HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 009 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, February 23, 2016

Chair

The Honourable Wayne Easter

Standing Committee on Finance

Tuesday, February 23, 2016

● (1130)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We will come to order. This is meeting nine of the standing committee. Pursuant to Standing Order 108(2), we are continuing our pre-budget consultations for budget 2016.

It gives us pleasure to welcome, I guess to his first finance committee meeting, the honourable Minister Bill Morneau, along with deputy minister Mr. Rochon.

Mr. Minister, I understand you have limited time, but we are very pleased to have you here. We'll go to your statement and then to questions. The floor is yours. Welcome.

Hon. Bill Morneau (Minister of Finance): Thank you very much, Mr. Chair, and thank you to the entire committee for inviting me here. It's a pleasure to be here, and of course, it's my honour to appear before you for the first time as Minister of Finance. I want to thank you for your work not only in keeping the government to account, but in ensuring that Canadians are heard throughout the parliamentary process.

As you know, we're four weeks away from budget day. I'll have a great deal more to say on March 22 regarding the details of our plan for investing in the middle class to grow the economy, but I didn't want to miss the opportunity to be with you today as we begin committee proceedings under a new Parliament and a new government. Yesterday, in a pre-budget town hall here in Ottawa, I reconfirmed that our government is taking a fundamentally different approach to managing the economy, and I'm pleased to have the opportunity to take some time this morning to reiterate that here.

After 10 years of weak growth, Canadians chose a new path to economic growth. They chose investment. They chose a government committed to helping the middle class. Canadians told us that they want inclusive growth, meaning that no one is left behind. I'm pleased to be here today to talk more about that commitment and to share with you what we've heard from Canadians during our pre-budget consultations.

One of the most telling things that I've heard as I've travelled across the country during my pre-budget consultations is that people really do see the big picture. They know that oil prices have contributed to the fall of the dollar and to things like higher food prices, and of course they're worried. But they also know that the recent downturn is really just a symptom of what many of us have been feeling for a long time now. The economy is just not working for the middle class and those people who are working hard to join it.

Over the last four decades, almost every group in our society has seen their income go up, but when you look carefully at the numbers, you see that the top 1% and the top 0.1% have benefited much more from the gains than have the middle class. We know that income inequality is an even greater challenge in times of significant economic stress.

I can tell you that when the Prime Minister appointed me as finance minister, he instructed me to undertake an ambitious growth agenda, a plan that I believe to be even more important in light of the revised growth projections that we released yesterday.

[*Translation*]

Yesterday, we confirmed what Canadians already know. Since we presented the economic update in the fall, Canada's growth perspectives have deteriorated. The prices of the commodities Canada produces continue to drop, and the recovery of the global economy is weak and hesitant. After ten years of weak growth, the Canadian economy was too vulnerable, faced with the conjunction of the drop in oil prices and global economic uncertainty. Given the current economic situation, Canadians made the right choice by placing their confidence in us.

Barely eleven days ago, I met with private sector economists who expect the price of oil to average US$40 a barrel in 2016, which is $14 less per barrel than expected at the time of the fall economic update.

The economists also lowered their growth rate forecast for 2016 from 2% to 1.4%. At the end of the last year Canada's economy showed little vigour, and this seems to be continuing in 2016. This downturn has a real impact on many families, as well as on government revenues.

We are aware that many Canadians are facing particular problems because of the recent economic slowdown, especially in regions such as Alberta, Newfoundland and Labrador and Saskatchewan.

● (1135)

[*English*]

In fact, I was happy to confirm this morning that Alberta has qualified for $251 million in stabilization funding. I was pleased to work directly with Minister Ceci for the benefit of Albertan families who I know are going through a particularly challenging time.

I want to thank the members of our Alberta caucus, including Minister Hehr and Minister Sohi for their tireless advocacy for their province.

[*Translation*]

There is no doubt that the time has come to chart a new course and adopt a fundamentally different approach in our economic and budgetary policies.

[*English*]

When it's presented four weeks from today, budget 2016 will be the first major step in enacting our new direction and plan. In other words, in addition to bringing in measures that will address the challenges Canadian families face today, budget 2016 will create conditions for growth. There will be more to do.

Over the coming months, the government will develop a robust growth strategy designed to deliver strong and sustainable growth that will benefit us all and higher living standards for all Canadians. It will deliver the strategy to Canadians before year-end.

In support of that strategy, I announced yesterday that Dominic Barton has accepted to lead the new advisory council on economic growth. Their first job will be to find ways to increase our productivity so that as our demographics shift, we nonetheless continue to enjoy the highest possible standard of living. This is long overdue.

To members of the opposition who have been less than fully supportive of our plan, I invite you to consider the alternative. The other parties, who committed during the last election campaign to a balanced budget at any cost approach, would be making cuts of tens of billions of dollars at precisely the wrong time. This would have led to massive job losses in a time of already high unemployment. This would have led to program cuts at a time when regions and population segments need those programs most. To be frank, this likely would have led us into another recession.

[*Translation*]

Our philosophy is simple. We want to focus on the middle class and help those who are working to join it, help those who are most in need, and make judicious investments in roads, bridges and public transit that will create jobs and help us get to work faster, transport our products further, and make our communities more ecologically sound.

We have already taken the first steps this year by lowering income taxes for 9 million Canadians. By the same token, we asked those who make more to pay a bit more.

We also took steps to help young Canadians by investing up to $113 million more in the Canada summer jobs program. That investment will help our young people to gain the valuable work experience they need. It will also help to create 35,000 additional summer jobs for students this year.

In addition, we announced plans to create a new, simpler and more generous Canada child benefit. It will help 9 families out of 10 and will take hundreds of thousands of children out of poverty. We expect this benefit to reduce the proportion of children in Canada who live in low-income families to a threshold which will be below the average for the member countries of the Organization for Economic Co-operation and Development. Reducing child poverty will bear fruit later. This will put children on the path to success throughout their lives, while placing Canada on the road to growth.

We will also make targeted and judicious investments in infrastructure, not only for short term gain, but also to ensure that the government plays its role in supporting businesses that need access to markets, increased productivity and sustained economic growth over the long term.

● (1140)

[*English*]

Making strategic investments in growth right now is the fair and reasonable thing to do, especially as we have the lowest debt-to-GDP ratio among G7 countries. That means we have the fiscal flexibility to support measures to invest in infrastructure that will help economic growth and create opportunities for future generations without overburdening them with debt.

[*Translation*]

Mr. Chair, I am pleased that the committee has given itself an ambitious program to improve the lives of Canadians and mobilize them so that they participate in discussions on the measures the government wants to take to contribute to economic growth and support the middle class and those who would like to join it.

I know that the committee has a large quantity of information to sort. I will thus limit myself to a summary of this year's consultations.

From the beginning of the pre-budget consultations on January 6, our objective was clear: we wanted to consult as many Canadian men and women as possible, in a spirit of renewed cooperation and unprecedented transparency. We launched those consultations with an enthusiasm that was well received and equalled by Canadians, both in person and online. In fact, the Department of Finance received a record number of presentations and comments. The rate of participation in pre-budget consultations was the highest in history.

Our first consultation meeting was with students from eight Canadian universities, through Google Hangouts. Parliamentary Secretary François-Philippe Champagne and myself then did a whirlwind tour of the country, from one end to the other. That tour began on January 11 in Halifax. In the subsequent six days, I went to Montreal, Toronto, Winnipeg and Calgary, and then concluded the tour in Vancouver and Surrey. In addition, François-Philippe went to Moncton, Quebec City, Trois-Rivières, Sault Ste. Marie, Saskatoon, Edmonton and Yellowknife.

[*English*]

As of today, François-Philippe and I have conducted 21 separate round tables, meetings, chats, and panels. That's not counting the many local meetings with MPs from both sides of the floor held in their ridings. Let's not forget the Facebook live events that were held in Halifax, Calgary, and yesterday in Ottawa, where tens of thousands of Canadians tuned in, asked questions, and gave me some very good advice on growing the economy. In fact, over the course of the consultation, we've reached well over 200,000 Canadians. While the numbers are impressive, they all add up to the same thing: engaging with Canadians in a way that had not previously been attempted.

I believe that the clerk has shared with committee members the reports from my pre-budget consultations, and I hope that they're useful to you in your work. With the consent of the committee, I'd also like to table the over 4,000 pre-budget submissions Canadians have made online. The comments and views included in these submissions are unedited and unfiltered; they were not vetted by my office or my department. Due to the volume of the submissions, they're presented in source language, untranslated. Mr. Chair, if there's consent, I have a USB key for each of the committee members here containing these submissions.

The Chair: We might as well deal with it right now. As I understand it, they're in the language in which they were originally presented. Some would be in French only, and some would be in English only. Normally, we want them in both languages, but given the volume, is there any concern about that if they're presented in the language as is?

Mr. Caron.

[*Translation*]

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

It is essential that we have them in both official languages. This is submitted to the committee and I would like the French and English versions to be distributed as quickly as possible in the context of the work of the committee. It is acceptable that we not have them immediately, but I think they should be available to all Canadians who would like to have access to them.

● (1145)

[*English*]

The Chair: We'll come back to you, Mr. Minister, in a minute.

There are over 4,000 presentations, so it is almost an impossible task. Are these available on the finance department's website?

Hon. Bill Morneau: I don't believe they are available on the website. We would be happy to give them to the members now so they have access to them and translate them as necessary, or translate them on demand, one by one. Our reason for bringing them this way and not bringing in a truckload of boxes was for the convenience of the members. Our reason for not having the translation is really just because we wanted to get the information to the members of the committee as rapidly as possible.

The Chair: Mr. Caron.

[*Translation*]

Mr. Guy Caron: This raises an interesting question. I can understand that given the size of the sampling, making this available on demand may seem daunting. However, there is a difference between ministerial pre-budget consultations and the ones held in committee. The documents that are distributed to members of the committee must already be translated, in advance. That is an important and worthwhile point to raise.

[*English*]

The Chair: Mr. McColeman.

Mr. Phil McColeman (Brantford—Brant, CPC): I think Mr. Caron just dealt with it. It's a precedent for the committee to accept in both official languages. Moving outside of that.... We never move outside for other witnesses, so I would say we should follow that principle.

The Chair: Okay, we will hold on it for now, and maybe see if there's a way we can deal with this at a scheduled meeting as a committee to see if there's any way we can access them faster.

The floor is yours again, Mr. Minister, and we'll come back to that later.

Hon. Bill Morneau: Thank you, Mr. Chair.

For those Canadians who have not been able to meet us in person or send their ideas online, there is still some time. They have until midnight tonight to get in touch through the budget.gc.ca website, or on Twitter using #pbc16, or on the “Your Money Matters” Facebook page.

I'd like to thank all of those who have contributed to the pre-budget consultations, whether in person, by mail, or online. Of course I'd like to also thank the members of this committee. In my estimation, this input is vital in ensuring that Canadians can help direct and focus the decisions that the government will take with respect to budget 2016.

I'm here to tell you, and of course to tell Canadians, that we're listening. I believe the broad reach and engagement during the pre-budget consultations and the upcoming federal budget are proof. While the pre-budget consultation period is drawing to a close, the advice we've received from Canadians is clear. We've found that Canadians want to contribute to finding a better way and better lives for themselves, their communities, and their country, and they want to be involved in finding solutions.

As you can see by the information and input we've already provided to the committee, and from your own hearings, Canadians want us to continue to help the middle class, help those who need it most, and make smart and well-timed strategic investments in roads, bridges, transit—things to get people to jobs faster—while making our communities greener. I look forward to working with you in all of the coming weeks, months, and years ahead to act on what we've heard from Canadians and to make better decisions as a result.

With that, Mr. Chair, I am happy to take questions from the committee.

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

It takes about 53 to 55 minutes to give everyone an opportunity to put a question to you. We hope you can stay so that everybody has the opportunity to ask a question. I know you're committed to just an hour.

We'll start with Steven MacKinnon, for seven minutes.

[*Translation*]

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

I am going to share my time with Ms. O'Connell.

Thank you, Minister and Deputy Minister, for being with us today.

After many years of hearing the previous government say, such as when Mr. Oliver brought down his last budget, that the economic situation was improving and that we were headed toward balanced budgets, people were surprised to note, according to the update you gave yesterday, the scope of the deterioration in our economic situation. Could you explain to the committee, and to my electors and fellow citizens, how the financial situation could have deteriorated so quickly, and so badly, on such a scale.

● (1150)

[*English*]

Hon. Bill Morneau: Thank you very much for the question. I think it's an important question that Canadians want to understand. For us, one of the important commitments we made to Canadians is that we would be open and transparent to help them understand our fiscal situation.

It's for exactly that reason that only 16 days after being appointed as Minister of Finance, I came out with an economic and fiscal update for Canadians to give them a sense of the finances of the country, based on our ability to take a close look at those finances. In that update, as you heard in November, we found that we were left with a budget deficit, and we found moreover that the projections for growth were less optimistic than had been foreseen in budget 2015. That was our initial understanding. It was one that we wanted to get out quickly, as I said.

Since that economic and fiscal update, as we've all witnessed, the price of oil has changed significantly. In that November update, the private sector economists gave us an estimate of US$50 oil, which was their planning projection for 2016, and they gave us a projection of 2% real growth in the economy in 2016. I felt it was important that we took a look at those numbers in advance of budget 2016 to make sure we had the appropriate base from which we could plan.

When we went back to the private sector economists, we found that the economy had changed significantly. We now have a planning assumption for oil at US$40 for 2016, and a planning assumption for growth of 1.4% in 2016. Both of those numbers are obviously significant for the economy and drive a significant change in our assumptions.

We additionally took a look at the historical approach to setting objectives, setting assumptions, and we concluded, based on what we had seen over the last number of years, that it was prudent to take an adjustment for risk. While we're currently using a planning assumption of $40—as you'll know the current price of oil is in the low thirties, and we are now almost into March—we believe that is a prudent base from which we can start. For your constituents and for Canadians across the country, we have an open and transparent approach to saying where we are and an understanding of the starting point from which we can build plans to grow the Canadian economy for Canadians, for the middle class, and for those most vulnerable.

[*Translation*]

Mr. Steven MacKinnon: Thank you very much.

Yesterday, the leader of the Conservative Party told us that this was a time for cuts and for controlling expenditures, and not a time for spending and investment. However, in a televised debate we took part in, my colleague across the way, who is the Conservative finance critic, told me about the importance of flexibility. She told me that the Conservatives would show flexibility in the face of the changes you have just described in our financial situation.

Can you give us the reasons why you have chosen to invest in the economy? This could help the Conservative Party choose the proper economic approach in its internal discussions.

Hon. Bill Morneau: Thank you very much for the question.

This is a good time to invest. Our economy's growth rate is lower than anticipated. In addition, it has been very low over the past 10 years.This gives us an opportunity to invest in the economy. We have the necessary fiscal flexibility. We have the lowest debt-to-GDP ratio among all of the G7 countries. And so we are in a position to make investments to improve our growth rate, and that is exactly what we promised Canadians.

We can make investments to improve our growth rate, but by the same token we want to improve our quality of life through investments in public transit in our large cities, and in affordable housing throughout the country. These investments will improve our current situation and our growth rate in the short, medium and long term.

● (1155)

Mr. Steven MacKinnon: Ms. O'Connell, you have the floor.

[*English*]

The Chair: We'll have to cut you there. We only have 40 seconds.

We'll go to Ms. Raitt and we'll come back later.

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

Welcome, Minister. It's very nice to see you here. Thank you very much for taking time out of your schedule.

Minister, I have three questions. I'll go through them as quickly as I can, but I'll allow you to answer in between them.

First of all, as you know, Minister Flaherty plotted and strategized our return to a balanced budget. Minister Oliver concluded on that plan in his budget last year.

We handed you a surplus, Minister, in November and December of this year, when you took over. It's evidenced by the Department of Finance Canada's "Fiscal Monitor" of December 2015, where they said first, that there was a budgetary surplus of $2.2 billion, and second, they said that for the year, from April to December 2015, , the government posted a budgetary surplus of $3.2 billion.

More troubling, though, Minister, is what I found in your backgrounder, which says here very clearly on page 8 of 10, "The stronger outlook for revenues is partially offset by higher projected expenses relating to decisions taken since the Fall Update."

Is it not the case, Minister, that you are spending more, that you're eroding the surplus that was handed to you by a Conservative government, and that any deficit for the year 2015-16 is clearly on the hands of your government?

Hon. Bill Morneau: Thank you very much for the question.

I have the sense that there was more than one question in there. I will certainly start with what I perceive to be the first one and deal with the question around the deficit that was left for us from the Conservatives.

I guess the analogy I can use is a family that has two earners. One of them earns $50,000 a year. She works all 12 months of the year, getting that 1/12th each month of the year. The other person works for the first six months of the year. He has a seasonal job. At the end of the first six months, he no longer works for the last six months of the year. This same family has a situation where their mortgage, for whatever reason, has been designed so that they pay $500 a month for the first 10 months of the year and in the last two months of the year they pay $1,000 a month.

Let's just assume we're this family for a minute. I don't think that family would look at their situation three-quarters of the way through the year and say, "Good news: we are in a surplus situation from a family standpoint." They would look at it and say, "Oh, we need to consider the fact that our revenues go down in the second half of the year and our expenses go up."

I will tell you, Mr. Chair, that if we take a look at what happens with the revenues and the expenses for the Government of Canada, what we can see over the last number of years—we've gone through the numbers year by year by year—is that in the last two months of the year, we have a reduction in revenues and an increase in expenses.

What that leads to is a situation where you cannot look at one half of the year, and you certainly cannot look at one month or another month, and come to any conclusions about our situation. I want to make it very clear: we took a look at the finances left us from the previous government, and we found that we would be put into a deficit for calendar year 2015-16.

Perhaps I can go on a little longer, Mr. Chair, if—

Hon. Lisa Raitt: Actually, I have some more questions, Mr. Chair.

The Chair: The floor is yours.

Hon. Lisa Raitt: Right.

Sorry, Minister, I do have an agenda here and I'm going to make sure I get through it. It's a lot better than in question period, when we only have 30 seconds.

I would say to your response, Minister, that any CEO knows the importance of quarterly updates. Otherwise, why do we wait until the end of the year to tell everybody what happened? You know that yourself as well.

This is question number two, Minister.

In both the mandate letter and your own words, you talk about platform promises. First of all, your mandate letter states, "Our platform guides our government. Over the course of our...mandate, I expect us to deliver on all of our commitments. It is our collective responsibility to ensure that we fulfill our promises, while living within our fiscal plan."

Second, you said on the television show *The Exchange*, on November 4, "We're committed to our platform, and that's why we put it out there. It wasn't a platform that was based on political expediency. It's a platform based on what we think is the right thing to do for Canada and for Canadians."

Minister, this is my issue: You seem to abandon the costs associated with your platform promises very easily. I would point out to you that my understanding is that as the chief economic adviser for the platform, you did the costing, or you at least signed off on it. You promised a $2.8-billion offset in your tax measures would be offset by a tax increase of $2.8 billion. We now know the reality: it's a $1.3-billion cost.

Second, you said that you would have a deficit of $10 billion. You approved this number. I've already mentioned that. Those were numbers that came after Minister Oliver's projections in April. So you had lots of runway to figure out if something else was going on in the economy.

You're committed to the platform promises, but I fear that you're not committed to the numbers. Here's the problem with that. I take a look at your platform promises and I see lots of other stuff coming— a 10% boost to GIS, indexing OAS, GST rebates, increased indexed northern residents deduction, enhanced flexibility of RRSPs.

Do you have those numbers right, Minister? Because so far we have not seen any kind of consistency in terms of getting the predictions correct.

● (1200)

The Chair: Minister, you're entitled to equal time, which will run out the question period for Ms. Raitt, so you have about a minute and a half.

Hon. Bill Morneau: Thank you again.

I want to restate that we are committed to balancing the budget. I want to move on to say that our first priority is to make investments in Canadians and in Canada. We recognize that in a time of economic challenge, in a time when the economic growth is lower than we want it to be, the first and right priority for Canadians and for Canada is to invest in our economy.

We've been very specific about that objective. We've started with what we believe is investing in our middle class. We've reduced taxes for the middle class, which immediately goes to people stimulating our economy. We will be moving forward, as we've said, in our budget with the introduction of the Canada child benefit, which will simultaneously help the most vulnerable and put money into our economy.

Infrastructure investments are also of significant importance. We will be moving forward with investments that we know will help the short-, medium-, and long-term growth trajectory of this country. They will be strategic investments. They will be smartly focused on things that will help our economy over the long term.

Finally, and not least, we will be focused on how we can make our economy more productive through investments in innovation. That's something, as I announced yesterday, that would be aided through an advisory council on economic growth. It's something we are moving forward on, because we know it's the right thing to do for our children and our grandchildren to make sure we come up with a more innovative economy over the long term.

The Chair: Thank you, Minister.

Mr. Caron, you have seven minutes.

[*Translation*]

Mr. Guy Caron: Thank you, Mr. Chair. Thank you, Minister, and welcome to the committee.

Regarding the figures that were published yesterday, I would like to focus on two specific issues. My first question is about the reserve fund.

In the 1990s, the normal reserve fund was set at $3 billion. It stayed at that level over all that time until the last budget, when it was decreased to $1 billion. Now this fund is being increased to $6 billion. There is an $18-billion deficit projected for next year, and without the reserve fund, it will be $12 billion. In the following year, it will be $15.5 billion, and without the reserve fund, it would be $9.5 billion.

What led to the establishment of a $6-billion reserve fund? It went down to $1 billion, whereas the usual amount was $3 billion. Why was it not set at $2 billion or $4 billion? Why was it set at $6 billion?

[*English*]

Hon. Bill Morneau: Thank you very much. I'm pleased to respond.

We made significant commitments to Canadians to invest in order to grow our economy. We also told Canadians we would be prudent along the way. We recognize that in a volatile economy we need to ensure that Canadians understand that we are taking the appropriate measures to ensure that we have the fiscal capability to do what we've promised.

When we looked at the proposals from the private sector economists both in November and more recently in February, we recognized there was a high degree of volatility. We also saw that in each of the last five years, as I mentioned earlier, there was an overestimation of the rate of growth. Having looked at the volatility, especially around the price of oil, we believe it prudent to put in a risk adjustment that would allow us to start from what we think is the right place to make the investments Canadians expect us to make.

It is appropriate for us to be transparent in that. We've been absolutely transparent in that, and we are moving forward with the investments we need in order to build off what we think is the right approach.

● (1205)

[*Translation*]

Mr. Guy Caron: Thank you.

The question I want to ask most is the following. Is there a formula to determine this, or is it a rather arbitrary political decision?

My second question is related to that. In the same report, regarding economic growth forecasts, one finds the private sector evaluations. We see that there is a decrease of $40 billion. In the November economic update, you said that you would be cautious and you decreased your private sector forecast by $20 billion. Now, we are told there is a $40-billion decrease.

How did you determine this $40-billion amount? Did you use some specific formula or did you select an amount rather arbitrarily?

[*English*]

Hon. Bill Morneau: Thank you.

Because we want Canadians to understand our current situation, we took a close look at the volatility going on in the marketplace. We also took a close look at private sector forecasts. We chose to take a risk adjustment. We chose to use the bottom four of the financial sector forecasts as our downward case adjustment. We believe that's the prudent thing to do, and doing that provides us with the starting point from which to make the investments that Canadians expect us to make in order to move us on to a higher growth path for our economy.

[*Translation*]

Mr. Guy Caron: During the 1990s, a former finance minister had the reputation of forecasting budgets that were almost balanced, and some considerable surpluses. These surpluses were not necessarily reinvested in programs. They were used to reimburse the debt.

[*English*]

One can't really help but think that some of it is actually used to modify public opinion so that will decrease expectations in comparison with the expectations that were raised during, for example, the electoral campaign.

[*Translation*]

Is there not a risk at this time, a somewhat similar risk of lowering people's expectations regarding reinvestment and change, as you mentioned? In the final analysis, you are going to try to take advantage of the situation to postpone commitments or investments Canadians voted for last October.

Hon. Bill Morneau: I am going to be very clear in this regard.

We made commitments during our electoral campaign because we knew that over the past ten years the growth rate of the economy had been lower. And so we made an appropriate commitment to invest everywhere in the country.

That is what we promised Canadians, and that is what we are going to do. We are going to make investments. We don't want Canadians to think that investments are not necessary. It is doubly important to invest throughout the country. Our commitments are very important for Canadians, and we are going to continue with this program to improve the Canadian economic situation.

Mr. Guy Caron: A little earlier, Ms. Raitt listed the commitments which were made and which may be in your first budget. There may indeed be a risk that some commitments or investments will be deferred, particularly as regards infrastructure. When I talk about lowering public expectations, I mean that several of these measures may be postponed to other years because of lower and more negative budgetary projections than had been anticipated.

[*English*]

Do you understand my concern that you will actually have the incentive here or the possibility to tell the population to wait because we are not yet in the situation to actually move towards those investments and those commitments the first year and to delay them and to report them?

[*Translation*]

This is a tactic that was used in previous years by other Liberal governments. So I am sure you will understand my current concern.

[*English*]

Hon. Bill Morneau: Thank you for your question. I understand your concern.

We campaigned, as I mentioned, on a commitment to focus on how we can grow the economy. We campaigned on how we can help those in the middle class and those struggling to get into the middle class. We campaigned on how we can improve the lot of those Canadians who are most vulnerable.

We intend to move forward on those campaign commitments. We want to do so in a way that gives Canadians an understanding of our situation.

The report yesterday was to be open and transparent with Canadians. It's to tell them that this is where we're starting and that we're going to make investments against that.

What I'm repeating here today is that in a situation where the economy is not growing as well as we'd like it to be, which is the situation we found ourselves in, I will remind you, during our campaign, we believe that fiscal investments are the right way to go. We couldn't have been more clear. We intend to move forward with investments to make a real and sustained difference in Canadians' lives.

● (1210)

The Chair: Thank you both.

Ms. O'Connell, you have seven minutes.

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

I am going to share my time with Mr. Grewal.

Mr. Minister, a downturn in the economy means a lowering of revenues for all levels of government, not just the federal level. In my riding of Pickering—Uxbridge, we have a huge infrastructure backlog, as do many Canadian cities. I was speaking to Mr. Grewal about Brampton as well.

Municipalities can't not provide safe drinking water. We can't not fix bridges or roads. In the downturned economy, we still have to make these investments in our municipalities. It's becoming more and more unaffordable for Canadians to live, with higher property taxes but without an increase in income.

Given the downturn in the economy, I want to make sure the focus is still on investing in our communities, investing in infrastructure. We heard during the pre-budget consultations from the FCM, Ontario's Big City Mayors, and many job creators about investment in infrastructure. Can you commit that we are still going to invest in municipalities to ensure that we are not just putting the cost of infrastructure on the backs of taxpayers down the line?

Hon. Bill Morneau: Thank you very much.

I will take a brief second just to qualify what I said to Monsieur Caron. I want to give you an exact understanding of the risk adjustment that we took. The $40 billion is equal to the average downward adjustment in the past three surveys of private sector economists.

Monsieur Caron, I think you were looking for our formula-based approach and how we got to that number, and I just want to be absolutely clear in case I wasn't.

With respect to your question, having had the opportunity myself as well to travel across the country and to talk to Canadians and talk to people from smaller cities and people from larger cities, of course I heard many of the same concerns that you did, that the challenges they face are enormous. That was consistent across the country.

We made commitments that we intend on investing in infrastructure. That infrastructure includes the things that will improve the productivity of the country over the long term, things like transit systems. It includes things that will improve the immediate lives of people, particularly the most vulnerable, such as social housing, affordable housing, and housing for seniors. It also includes investments that we would call green investments such as dealing with the impacts of climate change and waste-water systems.

Some of those investments will clearly be investments we will have to collaborate with municipalities on; social housing and waste-water systems are good examples. Some of them may overlap between provinces and municipalities, so we recognize the importance of collaborating with both those levels of government.

We do want to make sure as we make our investments that we satisfy a couple of goals. We want to make sure that we get incrementally new funding into the economy. We want to make sure that we don't just dislodge funding from other levels of government. We want to make sure that what we do is incremental.

Of course we want to have the maximum possible impact on our economy. By that I mean we do want to seek to get other sources of funding that will also be part of our investments, because we want to have the greatest possible impact on the economy and the greatest possible impact on Canadians' lives.

Those will be the sorts of initiatives that we will be moving forward on, and I'm confident that Canadians will feel a real impact in their lives over the course of the upcoming years because of these investments.

● (1215)

Ms. Jennifer O'Connell: Thank you.

The Chair: Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair.

Thank you, Minister, for coming today.

The United States has been the best performing industrialized economy over the past few years. As you know, the Obama administration made a conscious effort to invest in the economy to spur growth at the height of their economic recession. Subsequently, the U.S. budget deficit has plummeted in recent years.

What lessons does the U.S. experience hold for Canada, given the 10 years of low job growth and $150 billion added to our national debt?

Hon. Bill Morneau: I think the way I would take that question is with what we are hearing from people around the world. I had the good fortune of going to the G20 meeting with the Prime Minister in early December, I believe it was, and I'm looking forward to going to the G20 meeting this week in Shanghai.

What we're hearing from people around the world and what we're hearing from the OECD is that fiscal measures are critically important as we deal with what we see as a low-growth world. We're seeing significant challenges in major industrialized countries from demographic challenges. We've seen that monetary policy has had an impact, but at a certain stage it's not able to have the same impact that it's had in previous times.

We believe that the idea of putting fiscal impacts into place in the economy can be very important for the economy and at the same time improve people's lives. We're quite clear that in dealing with a lower growth environment, in dealing with demographic challenges, in dealing with a volatile world economy and changes in prices in oil, our idea of moving forward on investments and moving forward to make our economy more productive and innovative is just the right way to go.

To the extent that we see lessons from other countries, we will certainly be very conscious of them. That's one of the reasons that it's very helpful to meet with finance ministers from other countries and central bank governors to get their experience and use that in our Canadian context.

The Chair: There is time for a quick question and a quick response.

Mr. Raj Grewal: Alternatively, both the parties opposite, the NDP and the Conservative Party, pledged during the campaign to balance the budget. In your assessment, given the current state of the economy and the fall economic update, what would be the impact on the economy if we went down that path and had a balanced budget at all costs?

Hon. Bill Morneau: We've made a clear commitment to Canadians that we want to invest in the economy. We believe that the decision made on October 19 was a stark decision between two alternatives. The first alternative was to focus on how we could grow the economy, make a real difference in Canadians' lives along the way, and improve our long-term rate of growth. The second alternative was to have a balanced budget at all costs immediately. We believe Canadians made the right choice.

The specific answer to your question is we believe that if we were immediately to look to balance the budget, we would be doing it at all costs. This would force us to either significantly raise taxes or to significantly cut spending. Neither of those is an alternative that we think makes sense. In the case of Alberta or Newfoundland and Labrador, as examples, the idea of raising taxes in either of those two places or in fact significantly cutting spending in them would not make any sense in the face of what families are feeling right now in those places.

We don't believe the outcome would be any less than likely recession for our country if we were to take that approach at this time, which was the proposed approach of the parties that were running against us.

The Chair: Thank you both.

Starting the second round, we are down to five minutes.

Mr. McColeman.

Mr. Phil McColeman: Thank you for being here, Minister.

On my colleague's comments about the Obama administration and where they stand fiscally, I want to put the anchor that this government has moved to, or is pivoted to, because with all due respect, Minister, you've missed every anchor that the Prime Minister sent you in his mandate letter, in terms of what the economy was going to be anchored in, and primarily bringing it back to balance in this term.

Let's just put it in context. The current debt-to-GDP ratio in the United States is 102.98%. Prior to the Obama administration, it was 61.38%. Actually, that's the average, leading in. If you'd like to use that as a comparison, please do, because this is the direction in which your government seems to want to take us whilst they anchor themselves in the statistics of the GDP ratio.

That's enough for the comments. Now, the question has to do with small business. It is really two questions, if you might answer them for us.

There has been a signal that you're going to move to do what the Prime Minister has asked, which is to eliminate the professionals from the Canadian-controlled private corporations provision and not allow them to incorporate. Let me give you an example, a veterinarian who has three employees in his employ. He has been in business for four years, and now he's going to be faced with an additional tax hit of probably between $40,000 and $60,000 a year. Many of the people I've talked to in this category, which includes engineers, surveyors, accountants, chiropractors, doctors, and dentists, say that this will be a significant move to hit them primarily through their not being allowed to incorporate.

That small firm would have to lay off one person, or eliminate one job, as a result of this. It's in direct contradiction to what you've been saying today, which is that you're there for the middle class, that you're there for that entry-level job, for the administrator in that operation who loses his or her job as a result of this.

Can you confirm, yes or no, whether you're going to proceed with this kind of taxation?

● (1220)

Hon. Bill Morneau: Can you repeat the specific "yes or no"—the sentence before the "yes or no" as opposed to the longer one? I'd be happy to answer.

Mr. Phil McColeman: Simply stated, is your government, as you've signalled, going to move towards eliminating the current status that professionals in these types of occupations—veterinarians, chiropractors, etc.—have under the Canadian-controlled private corporations taxation provisions?

Hon. Bill Morneau: I can confirm, no.

Mr. Phil McColeman: You're not? Good. Thank you.

Hon. Bill Morneau: May I respond to the first part of the question, please, as I have more time?

Mr. Phil McColeman: No.

The Chair: Mr. McColeman, the Minister has time to respond to your comments. We have to balance the time here.

Go ahead, Mr. Minister. The floor is yours.

Hon. Bill Morneau: I'd like to respond to the first part of the comment.

Our objective remains to balance the budget. My primary interest is in making investments in our economy to grow the economy, after dealing with a low-growth economy for a long period of time. We have been very specific that as we do so, we expect that Canadians will watch us closely, and we will be prudent along the way. It is our intent over the course of our mandate from the first budget to the last budget to reduce our net debt-to-GDP ratio. Those are very specific promises. We will follow through.

Mr. Phil McColeman: This is regarding the Canada pension plan. In your recent remarks to Canada's Public Policy Forum, you highlighted something that you've co-written in a book, that Canadians do not face a widespread retirement crisis and that most Canadians—I quote—are actually in pretty good shape and it's a fact that is reinforced by Professor Ian Lee who states that a very specific group of Canadians are the ones who need more retirement support. Your quoted as saying, "It's pretty clear that we've seen change. But we're also witness to a system that works for most Canadians. It begs the question of what to do. Modest, targeted CPP expansion could fill the gap".

Could I take that to mean this budget will not include any broad-based changes to the Canada pension plan, and that you won't force Canadians to pay more who do not need to?

The Chair: The floor is yours, Mr. Minister.

Hon. Bill Morneau: Thank you for the question.

In our campaign we said clearly that we believe ensuring that Canadians can retire in dignity is an important goal shared by Canadians. My beliefs are that our retirement system has worked effectively over the last 50 years. That said, I also believe, and it's based on fact, that an increasingly large number of Canadians are finding it challenging to retire. For that reason, we are working together with the provinces to engage in a potential enhancement to the Canada pension plan. We started that in December through our first meeting of the finance ministers of the provinces and territories. I'm pleased to be able to tell you this is a project we will continue to work on. We believe the success of the Canadian retirement system is one that should be built on so that we not only have success for a good number of Canadians, but we have success for an overwhelmingly large number of Canadians and best case scenarios for all Canadians through a system that works and makes sure that people don't fall through the cracks.

The Chair: Mr. Sorbara.

● (1225)

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

I would like to address something one of my colleagues from the other side mentioned about our platform. In terms of our raising the GIS by 10%, that will benefit 1.3 million single seniors in Canada of which over a million are women. I would hope our opposition colleagues, when we introduce that measure, will vote with us on that. I think it's important to the residents in my riding. There is a large population of seniors who are dealing with high food costs and increased property taxes, and they need some help and some relief.

Mr. Minister, thank you for your commentary and for being here today. In my humble view, this upcoming budget is important for many reasons, but my sense is that it's about jobs; it's about getting Canadians back to work; it's about growing our economy today and for the future. As someone who is a trained economist, and worked 25 years in international financial markets, I see no better time to invest. Interest rates and government rates are at record lows. We have a manageable debt-to-GDP policy. A few months ago Ben Bernanke was in Toronto, and he commented on it and said that infrastructure investing is smart. Our own Bank of Canada governor in his written testimony has commented, "it's an enabler for long-term economic growth". Even David Dodge has opined on it.

My question for you is, what is our government's fiscal plan for getting Canadians back to work and making those strategic investments for our long-term future?

Thank you, Minister.

Hon. Bill Morneau: Thank you.

We essentially made four significant commitments that we want to follow through on, and there are many other things we want to do as well.

First and foremost, we said that we want to improve the lives of the middle class and those striving to get into the middle class. We started that with a reduction in middle-class taxes. We believe that's an important decision for the middle class. We also believe that it's an important aid to stimulate the economy, because those people will spend money in the economy. We made a commitment to help those most vulnerable, and the most important signature aspect of what we've been speaking about is the Canada child benefit, which will improve the lives of nine out of ten families with children. It will raise an enormous number of children out of poverty—hundreds of thousands—which will enable those families to be more engaged in the workforce, which will help the economy. It will also enable those families to have a more dignified life.

We've talked about and remain committed to significant infrastructure investments. We'd like to move the amount of spending on infrastructure over the next decade up to $120 billion, which is a historic amount, and split the increase of $60 billion, as you know, among transit, social, and green infrastructure—roughly $20 billion in each area. We are moving forward on those commitments. We believe they will have a significant impact on our long-term rate of productivity. There are definitely some projects that we will be able to move ahead on quickly, which will, as you mentioned, increase jobs across the country.

Finally, and absolutely not least, we recognize that Canada does not have the best record in terms of productivity compared to other countries. We recognize that investments in innovation will and can make a significant difference on our firm-based level of productivity. We know this is important to get on with. Our decisions in the upcoming budget will be consistent with an approach to focusing on innovation, and we will be working on this diligently to move us forward with this plan.

The Chair: Francesco, I'll have to ask you to keep it pretty tight, and the minister as well.

Mr. Francesco Sorbara: Thank you, Minister, for that reply.

In the area I represent in York Region gridlock is faced by all of the families these days, by commuters, and in moving goods and services to markets, and moving people to their jobs. Hearing that response is reassuring to me that we'll undertake the necessary investments to get people to work and get them home at night to their families sooner rather than later. I think that's important.

I want to ask about the debt-to-GDP ratio over our mandate. I think it's important that we continue it as a downward trend. I'd like to hear your comments on that.

● (1230)

Hon. Bill Morneau: We told Canadians that investing is the right approach at a time of low growth. We've seen over the last decade that growth has been lower than we'd like it to be. We can see that in the future there will be demographic challenges.

We designed our platform with that investment in mind. We did it specifically because we believed that as a country we have some real opportunities. We clearly have advantages, such as wonderful natural resources, a highly educated workforce. We also have an advantage. The previous Liberal government in the 1990s did some very hard work to get us to a low debt-to-GDP ratio. That has put us in a very fortunate position globally. As we've mentioned, we have the lowest net debt-to-GDP ratio in the G7. We believe that's an important anchor. What I can tell you is that while growth is lower than we expected, by impacting that measure from our first budget to our last budget, we will be lowering the net debt-to-GDP ratio. We believe that's important. We remain having as an objective getting to a balanced budget, and recognize that this will be more challenging.

The Chair: Minister, I know we're at the end of your scheduled time. Could we squeak about another 10 minutes of your time to give the two members who have not had an opportunity a question?

Hon. Bill Morneau: Yes.

The Chair: Thank you, Minister.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you, Mr. Chair, and thank you, Minister, for being here.

I've heard you refer a couple of times to slow growth in the last 10 years, yet it is a known fact that Canada had the highest economic growth in the G7 between 2005 and 2014. We have also created 1.3 million net new jobs since 2009. I would suggest that you have a meeting with the writer of your talking points and correct that because that is not correct.

I do want to go to your numbers. In the document that you released yesterday, it says that the February 26 survey shows that we will move from 0.7% nominal GDP growth in the just concluded year to 2.4% this year and 4.6% in 2017.

Could you explain why we're going to have that uptake, considering the fact that energy east will not be started and very little actual results will come from the infrastructure investment in that first year?

Hon. Bill Morneau: I think that the basis from which we start our planning is critically important to help Canadians understand where we are. We've seen, as you just outlined, a difficult period of growth over the last year. There were two impacts to that. One was lower growth than was expected, which in our estimation was because of the wrong policy choices of the previous government. Growth was very low.

We also had a very low inflation rate, so nominal GDP as something that's added up by real growth and inflation was very low. In 2016, when you look at nominal GDP, which you were looking at, you see two separate factors. You see factor number one, which is the real expected growth, which is the number that I spoke about earlier in speaking to private sector economists. They've downgraded that from an expectation of 2% to 1.4%, and added on top of that is what the expectation is of inflation, which we expect will be low in this calendar year. When you add those two numbers, you get to the total number which I believe you referenced as 2.4% nominal.

What we expect will happen in 2017 is that inflation will move closer to the Bank of Canada's targeted inflation rate, which is 2%, which has a significant impact on nominal GDP, and that growth will improve. We expect that this will be as a result, at least in part, of positive policy actions taken by the new government.

Mr. Ron Liepert: I have never known Canada to have a class system, yet we've heard consistently over the last period of time about the middle class. I'd ask you to define what you see as the middle class, and if you're not middle class, what are you?

● (1235)

Hon. Bill Morneau: In our campaign, we talked very clearly to Canadians about what we see as a fundamental challenge that's been going on in Canada for the last several decades.

When you look at the changes in the economy, when you look at the productivity growth in the economy, you can see quite clearly that the returns from that growth have gone more to the very top of the economy than it has to those in the middle.

We recognize that this is fundamentally part of the policy choices in Canada. We also know that in dealing with how Canadians are able to prosper in the future, we need to think about how to deal with that situation.

We put in place specific measures that we believe can help the broadest cross-section of Canadians. We put in place a tax reduction for those people who we see have not been able to grow their income as rapidly as others. Specifically, our target was the income tax bracket between $45,000 and $90,000. We reduced taxes for people in that category by 7%.

We increased taxes for those who have done very well over the last several decades by increasing the tax rate for those who make over $200,000. In effect, when you consider the impact of those two tax rates together, it means that people earning over $217,000 pay a slightly higher amount of tax.

We think this is the right thing to do. We recognize that it deals with the fact that the middle class has not done as well over the last number of decades. It starts us on the right path to ensuring that the impact of positive income growth in this country is shared equally among different Canadians.

The Chair: Mr. Ouellette has the last question for the minister's time frame.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, Minister.

What is the economic and social impacts of chronic underfunding and ignorance by former governments upon our fellow indigenous citizens, in their education, health, and child welfare, especially upon their social and economic potential, and especially as well upon the social mobility of indigenous Canadians—our fellow citizens—out of lower economic classes?

Hon. Bill Morneau: I think it's a good question.

In preparing for coming into office, we recognized that we needed to work not only with those middle-class Canadians who, in our estimation, need to have a better opportunity to share the gains of growth, but also with people in our society who are the most vulnerable. An important part of our platform was dealing with how we can improve the lot of those people who perhaps don't have the appropriate housing and who might be in a difficult situation in terms of having enough to live a dignified life. Square in the middle of that are many indigenous Canadians. We recognize that the outcomes for K to 12 education for people both on and off reserve are not what we had hoped for. We recognize that labour force participation among indigenous groups is lower than among other groups.

Recognizing that 4.3% of our population is indigenous Canadians and that this population is growing faster than other populations, we realize that to enhance our effectiveness as a country we need to get higher labour force participation. In order to do that, we need to have better educational outcomes. Our starting point is to look at how we can have better educational outcomes for indigenous Canadians in the K to 12 sector and how we can improve their lot through better infrastructure investment. As a long-term outcome, we expect to have not only better labour force participation, but enhanced growth in the country.

The Chair: You can have one more question. We have two more minutes.

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

[*Translation*]

Is the Department of Finance still in favour of eliminating oil industry subsidies, in accordance with a commitment made at the G20 under the former Harper government? Are we still bound by this commitment?

[*English*]

Hon. Bill Morneau: I think what you've seen from us is a real commitment to a greener economy. We've said to Canadians that we want to move forward on dealing with carbon in our world.

We have moved forward quickly on it. We have a first ministers meeting next week with the environmental ministers, and the Prime Minister will be there as well to begin those discussions. We think this is a critically important first step in dealing with what we believe is a real challenge to make our world more economically sustainable. We are working now on initiatives that we can think about both in our budget and over the long term.

● (1240)

Mr. Robert-Falcon Ouellette: Does that mean we're still continuing with the liquefied natural gas subsidy of $2 billion on capital costs, which will only create about 800 permanent jobs?

Hon. Bill Morneau: What I can tell you is that, as I mentioned yesterday, we're moving forward with our budget on March 22. I'm not yet at the place at which we have written every aspect of that budget, and there are certain details that won't be available until then.

I can tell you that as a broad theme, we believe it's critically important to move forward on having a greener, cleaner environment.

The Chair: I will have to cut it there.

Mr. Minister, we certainly thank you for your presentation. I think there's been a good exchange of information on both sides. I think your information will be helpful to our pre-budget work.

We will get back to you on the submissions you have on a magic stick or whatever it is, to see whether we can find a way to handle them to meet the requirements of the committee for both official languages.

The last point I'd make, Minister, is that this committee has heard from 92 substantive witnesses, either before committee in person or by video conference. A lot of good information has been provided and we have somewhere around 250 submissions that have come in to the committee within the time frame. Our analysts are working on the report as advice to you and your department on pre-budget hearings, and we hope to table it in the House. I'm hopeful that people from the Department of Finance were paying attention to some of those presentations, because we know the time frame is tight.

Thank you again for appearing today. We wish you the best.

Hon. Bill Morneau: I thank all of the members of the committee.

As noted at the outset, this is my first time at this committee, and I believe it's critically important that we have dialogues like this so that we can have the opportunity to understand perspectives and get feedback from Canadians across the country.

I'm very appreciative of the work you're doing and the submissions that we'll get. We are working hard to consider all the submissions that we're getting. It is a big job because of the number of submissions, but I just want to say that the Department of Finance is doing an excellent job, and we're looking forward to bringing forward a budget on March 22 that will reflect the concerns of Canadians, but most importantly, that will reflect our willingness to invest in growth in this country for the future.

The Chair: Thank you, Minister. Thank you, Deputy.

We'll suspend for a few minutes while departmental officials come to the table.

● (1240)

(Pause)

● (1245)

The Chair: We'll come to order.

This round is for five minutes. Who wants to start?

Mr. Ouellette.

Mr. Robert-Falcon Ouellette: Mr. Chair, I just have a point of order.

I'm a little concerned. I only got to speak for about 3 minutes and 45 seconds. I know it's not a lot of time, but five minutes is still five minutes. I think that if other members go over, there should be consideration to hold the witnesses here in order to finish up the business of this committee.

It's important that every committee member has the opportunity to voice their questions, because they are here representing their constituents. I think that's the same for all sides.

The Chair: I guess it is a point of order.

Mr. Liepert.

Mr. Ron Liepert: I think you could check, but I think I went under my time, which is a fair trade-off to the member who just responded.

The Chair: Okay, point noted, Mr. Ouellette.

Who's first in questioning?

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Thank you all for being here.

During the pre-budget consultations and with the witnesses who we saw last week there were a few themes that came out.

One of the themes was in regard to a review of the income tax system and streamlining the system. This was interesting to me because it wasn't something I had necessarily thought about, but it came from different walks of life, from economists and small business owners. I think the idea behind it was to make it easier for individuals, and also make it easier for businesses. The idea from the economists' side was that we would have more revenue generated based on compliance and not having to spend so much money on the preparation of tax returns, for example.

Is this something which the department has looked at in terms of the costs for this sort of review, or is this a procedural item that's ongoing or which the department has been looking at in terms of modernizing, as well, in terms of online resources, etc.?

● (1250)

The Chair: Thank you, Jennifer.

I neglected to introduce the people from the department. I'll introduce you one by one so that people are familiar with who you are and your position.

We have Nicholas Leswick, who is the assistant deputy minister, economic and fiscal policy branch; Andrew Marsland, senior assistant deputy minister, tax policy branch. Andrew has been with quite a number of departments over the years. We have Diane Lafleur, assistant deputy minister for federal-provincial relations and social policy branch; and Richard Botham, assistant deputy minister, economic development and corporate finance.

Whoever wants to answer Ms. O'Connell's question, the floor is yours.

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Perhaps I may, Mr. Chair.

Thank you for the question.

I think the answer lies a little bit in each.

First, I'd say that the department continually reviews, with the Canada Revenue Agency, the tax system looking at ways to improve the efficiency of the tax system from a broader perspective to ensure that tax measures, tax expenditures, and so on work as effectively as possible to identify areas that need to be responded to in response to court decisions. Also, it's to look at ways of simplifying compliance with the system. As you will see in budget after budget there are a series of measures.

There's a period of continual assessment and then review of the tax system. Going forward there have been indications that we may review tax expenditures, and I guess the government will presumably make its position clear on that in the coming weeks.

Ms. Jennifer O'Connell: Thank you.

Following up on that, I ask these questions because I don't want to reinvent the wheel, if this has been looked at; I'm just trying to get the information. I understand that the government and the minister would ultimately decide how to proceed.

Have you ever done consultations with private industry or economists, etc., about what a review would look like and/or how much a review might cost instead of just the incremental year-over-year changes?

Mr. Andrew Marsland: I'm not sure we have done that kind of assessment in recent years. Periodically, when you go back over time, there have been significant reviews of the tax system, going back to the 1960s and so on. I don't think we've done that kind of assessment in recent years.

Ms. Jennifer O'Connell: Thank you very much.

My next question is a little bit about procedure and what has worked. I'm trying to find out if you've looked at things like this. From my perspective, with my municipal background, one of the issues with infrastructure funding and the flow was the application process and the burdens on that.

Have you looked as a ministry, non-political, at the flow of infrastructure money or the options for providing funding similar to gas taxes? It doesn't have to be an expansion of gas taxes, but the way that the infrastructure money has flowed. Have you looked at opportunities, one, to save money in the administration costs, or two, in response to the feedback from application processes of the past?

Mr. Richard Botham (Assistant Deputy Minister, Economic Development and Corporate Finance, Department of Finance): I think most of that work is really not done in the Department of Finance. Most of that work would be done in the ministry of infrastructure. Those officials would be most familiar with the existing program architecture as well as the terms and conditions of those programs.

We certainly do hear representations from big-city mayors and from the Federation of Canadian Municipalities. We are aware of issues or concerns that are raised in that respect, but the primary policy work is not undertaken within the Department of Finance.

Ms. Jennifer O'Connell: Thank you. Fair enough.

To follow up on that, if a review like that.... Granted, it would come from a different ministry, but I'm looking at the financial side of the streamlining and the cost savings to the government in the sense of streamlining.

Is this something that, if this were to move forward with a different model, the finance department could comment on in the sense of effectiveness, with basically an overall financial lens just looking at whether or not this is a good model or if there are cost savings or whatnot? Is that something that could be done by the ministry as more of a commentary on the overall cost?

● (1255)

Mr. Richard Botham: I think the Minister of Finance would certainly look to our department for advice on those issues around the cost of program delivery. That is something we certainly work on with our colleagues at the ministry of infrastructure to understand better.

We would provide advice, if requested. As you say, there is a cost implication, so it likely is a matter that would be of interest to the Minister of Finance.

Ms. Jennifer O'Connell: Great. That information was very helpful.

Thank you, Mr. Chair.

The Chair: Thank you.

Ms. Raitt.

Hon. Lisa Raitt: Thank you.

Welcome. The minister's mandate letter says very clearly that the platform is guiding the government, and the expectation of the Prime Minister is to deliver on all the commitments. Have you costed the platform promises found in the minister's mandate letter?

Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance):

Have we costed the platform in the minister's mandate letter? I mean, we're—

Hon. Lisa Raitt: Yes. It's the minister's mandate letter. He's been told to implement the entire platform. Have you costed it out?

Mr. Nicholas Leswick: We're working through the budget process right now and to review proposals submitted by the cabinet ministers, who have brought forward proposals in the budget process. We're in the midst of costing those proposals for consideration by the Minister of Finance for ultimate budget consideration and budget funding.

Hon. Lisa Raitt: Okay, because he had some specific ones in there that actually are in your department: GST rebate, increased northern residents deduction, reduced waiting period for EI, labour-sponsored venture capital corporation tax credit, teacher tax benefit. Do those numbers match up with what was in the Liberal platform promises that your minister actually put together in August?

Mr. Nicholas Leswick: Andrew, do you want to touch on the tax stuff?

Mr. Andrew Marsland: Well, I guess we're in the process of costing those items. I'm not sure I can comment on the specifics.

The Chair: I think, Ms. Raitt, you're well aware that the departmental officials have some limitations on what they can answer relative to some of the political decisions that the minister or the government may make.

Hon. Lisa Raitt: I'm very aware, Mr. Chair, that sometimes departments do memos based on a minister's mandate letter. In fact, I used to receive a couple of those memos. I'm just wondering if they have any, and we'll be sure to use ATIP to find out for sure.

I have a second question. When growth is projected at 4.6% in 2017, why are you still matching with a forecast adjustment of $40 billion in 2017, the same forecast adjustment that you gave for a GDP of a much lesser value in 2016?

Mr. Nicholas Leswick: It has to do with level terms, so the growth in that year is consistent with the growth in the private sector survey that was conducted in November. But the fact of the matter is that adjustment of $40 billion is on level terms and we feel that the size of the economy in nominal GDP in terms of roughly $2.1 billion will be lower in level terms by that period.

Hon. Lisa Raitt: What does “level terms” mean, so we can understand it, and for the people watching?

Mr. Nicholas Leswick: If you look at the same table you're referencing, nominal GDP is effectively the size, in nominal value, of the Canadian economy. We believe that the size of the Canadian economy for 2015 will be roughly $1.988 trillion, so in level terms, which is.... Nominal GDP is the broadest measure of the tax base. We tax based on consumption. We tax based on nominal level of income. When we look at nominal GDP, from a fiscal policy and tax policy perspective, that's the number we zero in on.

Indeed, growth rates may be consistent or may change over the time, but the target we're always keeping our eye on is the level of nominal GDP, which is representative, ultimately, of the tax base and what is consequential to tax collection.

Hon. Lisa Raitt: Right. Nominal GDP is a combination of the real GDP forecast plus inflation. If you go back to the real GDP growth that's being projected, it's 1.4% in 2016 and 2.4% in 2017, yet you still have the same forecast to take care of things that you don't anticipate at the same level.

Mr. Nicholas Leswick: Right, I understand, and thank you for the question because there is a complexity here.

The level in growth terms—we're not anticipating any change in growth—but because you're effectively growing more slowly in 2016, you're going to have a lower level in 2017. Even though you're growing consistently in 2017, because you grew slower in 2016, your level terms in 2017 just carry forward. It is that level shift, from a fiscal and tax policy perspective, that is most consequential when we ultimately calculate the fiscal balance.

I hope that was clear.

● (1300)

Hon. Lisa Raitt: Yes, it's very helpful.

The advisory council was announced as well. The minister mentioned it this morning. Are the members of this council going to be compensated?

Mr. Nicholas Leswick: I believe the minister in his announcement yesterday said that the advisory council would be compensated with a nominal $1, and that all their expenses would be compensated as well.

Hon. Lisa Raitt: Is there going to be a separate secretariat set up within the Department of Finance to support this committee?

Mr. Nicholas Leswick: No, it will be funded within existing reference levels in my branch.

Hon. Lisa Raitt: Will all the members of this advisory council sign a confidentiality agreement—

Mr. Nicholas Leswick: That's a good question. I can get back to the member on that.

Hon. Lisa Raitt: —and provide that their companies will not bid on any work associated with the findings of the advisory council?

Mr. Nicholas Leswick: That's a good question. I'm sorry, I don't have an answer for you today.

Hon. Lisa Raitt: Okay. Thank you very much.

I'd like to take you back as well. I'm not going to ask you about the “Fiscal Monitor” because we've already made our point that we feel we left in a surplus. I am going to ask you, with respect to the—

Mr. Steven MacKinnon: Mr. Chair, on a point of order, I don't think the member can ask that.

Hon. Lisa Raitt: I don't think that's a point of order.

Mr. Steven MacKinnon: I don't think you can say what question you're not going to ask and then not ask it.

Hon. Lisa Raitt: I'm pretty sure I can say whatever I want, Mr. MacKinnon.

The Chair: It's not a point of order. I think it's a matter of debate.

Go ahead, Ms. Raitt.

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

Going forward, there is also a set of numbers there that I'd like to get some clarification on. It's on page 5 of 10 and it has to do with the difference between the February 2016 survey and the fall update. The note to which it refers reads:

> Figures have been restated due to historical revisions to the Canadian System of National Accounts from Statistics Canada.

Could you let us know in simple language what that means, the -21 and the -23?

The Chair: Ms. Raitt, what paper are you dealing with? Is it yesterday's economic—

Hon. Lisa Raitt: Yes. It's the backgrounder on the economic update, page 5 of 10. There are two numbers, -21 and -23, under nominal GDP level. They pertain to a note that's at the bottom. There's a little asterisk. I just wanted them to clarify the note.

Mr. Nicholas Leswick: I understand the question.

The System of National Accounts is an international system so that countries can operate and compare their financial statistics in comparable terms.

There are revisions to the system to ensure the system is properly recording certain revenues and expenses, and likewise economic activity, consistently across countries.

In the most recent revisions, there were some differences, as the member asked for in very simple terms, just in the treatment of cash versus accrual items for certain objects in the System of National Accounts. Where we used to account for them on a cash basis, with this System of National Accounts, it's gradually moving towards more of an accrual-based system, for things such as capital expenses and pension expenses.

Hon. Lisa Raitt: Okay.

The Chair: Mr. Caron.

[*Translation*]

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

Earlier when I put my question to the minister I obtained a rather political reply. However I would like to obtain a technical answer on how the department arrives at its decision to lower or increase the reserve fund, and whether it increases or lowers, for planning purposes, the forecasts regarding private sector economic growth.

How is the decision made, and how, since last November's economic update, in the space of three months, did we go from a $20-billion decrease in private sector projections to $40 million today? How was the decision to increase the reserve fund from $1 to $6 billion made? I am not talking about the fact that these amounts are increased or decreased, but about how you specifically arrive at a figure of $6 billion or $40 billion.

[*English*]

Mr. Nicholas Leswick: Thank you for the question.

When we set the economic and fiscal forecasts, our economic forecast is effectively a straight average of the 15 private sector economists that we survey. We take all their variables across a menu of different economic indicators and just take the straight average, including the nominal GDP level that we talked about.

Using that basic average, we then meet with the private sector economists. The Minister of Finance and I met with private sector economists last week to discuss their views on the Canadian economy and in particular any upside or downside risks facing both the international and global economies. On the basis of that discussion, we test the notion of how much downside risk we should protect the forecast against.

In the most recent discussion, which ultimately manifested itself into the $40-billion downward adjustment in question, I think there were a couple of factors. One is the risk of financial market volatility, the risk in the global economy, with China for instance, oil prices, and the futures curve versus where we're seeing the private sector survey. There's clearly some downside risk to the Canadian economy. That was point number one.

On the second point, when we met with economists in November, when we tabled the November update, we included a $20-billion adjustment for risk. Between the November survey and the February survey, we ate through that $20 billion and actually decreased in level terms by an additional $20 billion, so we would have required a $40-billion adjustment.

In that context, given the risk to the downside, the most recent adjustment, and the fact that we've had to revise the private sector survey over the last three surveys on an average of $40 billion, we judged it appropriate to start to recalibrate the $40-billion nominal GDP adjustment.

● (1305)

Mr. Guy Caron: I have a couple of other questions, but I'm trying to go fast here.

Back in November, the fiscal update actually showed the state of the EI account, which the current update does not show. Do you have quick numbers for us on the current state?

Mr. Nicholas Leswick: I don't have an update on EI numbers for you. We certainly will have that in the budget on March 22.

Mr. Guy Caron: Thank you very much.

I'll leave 30 seconds at the end for a last quick question.

The Chair: I'll give you notice.

Mr. Guy Caron: *Merci.*

The biggest change we've seen in Annex B in terms of the revenues is the decrease in personal income tax.

I'd like to know how we can actually predict a $7.6-billion reduction in personal income tax. That doesn't take into account the so-called middle-class tax cut, which is in the other part of the ledger. What's the difference? Have you changed your model?

Mr. Nicholas Leswick: No, there are no changes in the model. It's nominal GDP and flat-out income, so lower income growth in the hands of Canadians. That lower income translates into lower tax receipts and personal income taxes.

Mr. Guy Caron: Could you give me a rough estimate of the impact of that $40 billion for billing purposes that were reused from the private forecasts on the income tax reduction?

Mr. Nicholas Leswick: The rough estimate is $6 billion and that would be distributed across a few revenue tax receipt items. Back to your question, it's not particular to personal income tax. It would be spread across personal, corporate, and other tax indicators, but it's $6 billion on budgetary revenues.

[*Translation*]

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

[*English*]

The Chair: You have two minutes.

Mr. Guy Caron: Thank you.

You have a model you're using, and in that model you have fiscal multipliers, right?

Mr. Nicholas Leswick: Correct.

Mr. Guy Caron: We used to have them available, I remember in previous budgets up to about 2010, and then we didn't see them anymore.

Do you have the list of fiscal multipliers the Department of Finance is using either for its updates or even for the budget, and could you make them available to us?

Mr. Nicholas Leswick: I don't have the list in front of me.

To take a step back, fiscal multipliers are subject to a degree of subjectivity and model assumptions in how these things ultimately are calculated. There's a great deal of debate, as I'm sure the member is aware, on the value of some of these multipliers on infrastructure versus tax rebates, for instance.

Mr. Guy Caron: That is why I'm asking for them now, because the most recent ones we have are from 2010, so we're talking about five or six years past.

Mr. Nicholas Leswick: That's right. The last time we published them was in 2009.

I don't have them today, and I can't commit to their being published in budget 2016, but it's under consideration.

Mr. Guy Caron: I'm asking if it's possible for you to make them formally available to the committee.

Mr. Nicholas Leswick: If possible, I can get back to the committee on that.

The Chair: We will turn to Mr. Grewal.

Mr. Raj Grewal: Thank you, Mr. Chair, and thank you to all of you for coming out today.

There has been a lot of talk about commodity prices and the impact they are having not just on world markets but on the Canadian economy in particular. What would the implications be on Canada's economic growth if we do not have a sustained increase in commodity prices in the future?

● (1310)

Mr. Nicholas Leswick: Let me talk about the channels of impact in terms of how low commodity prices would ultimately factor into lower economic growth in Canada.

Lower commodity prices would ultimately translate into lower nominal income for the economy, so lower profits for corporations and lower wages for Canadian workers. A second effect would be lower investment in commodity assets, so lower investments in the oil sands, lower investments in LNG facilities. But overall, it's ultimately a reduction in our terms of trade as well. The price we get for imports would be lower in relative terms vis-à-vis where commodity prices started versus where they would be in a shock minus control scenario.

Ultimately, it's lower income for the Canadian economy.

Mr. Raj Grewal: Thank you.

There's all this talk about did we have a surplus, did we have a deficit last year. In your opinion, would it be prudent to look at it as an entire 12-month scenario and not as a month-by-month scenario?

Mr. Nicholas Leswick: Thank you for the question.

We published our fiscal projections in yesterday's backgrounder as spoken to by the Minister of Finance in which we projected a deficit in the order of magnitude of $2.3 billion for 2015-16.

Mr. Raj Grewal: To what extent can the federal government minimize the impacts of other economies having a negative downturn? What comes to mind is China. What policy measures can we take to ensure our economy is somewhat sustained?

At the end of the day, we all realize that all the world economies are quite integrated, and that benefits us as well, but in your opinion, is there anything from a policy perspective that should be taken by the federal government with other economies to help minimize downside risk?

Mr. Nicholas Leswick: With respect to that, it's a very difficult question. Canada has a small, open economy. We're a country of some 35 million to 36 million people. We depend on external markets to sell our goods and services, and as you just touched on, our valued commodities. In terms of protecting against global economic volatility, as you mentioned, we enjoy the upsides, and we are certainly affected by the downsides as well, so anything we can protect....

We have stabilizers like the employment insurance system, automatic stabilizers, which kick into effect and protect us against some of those cyclical factors. Supporting domestic consumption and investment while still attracting foreign direct investment means the right kind of policy approach, but certainly we wouldn't want to close ourselves to the ups and downs of the global economy.

Mr. Raj Grewal: Thank you. Excellent.

In terms of the foreign exchange rate and Canada's dollar versus the U.S. greenback, in your opinion, what number should it be? As the dollar fluctuates, there are advantages and disadvantages on importing and exporting. At what level...or is there even a number that suggests that this is the ideal exchange rate for the Canadian economy to grow?

Mr. Nicholas Leswick: I always use a very simple answer, and it's one I always have to stick to. We don't comment on the underlying value of the Canadian dollar. It's solely determined by market forces.

Stronger or weaker—this is almost getting at my answer to you in the last question—the Canadian dollar presents both upsides and downsides to the Canadian economy. As we're seeing, a weaker Canadian dollar is incentivizing our manufacturing sector to make investments, to enhance its capacity, so that it is more competitive and able to avail upon foreign markets to sell Canadian goods and services.

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

The Chair: Mr. Liepert.

Mr. Ron Liepert: I've heard from several of my colleagues on the government side that we don't have a spending problem, that we have a revenue problem. It was the Conservative government that cut the GST from 7% to 5%. If the Minister of Finance decided on March 22 that he was going to not fulfill the election promises and hold spending to the current level, and if you took out the $6-billion contingency fund, it is possible, is it not, that the government could, by putting the GST back to 7% and overturning another Conservative initiative, which has become quite commonplace, actually have a balanced budget? Is that correct?

● (1315)

Mr. Nicholas Leswick: I mean, the raw math of the matter is interesting. I have to say that it's difficult, if you're saying at this current point in time, to anticipate certain cyclical factors in terms of where the economy is going, or what is truly our underlying structural surplus or deficit.

Mr. Ron Liepert: But if I'm correct, one point on the GST is about $6 billion. Is that not correct?

Mr. Nicholas Leswick: If it's a rough—

Mr. Ron Liepert: Give or take; give or take.

If you take out the cushion, that reduces it to $12 billion. My math: six times two is 12.

Mr. Nicholas Leswick: I'm certainly not going to argue with the former minister of finance for Alberta about his mathematics.

Voices: Oh, oh!

Mr. Ron Liepert: We will watch and see whether they turn back some additional Conservative initiatives over the past few years.

In your estimation, is that 7.6% less personal income tax—to be collected in 2016-17, I guess—largely because of the downturn in Alberta?

Mr. Nicholas Leswick: I think it would be difficult to say that it's merely as a result of the downturn in Alberta, but certainly the lower income in the Canadian economy is being driven by lower commodity prices.

Mr. Ron Liepert: In what other areas would people be paying less? In your assessment of the economy, in what other areas would personal income tax be down other than the oil and gas sector? When I say Alberta, I'm sorry; I should include Saskatchewan—let's say the energy sector.

Mr. Nicholas Leswick: Okay. I think that maybe reframes the question.

I think there's Atlantic Canada certainly, with their offshore activity and their winding down of some of their big mega commodity projects as well; Saskatchewan; and B.C., quite surprisingly. We've done some research on the size of the itinerant workforce in Alberta. Where we generally think the large proportion comes from Atlantic Canada, we see neighbouring provinces, obviously Saskatchewan and British Columbia, that will suffer loss of employment due to deterioration in—

Mr. Ron Liepert: But it is largely due to the downturn—

Mr. Nicholas Leswick: It's largely due to the commodities sector.

Mr. Ron Liepert: Do you do any modelling as to how a $10 increase in the price of oil would be reflected in the revenue of the federal government?

Mr. Nicholas Leswick: We're starting to frame rules of thumb like that, but I have nothing at my fingertips right now.

Mr. Ron Liepert: Can you give me a rough estimate? Would it be $1 billion for every $1 increase?

If we could get our product to tidewater—and I'll put in a good punch here for the energy east or Trans Mountain pipeline—and remove that differential that Canadians currently receive on oil, that would obviously have a positive impact on what is not a spending problem but a revenue problem, according to government.

Mr. Nicholas Leswick: If we can sell more products and avail more receipts from the sale of our commodities, then sure, it brings more income into the economy.

The Chair: I think what Mr. Liepert is saying is at a higher price. Correct?

Mr. Ron Liepert: Well, at a world price.

The Chair: Yes, minus the discount that's there as a result.

Mr. Ron Liepert: Of not being able to get it to tidewater, correct.

The Chair: Mr. Sorbara.

Mr. Francesco Sorbara: I want to confirm that every $1 invested in infrastructure generates $1.50 in benefits for the economy. Is that the number the department has estimated?

Mr. Nicholas Leswick: This goes back to Mr. Caron's question about fiscal multipliers. The economic theory of it is that if you invest $1 in infrastructure, after eight quarters it has a multiplicative effect in supporting consumption investment in other parts of the economy.

● (1320)

Mr. Francesco Sorbara: Investments in infrastructure, in my view, would create the conditions for long-term economic growth and improvements in productivity, which would help us maintain our standard of living.

Mr. Nicholas Leswick: That's the logic.

Mr. Francesco Sorbara: As an individual who used to cover a number of companies and read their financial statements, the year end would be the most important. My understanding is that the fiscal year end for the government is March 31, correct?

Mr. Nicholas Leswick: Correct.

Mr. Francesco Sorbara: And there is seasonality in spending and expenses, correct?

Mr. Nicholas Leswick: Correct.

Mr. Francesco Sorbara: My understanding is, and I'd like your confirmation, that a number of swings happen during the year. In this last quarter, there usually are a number of large swings in terms of the expense side. Has that not historically been the case?

Mr. Nicholas Leswick: Both expense and revenue to some extent, yes.

Mr. Francesco Sorbara: It would be prudent to look at a full-year financial statement, in this case the government's financial statement for the full year, not just look at an individual month or an individual quarter to get a sense of where our government trajectory in revenue and spending is going.

Mr. Nicholas Leswick: As part of my job, we're looking at both the monthly income statement and the ultimate annual projection. But yes, we plan on both those bases: our cash requirements on a monthly basis and our ultimate budgetary surplus or deficit on an annual basis.

Mr. Francesco Sorbara: Regarding the GDP deflator or GDP inflation rate, do you take an average of that?

Mr. Nicholas Leswick: Correct. GDP inflation is a construct of both domestic inflation measured by consumer price index and your terms of trade, so WTI and other commodity indicators. Ultimately, we take an average of what the private sector tells us for GDP inflation.

Mr. Francesco Sorbara: I'm going to stop there.

The Chair: If you're splitting your time with Mr. MacKinnon, you have two and a half minutes left.

[*Translation*]

Mr. Steven MacKinnon: Mr. Chair, can we get back to this during another five-minute round?

The Chair: Yes.

Mr. Steven MacKinnon: Fine.

Mr. Leswick, I am going to begin with sick leave.

The previous government changed leave provisions in this regard. What motivated this decision at the outset? Why must we now review all of this in the fiscal framework? What was the thinking that led to such reversals in the context of the financial situation?

[*English*]

Mr. Nicholas Leswick: Thank you for the question.

In the previous budget, the previous government had booked a certain amount of savings related to intentions to implement a short-term disability plan. From an accounting perspective, we hold the liability on our balance sheets, which reflects the net present value of the total value of sick benefits. Those would effectively be replaced with a new short-term disability management system. By getting rid of the liability, the previous government had booked a certain amount of savings associated with those.

In this, what you saw yesterday in the backgrounder was a reversal of that entry into the fiscal framework, which signals a different approach on the part of the current government to negotiate a short-term disability plan with unions.

[*Translation*]

Mr. Steven MacKinnon: So the fact of having forced through the adoption of this short-term disability plan meant that the $900-million credit could be recovered. Now with the withdrawal of that provision, you are reversing the $900-million entry.

[*English*]

Mr. Nicholas Leswick: The previous government had given themselves the legislative authority to implement this system. The previous government never did exercise the authority, but in anticipation that they would exercise the authority, the savings were booked. Hopefully that's clear. There was never a legislative measure in the sense that they actually exercised legislation.

Mr. Steven MacKinnon: And these things tend—

The Chair: Order. That's time.

Mr. McColeman, you'll be clean-up batter.

Mr. Phil McColeman: Thank you, Mr. Chair.

What real purpose does the department's monthly “Fiscal Monitor” serve?

● (1325)

Mr. Nicholas Leswick: The “Fiscal Monitor” is a monthly statement of operations. It effectively shows our income statement on a monthly basis. The real purpose for us is two things. It shows the budgetary surplus or deficit in any one month, and it also sets our ultimate cash requirements. It's the income statement and the statement of cash flows, so we know how much money we need to raise on markets to fund any particular surplus or deficit in any month.

Mr. Phil McColeman: To be clear, our understanding is from the period of April 1 to the end of December, there's a $3.2-billion surplus in the account.

Mr. Nicholas Leswick: Not an account per se, but yes—

Mr. Phil McColeman: In the cash flow.

Mr. Nicholas Leswick: Yes, there's a cumulative surplus of $3.2 billion year to date December.

Mr. Phil McColeman: Thanks.

You keep mentioning that there have been large fluctuations in the economy in the last two months. What produces those large fluctuations? What are the key components of those large fluctuations as you look back on previous fiscal years?

Mr. Nicholas Leswick: In 2015 in general we had two quarters of negative growth at the beginning of the year, driven almost entirely by a decline in investment in the energy sector. We bounced back in the third quarter and now we're anticipating our fourth quarter results at the beginning of March. But looking at the first two months of the last quarter, we see some weakness in retail. Statistics Canada released our retail trade numbers last week, which showed some weakness in consumer spending. Likewise, there's persistent weakness in investment in the energy sector. Quite frankly, we haven't seen Canadian exporters quite take hold of the potential advantages of the depreciation of the Canadian dollar. That's weighing on forecasts, I think, across our private sector surveys.

Mr. Phil McColeman: Would you say that your projections in terms of that retail component vis-à-vis the effect of the reduced Canadian dollar on Canadian exporters and manufacturers will kick in, and if so, when?

Mr. Nicholas Leswick: We don't have too many months of data just yet, but last week's data was very interesting because Statistics Canada also released consumer price inflation as well, which showed that prices are going up, so it's weighing on Canadian retailers. If you have a fixed budget, you can only buy so much with your fixed budget, and if prices are going up, then your real consumption, your real nominal purchases, will go down. I think we're going to see that with the lower Canadian dollar, so it makes it more expensive for us to import fruits and vegetables, as we've seen in the media in the last little bit. We're going to see that play out over the next couple months, and we'll see to what extent that weighs on ultimate retail sales.

Mr. Phil McColeman: The reverse is that because of the lower dollar it makes it a lot more attractive for manufacturers and exporters. In fact, Ontario is currently projecting large increases on their fiscal balance sheet because of that effect, not the reverse, not the one you just mentioned, which was importing products and having to pay with Canadian dollars.

Mr. Nicholas Leswick: Absolutely.

Mr. Phil McColeman: Do you factor that into what Ontario is doing, which is factoring it into their upcoming budget?

Mr. Nicholas Leswick: Absolutely, and we're hoping that the manufacturing sector will make capital investments to enhance their capacity and respond to demand from markets such as the United States.

It's all factored in, but I guess at a higher level I think we're seeing some weakness in Q4. We and private sector economists are expecting effectively a flat quarter. The results will come out on March 1.

It's just a weakness in momentum that will carry forward into the first quarter of 2016. In that regard, I think it's definitely one part of the reason, along with lower oil prices, why 2016 has been brought down a notch in terms of expectations for growth.

Mr. Phil McColeman: Yes. Now—

The Chair: I'll have to stop you there, Mr. McColeman.

We are at the end of our time for committee.

Just to make note, Mr. Leswick, I think we're—

Mr. Steven MacKinnon: On a point of order, Mr. Chair, do we not get another turn?

The Chair: No. We're out of time. We're at 1:30. That's when we have to adjourn.

Mr. Leswick, I think you were going to get back to the committee on a couple of questions from Ms. Raitt and one from Mr. Caron. You can provide that information to the clerk, and she will distribute it.

As well, for committee members—people on the steering committee know this—we will meet on Thursday in camera to give instructions to the analysts in terms of the pre-budget consultations and where we're going with that. I would suggest as well that people come with three priorities in mind that we may want to put to the minister earlier than a pre-budget report. Also, if there's time, we might want to look at some scheduling issues going forward. That meeting will be in camera.

With that, Ms. Lafleur, Mr. Marsland, Mr. Leswick, and Mr. Botham, I thank you for your presentation and for answering our questions today.

With that, we have to adjourn the meeting.

● (1330)

Mr. Robert-Falcon Ouellette: On a point of order, Mr. Chair, it's just a quick question.

The Chair: There's not time for a point of order.

The meeting is adjourned.