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## **Standing Committee on Finance**

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**Tuesday, October 29, 2013**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Tuesday, October 29, 2013

•(1105)

[English]

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

This is meeting number two of the Standing Committee on Finance.

Colleagues, we have a busy day today; we have a three-hour meeting. In the first hour we are dealing with three motions. In the second hour we have the Governor of the Bank of Canada for his report on his monetary policy update. In the third hour we have the new Parliamentary Budget Officer with respect to the economic and fiscal outlook, and this is his first appearance before the finance committee.

I would call on you so that we can try to finish these three motions within the first hour. That would be very helpful. You'll see before you that debate is resuming on a motion of Mr. Andrew Saxton.

Colleagues, you should have three motions in front of you: a motion by Ms. Nash, one by Mr. Rankin, and one by Mr. Saxton. Does everyone have these three motions? I'm going to suggest that we start with the Nash motion, then move to the Rankin motion, and then resume debate on the Saxton motion.

I will go to Ms. Nash to introduce her motion and I will give her the floor.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you, Mr. Chair.

I'll just read my motion.

That the Standing Committee on Finance a) undertake a study of youth employment across Canada, including: i) the factors contributing to a high rate of youth unemployment, ii) the economic impact of youth un- and underemployment, iii) the benefits and costs of paid and unpaid internships, and iv) options to provide greater labour protections to interns; b) that the Committee make recommendations to the Government of Canada to improve youth employment outcomes in Canada; and c) that the Committee report its findings to the House of Commons.

Mr. Chair, we've been very concerned, and we have expressed concern in the House on several occasions about the level of youth unemployment and concern that we're wasting the talents and abilities of young people who aren't getting a full toehold into the Canadian economy. Frankly, it is a challenge to our overall economy that this is an underutilized group in our society, and that will have economic fallout for years to come, as studies have indicated. We think it's important for this committee to take a look at what's happening with youth employment across the country.

Of late, there has been great concern about the issue of unpaid internships and how young people, in order to get a toehold in the workforce, are in fact accepting unpaid work for which they normally ought to be reimbursed, as other workers are. We think it's worth studying in detail because this is a pressing issue in our economy and our society today.

**The Chair:** Thank you very much, Ms. Nash.

I'll take Mr. Saxton as the next speaker, please.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Chair.

I want to thank my colleague, Peggy Nash, for bringing this forward to committee.

The government agrees that this is a very important issue, and one that's worth studying. Therefore, we would agree to study it.

We have a proposed amendment to Ms. Nash's motion that I'd like to circulate to committee members. But in essence, we agree with the study of youth employment. I'd just like to read my proposed amendment to Ms. Nash's motion, and that is:

That the Standing Committee on Finance: (a) undertake a study of youth employment across Canada; (b) that the Committee make recommendations to the Government of Canada to improve youth employment outcomes in Canada; and (c) that the Committee report its findings to the House of Commons.

I'll now distribute this in writing in both official languages through the clerk, Mr. Chair.

**The Chair:** Thank you, Mr. Saxton. We'll have the amendment distributed.

Next, I have Mr. Jean. We still have Mr. Brison listed.

The debate will be on the amendment.

Mr. Saxton, are you finished?

**Mr. Andrew Saxton:** I simply want to say in conclusion that our government recognizes the importance of youth employment. That is why in Budget 2013 we've allocated significant funds toward apprenticeship and other internship programs to help youth get back to work. As a result, we agree that this is an issue of importance to Canadians and we agree with Ms. Nash that we could do a study in this committee on this subject.

Thank you.

•(1110)

**The Chair:** Thank you.

I will go to Mr. Jean, please.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you, Mr. Chair.

Yes, I agree. I saw the original motion by Ms. Nash and I didn't think it was a bad idea, though I thought it was too restrictive in its approach, particularly in relation to item ii), unemployment and the contributing factors. I simply thought it was too restrictive in its approach. I think there's a much better solution. We have done some good things, I know, as a government with the knowledge infrastructure program and some different trade training, etc., but I don't think it's enough. I believe we can do a lot more. I think Ms. Nash's motion is a good one in substance, but I certainly think the amendments made by Mr. Saxton would give us a better ability to be more broad in scope and not be restricted.

**The Chair:** Thank you. I'll go to Mr. Hsu and then Ms. Nash.

**Mr. Ted Hsu (Kingston and the Islands, Lib.):** Thank you very much.

What the amendment essentially does is to take away words following “including”, so it takes away some specificity from the study. My sense is that there is always youth unemployment, but I think for the House of Commons, for Parliament, to be relevant, it should be discussing the current situation. The current situation is that since the great recession of 2008, employment has recovered for certain segments of the population but it hasn't recovered for youth. I believe that's why the motion from Ms. Nash refers to the high rate of youth unemployment. It's high relative to the fact that other age groups have not suffered to the same degree, age groups whose employment has rebounded from the great recession.

The second thing that I think is a bit more specific and important to address is the economic impact. Canada, like many other countries over the next 10 years or 20 years, will be having to deal with some very significant demographic changes. For that reason it is very important to recognize that youth unemployment and underemployment have particularly important economic impacts at this time in the history of the country. I think it's important to recognize this by including case ii) in the motion, and I think that is why Ms. Nash included it in the motion. Similarly for case iii) and case iv)—these are subjects that have been brought to the attention of Parliament in the last year or two. It is very timely, so including them in a motion will reassure young Canadians that their representatives in Ottawa, the ones who are paid for by their parents' taxes, are actually addressing the immediate concerns that they are seeing in their everyday lives.

This is why I believe, Mr. Chair, that eliminating these particular cases and leaving behind a rather vanilla motion is not a service to the young people of Canada.

**The Chair:** Thank you.

We'll go to Ms. Nash now.

**Ms. Peggy Nash:** Thank you, Mr. Chair, and I thank Mr. Hsu for his support for the original motion. We certainly would like to examine the factors involved in youth unemployment and underemployment, and the whole issue of youth internships. I would like to ask Mr. Saxton a question. Because the amended motion would be less prescriptive than the original, I'm assuming that the committee would still have the ability to examine the factors in the original

motion and that the study and the report would not exclude those factors—that we could still include them. I'm assuming from your motion it would include other factors as well.

I would simply like some clarification, please.

**The Chair:** On that, Mr. Saxton, go ahead, please.

• (1115)

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

The focus of this friendly amendment is youth employment. The proposed study of this committee would be youth employment. Anything that falls under youth employment, in my opinion, would be something we could study, under this particular amendment.

**The Chair:** It would be quite broad and open and any topic that falls under it...

**Mr. Andrew Saxton:** Youth employment is the topic and, therefore, anything that falls within youth employment would be acceptable under this motion.

**The Chair:** Ms. Nash.

**Ms. Peggy Nash:** Thank you for that clarification. So if the amendment does not limit the original intent of the motion—and I'm hearing you say that it doesn't and that, in fact, it amplifies it—as long as we're able to include those elements when we actually get down to the study, in the interest of getting all-party support, I would certainly welcome the amendment as a friendly amendment and would vote in favour.

**The Chair:** Mr. Saxton has proposed an alternative motion, but he does have an amendment that simply removes certain lines from the motion. I think I should proceed in that fashion and have a vote on the amendment and then a vote on the motion.

All those in favour of the amendment by Mr. Saxton.

(Amendment agreed to)

**The Chair:** All those in favour of the motion as amended.

(Motion as amended agreed to)

**The Chair:** Thank you.

We will now move to the motion by Mr. Rankin.

**Mr. Murray Rankin (Victoria, NDP):** Thank you very much, Mr. Chair.

I will be very succinct this morning. You have the motion in front of you. It is as follows:

That the Committee invite the Minister of National Revenue, and the appropriate officials, to appear before the Committee before Friday, December 6th, 2013, to discuss allegations of corruption at the Canada Revenue Agency (CRA) offices in Montreal, which appear to require immediate attention and serious action, and that the Minister be given up to ten (10) minutes for her opening statement; and that the meeting be televised.

As I think most Canadians will now know, the suspicions of corruption at the CRA offices in Montreal date back to 2005. In 2008 the RCMP undertook an investigation at the Montreal office. This criminal investigation was expanded in 2011 to include all CRA operations in the province of Quebec in 2011. As a consequence of this investigation, nine employees thus far have been dismissed, six of whom have been charged with such crimes as tax fraud, breach of trust, and extortion.

The newest revelation, that a CRA cheque for nearly \$400,000 was delivered to a notorious Mafia leader, Mr. Nicolo Rizzuto, who at the time owed \$1.5 million to the CRA, obviously gives rise to very serious concerns of ongoing mismanagement and possible corruption at the CRA.

It seems to me beyond doubt that if the allegations are proven, the integrity of our tax system is threatened, and many Canadians will have their confidence in our tax system shaken as a consequence.

Thus, Mr. Chair, it seems a very logical step to simply invite the minister to come to this committee and explain what's going on from her perspective. We would welcome a motion passed to that effect.

**The Chair:** Thank you very much, Mr. Rankin.

I have Mr. Keddy on the list.

**Mr. Gerald Keddy (South Shore—St. Margaret's, CPC):** Thank you, Mr. Chairman.

Mr. Chairman, while I have some sympathy with Mr. Rankin's motion, there are a number of reasons, some of which he mentioned himself, why the committee shouldn't look at this motion at this time.

Certainly and I think of primary importance is the fact that these allegations result from an ongoing police investigation. This investigation started several years ago and is ongoing.

Mr. Rankin is absolutely correct: nine employees have already been fired in this matter. Six of those employees have been formally charged up to this point. CRA obviously has worked with the RCMP since day one of this investigation, and will continue to do so.

The fact that this is an ongoing investigation would make it entirely inappropriate to request information that could interfere with any ongoing police investigation.

• (1120)

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

I have Mr. Hoback and then back to Mr. Rankin.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair, and thank you, Mr. Rankin, for bringing this motion forward. I think your intentions here are honourable in so many ways.

I have to agree with the parliamentary secretary that at this point in time it wouldn't be appropriate. I highlight that you mentioned in your speech that nine employees were already fired in this matter. Six of those have been formally charged. The CRA has been working with the RCMP since day one on this investigation and continues to do so.

Because this investigation is ongoing, it wouldn't be appropriate for the committee to interfere or to preclude anything in a hearing at

this point. I would suggest that this motion be parked until we can look at it after all the investigations are done.

**The Chair:** Thank you.

Mr. Rankin.

**Mr. Murray Rankin:** Thank you. I appreciate the comments that were made by Mr. Keddy and Mr. Hoback, those by Mr. Keddy in particular. This is a very serious matter. I'm of course approaching it with a lot of gravity.

I don't accept the premise that calling the minister to this committee to clear the air would necessarily interfere with the investigation. Indeed, we have procedures that would address issues such as that. We could go in camera if this was the wish of the committee. There are many examples in Canadian history where ministers responsible have appeared at the same time as ongoing investigations were being conducted. Indeed, this is a matter that has been investigated now for several years.

I think the Canadian public's interest in getting to the bottom of this or having the minister explain why people should continue to have confidence in their tax system is really of paramount concern right now. I know that we could do this as a committee. It has been done on many other occasions with the use of our rules of procedure. I would not want to deprive Canadians and the minister of the opportunity to clear the air. It's important for Canadians to really understand what is going on when a cheque for \$400,000 is given to a person who owes \$1.5 million and is the well-known head of the Mafia. Canadians have understandable concerns, and we as a committee need to address those.

**The Chair:** Thank you.

I have Mr. Jean and then Mr. Keddy.

**Mr. Brian Jean:** I tend to disagree, Mr. Rankin, with respect. As a former lawyer, I think that the only thing we could do at this stage if we got involved would be to have in camera meetings. This means we can't share it with Canadians anyway, so there's no advantage in what you're suggesting. Finally, we would only prejudice the ongoing investigation.

I don't see any advantage in doing anything until such time as the investigation is over. Certainly, the RCMP are competent enough, and I would trust them to do the right thing and make sure the right people are charged. I think at this stage a parliamentary committee could only prejudice the outcome and might actually do more harm than good.

I would not vote to support your motion.

**The Chair:** Thank you.

Mr. Keddy.

**Mr. Gerald Keddy:** I think all of the honourable members have brought up important points here.

I have a point on the cheque that Mr. Rankin mentioned. It should be noted, first of all, that the cheque was recovered. There's also a personal liability here if any of us says anything that interferes with an ongoing police investigation. The Canada Revenue Agency has done an extremely good job in dealing with this issue. I think we're attempting to put the horse behind the cart in this case, if you will. Let this investigation be seen through, and then we can bring this motion forth and look at the results of the investigation.

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

Mr. Hsu.

**Mr. Ted Hsu:** Thank you, Mr. Chair.

I would like to add a little thing in response to Mr. Keddy's statement that the CRA has done a good job. That may be true for certain aspects of this case such as cooperating with the police investigation, but it may not be true for other aspects such as whether there are proper controls at CRA or whether there's proper management of the culture within CRA. These things are really somewhat distinct from the particular cases of corruption. They are distinct enough from the police investigation that they could be discussed.

As Mr. Rankin says, a couple of years have passed. Maybe it's time to talk about whether proper management controls are in place, or whether there's a culture in place at the CRA to help reduce the chance of corruption in the future.

• (1125)

**The Chair:** Mr. Rankin, go ahead.

**Mr. Murray Rankin:** I won't belabour it. I will say three things in response to my friends who have spoken.

First, this police investigation could take years. We have no way of knowing how long it will take. I think that if years go by, the erosion of the trust Canadians have in their tax system could be a serious consequence.

Second, Mr. Keddy asserts that the CRA has done a good job. I have no way of evaluating that, and this committee is looking precisely for that, and to deal with the cultural issues that have been spoken of.

And third, I accept what Mr. Jean is saying from a criminal lawyer's perspective. However, I would have to say that even if matters were held in camera and treated with the respect and confidentiality they require, we could reassure Canadians, if we are satisfied that the work is done well, that the CRA has done a good job. We could give them that confidence that I think is desperately needed at a time when these allegations are swirling around. For that reason alone, I think it's important that we proceed.

**The Chair:** Thank you.

We'll go to the vote on this motion.

(Motion negatived)

**The Chair:** Colleagues, we will return to the motion by Mr. Saxton.

We have a speakers list of four members—Ms. Nash, Monsieur Côté, Mr. Hoback, and Mr. Caron. I will start with Ms. Nash and work my way down the list.

Ms. Nash, please go ahead.

**Ms. Peggy Nash:** Thank you, Mr. Chair.

Just to remind all of us, the motion we are dealing with would have the effect of denying the right of or the opportunity for independent members of the House of Commons—that is, members whose parties have fewer than a dozen seats in the House—to introduce amendments at the report stage of a bill and thus give all members of Parliament the opportunity to speak to, debate, and vote on those amendments, all with the goal of improving our legislative process.

I want to repeat again that we strongly oppose this motion. We believe that the Conservatives are taking a democratic shortcut here that is not necessary and impacts on the rights of members who are elected to this House. It would mean a significant change in the way the House operates, a change in a process that has been a long-standing one, and it would have definite impacts on the rights of members of Parliament.

I want to cite O'Brien and Bosc, which makes it clear that. "It is the House, and the House alone, that appoints the members and associate members of its committees, as well as the Members who will represent it on joint committees. The Speaker has ruled that this is a fundamental right of the House. The committees themselves have no powers at all in this regard." That's on page 1,019.

Furthermore, in another passage, it is stated, "The Standing Orders specifically exclude a non-member from voting, moving motions or being counted for purposes of a quorum." That's on page 1,018. In other words, the committee has no powers to make this sort of procedural change on its own. These powers lie within the House and its Speaker.

The Conservatives claim there would be no infringement on the rights of independent members, but these members would be required to submit motions and then would be excluded from voting on these motions.

In addition, during last spring's committee study of Bill C-60, committee members were given a choice in regard to including independent members. Independent members were prohibited from participating in the debate and study on the content of the bill unless an opposition member was willing to give them their seat on the committee. This scenario was bound to infringe on some members' rights, for it can surely be argued that independent members cannot be required to submit amendments to the committee when they are not permitted to participate in the committee study, while requiring opposition committee members to give up their seats and participation in order to accommodate independents certainly tramples on their rights as committee members.

When it came to moving motions, independents were allowed to move their motions for amendment and speak very briefly to them, but were excluded from voting on them. In the normal course of the committee stage, each party submits motions for amendment and then the parties' representatives on the committee vote on them. The proposed changes certainly put independent members at a democratic disadvantage.

In short, our experience with this process was not positive, and we believe it infringed on members' rights. It's particularly undemocratic that the Conservatives would bring this motion forward in committees, which have no power to make this sort of procedural change and where the very members in question in the motion are excluded both from debate and from voting. I do notice that a letter by three independent members has been circulated to us as members on the committee. It was addressed to the chair of the committee, and it attempts to insert their voice into this process because they have no voice in and no standing on this committee.

• (1130)

For these reasons we do not believe that this is an appropriate motion for this committee. We think it infringes on members' rights. It's not healthy for our democratic process.

Again, Mr. Chair, we'll be opposing it.

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

[Translation]

Mr. Côté, please go ahead.

**Mr. Raymond Côté (Beauport—Limoilou, NDP):** Thank you kindly, Mr. Chair.

I'll be fairly brief.

I want to pick up on the circumstances that prompted my colleague Mr. Saxton to put forward this motion. It was done in a hurry, without even enough copies for the entire committee. I would remind you that a total of 12 members have the great privilege of sitting on this standing committee. Along with our responsibilities as members of Parliament come certain rights. In particular, we must be given all the resources necessary to perform our duties. Furthermore, every member must have the ability to contribute to the committee equally. And above all, we must fully represent the interests of our constituents and Canadians, in general.

Luckily, Mr. Chair, you gave us a short break, which gave us time to get our thoughts straight and make up our minds on the motion. It gave us the chance to deal with the matter of the eight missing copies. From the outset, however, this situation was unacceptable and should never again be allowed to happen in committee.

I won't add to the arguments already made by my colleague Ms. Nash, in light of the major, nay fundamental, amendments proposed, amendments that clearly fall outside this committee's jurisdiction. That's the reality.

Nevertheless, I would just like to point out that earlier this year, when we were studying Bill C-60, this past spring, we were similarly asked about including independent members. At that time, independent members were prohibited from participating in the study and discussions on the bill, unless a member of the opposition

gave up his or her seat. The approach was truly a disrespectful one and was obviously rejected.

Let me say, Mr. Chair, that it's perfectly acceptable to rethink a committee's format or seat distribution. That's the sort of very healthy debate that could take place elsewhere, in other situations, especially outside the valuable time allocated to our work.

Indeed, we can ask ourselves whether it is inherently necessary or fair to have party representation in committees mirror that of the House of Commons. There are places in the world where the majority party or coalition doesn't necessarily enjoy the same majority in other structures, other parliamentary institutions or other settings in which parliamentarians carry out their work.

But, given the circumstances and the way things have been done, it is, unfortunately, impossible to explore that possibility now. There is absolutely no way we can support this, if only because of the circumstances. What's more, the actual proposal will clearly infringe upon the rights of some members in the House. It's totally unacceptable, because, beyond political affiliation, the 308 members in the House are equal.

That's all, Mr. Chair. Thank you for letting me speak.

• (1135)

**The Chair:** Thank you, Mr. Côté.

It's now over to Mr. Caron.

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

Although I don't want to repeat what's already been said, I do want to voice my opposition to the motion. I want to commend the independent members who submitted the letter calling on us to reject the motion. In my view, a lot of effort was put into the letter, which provides a history of the parliamentary procedures and rights of independent members and members of parties not recognized by the House. I won't repeat what the letter says, but I hope it will be published because it provides a good history.

I would like to point out that we first found ourselves in this exact situation when the last budget implementation bill was introduced. That was also the first time we saw the proposal set out in the motion being used. Just this past spring, then. To my knowledge, the question had never been raised prior to the spring.

Up to that point, it was clear that independent members and members of parties not recognized in the House could take part in a committee's proceedings and attend its meetings. It was also clear that the House recognized their fundamental rights when it came to proposing amendments to the budget implementation bill, specifically.

It was clear that this motion, which we voted against but which the committee adopted during its study of the last budget implementation bill, was specifically aimed at forcing independent members to give the committee notice of their amendments or changes without being able to debate them. They can, however, do that in the House. Consequently, they may be prohibited from moving those same amendments later in the House. So, as a result, they have much less power, not just all around, but also specifically, in terms of debating the amendments, because they aren't allowed to engage in meaningful debate on the amendments they wanted to propose. Conversely, they can do so in the House, generally speaking.

In that respect, then, independent members are being denied their rights, a situation we, on this side of the House, consider unacceptable. Once again, this is clearly a government tactic to prevent them from contributing. I find it appalling. I recall that the Speaker of the House of Commons had ruled on a matter of privilege, but I think the issue is serious enough for him to rethink the whole thing or, at the very least, consider the impact it will have on the rights of each and every one of us.

Independent members represent the people in their ridings, regardless of the fact they don't represent a party with enough members to enjoy the resources of the House. The fact remains, they represent constituents, just as those of us who belong to recognized parties do.

From that perspective, the motion will seriously undermine the rights of constituents in those members' ridings. In fact, those Canadians will be under-represented in the House and in committee, as opposed to our constituents and those of the government members.

With that in mind, I urge the government to reconsider the motion. And I hope it will do so in all the other committees, where the motion will be put forward if it hasn't already been. Government strategy, not the initiative of the individual who proposed the motion, clearly underlies this coordinated effort.

•(1140)

[English]

**The Chair:** *Merci, Monsieur Caron.*

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

**Mr. Andrew Saxton:** Thank you, Chair.

I want to respond to some of the issues brought up by my colleagues on the other side of the table.

First, I want to assure them, as they already know, that independent members will still have the right to submit their amendments to committee before the clause-by-clause, just as every other member has. Report stage is not meant to be a duplication of this committee's work. As was already mentioned, the Speaker ruled that this motion was in order when he ruled on Bill C-60 back in the spring. Furthermore, I also want to let my fellow committee members know that another committee, aboriginal affairs, has already voted on and approved this motion. It would only make sense that we also allow this committee to vote on this motion as it has been presented.

**The Chair:** I have Mr. Caron again.

[Translation]

**Mr. Guy Caron:** In response to that, I would say, first, the fact that the procedure has already been adopted by 1 of 24 committees is not, in and of itself, significant. Second, as far as I know, during Parliament's entire history, the procedure had never been used prior to the passing of Bill C-60. There is no parliamentary tradition, then, that says independent members or members of an unrecognized caucus can be forced to submit their amendments to the House. As Mr. Saxton mentioned, this prevents them from moving the amendments and even debating them in the House at report stage.

The two are related. Without this motion, independent members, who do not have a standing right to participate in committees, could propose amendments at report stage. What this motion does, however, is prevent them from doing so because they're being given the opportunity to discuss them at a very superficial level in committee.

With respect to Bill C-60—and correct me if I'm wrong, Mr. Chair—independent members who were allowed to propose amendments had 30 seconds to do so.

[English]

**The Chair:** The committee allowed the member from the Bloc more time than Ms. May. They were allowed one to two minutes to present.

[Translation]

**Mr. Guy Caron:** And that was it. They did not then participate in the discussion on the amendment. Only committee members could.

[English]

**The Chair:** The reason for the limitation was that, as you recall, there was a limitation on all members of, I think, five minutes. It was an attempt by the committee to be proportional.

[Translation]

**Mr. Guy Caron:** I see. I'm not saying the decision was strictly tied to them. There were, in fact, time limits, but the effect of the limitation imposed on them was to give them much less of an opportunity than they had at report stage to debate the amendment they, themselves, had put forward. At report stage, the amendment is studied in the House of Commons, and not in a simple committee.

The two issues are indeed related. Allowing independent members to propose amendments by giving them little time to speak to the amendments prevents the members from proposing the amendments later, something they were entitled to do in the House of Commons before Bill C-60 was passed.

That is why I am urging the government to withdraw its motion or to defeat it. The fact that 1 committee out of 24 has already adopted the motion should have no bearing on our decision.

•(1145)

**The Chair:** Thank you.

[English]

I have Mr. Jean, and then Mr. Keddy.

**Mr. Brian Jean:** I was just going to mention that the industry committee also passed it. We are masters of our own business and our own agenda, and I don't see why procedurally there would be any difficulty with this. If there is, we'll find out in due course. But I think it's good.

Obviously, there's a debate about what the effect of it is, but it sounds as if it makes it fair to everybody. As a member of a party that represents a portion of the country that is, I think, significant, I think I should have the same rights and privileges as every other member. This would certainly allow there to be more similar rights for every member, and I think that's reasonable in the circumstances.

**The Chair:** Thank you.

Mr. Keddy, please.

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

I think what's being overlooked here.... It's almost, Mr. Chairman, the story about the emperor who has no clothes. What happens—and we see it happen all too often—is that independent members of Parliament are allowed to hold up report stage with hundreds, sometimes more, quite frankly frivolous and redundant amendments that would never have a chance of getting passed by any measure through the House, and often don't even get support from the opposition parties themselves.

So let's be clear. This for the first time allows independent members of Parliament to appear at committee to present their motion, to present their amendments, and to present arguments on behalf of those amendments for, as the chair said, up to a minute or two minutes. That is more than fair. I think it corrects an imbalance, and it allows report stage, after the committee has done its work, to proceed in a reasonable fashion.

The other point that needs to be made is that if the opposition members are extremely concerned about making sure that all independent members of Parliament are heard at committee, they have every right to open up one of their seats for any independent member of Parliament to present at committee. It's not up to the government to do that; it's government legislation. It's up to the opposition to do that.

So there are a number of ways to bring this forward.

**The Chair:** Thank you.

[Translation]

Mr. Caron, the floor is once again yours.

[English]

**Mr. Guy Caron:** Mr. Keddy just said what had been left unsaid so far, namely, that this is a motion to expedite the process in the House.

[Translation]

The committee's motion should not make it possible to expedite debate. We are here to study motions and amendments thoroughly and to debate bills. That's what we do.

Independent members cannot sit on the committee on a regular basis. In all other discussions, no independent member has the same right to speak that we, as regular members, do.

In that respect, the debate we could have in the House of Commons should focus on the ability of these members, who do not enjoy the same status we do, to assert their right to represent their constituents. That is the crux of the matter, here. For example, Green Party members, independent members and Bloc québécois members do not have the right to sit as regular members of a committee. As per its procedure, the House of Commons entitles them to represent their constituents in the House of Commons when a bill is being study at report stage, as we can here. That gives legitimacy to their right to represent their constituents.

Now, think about the fact that amendments are proposed one at a time. Mr. Van Kesteren can move an amendment, as I can, on behalf of the people of the riding of Rimouski-Neigette—Témiscouata—Les Basques. We can do it now because we are regular committee members. But just think about what it would be like if 50 other members of the Conservative Party and 30 other members of the NDP wanted to propose their amendments themselves? Would we let them sit alongside us, the regular members? We wouldn't. And yet that is what's being asked for independent members. In doing so, we would really establish different procedures for different categories of members, and that's not acceptable in our parliamentary system.

I repeat the fact that this method had never been used until this past spring, when we were studying Bill C-60. Since it had never been used, it can only be regarded—and Mr. Keddy was quite candid—as a strategy by the government to expedite the process in the House of Commons.

• (1150)

**The Chair:** Very well. Thank you.

[English]

I have Mr. Saxton and then Mr. Côté. I am hoping to get a vote before noon.

We'll go to Mr. Saxton.

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

I want to follow up on some of the comments made by the members opposite. They're talking about equality and they're talking about an equal voice for members. In fact, this motion would create an equal voice, because independent members would be able to table their amendments here in committee before clause-by-clause. It's a right that we have as representatives of our caucus, and it's a right that they would have as well.

In fact, it would level the playing field. It would give everybody an equal right to bring those amendments forward at this committee during clause-by-clause.

I also want to point out that I'm not telling Mr. Caron or any members of the opposition how to vote on this motion. They will vote the way they want to vote. All I'm saying is that we ought to bring it to a vote. Let's allow a vote so that everybody has an equal opportunity. As the chair just mentioned, we ought to do this before we have to adjourn this meeting in ten minutes.

**The Chair:** Monsieur Côté.

[Translation]

**Mr. Raymond Côté:** Thank you, Mr. Chair.

I have to admit that Mr. Keddy reminded me of two situations in the Standing Committee on International Trade: we were involved in a rather serious clash over certain matters of principle.

One of the government's responsibilities is to run our institutions. I would just like to say that one of the government's basic responsibilities is accountability. You can talk about accountability, but if you don't back it up, you are merely paying lip service to the idea.

We're facing the same problem: it's just lip service. In concrete terms, what we're seeing is a lack of will on the government's part to get on with the work, in fact, to defend the integrity of our institutions.

I won't go any further. I am sure we'll have the opportunity to go back to head over other issues later.

**The Chair:** Fine. Thank you.

[English]

All in favour of this motion by Mr. Saxton? All those opposed?

(Motion agreed to)

**The Chair:** Colleagues, we have the governor coming in about five minutes. So I will suspend for five minutes and then we'll come back with the Governor of the Bank of Canada.

• (1150)

(Pause)

• (1200)

**The Chair:** Colleagues, I call this meeting back to order and ask you to take your seats. Thank you.

This is a resumption of meeting number two of the Standing Committee on Finance. We are very pleased to have with us here today, pursuant to Standing Order 108(2), for our study on the Bank of Canada Monetary Policy Report, the Governor of the Bank of Canada, Mr. Stephen Poloz.

Welcome back to our committee.

We also welcome the senior deputy governor, a person we've had here many times, Mr. Tiff Macklem.

Welcome to you as well, Mr. Macklem.

We look forward to your opening statement and then we will have questions from members of the committee. Please begin.

**Mr. Stephen S. Poloz (Governor, Bank of Canada):** Thank you, Chair.

I have a very brief opening statement.

[Translation]

Good afternoon, everyone.

[English]

Thank you very much for the opportunity for Tiff and me to be here with you today to discuss the October Monetary Policy Report, which the bank published just last week.

[Translation]

The Bank of Canada aims to communicate our objectives openly and effectively and to stand accountable for our actions before Canadians. One of the best ways to do this is through appearances such as this one.

Allow me to spend a few minutes on the report's highlights.

[English]

I'd also like to flag some important changes introduced with this issue.

We are modifying the report's format and style in order to explicitly capture the uncertainty that is inherent in our outlook. The goal is to present to Canadians a reflection of the evolution of the risks to the inflation outlook that are embedded in our policy rather than simply comparing a snapshot of the current forecast with one of our previous forecasts.

The picture is not always perfectly clear and so we have added new measures of *ex ante*, or before the fact, uncertainty to our five most critical projection variables. We've added rule-of-thumb ranges around the base-case projection for the growth of Canadian and U.S. GDP, for Canadian total CPI inflation, for the current level of the output gap, and for the growth rate of potential output in Canada.

With this, we are reminding ourselves and those who watch us that economic projections are subject to considerable uncertainty and are revised over time as new economic data become available. Our policy formulation process is more one of risk management than of engineering. In our policy deliberations we evaluate and assess all of the risks, both positive and negative, and use judgment to determine the balance among them.

[Translation]

As is customary in October, we reviewed the forecast for potential output. Due to lower-than-expected labour productivity growth in the past year, as well as the delay in the expected pickup in demand for exports and investment, the forecast for potential output growth has been revised down slightly.

Looking forward, we expect the global economy to expand modestly in 2013. However, its near-term dynamic has changed and the composition of growth is now slightly less favourable for Canada.

Uncertain global and domestic economic conditions are delaying the pickup in exports and business investment in Canada. This leaves the level of economic activity lower than the bank had been expecting.

• (1205)

[English]

While household spending remains solid, and various indicators in the housing sector continue to rise, slower growth of household credit and higher mortgage interest rates point to a gradual unwinding of household imbalances. The bank expects that a better balance between domestic and foreign demand will be achieved over time and that growth will become more self-sustaining, but this will take longer than previously projected.

We are expecting investment growth to contribute to a rebound in the rate of labour productivity over the next couple of years. However, demographic factors—primarily the aging population—are expected to put a drag on the growth of trend labour input, and this drag will largely offset the effects of rising investment. This is why we expect that the growth rate of potential output will remain fairly stable at around 2% over the next three years.

[Translation]

Real GDP growth is projected to increase from 1.6% this year to 2.3% next year and 2.6% in 2015. The bank expects that the economy will return gradually to full production capacity, around the end of 2015.

Inflation in Canada has remained low in recent months. This reflects the significant slack in the economy, heightened competition in the retail sector and some other sector-specific factors. With larger and more persistent excess supply in the economy, both total CPI and core inflation are expected to return more gradually to 2% around the end of 2015.

[English]

Although the bank considers the risks around its projected inflation path to be balanced, the fact that inflation has been persistently below target means that downside risks to inflation assume increasing importance.

However, the bank must also take into consideration the risk of exacerbating already elevated household imbalances and, weighing these factors, the bank judges that the substantial monetary policy stimulus currently in place remains appropriate and last week decided to maintain the target for the overnight rate at 1%.

With that, Tiff and I would be pleased to take your questions.

**The Chair:** Thank you very much for your opening statement.

We will begin members' questions, five-minute rounds, with Ms. Nash, please.

**Ms. Peggy Nash:** Welcome back, Mr. Governor and deputy governor. It is great to see you again.

I want to pick up on your statement about exports. You talk about uncertain global and domestic economic conditions. Would you detail some of the reasons why the bank had overestimated the growth in exports and why you are revising that estimate now?

**Mr. Stephen S. Poloz:** I'll begin with some general remarks and then perhaps pass the floor to my colleague Tiff. He gave an excellent speech on this topic just a couple of weeks ago at the Economic Club in Toronto.

When you use your model to construct these forecasts, of course you have all the data in place and a structure around them. As we went through time, we were noticing that exports were not recovering as rapidly as our model had predicted in line with the actual evolution of foreign economies. At the time we believed that this was a temporary thing and we still believe fundamentally that it is temporary.

When you do your forecasts, you assume that over the next year or two the error term that you're generating will actually go back to normal. That's how a forecaster would do this.

If the error persists long enough, you begin to look for deeper reasons and then assess whether they are temporary or permanent. The sorts of reasons that we put our finger on basically look at the mix of growth in the U.S. in particular, which is not classic, and not every sector has contributed to growth yet. That's something we can look forward to.

The second thing is that, this being a non-typical cycle, the export sector lost a lot of companies, some 20% of exporting companies, and a lot of other companies downsized. The conditions that will bring back the export path are more demanding than would normally be the case because of the length of this cycle. So it is taking longer than we saw in the past.

Mr. Macklem may have a follow-up.

● (1210)

**Ms. Peggy Nash:** Mr. Macklem, before you speak—and I'd like to hear your comments—I'd like to hear more about the domestic factors. Does the level of the dollar play an impact on our level of exports?

**Mr. Tiff Macklem (Senior Deputy Governor, Bank of Canada):** Yes, I can pick up on that. Before getting into the reasons for the underperformance relative to what we expected, it's worth underlining that the biggest reason exports have been weak is that the U.S. economy, our major export market, has had the deepest recession and the slowest recovery since the Great Depression. That by itself sets a weak track for export recovery.

It has, as you mentioned, been even a little weaker than we had expected. If you look at our report, we break down the components of exports a little bit. What you can see is that we have had relatively strong—in fact quite strong—exports in our particular energy complex, oil in particular. Oil has been gaining a share of our exports and has gone in the last decade from about 10% to 20% of our exports.

Where we've had weak performance is in our non-commodity exports, and they represent about half our exports. You can see in chart 14 in our Monetary Policy Report that since about the end of 2011 and the start of 2012, our non-commodity exports have not grown. They have not grown in line with—

**The Chair:** As chair, I would ask why.

**Mr. Tiff Macklem:** Yes, I'm getting to that, but you need to know what part of the exports. It is the non-commodity exports.

Why? A big part of it is exactly what the governor was saying: this was a very deep recession. A lot of firms closed, and it takes time to rebuild that.

Second, there are competitiveness factors, the dollar being part of that. When we break it down, we estimate that about two-thirds of it is the dollar and one third is the weak productivity performance we've had over the last decade.

**Ms. Peggy Nash:** If I understand, you say that two-thirds of the domestic issue is the dollar and one third is productivity.

I would love to come back to this issue, but as the only member on this committee I feel an obligation to ask a question. There is a petition that now has tens of thousands of signatures asking if the Bank of Canada is going to support the principle of having diversity on our banknotes. The only women we had were eliminated on our banknotes in 2011.

Have you any comments on that?

**The Chair:** Just a very quick comment, please.

**Mr. Stephen S. Poloz:** We have a new series with a new design based on a frontiers theme, which was developed in consultation with a large number of Canadians over a long period of time. It is what it is today. As you know, we are now thinking about the next series, which is a multi-year project, and we're open to all suggestions from all Canadians.

**The Chair:** Thank you.

Mr. Saxton, go ahead, please.

**Mr. Andrew Saxton:** I thank the Governor of the Bank of Canada and the senior deputy governor for being here in committee today.

My questions are along the same lines, on exports and the importance of trade. Recently, in your monetary report, you state:

In Canada, uncertain global and domestic economic conditions are delaying the pick-up in exports and business investment, leaving the level of economic activity lower than the Bank had been expecting.

Our government's proactive free trade agenda has led to some exciting prospects and opportunities for the Canadian economy, as demonstrated in the recently announced Canada–EU free trade agreement. How does this impact your consideration of exports and of business investment in Canada? I would imagine free trade deals like this would be very positive.

• (1215)

**Mr. Stephen S. Poloz:** Indeed, such infrastructure investment is what a free trade deal is. It really is a fundamental shift in the landscape, which is very positive for trade, and the effects accumulate over a very long time. We don't have a way to incorporate those kinds of changes in our outlook, except to guess that they would be positive. We have models that suggest how much trade will grow, and those are very informative. What will happen is an increase in growth in exports to Europe. It will be two-way: there will also be imports from Europe, and that increased trade will be very good for companies involved in those sectors.

That sort of structural change, as I indicated, takes a very long time to bear all its fruit. In fact, the benefits can accumulate for many years to come.

**Mr. Andrew Saxton:** Would your concern for weakened exports be somewhat alleviated by the fact that we're putting in place these free trade agreements?

**Mr. Stephen S. Poloz:** Yes, in the sense that, during this past cycle, we saw very clearly that the traditional concentration of Canadian trade with the U.S., and the outsized cycle the U.S. economy went through, exposed us very much to that trade impact. The response of Canadian companies has been to work harder to diversify their export base, particularly to emerging markets, which are the faster-growing customer bases available to them. There is

plenty of evidence that has been occurring, and it's a very good thing to diversify that demand.

The fact is, we'll always end up being a very important partner with the United States. We'll always be exposed, but having a trade deal that opens up more doors simply allows for more diversification and will give us a stronger base for the future.

**Mr. Andrew Saxton:** Our government knows that free and open trade is a powerful engine for growing the economy. That's why in the past six years we've concluded free trade agreements.... I think we're at over 40 countries now—it was 9 countries until very recently, but now I think we're at 42 countries—with which we have a free trade agreement in process or concluded. That's in addition to the foreign investment protection agreements, or FIPAs, that have also been entered into.

However, there are still some people who are doubtful about the need for Canada to become a more globalized trading nation and who sometimes are even going so far as to suggest that Canada should become more protectionist, along the lines of the Buy American trend. In your view, how dangerous would it be for Canada if we were to follow in that sort of vein and follow other countries in this protectionist trend?

**Mr. Stephen S. Poloz:** Well, I think I should offer a brief remark on this, since it's really not a monetary policy issue but more of a fundamental economic one on which the government has others more qualified to speak. But I am a free trader. I wake up in the morning believing that free trade is good, that competition is good, and that having access to markets is very good.

Historically, protectionism has actually been not good for economies. There's plenty of evidence of this. I would say that I wouldn't want to measure the extent of the danger that you offer up, because it's a very hard thing to answer, but I think that unambiguously having more scope for exploring trade transactions with other countries is very good for companies, and FIPAs are a very important ingredient. These days, the model of international trade very often engages the company in making investments—possibly small ones, sometimes larger ones—in the foreign markets in order to have a presence there. That presence gives them a stronger foothold into selling into that market.

The FIPA, that agreement, is actually a very important part of it. In fact, if we look at the free trade and NAFTA deal, it was the investment reassurance that companies received that really drove the big growth in trade in that deal.

• (1220)

**Mr. Andrew Saxton:** Okay.

Do I still have some time, Mr. Chair?

**The Chair:** You have five seconds.

**Mr. Andrew Saxton:** Okay. I have a very quick question.

Would you agree, then, that history has proven that protectionism is counterproductive and simply doesn't work?

**The Chair:** A brief response to that very large question, please.

**Mr. Stephen S. Poloz:** Yes.

**Voices:** Oh, oh!

**The Chair:** Thank you.

We'll go to Mr. Brison, please.

**Hon. Scott Brison (Kings—Hants, Lib.):** Thank you, Mr. Chair.

Thanks very much to both of you for joining us today.

In your report, you state, "The level of average hours worked continues to be below its trend, driven primarily by youth underemployment." Young Canadians today still have 224,000 fewer jobs than they did before the recession, despite a slight growth in their population. Of the new jobs created in Canada since 2009, only 0.5% have gone to young Canadians, despite their representation of 15% of the labour force. Earlier this year, TD Bank estimated that this extended period of youth unemployment and underemployment would cost Canada's economy \$23 billion over the next 18 years.

For Canadians who are watching this today and for the many middle-class Canadian families who have young people who are struggling to find paid work, can you describe the impact that youth unemployment and underemployment is having on the Canadian economy?

**Mr. Stephen S. Poloz:** I would say first of all that we all acknowledge that what we've been through has been not a pleasant experience for all Canadians and that young Canadians in particular have borne, as you suggest, more of the cost. My personal belief is that the reason for this is that the vast majority of brand new jobs are actually created out of thin air. By that, I mean by brand new companies. Young companies that are getting going, that are in new technology spaces, or clean tech, or those kinds of things, generate the lion's share of brand new employment. Existing companies also create new jobs as they grow, but the big spurts of growth come from brand new companies. From 2008 to 2012, given the conditions that we were experiencing, there was no net increase in the population of companies in Canada; however, that population in 2013 has begun to grow again.

**Hon. Scott Brison:** With these new companies like Cleantech, you would think young people would have a lot of opportunities to work in these new start-ups, particularly technology start-ups.

**Mr. Stephen S. Poloz:** I do.

I'm saying that I think the lack of growth in new company creation during this cycle, because of the conditions we've been in, has had a disproportionate effect on younger Canadians who often enter those kinds of jobs.

The good news, if I may complete that thought, is that we've seen a sudden increase in the population of companies in 2013 that is very encouraging. It's the first evidence we've seen since 2008 of what I would call natural growth. That is the growth process that is self-generating and self-sustaining and I do believe that this will bring more balance to the labour market performance as we go through the next couple of years.

**Hon. Scott Brison:** CIBC Economics indicate that one of the drivers of high levels of household debt in Canada has been that Canadian families are subsidizing young people today who are having trouble finding work, and in your report you reference family debt. You say that slower growth of household credit and higher mortgage interest rates point to a gradual unwinding of household imbalances. It's \$1.66 for every dollar of annual income that is now the level of family debt in Canada. It's still rising. I'm curious about your language, "gradual unwinding of household imbalances" when in fact family debt is still actually increasing. Wouldn't it be an unwinding if it were going down?

**Mr. Stephen S. Poloz:** Yes, that's correct.

We have growth in credit that has slowed quite dramatically overall. It's now at a point where it's roughly keeping pace with growth in income. Under our forecast what we'd expect to see is that this trend would remain in place and that total income would be growing as employment gathers pace. With those two things in prospect, we would expect to see that remain flat or edge down as we go through the next couple of years. In that context, underneath that, what you see then is that the mix is actually improving because there are people getting new jobs, new incomes, etc., and those who have already bought their houses are simply paying down their mortgage in due course.

• (1225)

**The Chair:** Thank you.

A very brief question, Mr. Brison.

**Hon. Scott Brison:** What some people are referring to as the optimism bias are speculating that you're reducing the optimism bias and that you're setting a monetary policy on a path that could permit the weakening of the Canadian dollar. Would you agree with that hypothesis?

**Mr. Stephen S. Poloz:** We set the monetary policy with the goal of getting inflation back to target. As we said in the opening remarks, the fact that inflation has persistently been below target means that we have to take more weight on the possible downward biases on inflation, because that would mean that any negative inflation shock would bring us even further away from target as opposed to getting closer. In that context we've decided that we should no longer have an explicit bias toward higher interest rates. In that context it's true that markets have digested that and have sold the Canadian dollar a little, but it's not a very significant change.

**The Chair:** Thank you.

Mr. Adler, please.

**Mr. Mark Adler (York Centre, CPC):** I want to welcome both the Governor and senior deputy governor here this afternoon before the finance committee.

First I want to commend the senior deputy governor on a wonderful speech he gave recently at the Economic Club of Canada. I've read it a number of times and I find it extremely interesting and enlightening.

I want to pursue a couple of angles here. One is the amount of money that corporate Canada is sitting on at the moment: I think corporate Canada is sitting on roughly \$500 billion in reserves.

**Mr. Tiff Macklem:** Yes.

**Mr. Mark Adler:** CIBC recently did a study—I know you're familiar with it—in which they said that “2014 will be a year in which both the US and global economies will surprise on the upside. In the past, without fail, such an environment led to a rebound in capital spending by Canadian corporations.”

In your speech, Mr. Macklem, you said that the U.S. economy is reaping the benefits of expansionary monetary policy, Abenomics and the three arrows in Japan..., Europe is showing early signs of recovery, and China has grown to a solid 7.5% growth rate. Could you comment on the prospect of Canadian corporations opening up the vaults and starting to spend that money as conditions improve?

**Mr. Tiff Macklem:** Yes, I can, and it actually follows nicely on Peggy Nash's question.

We were talking before about why exports have underperformed. Looking forward, there are some good reasons to expect that exports will come back and that the historical relationship with foreign activity will reassert itself. I outlined a number of those reasons in that speech.

It starts with the U.S. market, the U.S. economy. Headline growth in the United States is modest. By any measure they're going through a large fiscal contraction which is taking off headline GDP growth. If you look at underlying private demand, though, it has picked up, and as the effects of fiscal sequestration wear off going forward, you would expect to see U.S. growth strengthen. In many respects, the U.S. really is poised for stronger growth. That will be positive for our exports. As I mentioned before, the U.S. is, and is going to remain, our largest export market.

Secondly there's Europe. We certainly don't expect European growth to accelerate sharply. Europe is no longer contracting. It is now into positive growth, and combined with increased access to that market, that's going to be a positive for our exports. Japan, the third-largest economy in the world, which has been through two decades of stagnation, is now taking bold policy measures. Those are all positive for our export markets. So there are good reasons to believe that foreign demand will pick up.

To come back to the “hoarded cash” as you call it, the table is set for stronger investment. Firms have very good access to capital. They have prefunded; you can see that in their funding decisions. What they need to see is reduction in uncertainty of pickup and demand, and we think that will unlock their investment plans.

• (1230)

**Mr. Mark Adler:** The overnight rate was maintained. How much of a threat during the economic period of recovery is core inflation? Is 2% still a good target, and is there a threat that core inflation may be a problem in the future as we recover?

**Mr. Stephen S. Poloz:** I think there's a very low threat level at this stage. Inflation is below target now, and we have excess capacity in the output space, and we believe we have even more excess capacity when we look into labour market space. So we expect to have our hands full working off those excess capacity numbers over the next couple of years and getting the gap back to zero. Having inflation expectations still well anchored at 2% gives the economy the opportunity to bring inflation back to about 2%.

At this stage, with all those ingredients, I see minimal risk of an overshoot of core inflation, but, of course, that is our core mandate, so that's the thing we would watch most carefully for signs of. At this stage, the ingredients simply aren't there.

**The Chair:** You can ask a brief question if you want to, Mr. Adler.

**Mr. Mark Adler:** I know this is sort of out of your area, but would you say that the balanced budgets we will achieve in 2015 as a matter of fiscal policy are an end in themselves?

**Mr. Stephen S. Poloz:** I think having a strong fiscal situation is an excellent ingredient to carry forward. We went through a terrible shock in the 2008-09 period, and the runback has been taking a long time, but we have to be prepared for the next shock. We have no idea what it will be like. So I think the fact that Canada will go into whatever that is with a strong fiscal situation is obviously in its favour.

**The Chair:** Thank you.

*Monsieur Caron, s'il vous plaît.*

**Mr. Guy Caron:** Governor, senior deputy governor, welcome.

I'd like to ask my questions on the issue of quantitative easing. I'll ask them in English because of the technical words, and I want to give some mercy to the translators.

According to Bloomberg, back in 2010 Minister Flaherty actually told CBC television that quantitative easing was an option for policy-makers.

In December 2010, still according to Bloomberg, Minister Flaherty said, “the U.S. has few options other than quantitative easing since President...Obama lacked the ability to win legislative backing for further stimulus measures”.

Now in 2013, earlier this month, in Washington, Minister Flaherty actually said and was quoted as saying that quantitative easing is “not good public policy”. He said the U.S. should never have implemented the policy “in the first place. Now that they've done it, they should get out of it as quickly as they can”.

So who is right? Is it the 2010 Minister Flaherty or the 2013 Minister Flaherty?

**Mr. Stephen S. Poloz:** I believe that's a question for Minister Flaherty. I can only say from the Bank of Canada's point of view, as we laid out in 2009 in the midst of the crisis, all central banks have reviewed the full range of options. These are options that were not contemplated for a long time but were there in theory.

As you know, Chairman Bernanke was one of the foremost academic researchers dealing with these issues. So it was probably fortunate for everyone that someone so knowledgeable was in that position at that time.

The tool kit that we have available is there for when we are in an extreme situation, as when we've lowered interest rates as much as we possibly can. From then on, if the economy still has weakness or we're concerned about inflation falling even further and becoming perhaps deflation, that is when the textbook tells you to start looking into that tool kit.

We were clear then that in those cases we would make use of forward guidance, which in fact the Bank of Canada did, and that we would look into things like quantitative easing and qualitative easing. Those tools remain available, but I know we all agree that we're very fortunate we did not have to go into that situation and we hope never to do so.

• (1235)

**Mr. Guy Caron:** I think we agree that this is an extraordinary measure for extraordinary times. But I think the issue here, especially with Minister Flaherty's comments, is that some believe that quantitative reasoning is akin to printing money. My understanding is that it's basically a debt or asset swap. You are basically putting some more liquidity in the market. You are increasing the money supply in that way. But you are taking away from the money supply through long-term obligations, bonds, or to some extent with some securities.

Would you agree that it's not printing money per se? Is this the reason you're still seeing that tool as part of your tool kit for extraordinary times?

**Mr. Stephen S. Poloz:** The actual mechanism is one where the central bank expands its balance sheet beyond its normal rate of acquisition of government debt. That creates a higher level of settlement balances in the banking system. So it's liquidity in the sense that you describe.

That liquidity is then available to offer reassurance. I like to think about the bubble that we had. After the bubble burst, there was a crater and the central banks filled the crater up with liquidity so we could row our boats across it.

Once across it, then it's okay to take the liquidity out. So that liquidity does perform the function that the first textbook might describe as effectively printing money, because both sides of the balance sheet are expanding. But it is not literally the printing of actual money.

**Mr. Guy Caron:** When you set the inflation targets and range, you have a discussion with the Department of Finance, which is fine. On the issue of quantitative easing, my understanding, from what Mr. Flaherty said, is that you would actually have to ask the Department of Finance's permission to use that tool.

This question is a serious one. What does that say about the bank's independence from the Department of Finance?

**Mr. Stephen S. Poloz:** The situation in which this question would come up would be one that is particularly dire. The outlook for the economy would be very poor and the inflation outlook would be extremely below our target, with perhaps a risk of deflation. It is a context in which all policy-makers would be discussing the menu of options available to us.

We would decide that the package would look like this, in a context like that. When we went through this the last time, we had a

very thoughtful and vigorous fiscal response that actually helped the economy quite a lot—the infrastructure program, etc. These measures reduced the risk significantly. That's exactly the kind of team-based approach that I would expect to see.

It is not a question of independence. The question of independence goes to pursuing the mandated inflation target with the best tools available. If we were in a situation like your premise, it would be beyond the point where we would be able to do this. It would be “all hands on deck”.

**The Chair:** Thank you.

Mr. Van Kesteren, please.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** I want to continue on that vein. On your opening page you talk about the Federal Reserve, saying, “More recently, financial conditions have eased somewhat, following the decision in September by the Federal Reserve to maintain the pace of its asset purchases.”

Is that a nice way of saying “buying bonds”?

**Mr. Stephen S. Poloz:** Yes.

**Mr. Dave Van Kesteren:** So they're buying their own bonds.

**Mr. Stephen S. Poloz:** Yes.

**Mr. Dave Van Kesteren:** So in regard to what Mr. Caron is saying, as a matter of fact the United States is pumping—correct me if I'm wrong—\$85 billion into the economy every month. They're printing that money. They're getting that money from bonds that they're buying, in essence, so it is printing money.

I just want to make this point, because you touched on the significance of our debt and getting that debt under control. There are governments, especially in the G-7 and G-8, that have engaged in a practice of exactly what the United States is doing, printing money. Whereas in the case of Canada, we have targeted 2015 to be the time that our budget is going to be met.

I want to ask you—and I think I know the answer, but I really want to hear you say this—how much more significant that is, and how much more important. And is there a danger in what's happening in the States and some of these other places, but especially in the United States, where when you start printing money you're going to be in the same position that the Weimar Republic was in, in 1920, where they'll lose confidence in that money?

I wonder if you could just clarify that and maybe tell those who are listening about the importance for Canada of balancing that budget.

•(1240)

**Mr. Stephen S. Poloz:** It is of strong importance, but I do think of the two things as separable. That, I think, is the important distinction we should draw from that historical episode that you refer to. In the historical episode you refer to, the central bank was actually issuing money so that the government could spend it. If instead there is a stock of debt in the economy already, people have willingly purchased that debt, and now the central bank goes out and buys some of that debt at a higher price so that their interest rate is lower. What that does is put additional liquidity into the system, cause people to re-evaluate what the interest rates will be for investment or what have you over the course of the next couple of years, and perhaps influence their decision-making and strengthen the economy.

At a minimum what it does is give them assurance for the liquidity they need; they don't have to be concerned about the kind of market volatility that can deter investments. So they get extra certainty from it.

As a consequence, you're not having a massive impact on the real side, but on the margin. What the literature is showing us is that the U.S. program has influenced the economy and made it a little stronger than it otherwise would be. That's a good thing. Later on, of course, it has to get wound down just like every other such program.

But I think quite separately the U.S. is working on its own budget deficit, in different ways than we do here. That's a separate issue to the bond purchase program that the Federal Reserve is engaged in.

**Mr. Dave Van Kesteren:** Let me ask you a direct question. Would you rather be the Governor of the Bank of Canada with a balanced budget in 2015, or the Secretary of the Federal Reserve with a runaway deficit that's approaching \$1 trillion—not approaching, it's exceeding \$1 trillion every year with no end in sight?

What's the better scenario to have?

**Mr. Stephen S. Poloz:** I do like our scenario better, but I would respond that the U.S. fiscal deficit has come down very significantly since its peak. It's about one third of the size it was at the peak. Progress has been very real despite everything that we've seen.

Nevertheless, yes, as a central banker I feel that's an important fundamental and I'm happy that it's a strong one.

**The Chair:** This is the last question.

**Mr. Dave Van Kesteren:** On page 19 you state, "Although much uncertainty surrounds estimates of potential output, the Bank projects that the profile for business investment will lead to further capital deepening (i.e., more capital will be available to workers)...".

Is that a direct result of—I know that we have implemented the accelerated capital allowance—such programs that allow for and encourage that kind of activity?

**Mr. Stephen S. Poloz:** There's no question; programs like that play a role in adding to that momentum and perhaps in cushioning the downside when uncertainty was at its peak.

We think the main variable at work now is uncertainty. Companies that are putting their real money on the line want to be very sure that this upturn is for real and that the orders they see coming aren't going to fizzle six months after they make a new investment. Many of them

downsized during the downturn, so the decision to re-expand is a pretty significant one. It takes real money to do, and of course it takes courage.

So because of the uncertainty it's taking longer than our models normally suggest, but we do think, as Mr. Macklem has said, that the pieces are all together for that.

•(1245)

**The Chair:** Thank you.

Monsieur Côté, *s'il vous plaît*.

[*Translation*]

**Mr. Raymond Côté:** Thank you, Mr. Chair.

Mr. Poloz and Mr. Macklem, thank you for making yourselves available to answer our questions.

I want to congratulate Mr. Macklem on his speech to the Economic Club of Canada, in Toronto. He brought to light the very big challenges our exporting businesses are facing.

I will begin with a quick question about the changes you made to the report's format and style in order to explicitly capture the inherent uncertainty in your outlook. Does that have to do with the current circumstances in the global economy, meaning financialization, the larger presence of financial markets and such?

**Mr. Tiff Macklem:** I didn't really understand your question. In our two last reports, we tried to provide more detail on the risks, as the governor mentioned at the beginning of his remarks. When decisions about monetary policy are being made, uncertainty has to be taken into account. Risk management is an important part of monetary policy. In our report, we tried to give a bit more detail on the risks and the influence they had on our monetary policy decisions.

**Mr. Raymond Côté:** I was wondering whether an external factor, such as an increase in the risks, had caused you to make those changes.

**Mr. Tiff Macklem:** The changes to the format of the report don't really stem from that risk. We wanted to better explain the fact that we took the risks into account and their bearing on monetary policy.

**Mr. Raymond Côté:** I want to talk about inflation, which is persistently below target, as you pointed out. You make it clear this means that downside risks to inflation are assuming greater importance. That's a rather pessimistic view, even though you try to maintain some sense of optimism. How dangerous is this growing importance?

**Mr. Stephen S. Poloz:** This is an excellent question. That's basically why we have a 2% target for inflation. Usually, that provides us with fiscal room to adjust the interest rate according to the shocks. When inflation persistently remains above that percentage, the next risk is increased. The situation is okay if the risk is around 50/50, but if it is below that, the situation is more serious because we are starting out below the target. We want to have faith in the forecast that the inflation rate will increase to 2% and provide us with that fiscal room once again. If the risk continues to grow, we will have to weigh the risk of a more serious problem in the household sector.

**Mr. Raymond Côté:** Further down in your brief, you say that the CPI and core inflation should gradually return to 2% around 2015, but only if everything goes well. We will all be hoping for that outcome.

I would like to build on the question asked by Mr. Adler, regarding corporate cash reserves. One of the reasons companies keep very large cash reserves has to do with the fact that interest rates are very low. Companies have to assume the risks associated with their pension funds. If I understood Mr. Adler correctly, the accumulated reserves are \$700 billion. I did not know that. Do you think the trend is accelerating and deteriorating fairly fast?

**Mr. Stephen S. Poloz:** If I have grasped the meaning of what you were saying, if the interest rate remains steady, the stress on pensions will increase. Is that what you're asking?

• (1250)

**Mr. Raymond Côté:** Yes, among other things.

**Mr. Stephen S. Poloz:** You are right, since the pension rates are used as a guide for those interest rates, usually over a five or ten-year period. It depends.

We see that the bond rates are increasing slightly. That's a symptom of the natural growth. Mother Nature is behind that. With another forecast, we are confident that the figures will increase in that way eventually. The point has changed, but we are talking about a very natural process that is to be anticipated.

Today, I would say that this is the maximum stress. That's currently our point of view.

**Mr. Raymond Côté:** We have to be careful about the breaking point.

**Mr. Stephen S. Poloz:** Yes.

[English]

**The Chair:** We'll go now to Mr. Hoback, please.

**Mr. Randy Hoback:** Thank you, Mr. Chair.

Welcome, Governor. It's nice to have you here this morning and afternoon.

Tiff, it's always good to have you back in front of us. It's good to see you.

We've been working very hard talking about 2015, balanced budgets, and getting to the point where we no longer have a deficit here in Canada. My concern is that the federal government is working hard to achieve this, but at the provincial levels we're seeing large amount of deficits and indebtedness. What is the impact on

your forecast if we don't see any curbing of provincial spending and their debt levels?

**Mr. Stephen S. Poloz:** We, of course, have no direct impact on the fiscal situations themselves. They are variable, and it's important for us to take that into account when constructing the forecast. We take government policy however it has been laid out and plug it in to our models. If it changes, then of course we have to change it.

I have no opinion one way or the other on how that's going to play out. At this stage, one of the things I find reassuring is that discovering that the federal deficit is less than we expected is probably a sign, in some part it's probably a sign that the economy is strengthening and that those revenue lines are improving in the background a little bit more than maybe the base numbers suggest to us. It's a positive sign in general for me.

Tiff, would you like to comment on that?

**Mr. Tiff Macklem:** No, I don't think there is much to add.

As the governor indicated, in terms of fiscal policy, whether it's federal, provincial, or municipal, our projections pertaining to the Monetary Policy Report are based on the announced policy tracks, so it takes into account what has been agreed.

**Mr. Randy Hoback:** As for your policy then moving forward, provincial indebtedness would be a factor in your equation, but it wouldn't necessarily overrule the economy one way or the other?

**Mr. Tiff Macklem:** As fiscal policy changes, that would have an influence on our assessment, and we take that into account, along with everything else, in taking our monetary policy decisions.

**Mr. Randy Hoback:** One province having a high debt level would not necessarily impact Canadians right across Canada then in that scenario.

**Mr. Stephen S. Poloz:** No, it wouldn't. For us it would be something to add into our analysis of the macroeconomy. We're looking at the bigger picture there, and what it means for economic growth. A substantial fiscal shock in one part of the country can of course affect that projection one way or the other.

**Mr. Randy Hoback:** Seriously then, if we look at something in the resource sector, if we look at Fort McMurray, for example, we see the impact that has on Fort McMurray, and everybody talks about the impact on Alberta. If I look at Saskatchewan, I see the impact there, and actually, if you look across Canada, the amount of money that is being spent there and how it's divesting right across Canada, the investments are being made by businesses in Ontario and Quebec. How does that impact the model if we don't see growth in that region?

**Mr. Stephen S. Poloz:** Well, the story you tell is exactly right. In fact, there are really strong cross-sectoral and cross-country linkages of the sort you describe. Spending in one province immediately affects many others. We'll see the aggregate numbers and say it must be because of that. It's not something you can actually trace at that level of detail.

The bigger picture here is that we've gone through a period where we had a down cycle in the global economy but strong commodity prices, especially energy, which meant that Canada had this extra income coming in. This drove additional investment and employment gains in that sector. Exports, investment and employment gains, and incomes—that's what we want for the whole picture. But this has been the leading part.

The spillover effects go across the country, but you can see that it's still concentrated. What we're expecting to see is a rebalancing as we go forward where everything begins to catch up to that kind of speed. There's a certain amount of regional difference. It stresses the adjustment process—people move etc. and it's unavoidable. Economists call that a terms-of-trade shock. In this case, it's a positive one, which is good for Canada because of the extra money coming in.

• (1255)

**Mr. Randy Hoback:** When a particular party is against Keystone or pipelines in general, they're not only fighting against jobs in Alberta; they're actually fighting against jobs right across Canada. Is that fair to say?

**Mr. Stephen S. Poloz:** If you're asking if a pipeline investment would have impacts across Canada, the answer is yes.

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

Mr. Rankin.

**Mr. Murray Rankin:** Welcome, both of you. I want to pick up on Mr. Côté's comment about pensions. Recently the chief executive officer of the CIBC spoke out about the need to improve public pensions. We've also heard provincial finance ministers speaking out strongly about the need to increase the Canada Pension Plan and the Quebec Pension Plan. Do you agree that this is an important component of our economic planning for an aging population? Is that something of relevance to you in your analysis?

**Mr. Stephen S. Poloz:** It's pretty far away from monetary policy and inflation. But in respect of consumer well-being and confidence, what we've seen through this cycle is an increase in savings rates. It's clear that consumers' households have responded to that uncertain environment in a way you might expect. As to the form this will ultimately take, it will likely involve self-saving in private plans, public-sector plans, and revisions to private plans that companies offer. It does seem as though we are looking to the future and becoming better prepared.

**The Chair:** Please be quick.

**Mr. Murray Rankin:** I noticed that the past Bank of Canada Business Outlook Survey suggested that at the national level Canada may not suffer from a skills shortage or labour shortage problem. We've seen some debate in the financial press about that as well. Would you agree? Is there not a problem in your view?

**Mr. Stephen S. Poloz:** Anecdotally, we know there are pockets of problems; it is very hard for us to put our finger on how general it is. Companies are describing themselves as more or less at the limit of their ability to stretch capacity in response to growing demand in the U.S. That could have two sources. It could be that they've used their entire capital stock and they're running as fast as they can. But they also mention that they can't quite get enough people like this or enough people like that.

So I think the skills mismatch issue is a real one. I just can't put my finger on just how large it really is. People mention it to me quite often.

**Mr. Tiff Macklem:** If you look in our appendix, we describe in some detail the sources of potential upward growth. In the last decade, labour force growth was increased at about one percentage point. With the baby boomers retiring, that is going down. By 2015, we have it at half that, half a percentage point. So drawing workers into the labour force and addressing skills mismatches—these issues are going to become more important in maintaining growth.

**The Chair:** Thank you.

I want to thank our two guests for being with us here today.

We look forward very much to your sessions twice a year at this committee. If there's anything further you wish the committee to consider, please always feel free to pass it along. Again, to the Governor of the Bank of Canada and the senior deputy governor, thank you so much for being here with us.

Colleagues, we will suspend for one or two minutes and then we'll bring forward the Parliamentary Budget Officer.

Thank you.

• (1255)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (1300)

**The Chair:** Colleagues, I will call this meeting back to order. I know that it's a long meeting today, but I hope you're going to get used to it, because this is what the rest of the fall will be like.

We're very pleased to have with us here today, pursuant to Standing Order 108(2) in terms of the study of the economic and fiscal outlook, the new Parliamentary Budget Officer.

[Translation]

Mr. Fréchette, welcome to the committee.

[English]

It is your first time before the committee. We welcome you.

I know that we're seeing some members who we've seen before, so if I could have you present your colleagues at the table and then give an opening presentation, we'll have questions from members after that.

**Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Library of Parliament):** Thank you, Mr. Chair.

You can call me J.D., like it has been for most of my years on Parliament Hill. Thank you very much.

[Translation]

Mr. Chair, vice-chairs, members of the committee, thank you for your invitation and for maintaining the tradition of inviting the Parliamentary Budget Officer to appear before you at least twice a year. Speaking of tradition, as you know, I sat to the right of many committee chairs for a number of years and enjoyed a unique view of the proceedings. My view may have changed, but my goal of serving parliamentarians remains the same.

My colleagues and I are pleased to be here to present the Parliamentary Budget Officer's *Economic and Fiscal Outlook Update*, which we released yesterday. While here, I would also like to briefly discuss the results of the PBO's report, which examines Canada's fiscal structure from a longer-term perspective.

I am joined by Mostafa Askari, Assistant Parliamentary Budget Officer, and Peter Weltman, Acting Director General. I would also like to highlight the great work done by Helen Lao, Randall Bartlett and Scott Cameron, who helped draft the report.

The first part of my presentation will be in French, and then I will continue in English.

The global economic outlook has deteriorated somewhat since the April 2013 *Economic and Fiscal Outlook*. According to the most recent International Monetary Fund World Economic Outlook, weaker global growth prospects are driven to a large extent by appreciably weaker domestic demand and slower growth in several key emerging market economies. Modestly stronger growth than anticipated in some advanced economies is insufficient to mitigate those factors.

In the United States, despite improving fundamentals, the PBO has marked down its U.S. economic outlook in the near term. This reflects continued fiscal drag, as well as historical revisions to the U. S. System of National Accounts. Further, the commodity price outlook has been revised down over the projection, reflecting downward revisions to crude oil future prices, resulting, in part, from the continued strength of U.S. production.

• (1305)

[English]

These developments have led PBO to revise down the outlook for the Canadian economy relative to its April 2013 EFO. Currently PBO projects Canadian real GDP to grow by 1.6% this year, 2% next year, and 2.6% in 2015.

As the economy reaches its potential level of economic activity, PBO projects real GDP annual growth to average 2% per year over the period 2016-2018. PBO's current outlook for the Canadian economy reflects the effects of the government's economic action plan 2013, which resulted in projected savings of \$10.8 billion as well as the freezing of the EI premium rate that was announced in September 2013.

Continued downward revisions to the private sector average forecast of real GDP growth have brought it broadly in line with the PBO projection through 2016. However the PBO's outlook for nominal GDP—the broadest measure of the government's tax base—is, on average, \$25 billion lower than the projection based on

average private sector forecasts, in part due to the downward revision to the GDP inflation projection.

PBO judges that the balance of risk to the private sector outlook for nominal GDP is tilted to the downside, likely reflecting larger impacts from government spending reductions as well as differences in views on commodity prices and their impacts on real GDP growth and GDP inflation.

On the basis of the revised economic outlook, PBO projects that a budgetary balance will improve from a deficit of \$18.9 billion in 2012-13 to a surplus of \$5.1 billion in 2018-19 due to cyclical recovery of tax revenues and restrained operating expenses of the government.

The improvement in the budgetary balance is less pronounced in the PBO's April projection due mainly to the lower level of nominal GDP. Assuming that the government does not increase its spending above planned levels, PBO estimates that, given the economic uncertainty, the likelihood of realizing a budgetary balance or better is approximately 50% in 2015-16, 55% in 2016-17, and 60% in 2018-19.

The weaker improvement in the budgetary balance relative to PBO's April projection is reflected in PBO's projection of the government's structural budget balance. PBO estimates that the structural balance will improve from a deficit of \$6 billion in 2013-14 to a surplus of \$4.2 billion in 2015-16 and will remain in surplus on average thereafter.

• (1310)

[Translation]

Finally, assessing whether a government fiscal structure is sustainable requires looking over a longer horizon to take into account the economic and fiscal implications of population aging in the context of the existing policy environment.

The PBO provided such an assessment for the federal government and provincial-territorial-local-aboriginal governments, as well as the Canada and Quebec pension plans, in Fiscal Sustainability Report 2013. The PBO's analysis shows that the federal government's fiscal structure is sustainable with fiscal room of 1.3% of GDP, while the Canada and Quebec pension plans are also sustainable. In contrast, the consolidated provincial-territorial-local-aboriginal government sector is not sustainable, with a fiscal gap of 1.9% of GDP.

[English]

Thank you, Mr. Chair. My colleagues and I will be happy to respond to questions you may have regarding our reports or any other relevant matters.

**The Chair:** Thank you very much for your opening presentation.

We'll begin members' questions, again with Ms. Nash for five minutes, please.

[Translation]

**Ms. Peggy Nash:** Mr. Fréchette, I would like to welcome you and your team.

[English]

Let me begin with a question about your recent economic and fiscal outlook. It indicates that the government's economic action plan of 2013 will cause the loss of about \$2 billion in GDP annually and 13,000 jobs.

What will the effect of their EAP be in 2015 when it's combined with other recent budgets and budget implementation acts?

**Mr. Jean-Denis Fréchette:** The numbers you mentioned are aggregate numbers, which means that essentially, in total, the result will be what you mentioned. In 2015 the budget will be balanced. After 2015-16, the economy will return to a potential level, which means that we will be in better shape.

I'm going to ask Mostafa to go through all the details of the situation.

**Mr. Mostafa Askari (Director General, Economic and Fiscal Analysis, Library of Parliament):** The total impact from the 2012 budget and the measures that were taken following were reported in our April projection. At that time we showed that the total job loss would be 67,000 by year 2017, and the impact on the GDP would be about 0.6% by the end of the projection period.

Now, the only additional measure that we have incorporated in our current projection is the freezing of the EI premium, which would have a very small positive impact in the first couple of years, and then a small negative impact, which mostly offsets the positive impact, in 2016. Overall the impacts that we are showing from the measures from the 2012 budget onward are what we reported in the April projection.

• (1315)

**Ms. Peggy Nash:** Thank you for that.

So generally, because of the government's actions, there will be about 67,000 fewer jobs and GDP will be down about 0.6%.

Now, I also noticed that the government's move to fiscal sustainability comes at the cost of cuts to services and the downloading of the fiscal burden to provinces, but that's where we can get the numbers to actually find out what's happening. I'm very excited to hear that the PBO will be investigating this \$7 billion discrepancy in the deficit.

Are there any constraints on the PBO in terms of getting the information you need to analyze that \$7 billion deficit?

**Mr. Jean-Denis Fréchette:** I was really happy yesterday. I detected in a comment of Minister Flaherty's some openness to providing details on the \$7 billion discrepancy. Everybody was taken by surprise. I was really happy about his openness and his mentioning that he will give some details about that and more information to the PBO. It is true that it's difficult for the PBO to do some kinds of projections if we don't have access to these data.

I'll let Mostafa explain a little bit, because we got a phone call from Minister Flaherty's officials. But for my part, as I said, because I'm working at building bridges with departments and with my parliamentary partners to get access to that information to better provide information to parliamentarians, that was really good news for me.

**Ms. Peggy Nash:** I understand some things have been under cabinet confidence, but the application has been very inconsistent.

Can you add to that?

**The Chair:** Very briefly.

**Mr. Mostafa Askari:** Sure.

We had a conversation with finance officials yesterday about the composition of that difference. What we were told is that about \$4 billion of that difference is essentially from the fact that departments spent a lot less than what the government expected or projected at the time of the budget in March. We have not really figured out exactly what the source of that is; we are still looking at it. But it looks as though a lot of it is due to accrual adjustment that is done at the end of the fiscal year by the departments for their various expenses. That would explain some of that big difference. The rest of that \$7 billion is mostly corporate tax revenues that came out larger.

**The Chair:** Okay, thank you.

Mr. Jean, please.

**Mr. Brian Jean:** Thank you, Mr. Chair.

And thank you very much for attending today. Congratulations.

I'm interested, in regard to balancing the budget, since of course, as you know, we've undertaken to do that during our mandate.

We had the governor here previously. I didn't get a chance to ask him a question during committee, but I did immediately after. I asked him what the impact on productivity in Canada would be if pipeline capacity were able to meet the current demand. In other words, if we didn't have to discount our oil by \$30 million to \$50 million a day, what would be the impact on our economy?

In particular, based on your analysis, what would be the impact on the economy if we added that?

That's somewhere in the neighbourhood of \$18 billion per year that is simply not going into the Canadian economy because of pipeline constraints. I know you're well familiar with the file, and I'd like you to comment on it—if that weren't the case, if we did not have to discount our oil to the United States.

**Mr. Mostafa Askari:** In general, certainly what you're saying is true. If we didn't have to discount our oil, there would be an improvement in our terms of trade because what happens is that we import oil at the Brent price level, or the West Texas Intermediate, and we export at the western Alberta price, which is much lower. So certainly if that price goes up, that discount is reduced and it will positively impact our terms of trade, which will have a positive impact on the level of activity and certainly on the revenues of the government as well.

We haven't done that type of calculation to see what kind of impact the pipeline is going to have on that discount level, but certainly it will have an impact, no doubt.

• (1320)

**Mr. Brian Jean:** What kind of impact? I mean, \$18 billion seems like a substantive amount of money in the Canadian economy. You add that into the economy and everything that associates along with that—which to my understanding in real terms in fact triples the amount—what would that do to your forecast in relation to the Canadian economy? What do you expect to happen by 2015?

**Mr. Mostafa Askari:** That is not something that we've done. We have taken into account the future impact of the pipeline. As I said, it will have some positive impact, but exactly how much I cannot tell at this time.

**Mr. Brian Jean:** How difficult would it be to make those calculations?

**Mr. Mostafa Askari:** I will have to take a look at it and see what kind of information we have and how we can incorporate that.

**Mr. Brian Jean:** Would you be able to provide that to the committee?

**Mr. Mostafa Askari:** We can take a look at it and provide a timeline to the committee as to when that can be done.

**Mr. Brian Jean:** I appreciate that very much.

The IMF also continues to predict that Canada will be the strongest among the G-7 in the upcoming years and that our growth will continue to be strong. Do you also see, based upon what goes into the Monetary Policy Report of July 2013, that food price inflation has been largely driven by global movements in commodity prices? That of course threatens our core inflation. Do you see that also continuing to threaten the Canadian economy? I understand that this report on page 27 suggests that food prices have been the largest drag on core inflation in 2013. Do you see that continuing?

**Mr. Mostafa Askari:** As I understand, and I think the governor just mentioned in his testimony, there doesn't seem to be any threat of inflation in Canada right now given the conditions that we are in because we still have significant excess supply in the economy. The rate of inflation right now, including core inflation, is well below the target level, so there do not seem to be any general inflation pressures in the Canadian economy. In certain areas such as food or other areas there may be some pressures, but not overall inflation.

**Mr. Brian Jean:** Thank you very much. Those are all my questions.

**The Chair:** Thank you very much, Mr. Jean.

Mr. Brison, please.

**Hon. Scott Brison:** Thank you, Chair.

Welcome to the committee.

My first question comes from your fiscal sustainability report last month that showed that the provinces and territories have a significant long-term fiscal gap, 1.9% of GDP, or around \$36 billion in 2013. Much of the fiscal gap of the provinces is tied to demographics, the pressures of an aging population on health care, and other provincial programs.

Your report states that one of the main reasons for the federal fiscal surplus in the long term, which you estimate as being \$24.8 billion in 2013, would be reforms to the Canada health transfer

escalator. What would happen if the federal government reversed its recent changes to the Canada health transfer escalator and provided the provinces with greater financial support for health care? What would be the impact on the provincial situations?

**Mr. Jean-Denis Fréchette:** Just before I pass the floor to Mostafa, I think that we have been confronted with this debate before. Provinces will have to adjust to these kinds of situations. Health spending will increase in future years. Eventually they will have to deal with that. It's not only a matter of injecting money. It's also a matter of productivity, as you mentioned, but also finding new ways to confront the issues of the aging population. So that's number one, and there is some work to be done by provinces there.

**Mr. Mostafa Askari:** If we go back to the 6% escalator that was in effect—and is in effect still until 2017—if we go back to that for the future, the next 75 years, essentially that will wipe out the fiscal room that the federal government has. By the same amount it will reduce the fiscal gap that the provincial local governments have. The transfers don't affect the total. Transfers only affect how that gap is shared between the different levels of government.

• (1325)

**Hon. Scott Brison:** Some provinces have very different demographic trends than others. The maritime provinces, like Nova Scotia, were teetering on a declining population and we have a significantly aging population. Should we be looking at transfers based not only on per capita numbers, but taking into account demographic realities? Is that something that you've considered in terms of your analysis?

**Mr. Mostafa Askari:** How those transfers should be allocated between provinces is really a policy question. Certainly, a different formula would have different impacts on the provinces, but this is not something that we actually provide any comment on in terms of a policy issue.

**Hon. Scott Brison:** Last month you told the media that you want to have a new round of discussions or consultations between your office and MPs regarding how your office operates. Can you give us an update as to the status of those discussions and some of the recommendations that have come out of them?

**Mr. Jean-Denis Fréchette:** I said many things in the past week.

It's true. It's the way that I was operating before when I was director general at the research branch of the library. It's always important. We have a parliamentary clientele. It's important to have input from that parliamentary clientele. It was five years ago since the last round of consultations. Certainly, I have already met some members of Parliament.

With these three committees that are mentioned in the legislation, I see the chairs and vice-chairs not so much as an advisory group, because I cannot say that in terms of new legislation. But certainly, they will be people I will consult on a regular basis, maybe twice a year. I will do that round of consultation with them and other members of Parliament, simply to have a feeling about what they need and how we can provide the best tools for them in terms of the legislation. I will continue that kind of process.

**The Chair:** Okay.

Very, very briefly, Mr. Brison.

**Hon. Scott Brison:** Under the Parliament of Canada Act, your office is entitled to free and timely access to any financial or economic data in possession of the department that are required for the performance of your mandate. Are you prepared to go to court to defend your right to free and timely access of financial and economic data, if that were required?

**The Chair:** A brief response, please.

**Mr. Jean-Denis Fréchette:** The court is a viable, open door. It's there.

I looked at Justice Harrington's opinion and he proposed some parliamentary remedies. I'm following these parliamentary remedies for now because I want to be really sure that if I go back to court eventually I want to be sure the judge will say that the PBO followed whatever the opinion was. I'm already following this. I already complained to the parliamentary librarian and we escalated that to the speakers. We've briefed the speakers. They are aware and very supportive of the impasse right now.

**The Chair:** Thank you.

I remind colleagues to allow enough time within their time for witnesses to answer as well. We're trying to get as many colleagues in as possible.

I'll go to Mr. Keddy now, please.

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

Welcome, witnesses.

I'd like to extend congratulations as well to Monsieur Fréchette and the rest of your team. Welcome to the committee, and, Mr. Fréchette, thank you for your service to the Parliament of Canada before this appointment.

A number of points have been raised. I just have to question one of the points Madam Nash raised. She mentioned—and maybe we could get some real numbers here—67,000 fewer jobs. I'm trying to understand where that came from, when we know that the jobs that were lost during the economic downturn of 2008–2009 especially have been replaced. I'm questioning where that came from.

Taken along the lines of Mr. Jean's comments about commodity prices and lack of pipeline capacity, in your comments you looked at the improving fundamentals in the U.S. They're still modest, but they are improving. We heard just a few moments ago that their entire debt ceiling has dropped by two-thirds. Now they still have one third of enormous debt which affects our ability to trade with them. But if you take that back again to pipeline capacity and commodity prices, and if we actually had that extra \$18 billion a day, that would adjust every measurement we look at in our economy. I guess I'm just asking if you would agree or disagree with that, and how we as a nation can move forward on that type of infrastructure.

• (1330)

**Mr. Jean-Denis Fréchette:** Your first question was about the jobs. In our model, the net result of the constraints and the expenses that were there for the expansion was that number, but it's true that in total jobs were created. The figures are as of September 2013. Net there were over 600,000 more new jobs than there were at the pre-

recession peak of October 2008, for example. But it's like a car in which you have to brake and accelerate at the same time. If you take the two impacts eventually at the end you're not as fast as the car with only the accelerator. So that's the net result in terms of jobs.

Regarding the pipeline, I'll ask Mostafa to answer the question.

**Mr. Mostafa Askari:** Just to clarify on the job issue, I think what the number means is that over the projection period we are expecting about 600,000 new jobs created from 2013 to 2018. What that 67,000 means is that instead of 600,000, it would have been 667,000 had they not made those changes in the government spending.

On the pipeline, as I mentioned earlier to Mr. Jean, we certainly can say that the change in the discount between Brent, WTI, and the Alberta price would provide a positive impact on the economy, but we don't have any kind of quantified impact results on that. I am not able to tell you at this point how much that would change our projection.

**Mr. Gerald Keddy:** I appreciate that. In all seriousness, that was a bit of an unfair question to you.

Obviously it's no secret that one of our government's top priorities has been looking at a balanced budget as well as attempting to balance that budget. When you look at the economic and fiscal outlook update, it would appear that we're on track to do that. Some of that commodity price may determine whether that will be sooner or later.

Could you elaborate on how you evaluated your information and how important it is that Canada return to a surplus position and how the government's operating budget freeze plays into that scenario of returning to balance?

**The Chair:** Could we get as brief a response as possible? We may have to return to this in a later round as well.

**Mr. Mostafa Askari:** Certainly, the freeze had some impact. A freeze reduces spending, and reduced spending will improve budget balance. That's a fact. Whether a balanced budget by itself is absolutely necessary or not, and whether you're going to be above the balance or below by a small amount, from my perspective as an economist, it really doesn't have much of an impact on the economy. But that said, that's a policy matter.

• (1335)

**The Chair:** Thank you.

Monsieur Caron, *s'il vous plaît*.

[Translation]

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

Welcome, Mr. Fréchette. You will see that things will be really interesting and that our meetings are not as bad as dentist appointments.

My questions will be about an element of the latest update pertaining to employment insurance. Slide 13 shows a chart that compares the number of regular employment insurance beneficiaries to unemployed persons. That is on page 7. This chart shows a fairly significant drop in the proportion of unemployed persons until July 2013. Could you comment on the causes behind that drop and tell us why you expect the proportion of beneficiaries to increase by 2019?

**Mr. Jean-Denis Fréchette:** I want to say two things. I like going to see the dentist, and I still like the atmosphere of parliamentary committees after 25 years.

I will answer your question. That chart shows that the period during which individuals are unemployed is getting longer. You can see that drop in the proportion. The increase is caused by the recession and an extended period of sluggish economic activity. In addition, the growth as such is an adjustment that will only be made afterwards because the growth is not as rapid as anticipated. That is basically what the chart shows. It is not necessarily due to there being more unemployed persons. It is due to the fact that those who were unemployed reached the end of their period, while we know very well that some people were no longer receiving employment insurance before the 45-day period.

**Mr. Guy Caron:** I assume you have taken this into consideration, but I would like to know what impact the changes made to the employment insurance program—especially the restrictions imposed on seasonal employment—have had on your office's calculations and estimates. Accessibility has obviously been restricted. What kind of an impact has that had on the pattern and the ratio?

**Mr. Jean-Denis Fréchette:** We took into consideration employment insurance as a whole and not just that particular factor.

**Mr. Guy Caron:** Changes have been made to seasonal employment, but the general provisions of the employment insurance reform that has been imposed have had a fairly significant impact on accessibility. There has been little increase in the number of unemployed individuals, but the number of beneficiaries will not necessarily follow the same pattern, given the reduced accessibility. You are saying that you did not take the provisions of the reform into account when establishing the ratio forecasts.

**Mr. Jean-Denis Fréchette:** We did take them into account—not as a specific factor, but as a whole. Basically, our figures cover all those measures, including those applied to seasonal workers. We have no specific measures for seasonal workers. Everything is included in the chart curve.

**Mr. Guy Caron:** I agree with you, but the reduced accessibility does not affect only seasonal workers. The main measures associated with accessibility have an impact on seasonal employment, but they also affect all categories of employment.

**Mr. Jean-Denis Fréchette:** Exactly.

**Mr. Guy Caron:** Could you analyze the chart by providing the number of beneficiaries to unemployed persons? What impact has the reform had so far on the proportion of beneficiaries? Had there been no reform, what would have changed in terms of your forecasts and the chart we have had so far since last year, as the reform came into effect in January?

[English]

**Mr. Scott Cameron (Economic Advisor, Analyst, Library of Parliament):** We don't yet have reason to believe that the downward trend in the BU ratio is a result of the changes to suitable employment and reasonable and customary efforts to obtain suitable employment, for a number of reasons. First, the decline in the BU ratio preceded January 6, 2013, when the changes came into place. Second, we put the government's estimate of the impact into our projections.

The government estimated that the effect would be small, at about 8,000 claimants, which is 1.5% of claimants overall. This seems to be a reasonable estimate. They also estimated that the effects would be temporary until these 8,000 claimants had demonstrated the new requirements.

So instead, we believe that it's mostly attributable to the longer durations of unemployment following the recession, and we expect that trend to kind of reverse and go back to a long-term trend.

• (1340)

**The Chair:** Thank you.

Mr. Hoback, please.

**Mr. Randy Hoback:** Thank you, Chair.

Welcome, J.D. It's good to see you here with your colleagues. It's great to have you back.

I'm going into a series of questions based off the U.S. and then going to the trades factor and how you forecast something like the European trade agreement, for example.

You have a downward forecast on U.S. growth. I'm curious; on what you base that downward prediction?

**Mr. Jean-Denis Fréchette:** I was expecting a question on western grains and the Wheat Board, but thank you, Mr. Hoback. I'll ask Mostafa to answer that question.

**Mr. Mostafa Askari:** There are a number of factors in the U.S., including the significant fiscal drag in the economy, that certainly affect the growth rate. Although there have been some improvements recently, the forecast we have is pretty consistent with the U.S. private sector forecast.

**Mr. Randy Hoback:** So it would be fair to say that when we start looking at markets, a U.S. market with a downward projection does impact back into Canada quite substantially. Is that correct?

**Mr. Mostafa Askari:** Certainly.

**Mr. Randy Hoback:** That gives weight to the argument about diversifying our trade markets and taking in countries like the European trade agreement that the Prime Minister signed last week. How do you take an agreement like that, which has so much potential, when you talk about 500 million new customers, when you start looking at the size and the wealth of those countries in that area...? I go back to Saskatchewan and I look at our farmers with \$119 tariff on oats, \$190 per tonne tariff on wheat. How do you take that and put that into your model going forward, let's say 2015 and beyond?

**Mr. Jean-Denis Fréchette:** We haven't taken that into account, the CETA, not yet, because we don't have all the details. As you know, because you went through CUSTA and NAFTA, it will take time before you have the real transition. We can estimate some of these measures, but for the moment they are not included.

**Mr. Randy Hoback:** So when you look at a forecast surplus and your numbers of \$4.2 billion in 2015, you haven't even taken into consideration the fact that the European trade agreement could actually be in play at that point in time. That would have an impact on that number, would it not?

**Mr. Mostafa Askari:** First of all it takes a long time for it to be implemented and be in place. We still really don't have a timeframe as to when that's going to be approved and then the impacts will be observed on the Canadian economy.

There are a number of issues. First of all, typically in any trade agreement—NAFTA was exactly the same thing—there is a transition period and there will be huge adjustments, some of them very negative adjustments for the domestic economy because the sectors that are not competitive will obviously be negatively impacted. During the transition period you may actually see some negative impacts, whereas in the long run, certainly in principle, trade agreements and liberal trade and freer trade will add to productivity, will add to competitiveness, and will add to access, so they will have a positive impact. Exactly how much is an open question. Once the trade is in place, once all the details are in place, then one could provide some estimate of their long-term impact.

**Mr. Randy Hoback:** I know that we heard some of those arguments in the NAFTA days about what the negative impacts would be. The reality is that if you look at the picture today, if it weren't for NAFTA and the U.S. and Mexican markets, Canada would be a very different country for sure. I think one would say the same thing with the European trade agreement or TPP or some of the Asian bilaterals we're working on. When you start factoring those in there, Canada being an exporting country... When I look at my province, Saskatchewan, we export. That's what we do. The downside risk is very little compared to the upside gain from all those customers.

**Mr. Mostafa Askari:** To clarify, that's exactly what I said. There is a transition temporary negative impact that will come with any kind of free trade agreement, but in the longer term, certainly, the net impact will be positive.

**Mr. Randy Hoback:** And that impact would be felt right across Canada.

**Mr. Mostafa Askari:** I think so.

**Mr. Randy Hoback:** Thank you.

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

Mr. Rankin, please.

**Mr. Murray Rankin:** Thank you, Chair.

Welcome, Mr. Fréchette and your team.

I want to go back to the rather sobering comments you make about fiscal sustainability. I was delighted to hear you confirm that the Canada and Quebec pension plans are sustainable, but in contrast the consolidated provincial, territorial, local, and aboriginal governments sector is not sustainable, you say, with a fiscal gap of 1.9% of

GDP. I'd like you to spend a little more time explaining what it simply means to say "a fiscal gap of 1.9% of GDP".

• (1345)

**Mr. Jean-Denis Fréchette:** I'll ask Mostafa to walk you through that.

**Mr. Mostafa Askari:** This is a standard way of measuring fiscal sustainability. The OECD and the IMF and all the other countries do exactly the same thing.

The measure we use is to take the debt-to-GDP ratio of a jurisdiction, whether it's the provincial or the federal government, for the time being—let's say in 2012.

Sustainability means that, over a long period of time—in this case 75 years—the current policies will allow the government to go back to that debt-to-GDP ratio, the present debt-to-GDP ratio.

For example, in the case of provincial, local governments, we see that if the current policies continue, with the demographic changes, the debt-to-GDP ratio of that sector will significantly increase.

The fiscal gap is what they need to do to bring that debt-to-GDP ratio back to the current level after 75 years; it is 1.9% of GDP. If they reduce their spending or increase their revenues or a combination of the two equal to 1.9% of GDP of today, and maintain that at 1.9% of GDP over the 75-year period, their debt-to-GDP ratio will not increase, it will come back to the current level, which is about 31.5%.

**Mr. Murray Rankin:** Thank you.

In the case of the provinces, we talked about the Canada health transfer and the cuts made to it. We know that was a significant part of the budgets of all the provinces. Indeed, in Victoria, where I live, many officials have told me that, essentially, these cuts are a shell game to make the nation's finances look sustainable, but in fact, the provinces are helpless to do anything about it, thanks to the exacerbated cut to the Canada health transfer.

**Mr. Mostafa Askari:** Of course, the cuts are relative to what it would have been. I mean, those things are still growing at the GDP rate, but they're cut to what they would have been.

**Mr. Murray Rankin:** Mr. Fréchette himself pointed out the aging population and the impact of demographics on this financially. It makes it really hard to believe that we really have a sustainable situation. If one takes into account provinces, territories, municipalities, aboriginal governments, what you call the PTLA, it's not, would you say, sustainable as a consequence if all of that debt is included with the national numbers?

**Mr. Mostafa Askari:** That's correct.

**Mr. Murray Rankin:** I want to change the subject in the small amount of time left to me. Part of your analysis is public sector wages. Can you confirm that the real wages of civil servants have, in fact, fallen since 2006? Is that accurate?

**Mr. Mostafa Askari:** We did a study to try to decompose the total wage bill of federal institutions. It was, in total, about 95% of the total institutions, based on the data we had. On that basis, we found that the main driver of growth in the total wage bill was the increase in the number of employees.

Then there was the rate of inflation, which we assumed as 2%, and a small increase in real wages and a wage increase due to a reclassification of employees within their ranks.

Most of that wage increase was due to the increase in the number of employees and the rate of inflation. A small amount was due to a real wage gain, including a wage gain through reclassification of employees through their different ranks.

**The Chair:** You have 20 seconds.

**Mr. Murray Rankin:** I want to ask a quick question. I noticed that the version of the adult fitness tax credit that you've costed in your study is not that proposed by the Conservative Party. It doesn't include all adults.

Would you discuss the likely cost of an expansive adult fitness tax credit?

**Mr. Jean-Denis Fréchette:** The request was made by a member and was specifically for adults 55 years and older. We didn't have a request to do it for the entire—we did not look at the entire cohort of the population.

**Mr. Murray Rankin:** Perhaps we can make a subsequent request for that.

• (1350)

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

We'll go to Mr. Saxton, please.

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

I'm going to be sharing my time with Mr. Adler. I will ask the first question and then I'll pass it on to Mr. Adler.

A large part of your update notes that economic conditions in Canada are, to an extent, dependent on what happens in other countries, particularly other advanced economies. Would you elaborate on how what's happening in other countries is different from what's happening in Canada and how that will impact Canada?

**Mr. Mostafa Askari:** Our major trade partner is still the U.S., and what's happened in the U.S. definitely has had a huge impact on the Canadian economy. We provided a projection for the U.S. economy. It is still below par. They have a huge excess capacity and output gap. For now, over a five-year period, we have considered this, taking into account the U.S. growth profile, and we have provided our own projection, which we have in the update.

**Mr. Andrew Saxton:** Have you looked at other countries besides the U.S.?

**Mr. Mostafa Askari:** Our model uses the U.S. as the main external economy affecting the Canadian economy. In general, when we are doing the forecast, we take into account the overall global picture. We normally look at the IMF World Economic Outlook to see what kind of a projection they have for the rest of the world. That certainly would come into our projection. It would affect our judgment of how the two are related.

**Mr. Andrew Saxton:** But it's not looking specifically at other countries like China, which is now a huge trading partner.

**Mr. Mostafa Askari:** No.

**Mr. Andrew Saxton:** Thank you.

**The Chair:** Mr. Adler.

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

Thank you all for being here. Congratulations, Mr. Fréchette on your appointment as the PBO.

In determination of the fiscal gap, does the PBO use the same calculation as the Department of Finance to determine the fiscal gap?

**Mr. Mostafa Askari:** Do you mean in our fiscal sustainability...?

**Mr. Mark Adler:** I'm referring to the sustainability framework, yes.

**Mr. Mostafa Askari:** We believe so. The Finance Department released their first aging report last year, which was done over a 50-year period. We do it over a 75-year period. They didn't call it a fiscal gap. There was a number in one footnote that looked very similar to the fiscal gap measures that we have in our studies. We believe they follow essentially the same methodology that we use in our calculations.

**Mr. Mark Adler:** And the same risk factors are built in, roughly?

**Mr. Mostafa Askari:** Yes, they use essentially the same factors. We did a comparison between our Fiscal Sustainability Report last year and the Department of Finance's report. We provided that publicly and it's available. The numbers seemed very close.

**Mr. Mark Adler:** Our government seems to have our deficit under control. We propose a balanced budget by 2015. However, the provinces are another story. There are some that stand out in particular, like Ontario. How serious is the threat of provincial debt to the national picture of fiscal sustainability? What happens if a province like Ontario goes into serious financial default, fiscal default?

**Mr. Mostafa Askari:** If they go into default, there will be a huge implication on their borrowing rates. The borrowing rates of Ontario would be a major element in the overall Canadian picture, given that it's the largest province in Canada. Overall, there is only one taxpayer; it will affect everybody. But exactly how much will depend on the circumstances and what the situation is.

**Mr. Mark Adler:** Is the PBO looking at any of that right now?

**Mr. Mostafa Askari:** No.

**Mr. Mark Adler:** It's outside your mandate.

**Mr. Mostafa Askari:** Our mandate is not to look at provincial finance. We do that in the context of sustainability, but we look at the provinces as a whole, not province by province. We don't have the resources to go province by province and it is not consistent with our mandate.

**Mr. Mark Adler:** Thank you.

How much time do I have?

**The Chair:** You have 30 seconds.

**Mr. Mark Adler:** I'm good, thank you.

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

[*Translation*]

Mr. Côté, go ahead.

**Mr. Raymond Côté:** Thank you very much, Mr. Chair.

Mr. Fréchette, I want to begin by talking about your position, which was created by the Conservatives in 2006 to prevent non-transparent decisions of successive Liberal governments. Mr. Flaherty—and I was in full agreement with him at the time—said that governments cannot be accountable if Parliament and Canadians don't know what the real state of public finances is.

When it comes to the \$7-billion difference in what was made public by the Department of Finance, can that be seen as a problem in terms of good governance or even, ultimately, as an ethical issue?

• (1355)

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

I would not go that far. The problem is the following. As Mostafa explained, part of the \$7-billion amount—about \$1.9 billion—stems from additional revenue, especially that from corporations and institutions. Part of the remaining billions was adjusted at the end of the year, or rather “the next year”, for some departments that did their calculations based on cash rather than based on accountability, as they should for that report. That time frame and information are not available. As Ms. Nash said, this is a matter of confidentiality for the Cabinet. That data has not yet been verified or approved by the Cabinet.

Nevertheless, as I mentioned earlier, I thought it was encouraging when the minister said that he was prepared to provide us with explanations on that issue. He did partially explain matters. I think it is a positive development that a new openness exists and that a new bridge has been created. That being said, I am continuing to work on building bridges and accessing that data. You are entirely correct in saying that we need to have access to the data to be able to provide parliamentarians with some explanations on everything that is happening at the executive level.

**Mr. Raymond Côté:** Okay.

I would like to change topics and discuss economic forecasts. If my understanding is correct—and I have not found any information on this matter—you use the approach of the Department of Finance to make your forecasts. Those forecasts are related to budgetary cuts, and that has an impact on the gross domestic product.

A few years ago, economic sectors tended to use a multiplier of 0.5. So for a \$1-billion cut, the impact would be a decrease of half a

billion dollars in GDP. The IMF now admits that this was a mistake and that the rate was much closer to 1.

Could you tell me what multiplier you use to calculate the impact of federal budget cuts?

**Mr. Jean-Denis Fréchette:** We use the multipliers from 2009-2010. Those are the multipliers we currently have, and we will continue to use them in our calculations.

**Mr. Raymond Côté:** And what is that multiplier?

[*English*]

**Mr. Mostafa Askari:** There were multipliers for different kinds of spending that were reported at the time. We have taken into account different spending and applied different multipliers to that. There is a range of multipliers that the Department of Finance has used for different parts of the spending. That's available in the budget. We can provide that information to you if you want.

[*Translation*]

**Mr. Raymond Côté:** Let's say that, to get an idea of the general economic situation, we are staying fairly close to the IMF practices, or following them exactly. We are talking about a real multiplier fluctuating between 0.9 and 1.7. I assume that what you use is somewhere along that scale.

[*English*]

**Mr. Mostafa Askari:** Well, the IMF provided the study that showed that during a financial crisis multipliers actually may be somewhat larger. Our assumption is that the Department of Finance, in calculating these multipliers after the financial crisis of 2008, actually took into account the special circumstances at the time. We believe that those multipliers are reasonable in their size.

[*Translation*]

**Mr. Raymond Côté:** Okay.

How much time do I have left, Mr. Chair?

**The Chair:** You have 30 seconds left.

**Mr. Raymond Côté:** I will give them to the committee as a gift. I'll stop here.

Thank you, Mr. Chair.

[*English*]

**The Chair:** Okay, thank you.

Colleagues, we are brushing up against 2 p.m., so I think we will end it here and thank our guests.

Monsieur Fréchette and all of the staff here today from the Parliamentary Budget Office, thank you so much for being here before the committee. We look forward to our ongoing relationship.

Colleagues, we will see you next Tuesday.

Thank you. The meeting is adjourned.







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