie: Thank you very much.

In connection with the global minimum tax, which is too low, Ottawa is dealing with another issue, taxing the tech giants or collecting a portion of their revenue.

Where do you stand on the government's pledge to move forward on that front with the global minimum tax not being in force?

Mr. Edgar Lopez-Asselin: Thank you.

We are in favour of this measure, with some nuances, of course. The digital services tax is not the ideal tool. There is a high risk that the additional cost of this tax will be passed on to the consumer. Nevertheless, until the implementation of the first pillar, which is still on the back burner, there is very little information. There is still no consensus on the implementation rules, for instance, and we feel that this digital services tax is a minimum to ensure that web giants pay their share to the Canadian treasury.

Mr. Gabriel Ste-Marie: Thank you again for your answer.

You make 13 recommendations in your brief concerning pre-budget consultations.

Can you explain some of those recommendations in two minutes? We can come back to the others next time I have the floor.

Mr. Edgar Lopez-Asselin: One of the things I can come back to is the unitary taxation issue. This solution has been proposed for some 40 years by economists and university researchers. It is now also defended by most of the major international tax organizations.

The unitary tax is a way to stop dealing with the transfer pricing issue as it is now. Today, we are comparing the incomparable—that is to say, we are comparing transactions between subsidiaries of large multinationals that have common goals with transactions that have been made or could be made between two companies that are not affiliated.

Today, with country-by-country reporting and the aggregation of that information, there is more information than ever before to shed light on those kinds of situations. However, we do not have the methodological principle that would enable us to make full use of that information.

What the unitary tax does is propose to treat each multinational as a single company. In other words, we will take the profits made by these multinationals in all the countries in which they operate, and then we will redefine the tax rights on those profits based on the actual activities carried out by the multinational in the various countries.

The actual activity is measured through a number of indices. You can look at payroll, you can look at natural resource extraction, you can look at market share, and so on. At the moment, we are a long way from that kind of a situation. They continue to treat the many subsidiaries that make up multinationals as different companies, and they refuse to take into account the fact that the multinational is an economic model that is very different from that of national companies, which do not have access to this kind of format.

I can go back to the GAAR. We had two opportunities to participate in the rounds of consultations on the bill. We are very pleased that this piece of legislation is moving forward. We think the Parliament of Canada is doing a very good job.

The Chair: Thank you, Mr. Lopez-Asselin.

Mr. Gabriel Ste-Marie: Thank you.

We'll come back to that.

[*English*]

The Chair: *Merci*, Monsieur Ste-Marie. There will be more time in subsequent rounds.

Now we're going to the video conference with MP Blaikie, who is coming to us, probably, from Winnipeg. Is that right?

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

Mr. Aylward, I want to follow up on some of your presentation about Phoenix. Either before electronic payroll at all or, certainly, before Phoenix, was there anything like this scale of a problem that we're seeing in making payroll for the Government of Canada?

● (1155)

Mr. Chris Aylward: No, not at all. There was nothing close to this scale at all. We're talking about a pay system that affects 300,000 people. It has never worked right from day one in 2016, and it's still not working right in 2023.

Daniel, thanks for the question, but no. I've never seen anything on a scale like Phoenix.

Mr. Daniel Blaikie: There are other organizations with large payrolls with hundreds of thousands of people on them that are able to properly pay employees according to the predetermined pay period. Am I right?

Is this a problem of scale, or is this a problem that is very particular, in this case, to the Government of Canada?

Mr. Chris Aylward: No, it is very much a Government of Canada problem.

Again, we've never seen anything like this. With the Government of Canada not being able to pay its own employees on time and properly, that's why we're calling for a national inquiry into this. It's eight years later, and federal public sector workers are still not being paid properly.

Some Conservative members of this committee unfortunately think that's funny and that it's a joke. Unfortunately, for the 140,000 federal public sector workers we represent in the federal public service, it's no joke. It's no laughing matter when you can't get paid on time.

I did not appreciate the laughter coming from the Conservatives on this, Mr. Chair. We're talking about federal public sector workers not being paid on time and paid properly, and the Conservatives think that's funny. I'm sorry, but I take offence to that.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): On a point of order, can I just respond to that?

I do not think that's funny at all. What I was saying is that it's something the Conservatives have been mentioning for eight years: Everything in this country feels broken. We are a hundred percent on board. This Phoenix system should have been fixed a long time ago.

I'm a hundred percent in agreement with you, sir.

Mr. Daniel Blaikie: Very well.

I can certainly understand the strong feelings. I've heard from a lot of folks in Elmwood—Transcona who work for the federal public service and have had their lives turned upside down by the failure of the government to make payroll in a timely way.

I appreciate the point you made in the opening statement about the government putting the emphasis on recovering overpayments instead of ensuring that people get what they are entitled to for the work they do, and that they set their monthly budgets accordingly as well. We know that when there are big shortfalls in your monthly budget, it makes a big difference.

I'm wondering if you can share with the committee—I know you spoke to some of this during your opening remarks—some things that you think could be done right away.

I remember years ago suggesting that if the government had to devolve payroll to local managers to do it by hand, it looked like we'd be a lot better off than what it's currently trying to do, yet it has persisted in the strategy of trying to use an electronic payroll system that simply doesn't work.

I don't think anyone wants to see the government doing payroll by hand, but if it's better than the alternative.... It's a reflection of the sorry state of the status quo, but there has to be a way. If we could do government payroll well in the 1970s, there has to be a way that we can do it well today.

What are some things you think the government can do right now that it's not doing and that it needs to do in order to, at the very least, mitigate the negative consequences of this fiasco for its workers, with an eye to getting this sorted once and for all, so that Canadian federal workers can depend on a reliable paycheque, according to the terms and conditions agreed to in their letter of offer?

Mr. Chris Aylward: Certainly pay in the federal government is complex; there's no question about that. Hiring more pay advisers does help, but there is a retention period with pay advisers. The government has to consider what incentives it's going to come up with to retain these pay advisers, because you can't simply hire a pay adviser today and expect them to perform all the duties, including complex cases, within a couple of months. It takes two years to be fully trained to take on complex cases in the pay environment.

Certainly, incentives for retention are needed, because there is a serious retention issue with pay advisers.

Mr. Daniel Blaikie: I know earlier in the year, of course, there was the culmination of a round of collective bargaining that I certainly don't think went as it should have. I don't think the government should have waited to the point that federal civil servants were prepared to walk out in a rather unprecedented way, or at least in a way we have not seen for a long time.

I'm wondering how the issues that were at stake in bargaining affect retention and affect the federal government's ability not only to deliver on fixing this payroll system issue but also, more generally, to deliver on public services.

How does the government retain the expertise that it needs to do a good job when its position in respect of its workforce is to try to argue for substandard wage increases in the economy we're experiencing, and to not bargain respectfully when it comes to some of those workplace challenges that all workplaces, including the federal service, are facing in the postpandemic era?

● (1200)

Mr. Chris Aylward: Certainly retention is a problem overall in the government.

Again, when the current government basically forces its workforce out on strike for decent wages and decent working conditions, obviously that just frustrates workers, and it then causes workers to start looking elsewhere. When you look at certain bargaining groups within the federal public service, and when you look at what the private sector pays people to do the same job, a lot of the federal public sector workers are underpaid when you look across the board at the private sector.

I know a lot of our members are looking elsewhere and wanting to leave the public service. They thought public life was their career, and they are now realizing that maybe it's not, simply because of the working conditions.

The Chair: Thank you, Mr. Aylward and MP Blaikie.

Thank you, of course, to all our public service for their service and their hard work.

We are moving into our second round of questions. At this time, the timing will change.

We have five minutes now for MP Lawrence, please.

Mr. Philip Lawrence: That's perfect.

First, if I don't have misinformation here, I believe it is the chair's birthday. Is that correct?

The Chair: Yes, it is my birthday.

Mr. Philip Lawrence: Happy birthday, Mr. Chair.

Voices: Here, here!

The Chair: Thank you.

Mr. Philip Lawrence: Happy 30th.

Mr. Aylward, I want to apologize for laughing. I wasn't laughing at the.... I have tremendous respect for public service workers. The only reason I was laughing is that it's absolutely deadpan embarrassing that a G7 country can't pay its workers. I apologize, but the laughter was out of embarrassment for our country.

Thank you for that.

I want to talk to you a bit, Mr. Cross, about inflation and a piece you wrote in which you talked about combatting inflation. Of course, we've heard a lot about the Bank of Canada. The last time this came around in the 1970s and 1980s, as Mr. Dehejia talked about, it was cured by very high interest rates put in place by Mr. Volcker in the United States.

One of the cures, as we've heard from Mr. Macklem, is that he's had to increase interest rates, but you also talked about how fiscal policy or government spending has an impact on that. You even talked about how, in the 1980s, part of the reason they were able to get inflation under control was that the government reduced spending.

I was wondering if you could comment a bit, Mr. Cross, about the impact that fiscal policy can have on inflation.

Mr. Philip Cross: It's not just fiscal policy; there's a wide range of government actions that influence prices. Excessive regulation pushes up prices every bit as much as excess government spending.

I remember that when I was at Statistics Canada in 1980, we were grappling with trying to understand inflation and how to bring it down. One of the innovations we brought about was that we introduced something called the regulated price index for the CPI. We looked at that portion of the CPI that was controlled by government directly, through taxation, through rent controls or through controlled marketing boards.

It turns out that one of the problems in bringing down inflation in the early 1980s was that while the market portion of the CPI was coming down rapidly, the regulated, government-controlled portion of inflation was very slow to come down. That might be something worth looking at again in the current context.

I suspect we're seeing an adjustment in a lot of the market parts of the economy, but in a lot of the government-controlled economy, price increases are just rolling along without any awareness of the impact this is having on ordinary people.

Mr. Philip Lawrence: My concern is that, as opposed to a couple of years ago when we heard “low for long”, we're now starting to hear from some experts that we may have “high for long”. We may have structural inflation. I think you referred to 2025. I've heard even longer than that.

I'm going to give you an analogy. You guys are much smarter than me, but for a simple politician like me, inflation is largely the product of demand being out of equilibrium or out of whack with supply, meaning that there are more people who want things than there are things available. Halloween is coming up, so let's use the example of pumpkins. We have 100 pumpkins and 200 people who want them. The result is that the price goes up. My thinking as a simple politician is this: Why don't we just increase the number of pumpkins to bring supply in line with demand?

Does that make sense to you, from a simple politician here?

● (1205)

Mr. Philip Cross: It makes sense in a very simple way. The problem is that it's very hard to change supply in the short term. It takes years of investment, for example, to build more housing or to find more oil and gas. Some of these projects in the energy sector take 10 years. It's not like you can just snap your fingers and bingo, there's more supply of energy or housing tomorrow.

That's why in the very short term—because people are suffering in the short term—the Bank of Canada's number one tool is reducing demand. It can do that very quickly and efficiently, through higher interest rates.

I would also mention in passing that, to the degree we don't get follow-up from governments, when governments try to fight what the Bank of Canada is doing and increase transfer payments and send cheques to people—quite understandably as they are trying to help people—there doesn't seem to be an awareness that this actually just makes the Bank of Canada's job more difficult. If the Bank of Canada is left alone to fight inflation, then it's going to have to act more aggressively. That's going to impact people, and debtors in particular.

The Chair: Thank you, MP Lawrence.

We are now going to MP Baker, please, for five minutes.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thanks very much, Mr. Chair, and thank you to all the witnesses for being here. We appreciate it.

[*Translation*]

Many witnesses have something to offer in the context of our study. As my colleague Gabriel Ste-Marie said, we won't be able to ask all the witnesses questions, but we thank them for their suggestions. We will certainly consider what they have said today and the documents they have submitted to the committee.

[*English*]

I'd like to start with the Council of Canadian Innovators, if I may, and continue along the lines of what my colleague Ms. Thompson was asking earlier.

One of the things that have been announced is the Canada innovation corporation. I'm wondering if you could comment on how you see the potential of this corporation to scale up businesses and help to commercialize research and innovation, boost and promote Canadian intellectual property and more.

Mr. Nicholas Schiavo: Yes. If the corporation achieves its full potential, as has been announced in the blueprint in the messaging from government, I think it will be a radical departure from previous innovation programs. I think the devil is in the details, and there are lots of nuances there.

One thing that CCI has been very involved with is providing any support we can to the Department of Finance as they get ready to launch this corporation in full, particularly in terms of the leadership. We've been told that the chair and the CEO of the corporation will be from industry. We think that's very important, and we think they have to have a good understanding of the intangible economy, the innovation economy, in order to see this as an evolution of IRAP, which will be assumed in this corporation.

We're eager to see some movement on that. We can't wait another year. This was promised years ago. We're looking forward to some announcements on that.

Mr. Laurent Carbonneau: Perhaps I could expand slightly. When you look at the history of innovation programming in this country, it's focused, really, on the inputs and on crude outputs, which is to say that if we're spending research dollars, then innovation will come. Too often in Canada that just hasn't been the case, so to take a very commercialization-focused approach is, as Nick said, a fairly substantial departure from what's been done before.

I think it is a very interesting model. There is a lot of good evidence from abroad. Of course, it was built on the model of the Israeli Office of the Chief Scientist and on Business Finland, which have both been quite successful as peripheral agencies with a broad mandate to pursue change in a way that is insulated from core day-to-day government. That has worked well—in very different countries as well, I should add. In that sense, we think that's the right model to look at, and we're encouraged, as Nick said.

It is crucially important that the leadership of that corporation be sensitive to industry and be from industry. I think that very often in this country—and I say this with great respect— the post-secondary education institutions have not been the key to unlocking productivity in this country and are going along on a simple research focus. I will say research is an essential component of innovation, but in itself, it is not innovation. Turning research and insights into products that we export and sell, and that drive wealth and productivity growth in this country, is the essential ingredient that we're missing, and we hope this will go some way to address that.

● (1210)

Mr. Yvan Baker: We have to go from research to commercialization—that's what you're saying—and we need to make sure we reap the benefits of the commercialization.

Mr. Laurent Carbonneau: Exactly.

Mr. Yvan Baker: In my remaining minute, one thing that has been proposed is clawbacks to ensure that IP stays in Canada. You gentlemen spoke in your presentation and to Ms. Thompson about the importance not just of IP being developed in Canada, but also of what we talked about just a moment ago, which is that the IP— the rents, I think you called them—the economic benefits of that remain in Canada. It doesn't just get taken by a company to the United States or another country for the economic benefits to be reaped there.

What are your thoughts on those proposed clawbacks to ensure that IP remains in Canada?

Mr. Nicholas Schiavo: I would use the term “payback”, to do a little sloganeering there.

We're in support. If Canadian taxpayers are going to invest in these companies and in this intellectual property, and the intellectual property is then going to take flight, then they should be required to pay that investment back to Canadians in multiples. This is what's expected of private investors.

We are in support of that. We're eager to see that implemented into the corporation.

Mr. Laurent Carbonneau: I mentioned the foreign models earlier that this is based on. That is the case in those jurisdictions as well. In that sense, it's an established practice. We think, as Nick said, that's a very good step.

I will also say on a quick personal note, because I didn't say it earlier: I was a staffer in this place for some years, and it was very fun to be on the other side of the table. I want to thank the committee for inviting us today.

Mr. Yvan Baker: Thank you.

That's a great way to end it.

The Chair: It is a great way to end it today. Welcome back to the table.

On that note we'll move over to the Bloc, with MP Ste-Marie for two and a half minutes.

Please go ahead.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

First of all, I want to apologize to Ms. Girash from the Public Service Alliance of Canada. Since we are in a small space, I did not see the card indicating that she is a witness. My apologies, Ms. Girash.

Mr. Lopez-Asselin, if I am not mistaken, you started to talk to us about the general anti-avoidance rule. Can you continue to explain the recommendations made by your collective?

Mr. Edgar Lopez-Asselin: Thank you, Mr. Ste-Marie.

I would like to come back to two points that I brought up in my opening remarks.

First, significant progress has been made with respect to the GAAR. For our part, we defended the need to penalize offenders. In other words, not simply forcing them to repay the amounts that would have been subject to tax evasion, but also ensuring that a penalty would be imposed in order to further deter offenders. That has been done, and we are very pleased with the step forward.

I also have to come back to the beneficial ownership registry. I know that there is still a lot of discussion about this from a legislative standpoint. The issue is ongoing, but I invite Canadian MPs to ensure that the only taxable rate at which a person or business must disclose their identity as an effective beneficiary is set at 10% of a company's shares, not 25%. This is a mistake that has been made by a number of countries, starting with the United Kingdom, one of the first countries to establish such a registry.

If I may, I would like to continue with a few of our recommendations, which is what the member asked me to do a little earlier.

One of our first recommendations, which addresses the need to unmask avoidance mechanisms, is to make the CRA more transparent and accountable to Canadians. Last April, the Collectif Échec aux paradis fiscaux had the opportunity to organize a collective action in front of the CRA offices in Montreal to demand more transparency. We obviously have to provide the CRA with the necessary means to carry out its mission, but we also have to ensure that, every year, the CRA is required to submit a report on its activities as part of the federal budget. That is an important element. We hope that the new Minister of National Revenue will do so as soon as possible.

● (1215)

Mr. Gabriel Ste-Marie: Thank you very much.

Mr. Edgar Lopez-Asselin: Thank you.

[*English*]

The Chair: Thank you, Mr. Ste-Marie. We'll now go back to Winnipeg with MP Blaikie.

[*Translation*]

Mr. Daniel Blaikie: Thank you, Mr. Chair.

Mr. Lopez-Asselin, we know that, for decades, the federal government, whether Liberal or Conservative, has been letting a lot of revenue go by because of tax loopholes. Why do you think the federal government is content to let so much revenue go by the wayside? It's not productive.

Mr. Edgar Lopez-Asselin: I will let my colleague Philippe Hurteau say a few words about that.

Mr. Philippe Hurteau (Member of the Coordination Committee, Collectif Échec aux paradis fiscaux): I can certainly clarify. I'll be brief.

We're obviously not in the minds of government decision-makers, so we can't know what's going on there. However, we are seeing a certain reluctance in terms of intervention, which has repercussions.

I will talk about my situation and that of the members I represent in the health and social services sector in Quebec. That said, this is a Canada-wide reality, not just a Quebec one. These members are still struggling with funding issues. They lack the resources to properly compensate employees and help them do their jobs properly, and they do not have the resources to provide adequate services to the public. Of course, that comes with a great deal of frustration, which has been growing over the years.

The inaction you described, Mr. Blaikie, is absolutely incomprehensible for the people who work on the ground and whose mandate is to serve the people of Quebec and Canada and to provide them with good services.

Unfortunately, I don't have an explanation for you. It becomes very difficult to follow. For more than 20 years, everyone has known that tax havens are a problem because they prevent the various countries in the world from fulfilling their social mission. Once that statement is made, as I am doing today, the measures never follow or the measures that are taken remain very unsatisfactory.

Mr. Daniel Blaikie: The irony is that, if we were to hire people to collect that money, it would pay the salaries and it would give the government the resources to provide the services that Canadians need.

So it's not just a question of cost; it's an investment. The federal government needs to change the agreements that have been made in the context of tax loopholes. If that work were done, we could have more resources. It's not a question of what it would cost the government; it's a question of the government doing the right thing.

Is that a fair description of the situation?

[*English*]

The Chair: We don't have time for that answer, because we're well over time, but maybe we will in another round.

Thank you, MP Blaikie. I'm sure they'll have an opportunity to answer that in another round.

We're going to the Conservatives and MP Hallan, please, for five minutes.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thanks, Chair, and thanks to all the witnesses for being here.

My questions will be for Mr. Cross and Mr. Dehejia.

By the Liberals' own admission inside their budget, Canada's economic growth rate or GDP per capita will be the worst for many decades, until 2060. That's by their own admission. On top of that, it will be the worst in all of the OECD or developed countries.

You have both mentioned mistakes that governments have made in the past and also how we're heading down a kind of scary path right now. I'd love to get some more insight from both of you about similarities, about mistakes that governments are currently making, from the past. What would be the consequences of these mistakes?

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

Just briefly, I'm really perplexed and frankly disturbed that we have not learned the lessons from our mistakes in the seventies and eighties. I think Mr. Cross mentioned—or someone mentioned—the John Crow disinflation, which was extremely painful. We had that in Canada. The U.S. had fixed their problem by that point.

The kinds of ideas being talked about—wage and price controls and so forth—only make the problem worse. Again, it's the simple.... The ideas really are simple. We have to have sensible regulation that protects consumers, obviously, but doesn't stifle business; sound monetary policy, which has been sorely lacking—and now we're paying the price for a decade or more of loose money; and sound fiscal policy. We've had reckless fiscal deficits, so it's not that hard to figure out.

I'm afraid that we seem to have unlearned the lessons of the seventies and eighties. It's really quite perplexing.

● (1220)

Mr. Jasraj Singh Hallan: Thank you.

Mr. Philip Cross: The thing I would add is that what strikes me most when I look at the current economic environment is the very strong upward pressure we're seeing on longer-term interest rates here and in the U.S. That's an acknowledgement by investors that inflation and interest rates are going to be higher for longer. We've seen the stock market back off as a result, and we're seeing cracks in demand in housing in Canada and the U.S., but I don't think people have realized yet the scale of what we're going through.

We're ending a period of well over 10 years of low interest rates—almost free money—and we're returning to a world of more normal interest rates. That's going to be a shock. I think there are a lot of business models out there that were based on the assumption that interest rates would stay low for a long time, and I think there's going to be a lot of fallout from this new regime. One obvious place, for example, would be commercial real estate. Coming out of the pandemic, we see vacancy rates of 50% in downtowns. A lot of money, particularly in the private sector, went into investing and borrowing at low rates. They invested in these buildings, and it's going to be difficult to make money in these investments.

Mr. Jasraj Singh Hallan: Thank you. I have another question for both of you.

We've seen the current Liberal finance minister, Chrystia Freeland, admit that deficits fuel inflation. Former Liberal finance minister John Manley summarized what's happening today: The Liberal deficits are like pressing the gas, and the Bank of Canada is slamming on the brakes with higher interest rates. We've seen inflation at 40-year highs, but we've also seen this Liberal government spend more than every government before it combined. At the end of the day, that made the Bank of Canada raise interest rates at a rapid pace that we haven't seen in 30 years.

In both your opinions, are the government's deficits, its spending and its policies today working against the monetary policies of the Bank of Canada?

Mr. Philip Cross: I'll start briefly on that, because I think I already touched on it in one of my earlier answers. Then I'll turn the majority of time over to you. I would add, yes, but of course it's not just fiscal policy. As I mentioned, there's a wide range of government decisions that affect prices—and we should be aware of all of these—through regulations, taxes and decisions authorized by marketing supply management boards, for example. You have to look at all government actions and not just spending.

Mr. Vivek Dehejia: I'll just add to that. Yes, indeed. It's as if the federal government is pressing on the gas and the Bank of Canada is forced to press on the brakes even harder. Interest rates are high, then, in part because we still have massive fiscal deficits.

We just haven't learned the lesson. The massive spending in the pandemic has yielded very little in the way of productivity, so yes, indeed, a high fiscal deficit is worsening our problem and forcing the bank to set higher interest rates.

The Chair: Thank you, MP Hallan.

Now we go to MP Weiler, please.

Mr. Patrick Weiler (West Vancouver—Sunshine Coast—Sea to Sky Country, Lib.): Thank you, Mr. Chair, and I'd also like to thank all of our witnesses for being here today. There's been some really interesting testimony thus far.

I'd like to first ask my questions of the Canadian Federation of Agriculture. This has been a very difficult year in Canada with the extreme weather events we're seeing right across the country. It's obviously been headlined by the worst wildfire season we've had in Canadian history, and that was by the end of June. I know that my province of B.C. was hit very hard, with wildfires particularly impacting a lot of the key agricultural areas, including some of our most productive crops.

I was wondering, Mr. Currie and Mr. Berrigan, if you could provide some information to this committee about the level of economic losses you expect this year from the forest fires and other extreme weather events, and how you see this projecting forward over time.

● (1225)

Mr. Keith Currie: I'll start, and I can let Brodie jump in on all the technical stuff, because he's the smart one and I'm just here because of my good looks, I think.

It's certainly not something you just recover from easily. Our farms are generational, and when you're devastated through a flood or a drought, or when fires affect what's happening, it takes years to build back the capital that's lost in an instant. To put an exact dollar on what that would look like is very difficult.

However, we do have some business risk management programs in place right now that, with some tweaking and changes, can actually make the programs respond more quickly to help out those farmers and ranchers who are affected by it. There was an ask by Saskatchewan of the AgriRecovery program at the end of June or July, I think, and we're still waiting to hear back from the government on whether that's going to get approved or not.

These people still have to live. They still have to pay their bills and all their expenses, with, in some cases, a dramatic loss or total loss of income. We can't have programs that are that slow in response, so we need to make some changes to programs like that.

Brodie, do you want to add more to that?

Mr. Brodie Berrigan (Director, Government Relations and Farm Policy, Canadian Federation of Agriculture): Keith is absolutely right. Without the ability to speak to specific numbers in terms of impact losses—although we can certainly provide the committee with that information if it's interesting—I think the issue from our perspective is having a risk management framework in place that is responsive, timely and there to support farmers when they need it.

Certainly, we've seen, as Keith said in his introductory remark, an increasing incidence of extreme weather events across this country. There have been floods, forest fires, drought, too much rain or not enough rain, and hurricanes. It's really quite something.

The problem is that our risk management framework is not equipped to deal with that level of incidence of extreme events. Programs like AgriRecovery are just not as responsive as their U.S. equivalents and the U.S. Department of Agriculture, for example. Therefore, when a drought hits Saskatchewan and it's hitting that whole area into the U.S., U.S. farmers are able to access some emergency support and purchase feed for their farms much more quickly than we can here in Canada, which really puts us at a serious disadvantage.

For example, I know that Saskatchewan has a request in right now for an AgriRecovery program to support them for some drought conditions they've experienced, and they made that request in July. We still haven't heard the response on that, and that's just the first step in the process. There are several that need to come after that before we actually will get some money.

Mr. Patrick Weiler: Thank you.

On a bit of a different track here, in your opening you mentioned the need for making sure that sustainability initiatives are farmer focused. In my riding, I've seen a number of smaller-scale farms especially that have adopted regenerative farming practices as a way of being able to increase production and sometimes reduce costs by having lower input costs.

When you mentioned that these sustainability initiatives need to be farmer focused, I was hoping you could maybe speak a bit more to that and how you see the government's role in being able to help with the sharing of best practices as well as on the capital side.

Mr. Keith Currie: There is a wide range of ways that the government can help with the focus on farmers. When it comes to sustainability initiatives, really what we want the government to do is to be a partner and work with us.

The best-laid plans that aren't practically implementable are not very useful to us, so we want to be a partner with the government to go forward on the various different types of practices and best management practices we can use, keeping in mind that if you look across this country, no two regions are the same. We are very diverse right across the entire country, so it can't be a one-size-fits-all approach.

There has to be flexibility built in within the program to allow farmers to adapt to what their specific regional geographic needs are and even the farming types that are there, but there are some basic principles like soil health that are at the base of everything.

We're all worried about climate change and what's in the air. The reality is that it doesn't matter. What's under our feet is what really matters most, and that's going to be the solution to all things climate going forward. We need to focus on soil health and practices across the country, depending on the climate, the soil type and how we improve the soil health under our feet.

There are a myriad other practices—technologies, for example—but technologies are good only if we have connectivity to be able to use the technology, and that requires a lot of investment, too.

● (1230)

The Chair: Thank you, MP Weiler.

Members and witnesses, I'm just looking at the time. We have enough time to get through one more round.

We are starting with MP Hallan for five minutes.

Mr. Jasraj Singh Hallan: Thanks, Chair. Once again my questions are for Mr. Cross and Mr. Dehejia.

We know that the demand for oil and gas is going to be strong until 2050. Mr. Cross, you mentioned things like regulations, and that we don't have enough pipelines in this country. We've been saying that. For the last eight years, we've seen a Liberal government that's anti-energy and anti-growth. I think one of your papers, Mr. Cross, literally says that Canada's anti-business culture undermines our growth. We've seen anti-energy bills like Bill C-69, the “no new pipelines” bill. We've seen a carbon tax that hasn't really helped the environment or helped emissions come down, and it's just made the cost of everything go up.

Would you both agree that some of these laws and some of these anti-energy bills are not letting Canada's growth rate increase and increase jobs in our economy?

Mr. Vivek Dehejia: I'll just make one comment just very briefly, then I'll have Mr. Cross use most of the time.

I'll just say that there is a cautionary tale out there, and that's Germany, with a government that has the Greens as one of its coalition partners but has had to walk back from a very aggressive green agenda. Guess what? The German public realized what the cost would be, and they balked, so let's be realistic about what we can accomplish in the context of high inflation and a serious crisis in housing and affordability generally.

Mr. Jasraj Singh Hallan: Just to add to that, Germany came here asking for LNG. In the last eight years, this government hasn't been able to get even one project of LNG, even though they have many on their desks, but the U.S. has been able to create seven or eight of those projects in that eight-year time period.

Are we missing out on being able to help reduce world emissions with our low-carbon, responsibly made energy here? Are we missing that boat?

Mr. Philip Cross: We are, very much so. I mean, that's what I was alluding to in my opening statement. If you look at the U.S., they were able to regard what's happened over the last 10 years as an opportunity. It was an opportunity to increase oil and gas production and at the same time lower their emissions. It was not one or the other. At the same time, they were in a position such that when a fellow G7 member came and asked for help....

Europe was in desperate need of help last winter. I was there. When you walked into buildings in Paris, it was cold. The temperature was turned way down. These people had a serious shortage of natural gas. We should have been in a position to help fill it. Instead, we ended up exporting our cheap natural gas to the U.S., which was more than happy to pay nothing for it while they exported the expensive stuff to Europe and reaped...and then we wonder, “Gee, why are incomes there higher?”

I was reading a paper recently by Pierre Fortin. He was comparing per capita incomes in New York and Quebec. On a purchasing power-converted basis, per capita incomes in New York are almost twice as high as in Quebec.

An hon. member: Wow.

Mr. Philip Cross: That's ridiculous. How does this happen? I don't know how much longer that can go on before people start voting with their feet and saying, “If not for myself, then for my children, there are better opportunities elsewhere.”

Mr. Jasraj Singh Hallan: I'd like both of your opinions on this. As I said, we've seen things like the carbon tax. The U.S. doesn't have that, and they've been able to lower their emissions. Canada's emissions have actually gone up. Are some of these really bad bills and some of these policies by this federal government stifling investment coming here in terms of bigger companies wanting to invest here in Canada?

● (1235)

Mr. Vivek Dehejia: Yes, indeed. I would echo what we just heard from Mr. Cross. The basic problem is that we have excessive bureaucracy, excessive red tape, a high tax environment and a loose monetary policy. Again, if you look at the data adjusted for the cost of living, per hour, Canada is basically at the bottom of the league table now in the rich countries of the west. We are way behind Scandinavia, the U.S., Germany—everyone—and that's really shocking.

Mr. Jasraj Singh Hallan: If I have any time left, I'll ask you this: What needs to happen for us to be able to compete with the rest of the world, or even with the U.S.? How do we keep up?

The Chair: We don't have time for an answer there. I'm sorry, MP Hallan, but we are at time.

MP Thompson, you have five minutes, please.

Ms. Joanne Thompson: Thank you.

I would like to begin by once again referencing something that my colleague did a moment ago, and that is the severity of the climate crisis. I certainly think we also need to acknowledge, and I haven't heard this today, the real cost of responding to climate and extreme weather events and the understanding that this is impacting every aspect of society.

On that note, I would like to move to the Canadian Federation of Agriculture. I'm sorry that I don't have time for everyone today.

Perhaps both of you could answer this question. I'd like to zero in on the specifics around the economic impact of forest fires and other extreme weather events on your exports.

Mr. Keith Currie: That's always the struggle. It's a guessing game how that's going to impact in the long term. We have many free trade agreements around the world. We are an export nation, and we rely.... This is not only in primary agriculture but also in the whole agri-food industry. As an example, in Ontario there are 860,000 people working in the agri-food industry. A good majority of them are in the processing sector, so it affects not just farmers; it affects the economy of the country a lot.

Not being able to fulfill a market potentially means a loss in that market despite the free trade agreement, because somebody else will come in and fill that market. What we're experiencing with the various climate issues is that it takes a long time to recover. The drought in the prairie provinces isn't just going to be over if we happen to get a little bit of rain or some snow through the wintertime. There are long-standing effects that occur because of that. The floods that have happened in Atlantic Canada, the atmospheric river that happened in B.C..... You just don't fix those quickly. That will have negative economic impacts not only on the farm community but throughout the entire economy.

One thing about agriculture is that we're recession-proof. We've proven that we're pandemic-proof. How many industries can say that? We continue to do what we need to do to produce food for people both domestically and internationally. That's a tremendous economic driver. We need to figure out how to not only maintain that but also capitalize on that for the economy of the country.

I don't know if you want to add anything else, Brodie.

Mr. Brodie Berrigan: The only thing I would add quickly to that is that part of the basis behind the recommendation around the accelerated capital cost allowance is to create the incentive for farmers to invest in their own equipment to make them more sustainable and productive. We see that intersection between food security and climate change.... Innovation is right there. I'm sure our colleagues would agree.

That is a very concrete measure that could be put in place in the short term, immediately. It would support an investment in capital on farms to make them more productive and more climate resilient. Ultimately, it would support our sustainability objectives.

Ms. Joanne Thompson: Thank you.

In your opening remarks, you referenced—which I'm grateful for, because I think it's incredibly important—sustainability and the supports needed for intergenerational farm transfers. Would you speak in more detail to that?

Mr. Keith Currie: There were some measures taken in earlier budgets to allow for intergenerational transfers. The issue becomes that, because of the size of farming operations now and because they're multi-generational or large family operations, our businesses are becoming incorporated. We are all small businesses, but we're becoming incorporated because it makes good business sense.

Under the current tax laws for transfer, it's become easier to sell to a stranger than it is to the family, because the capital gains exemption applies specifically to a sole owner, let's say. When you have several siblings or several family members who are all involved in the business and are owners, you lose that capital gains exemption.

As I said, it's easier to transfer the farm to an individual who is not a family member than to keep it in the family. We're looking for some adjustments in the tax act that will allow for that intergenerational transfer and still allow the capital cost exemption to apply.

● (1240)

Mr. Brodie Berrigan: I think that's exactly it. Again, I would just highlight that it is another very concrete, very specific tax amendment that could be made and that would support the next generation of farmers, who are inheriting a very difficult situation in this, as we said, high inflation, high interest rate environment.

That was one of several very specific, concrete proposals that we think would have an impact in the short term.

The Chair: Thank you, MP Thompson.

Now we're going to MP Ste-Marie for two and a half minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

That's a very good recommendation. Let's hope that it is implemented quickly.

I don't know if Mr. Hurteau wanted to answer Mr. Blaikie's question. If not, Mr. Lopez-Asselin, would you like to continue to explain your recommendations?

Thank you.

Mr. Edgar Lopez-Asselin: I can answer the question.

Thank you, Mr. Ste-Marie, for letting me answer Mr. Blaikie's question. I will do it in two parts.

Mr. Blaikie was pointing out that it was probably a good investment to properly fund the CRA. By comparison, large accounting firms will often present tax services fees to their clients as investments for the future. I would say that the situation is more or less the same in the public sector, particularly for the Canada Revenue Agency. I would even approach the issue in a negative way. Stagnant and even reduced funding for the CRA for years attests to the Canadian government's and the various governments's lack of seriousness and willingness to tackle the problem of tax avoidance and the use of tax havens head-on.

I will continue to answer the question afterwards, but I would like to take this opportunity to quickly come back to the CRA's funding. The mechanisms, the tax avoidance schemes, are becoming more complex. Today, we must be able to continue developing expertise within the CRA to ensure that we recover this money that is leaving Canada.

I want to come back to the issue of tax treaties, which I think is central. One of our recommendations has to do with those treaties. Their review is one of the central points in our claims book, but it's also a huge and extremely important work. I can quickly mention the Supreme Court's decision in Canada v. Alta Energy Luxembourg, where Justice Côté, who signed the decision reflecting the majority opinion, rejected the CRA's appeal. She explained quite well that the reason, the source of the tax benefit that was claimed by Alta Energy Luxembourg, was provided for in the tax treaty between Luxembourg and Canada.

These tax treaties are riddled with loopholes, problems and gaps that allow not only foreign companies but also Canadian companies to avoid paying their dues here or elsewhere, where they actually conduct their economic activities.

Mr. Gabriel Ste-Marie: Thank you very much.

[*English*]

The Chair: Thank you, MP Ste-Marie.

MP Blaikie.

Mr. Daniel Blaikie: Thank you very much, Mr. Chair.

To the Council of Canadian Innovators, we've heard a lot around this table about Canada's low productivity growth compared to its competitors, and about low business investment. We've also seen over the last 20 years or so a decrease in the corporate tax rate and some pretty sizable capital reserves on the part of Canadian companies. I'm wondering what you think is required of government if there are a lot of companies that have cash on hand. We've heard about industrial policy and creating better investment conditions. What do you think are some of the things that are required in order to get Canadian companies to invest in themselves?

Mr. Nicholas Schiavo: I think we have to create the incentives and the freedom to operate for companies to want to invest in that R and D. There are many recommendations I can offer, but one very concrete one is around reforming the SR and ED tax credit. There was a promise in budget 2022 to update this nearly 80-year-old program, which is a $4-billion program. It's integral for our members and for the innovation economy. It is a huge source of capital, of R and D, and it can be a source of intellectual property if it's updated correctly. Where's the consultation? Where is that review and that reform to that critical program? We have not seen it.

In the fall of 2022 we developed a comprehensive report with companies across Canada to provide six concrete recommendations to the government, and we've continued to push the Department of Finance to make good on that promise. What we've heard behind closed doors that is quite concerning is that nearly half of that program, around $2 billion, goes to about 15 corporate giants. Unfortunately, I can't offer the committee evidence, because it's shrouded behind corporate privacy prohibitions, but the point I'm making is there needs to be transparency for that program. There needs to be an update so it can help small and medium-sized enterprises.

● (1245)

Mr. Daniel Blaikie: Thank you, Mr. Chair.

The Chair: Thank you, MP Blaikie.

Now we go to MP Lawrence for five minutes.

Mr. Philip Lawrence: Thank you, Mr. Chair.

On a quick administrative note, has the Minister of Finance accepted our invitation?

The Chair: I'm looking to the parliamentary secretary.

Ms. Rachel Bendayan (Outremont, Lib.): Thank you, Mr. Chair.

The minister would like to come to committee. We are just working on dates.

Mr. Philip Lawrence: Thank you, Mr. Chair.

I'll go back to our witnesses.

My colleague, Mr. Hallan, finished off his questions and wasn't able to get an answer, so maybe I can get an answer.

To you, Mr. Cross and Mr. Dehejia, concisely—in maybe a point or two each—what could Canada do to enhance our productivity and to put Canada in a position to start competing?

Mr. Philip Cross: In my work in this area, I've gone beyond.... I think the problem has become so deep-rooted that it's not a matter of changing a policy or a regulation anymore, and I'm more and more focused on how we talk to and interact with the business community. If we don't change the way in which we talk to these people, we're giving them every reason to leave and go to jurisdictions that are much more business-friendly. I think it comes down to attitudes and to culture more than policies and politics now.

Mr. Vivek Dehejia: I'd second that. I would say our problems are so structural and so deep-rooted now that a policy tweak here or there won't really make a big difference. We have become a country, sadly, in which entrepreneurship just doesn't thrive, and that's a big problem for us.

Mr. Philip Lawrence: Thank you for that.

You point to some larger concerns, which I think are well founded.

I know, Mr. Cross, you've written about that, and I've read some excellent articles about that.

To get back to more of a technical concern, one concern I have is—as you'll know if you've seen the bond market—that Canadian corporations are now going to be able to make more money with zero risk—or close to zero risk, because I shouldn't say anything is zero risk. We already have the issue that we don't have, as Mr. Blaikie just talked about, companies perhaps putting enough money into investment. My response would be to lower taxes to give them a greater return when they take risks, perhaps, as the innovators said, by reworking the SR and ED program. What are your comments on that? It's an open question to you, Mr. Dehejia and Mr. Cross.

Mr. Philip Cross: My concern is that, yes, we're moving into an environment of much higher interest rates, but I think that's generally going to be a more negative economic environment. Yes, it's going to be more profitable to invest in bonds than to take a risk investing in greenfield projects. In that type of environment, I think it's going to be difficult to tinker at the edges with policies and taxes to get people to take more risk. That's when you should be starting to work on a culture shift and changing the way we talk to corporations, entrepreneurs and foreign investors.

Mr. Vivek Dehejia: I'd add one comment to that. We lived for 10 years or more with basically free money. That distorted the economy beyond belief. It was cheaper to just buy property than to invest in risky assets. We got this huge property market and these asset price bubbles, which is one reason we're now facing households with debt. The reality is that money is now costly, and I think households and businesses have not wrapped their heads around how to react to this change.

Mr. Philip Lawrence: Thank you very much.

I'm going to switch gears and talk to you, Mr. Currie, for a bit. Thank you for all the work you and the farmers do across the country. I think the best farmers are in Northumberland-Peterborough South, but I might be biased.

In all seriousness, one of your recommendations was, of course, to reduce the carbon tax on all fuels, including natural gas and propane. That's Bill C-234, which is currently in the Senate, but I want to talk more broadly than that. Tiff Macklem said that 0.4% of inflation was directly attributable to the carbon tax.

If, in fact, we were able to remove all the carbon tax on your members, would that reduce the input costs and potentially reduce the cost of food in Canada?

● (1250)

Mr. Keith Currie: I think the easy answer is yes. The one thing about carbon tax is that rural Canadians and farmers pay disproportionately more in tax. For those who live in an urban setting, when they walk out the door to go to the grocery store, they have two choices. They can get in the car and drive and choose to pay the carbon tax, or they can go down the street and get onto public transit.

We don't have that option. We have to drive everywhere, so we're paying disproportionately more. From a farming perspective, everyone who gets charged a carbon tax for a service they provide or whatever the case may be puts that added cost onto the products they're selling to the public. Farmers are price-takers, not price-setters. We don't have the luxury of passing that cost on, so we get piled on by more and more service charges, which narrows our margins even more.

It would be a definite boost, especially if Bill C-234 gets through and you could put the push on the Senate to get this through committee quickly, especially on a couple of senators who are holding this up. We'd really appreciate it.

The Chair: Thank you, MP Lawrence.

Now we're going to our final questioner. It will be MP Baker for this session.

Mr. Yvan Baker: Thanks very much, Mr. Chair.

I want to start by making a brief comment. I think that in Parliament, in this committee, members will disagree with each other on a range of issues. When you're in this line of work, you have to learn to let that go, but I can't let go of something that was said, and I need to point it out in the context of what's being discussed here.

In his last intervention, Mr. Hallan was lamenting the fact that Canada wasn't doing enough to bring our emissions down. What frustrates me is that at the same time, his party and his leadership have done everything possible to get in the way of any action to reduce our emissions.

For the folks watching at home, I think it's important that we call that out and that we be clear that as parliamentarians, no matter what our views are on any issue, we're clear about where we stand and what trade-offs we're making. That really frustrates me, especially when we know how urgent this climate crisis is. We've heard about the impact, economic and otherwise, that this is having on folks across Canada.

If the Conservative Party believes it's important that we act on climate, then I'd love to see its support on measures to act on climate change in this country.

With that said—

Mr. Jasraj Singh Hallan: I have a point of order, Chair.

Arguably, I think the only plan that the Liberals have put forward is an environment tax—

Mr. Yvan Baker: That's debate, Mr. Chair. This is my time.

The Chair: Mr. Hallan, that's not a point of order. You were not interrupted.

Allow MP Baker....

Mr. Yvan Baker: Thank you, Chair.

Mr. Chair, I hope you'll give me back the time that I lost because the Conservatives interjected.

I'm very respectful of the members of the Conservative Party when they seek to make points to express their disagreement with the government position. I am now expressing my disagreement, and I would ask that I be given that same courtesy to disagree.

I wanted to come back to our folks from the agriculture community. I want to ask them about some of the extreme weather events and the economic impact. This continues along the lines of the conversation we were having earlier.

Could you talk a little about how—I'm thinking about wildfires specifically, but you may have other examples—that impacted the prices that your members, the farmers, are able to charge for what they're growing and selling?

● (1255)

Mr. Keith Currie: We don't specifically get to charge whatever we want for our products. That's set by markets. That market comes down...the prices on those markets typically come down to supply and demand.

We all suffered through the wildfires right across the country early in the year. I don't think anyone who stepped outside their house couldn't smell smoke in the air. Certainly, for our western colleagues, that's had an even bigger impact because of the severity of the fires. It's affected the production of the crops. It's affected people being able to go outside and actually work in their fields. There's been productivity loss in that regard as well.

It doesn't matter if the price goes through the roof if you don't have the product to harvest and sell on that market. It's kind of a chicken or egg thing. We like the high prices, but if these weather events are affecting our productivity, then it doesn't matter, because we can't take advantage of these markets.

Mr. Yvan Baker: I appreciate that. Thank you. I think I have only about a minute left.

You talked earlier about soil health. What are the impacts of some of these extreme weather events on soil health for farmers?

Mr. Keith Currie: It depends on the type of climate issue you're talking about.

Floods, for example, can have long-term affects, because soil moves.

We've done a good job for decades now on the sustainability front. Part of our biggest frustration is that no one is recognizing what we have been doing over the last number of years. They think we have to do all these things now to solve the problems, but they're not taking into account what we've already done.

I had to go plough a field a year ago for an archeological study on a farm I rented. Do you know you know hard it was for me to find a plough? Nobody ploughs anymore; everybody does no-till.

We do no-till because it's good for the soil. It's good for what we do. It's good for economic reasons as well. As long as we can continue to ramp up those measures of best management practices.... We need things like seed technology development in seed genetics in particular to help improve for wet years and for dry years. That's going to help the sustainability efforts as well.

Fires can also have a long-term effect, depending on what comes out of the air and goes into the ground and how that impacts the growth of the crops going forward. That will also impact livestock farmers if they can't grow the right crops or the more nutritious grasses, etc.

A multitude of effects are happening. The more we can invest in the technology that's going to help us go forward, in particular on soil health.... We don't do a thing in order to sequester more carbon. When we do something for a soil, it has multiple co-environmental benefits. There's water retention and movement, nutrient retention and, yes, carbon sequestration.

That's really what we need to focus on from a soil health perspective: How do we drive that forward?

The Chair: Thank you, MP Baker. That concludes our session.

We want to thank our excellent witnesses. We have labour, innovators, farmers and academics here with us. It's a real cross-section and there have been many great questions from our members and answers from our witnesses. Thank you for your testimony on this study, which is our pre-budget consultation.

I just want to wish all of you and your families a happy Thanksgiving long weekend.

Thank you. We're adjourned.