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• (1500)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Welcome to meeting number 37 of the House of Commons Standing Committee on Finance. Pursuant to the order of reference from the House, we are meeting on the government's response to the COVID-19 pandemic. Today's meeting is taking place by video conference and the proceedings will be made available through the House of Commons website.

This will be the first of three panels. Today we are fortunate to have the Governor and Senior Deputy Governor of the Bank of Canada with us.

Welcome, Mr. Tiff Macklem and Ms. Carolyn Wilkins. You're new in the job, Mr. Macklem, but not new to the Bank of Canada. The floor is yours and we'll ask you to keep it to about 10 minutes or less. Then we'll go to a series of questions. Congratulations on the job and welcome to the finance committee. We look forward to your presentation.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you and good afternoon, Chair, and committee members. It is an honour to appear before you as the 10th Governor of the Bank of Canada. I look forward to working with parliamentarians over the next seven years through regular appearances before committees of the House and the Senate. These are an important part of the bank's accountability to Canadians.

Today, Senior Deputy Governor Wilkins and I are pleased to be here as part of your study of the government's response to the COVID-19 pandemic. We are particularly looking forward to your questions and feedback on the foremost concerns of Canadians at this very difficult time.

[*Translation*]

The Bank of Canada is committed to doing everything we can to help the Canadian economy recover from the enormous impact of COVID-19. Today I will talk about the bank's four main functions and elaborate on how the bank is responding to the pandemic. Then I will say just a few words about our operations in general. After that, we will be happy to answer your questions.

Let me begin with our most visible and tangible function—our bank notes. As a central bank, we provide a public good through a universally accepted means of payment. It is the Bank of Canada's job to provide Canadians with safe, secure, high-quality bank notes that they can use with confidence.

• (1505)

[*English*]

We know COVID-19 is changing the relationship some Canadians are having with cash, at least temporarily. About a third of Canadians say they are using banknotes less frequently during the pandemic, and we know that some retailers are asking Canadians to use electronic payments instead of cash. The bank strongly advocates that retailers accept cash for two reasons.

First, some Canadians don't have a bank account and many others have accounts that limit the number of debit transactions or subject them to fees. These are often Canadians who are particularly vulnerable economically and they depend on cash to make essential purchases. Refusing cash puts an unfair burden on Canadians who don't have the same ease of access to financial services that the rest of us take for granted.

Second, it's important to note that handling banknotes is no more risky in terms of virus transmission than touching other common surfaces. Because the banknotes are made of polymer, they can be cleaned with soap and water. During this pandemic, public health authorities have stressed to Canadians the importance of hand washing. We should all follow this advice, including those who handle cash.

[*Translation*]

The pandemic may be accelerating an established trend where Canadians are using bank notes less often relative to electronic payments. About 1 in 10 Canadians claims not to use cash at all. At the same time, the number of bank notes in circulation continues to grow, along with demand. The bank will continue to watch closely to see how the demand for cash evolves, and we will be ready to supply all the bank notes that people and businesses want to hold.

[English]

Related to these trends in banknote use, we have also been looking closely at the idea of a central bank digital currency. Earlier this year, deputy governor Tim Lane spoke about the circumstances when it might make sense for the Bank of Canada to issue its own digital currency. This includes a situation in which most Canadians stopped using banknotes. We don't believe that a digital currency is required at this time, but we are moving forward with contingency planning so that if we ever judge that we should issue a digital currency, we would be ready.

The second function I will mention is our funds management role. The bank is the fiscal agent of the government. We advise the government on strategies for its debt and cash management, and we conduct auctions for federal government bonds and treasury bills. We also provide banking services to some financial institutions, Crown corporations, other central banks and international financial institutions.

This is an important function in regular times. We help the government manage its finances in a cost-effective way, but this function has taken on added importance during the pandemic. The government's financing needs have increased at an unprecedented pace this fiscal year with the introduction of needed measures to reduce the pandemic's impact on the Canadian economy. I note that even with the record issuance, Canada's net debt-to-GDP ratio remains the lowest among G7 countries.

Because interest rates on Government of Canada debt serve as the benchmark for many financial markets, it is imperative to keep the government bond markets working well. To do this, the bank has implemented a number of extraordinary measures, and this brings me to our financial system function.

Our third function is the promotion of a stable and efficient financial system. The bank is unique in that it has a system-wide perspective on the stability and efficiency of the system. We bring this perspective to our work with federal and provincial partners to make sure the financial system is working well to support the real economy.

Credit is the lifeblood of modern market-based economies. In a crisis, central banks have a critical imperative to provide the liquidity the financial system needs to keep credit flowing. This traditional role of central banks goes back hundreds of years. In the 1800s, British journalist Walter Bagehot famously said that in a crisis a central bank should lend freely, at a penalty rate, against good collateral. What he meant was that a central bank should always be ready to make sure the financial system has sufficient cash or liquidity during times of stress so that it can help the economy weather the storm, rather than becoming a headwind itself.

• (1510)

[Translation]

The onset of the COVID-19 pandemic was hugely disruptive to many vital financial markets. Liquidity disappeared from markets, as participants sought to protect their own liquidity by increasing their cash holdings. Amid the uncertainty, credit markets began to seize up. The bank's priority from March to May was to restore proper functioning to financial markets so that Canadian house-

holds, businesses and governments could access credit to withstand the crisis. This should also help set the stage for recovery.

[English]

Under the leadership of my predecessor, Governor Poloz, as well as Senior Deputy Governor Wilkins, the bank did an outstanding job restoring the smooth functioning of key markets, ensuring ample funding and market liquidity.

The bank revived some emergency programs used during the global financial crisis over a decade ago, and it brought into operation several new measures with remarkable speed and precision. We are pleased to report that demand for liquidity is returning to normal levels and market functioning has improved considerably. The bank, therefore, has scaled back the frequency of some operations because financial market participants are not using them. We stand ready to ramp up these programs again if they are needed.

Finally, let me say a few words about the conduct of monetary policy. Our framework is set out in the inflation targeting agreement established with the government and renewed every five years. The agreement sends an important signal that the democratically elected government and the bank are agreed on our policy goal while giving the bank the operational independence to pursue that goal. This independence is crucial both in normal times and in crisis times.

Through this pandemic, the Bank of Canada, the government and financial Crown corporations and agencies have all been working closely and collaboratively to stabilize the financial system, keep credit flowing and support the economy. The bank's actions are designed to complement the government's fiscal efforts. At the same time, we are cognizant of each other's mandates, and the government has made it clear that it fully respects our independence.

As governor, I will protect the bank's ability to act independently, consistent with our mandate, because that independence is critical to the confidence that Canadians place in us, the credibility of our inflation target and our capacity to achieve it.

Under our policy framework, our mandate is to provide low, stable and predictable inflation. That's the best contribution we can make to the country's economic and financial welfare. Achieving our inflation goals lays the foundation for sustainable economic growth, and keeping inflation close to its target means the economy is running close to capacity with full employment.

Our inflation target takes on added importance during a time of crisis. As the bank moves into uncharted waters using tools it has not deployed before, the inflation target remains our beacon. Our monetary policy actions are anchored in the goal of bringing inflation back to target by helping the economy return to its potential capacity and full employment.

COVID-19 and the measures to contain it represent an economic shock of unprecedented size and scope to our economy. By April more than 3 million Canadians had lost their jobs and another 3.4 million were working fewer than half their regular hours.

With containment measures starting to lift in some parts of the country, we saw a resumption of job growth at a national level in May. We expect this to accelerate as the economy continues to re-open, but we have a long way to go and not all the jobs are going to come back. Important fiscal efforts are keeping as many Canadians as possible attached to their jobs and helping households and companies make it through the crisis. These efforts are supporting Canadians now and will position the economy for recovery.

In our latest interest rate announcement, we said we expect economic growth to resume in the third quarter. With market function improved and containment restrictions easing, the bank's focus will shift to supporting the resumption of growth in output and employment.

The July monetary policy report will provide our updated assessment of the outlook for output and inflation. Given the unknown course of the pandemic, I expect this will be more of a scenario than a forecast, and it will also include a discussion of key risks.

● (1515)

[Translation]

While our monetary policy will continue to be grounded in our inflation-targeting framework, we acknowledge that the consumer price index isn't currently giving an accurate picture of inflation for many Canadians.

Buying patterns and prices have changed drastically. Bank staff have been working with Statistics Canada to better understand the implications of these changes in buying patterns.

[English]

The bank has acted decisively by bringing the policy interest rate to its effective lower bound of 25 basis points. We have also begun large-scale asset purchases. In so doing, we are using our balance sheet to keep core funding markets working well and to deliver monetary stimulus to support the economic recovery. We have committed to continuing to purchase Government of Canada bonds until the recovery is well under way. Any further policy actions will be calibrated to provide the necessary degree of monetary accommodation required to achieve our inflation target.

Let me conclude with a few words about the bank's operations.

Currently, the vast majority of the bank staff are working from home. This is a testament to the flexibility and resilience of the bank's systems and its people. A handful of essential workers are on site, including security staff, IT staff, traders, bank operations colleagues at our head office, as well as staff at our backup site in Calgary and our regional operations centres. Bank staff are delivering for Canadians, and I am confident that this will continue.

The bank has a long tradition of ensuring accountability and transparency, and we are committed to building on this. We will maintain our momentum in a couple of areas. First, we recognize that all Canadians have a right to understand what their central

bank is doing and why. This is even more important today as we undertake unprecedented policy actions. We will be transparent about the results of our asset purchase programs, and we will continue to promote the use of plain language to help demystify our operations for interested Canadians.

[Translation]

Second, we have stepped up efforts to engage with a wide variety of stakeholder groups beyond our traditional partners.

Our goals are to reach Canadians directly and increase public knowledge of and participation in our activities in order to broaden understanding of our work and to build trust.

A number of activities to engage the public are upcoming or already underway. These include an online campaign to involve the public in the 2021 renewal of our inflation-targeting framework.

We also just concluded a campaign inviting the public to nominate an iconic Canadian to be featured on the next five-dollar note.

[English]

Let me stop there, Chair.

The Chair: Thank you very much.

Mr. Tiff Macklem: Senior Deputy Governor Wilkins and I would be pleased to take your questions.

The Chair: Again, thank you both for coming, and thank you for those remarks, Governor Macklem.

The lineup for the first six-minute round will be Mr. Poilievre, Mr. Fraser, Mr. Ste-Marie and Mr. Julian.

The floor is yours, Pierre.

Hon. Pierre Poilievre (Carleton, CPC): Congratulations, Governor, on your appointment.

Your predecessor testified before this committee not long ago, and when asked about the possibility of inflation, something that many Canadians are worried about given that the bank has created almost \$400 billion out of thin air in the last roughly 100 days, he replied that inflation would be a good problem because we know what to do if it arises.

What would you do if inflation turned out to be higher than the central bank originally expected over the next year or two?

● (1520)

Mr. Tiff Macklem: I recognize that there is some concern about the extraordinary actions the Bank of Canada has taken.

During the 2008-09 global financial crisis, the U.S. Federal Reserve embarked on an aggressive strategy of quantitative easing, large-scale asset purchases. At that time, there was concern that would cause inflation in the United States. It did not cause inflation in the United States. In fact, it prevented disinflation and kept inflation reasonably well anchored on their—

Hon. Pierre Poilievre: I'm sorry; it's just that we don't have a lot of time. The question is, if there is an unexpected rise in inflation, what would you do to combat it?

Mr. Tiff Macklem: If there is an unexpected rise in inflation—and I don't anticipate that that's going to happen—we have all the tools.

Hon. Pierre Poilievre: What would you do?

Mr. Tiff Macklem: Well, we can raise interest rates.

Hon. Pierre Poilievre: There you go: raise interest rates.

We have, as of 2018, according to the IMF, \$3.56 of debt for every dollar of economic output in this country. That number is surely higher today. That includes household, government and corporate debt. In the G7, only Japan is higher than Canada when you take into account household, corporate and government debt.

How much of an interest rate hike could the average Canadian household sustain before they would be unable to pay the mortgage or other credit market debt that it holds?

The Chair: I'm just going to interrupt for a second.

We will give you ample time to answer, Governor. We have two hours here, so we'll give you ample time to answer. Go ahead.

Mr. Tiff Macklem: I want to stress that our focus is on supporting the recovery. The Bank of Canada has lowered interest rates to the effect of the lower bound of 25 basis points. We have embarked on a strategy of large-scale asset purchases. That has a dual purpose, partly to restore.... One purpose is to restore good functioning in our debt markets. The other purpose is to lower interest rates without the yield curve, and we are very—

Hon. Pierre Poilievre: Sorry—

The Chair: Mr. Poilievre, the governor has at least 20 more seconds to equal your time even, and this is a crucial issue.

Go ahead, Governor.

Mr. Tiff Macklem: For now and for the foreseeable future, we're focused on providing the monetary stimulus and delivering low interest rates to support the recovery.

Hon. Pierre Poilievre: How many households—

Mr. Tiff Macklem: That is lowering the debt service costs that households face...and companies and governments.

Hon. Pierre Poilievre: How many households would become insolvent with a 2% increase in interest rates?

Mr. Tiff Macklem: You know, these questions are extremely hypothetical. We have no intention of raising interest rates in the current circumstance.

Hon. Pierre Poilievre: Of course not. That's why I'm not asking about the current circumstance. I'm asking about the medium-term circumstance, sir.

You've admitted that if inflation rises unexpectedly, you would raise interest rates. Those were your words. You said that.

We, as Canadian parliamentarians, need to know what that would do for households. How many would become insolvent if you had a 2% increase in interest rates?

Mr. Tiff Macklem: The biggest risk to Canadians becoming insolvent is not having jobs.

Hon. Pierre Poilievre: Right.

Mr. Tiff Macklem: The biggest risk to Canadians not being able to repay their mortgages is not having jobs.

Hon. Pierre Poilievre: Right.

Mr. Tiff Macklem: The Government of Canada has delivered an extraordinary amount of support to help bridge Canadians through this. The monetary policy has lowered interest rates to reduce the interest rate costs that Canadians are facing.

Hon. Pierre Poilievre: All right.

Mr. Tiff Macklem: That is the best contribution that we can make to getting Canadians back to work, which is the best thing we can do to improve Canadians...to prevent Canadians from going insolvent.

Hon. Pierre Poilievre: Sorry. Mr. Chair, we're well over the response time.

It doesn't sound like you have planned for the prospective future interest rate hikes, and it doesn't sound like you've modelled out what impact they would have on households.

I want to return to a paper you wrote in 1995 about government debt. You said:

In particular higher debt levels require higher tax rates to be sustained, and taxes affect economic activity by driving a wedge between the price the seller receives and [the] price the buyer pays. This wedge imposes an efficiency cost on the economy that is larger the higher taxes are. In labour markets, for example, most studies find that the effect of higher taxes is to reduce desired labour supply, and the disincentive effects of taxation are larger the higher marginal tax rates are.

In other words, higher taxes, fewer jobs; higher taxes, less work. That's what you wrote. I'm wondering if your recent appointment has changed your perspective on this; if you've reversed yourself in order to align with the high-debt and high-tax policies of the government or if you've retained the view that you had in that paper.

● (1525)

The Chair: Thank you. That will end the questions.

Governor, you have about a minute to answer. Go ahead.

Mr. Tiff Macklem: Fiscal policy is the purview of the Minister of Finance. What I wrote as an economist in the 1990s—

Hon. Pierre Poilievre: It was for the Bank of Canada.

Mr. Tiff Macklem: I stand by what I wrote. I would remind you, though, that the situation in the 1990s was very different. In the 1991-92 recession, Canada had a very high debt situation. As a result, the government was unable to provide a kind of stimulus, and of course coming out of it, there was a large fiscal consolidation.

Today, the situation is very different. We are reaping the benefits of starting from a very good fiscal situation, and the government is in a position to provide needed stimulus.

The Chair: Okay, thank you.

Mr. Fraser, you have six minutes or thereabouts. We do have ample time. I want people to have the time to clearly articulate their views. This is an important subject.

Mr. Fraser.

Mr. Sean Fraser (Central Nova, Lib.): I'll do my best to give the witness time, and I'll focus on real-world examples where possible.

There's a point I want to pick up on from my colleague Mr. Poilievre. It seems as though he wasn't listening to Professor Milligan's testimony before this committee. He pointed out very eloquently that it wasn't government decisions that led to increased cost to Canadians; it was the fact that we have a global pandemic that has created a certain cost. In fact, he said the government's response is probably one of the best ways to mitigate the social costs of the pandemic.

From there we heard testimony from other economists who suggested that the federal government is perhaps in the best position to incur some of the debt that this virus has caused in order to, again, mitigate social consequences. When your predecessor testified, he made the same point: that if anything, this pandemic is likely to have a deflationary effect and that if there was some inflation, it might actually help the economy in these scenarios.

Coming back to the point that Mr. Poilievre led with, which is really about the risk that a higher interest rate could potentially have, I'm curious about something. You mentioned that you don't believe there is a risk at present of that kind of an economic consequence, but why is that? Are there strategic risks we should be turning our mind to that could cause a sudden and unexpected hike in the rate of inflation or, more importantly for the purpose of this line of questioning, the rate of interest?

Mr. Tiff Macklem: The bigger risk is falling inflation and even deflation. We are more concerned about the risk of deflation than the risk of inflation, for two reasons.

First of all, deflation is particularly harmful to an economy, particularly an economy with high levels of household indebtedness, because the real value of people's debts goes up and their ability to service those debts goes down. That's why I was saying they're more likely to become insolvent in that situation. Second, we're already in a position such that our policy rate is at the effective lower bound of 25 basis points. Interest rates across the yield curve are already very low, so there's only so much monetary stimulus space available. For both those reasons, you want to really guard against falling inflation, and particularly deflation.

We're starting to see the containment measures coming off across Canada. With that, supply is being reopened and we're starting to see people being called back to work. We're starting to see people make purchases.

We've lost roughly three million jobs. We have about 290,000 of those back, but we're still down 2.7 million jobs. Given that, you can expect that the purchasing power and the confidence of Canadians are going to be severely impacted. That is going to reduce demand more than supply, which will put downward pressure on inflation.

Our actions are really designed to bring inflation back to target, and the way to do that is to support employment and output growth.

● (1530)

Mr. Sean Fraser: I would like to come back, if there's time, to the issue of whether there are risks we need to be worried about on the other side of the equation. For now, as I have a limited amount of time, I'll pivot in my line of questioning.

You were, of course, heavily involved with the expert panel on sustainable finance. In your new role, you made a point that I think is important about the independence of the bank. Obviously, helping Canada transition towards a greener economy and a more sustainable economy was necessary, in my view, before the pandemic arose.

There's been an enormous coordination between OSFI, the bank and the federal government in the pandemic response. On the issue of sustainable finance or economic growth more broadly, how can we continue to see that level of coordination, which does not interfere with the independence of the bank but allows Canada to position itself most competitively to take advantage of the opportunities that were flagged in the expert panel's report on sustainable finance?

Mr. Tiff Macklem: I'm glad you've seen our report. I will underline at the outset that when I chaired that panel I was dean of the Rotman School of Management. Together with the other expert panel members, we delivered that to the Minister of Finance and the Minister of the Environment. It's really up to them now to decide what to do with those recommendations.

I do think that responding to climate change is going to take a whole-of-government and whole-of-economy effort. It's going to take the public sector and, importantly, it's going to take the private sector. Ultimately, the private sector does most of the production in this economy and has a very important role to play too.

I'm going to ask my colleague Deputy Governor Wilkins to say a few words on the bank's research and strategy around climate change, but I will just underline that climate change is a big force on the economy and it's going to be accelerating. We at the bank are going to have to accelerate the work we're doing, as are other organizations and as is the private sector.

Senior Deputy Governor Wilkins, do you want to say a few words about our strategy?

Ms. Carolyn A. Wilkins (Senior Deputy Governor, Bank of Canada): Absolutely, Governor.

Thank you, Chair.

We do have quite an extensive work program which aims, just as you suggest, to complement the work that's done by governments, but also by the private sector, in areas that you would think about. The physical risks are the ones that are most palpable for people, because when they live them they're affecting their daily lives, but clearly, those risks, including exposures of financial institutions to physical risk and the disruptions that we've seen to economic activity, are important for us to understand.

We're doing work as well on the risk of the transition. Transition to a low-carbon economy can change relative values of asset prices. It could change which sectors do better than others, and that can present risks to the financial system that we need to understand and get ready for. That's a perfect opportunity for us—we're not a bank regulator—to work with OSFI and our private sector partners on trying to understand how to get the right data and do the right analysis so that we are ready for that.

Then, of course, there's this understanding of how the macro economy is going to change. We tend to think about these risks or the transition as being only one-sided and kind of downside, but in fact there are lots of opportunities. Farmers, for example, can invest in big data. They're doing that to improve their crop yields while at the same time they reduce their fuel consumption.

These kinds of changes in the macro economy affect how monetary policy might work and where the jobs are going to be. Again, we need to work with our counterparts to understand those as well.

Finally, we have our own job to do with our own business in making sure that we work to have the carbon footprint that we're happy with. We're committed to doing that and, with that, building in the right amount of transparency over time.

• (1535)

The Chair: Okay—

Mr. Sean Fraser: Mr. Chair, if I could get five seconds....

If you're looking for my feedback on the five-dollar bill, I hope you're thinking about Terry Fox. Thank you.

Mr. Tiff Macklem: Thank you for that.

The Chair: We have Mr. Ste-Marie, who will be followed by Mr. Julian.

Gabriel, the floor is yours.

[*Translation*]

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

Good morning and welcome to the committee, Governor Macklem. I congratulate you on your appointment.

Madam Senior Deputy Governor Wilkins, thank you for appearing again at the committee.

Regarding the name of a Canadian personality who deserves to be on the five-dollar bill, Mr. Fraser suggested Terry Fox, and I would like to suggest the chair of our committee, Mr. Easter.

That being said, let's move on to more serious business.

Economists Joseph Stiglitz and Hamid Rashid are concerned that much of the fiscal and monetary policy measures put in place during the COVID-19 pandemic are not being used immediately to stimulate consumption and business investment, but rather to increase reserves. You alluded to that briefly in your presentation. The economists say that this leads to the paradox that we may end up with a massive increase in the money supply and a low use of this liquidity by households and businesses.

Economists are concerned about a possible speculative bubble, especially in the stock markets, as there is a lot of available money that is not being used by consumers and businesses.

Could you give us your opinion on this? What is your analysis of the situation?

Mr. Tiff Macklem: You are right; there is a lot of uncertainty. We're using tools that we haven't used in Canada in the past, and it's actually difficult to predict the effects.

Current data show that fiscal expansion has supported household incomes and has almost replaced the loss of income due to the COVID-19 pandemic. We also see that the savings rate has increased somewhat, probably because households cannot go to the shops to spend. This is really good news, because households have reduced their debts and they now have the capacity to buy.

There is a risk that households will lack confidence and not spend. Their savings rate would therefore increase further. This underscores the importance of restoring household confidence, and the most important thing that will strengthen people's confidence is that they have jobs and a predictable income. If households are confident when the economy recovers, they borrow and spend, especially when interest rates are low, and that creates a strong economic recovery. There are certainly risks, and we will do our best to manage them. Fiscal expansion plays an important role because it creates the conditions for economic recovery.

• (1540)

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

I also thank you for answering my question in French.

I would like to draw a parallel with what your predecessor, Mr. Poloz, told us in his last appearance before the committee. In his view, it was very important to put in place budgetary and fiscal policies, since the tools of the Bank of Canada, the central bank, are already widely used.

As interest rates were already low, the previous governor closed the door to the use of negative interest rates. With respect to fiscal and tax policies, Mr. Poloz had strongly criticized the employment insurance system, whose purpose is to ensure income maintenance for workers who lose their jobs. As soon as the crisis began, the system collapsed. That is what led to the introduction of the Canada Emergency Response Benefit and the Emergency Wage Subsidy.

In your opinion, once the pandemic is over, will there be a need for a major review of the current employment insurance system, as suggested by your predecessor?

Mr. Tiff Macklem: In reality, the review of the employment insurance system is the responsibility of the Department of Finance and the Government of Canada. This system is very important, but we have seen that it is not enough in times of crisis. The government therefore put in place, during the crisis, emergency initiatives and new temporary programs. However, I will leave it to the Government of Canada to decide on the future evolution of the employment insurance system.

Mr. Gabriel Ste-Marie: Thank you.

Can you...

[English]

The Chair: Gabriel, we're well over time.

[Translation]

Mr. Gabriel Ste-Marie: Thank you.

[English]

The Chair: Thank you, both.

We're turning to Mr. Julian, who will be followed by Mr. Morantz.

Mr. Peter Julian (New Westminster—Burnaby, NDP): Thanks very much, Mr. Chair. I second the motion for a \$5 bank note with your face on it.

The Chair: Yes, I imagine.

Mr. Peter Julian: Hopefully I'll get more time.

Governor Macklem and Deputy Governor Wilkins, thank you very much for being here today. We hope your families are safe and healthy.

Congratulations, Governor Macklem. It's great to have you for your first visit in your new role in finance. Certainly, we'll be hearing from you regularly. We appreciate that.

Your earlier quote that the biggest risk to Canadians "is not having a job" is an important one because we are in a situation where, certainly on the ground, and I can tell you, speaking to you from New Westminster—Burnaby in British Columbia, the issue of liquidity is a big problem.

What do you believe the sum total of supports to the banking sector has been from the Bank of Canada?

Second, we asked the same question of OSFI a couple of weeks ago, and they came back with the figure of \$750 billion in overall supports for the banking sector, particularly Canada's big banks through the IMPP, through the Bank of Canada and through OSFI itself. However, when we look at other countries where supports have been put in place for the banking sector, that has come with conditions, either through the bank or through the financial regulator—I'm thinking of the Bank of England—stopping things like dividend payments and executive bonuses or making sure there can't be stock buybacks.

Why are there no conditions attached to what is a significant amount of support going to the banking sector, and what is your evaluation of the Bank of Canada's contribution to Canada's big banks and the banking sector generally since the beginning of the pandemic?

Mr. Tiff Macklem: I'm going to ask Deputy Governor Wilkins to start to answer that question. She was very directly involved in setting up a series of new programs the Bank of Canada has put in place. The scale of those programs goes up every week, and she can give you the latest numbers.

• (1545)

Ms. Carolyn A. Wilkins: Thank you.

That's an excellent question because it highlights the fact that supporting the financial system is a team effort. The total we've done so far amounts to \$341 billion, and that's outstanding. Of course, some of those activities have matured so the peak was somewhat higher than that, but that's how much is in there.

It seems like a very abstract number though, so I can take a second to talk about what that money is doing and the purpose of it. At the end of the day, it's to help households and businesses better deal with the financial hardship they might be feeling right now, but also to pave the way to a sustainable recovery. The governor spoke about that at the beginning.

Our activities range from providing short-term funding to financial institutions, corporations, provinces and municipalities to outright purchases of longer-term assets, so for corporate bonds, it would be corporate bonds with a remaining tender of less than five years. The reason we do that is to support those markets so that the private sector can also participate in a market that's more stable and that functions better. When that happens that means businesses have the working capital they need. It means that if households or businesses need to use their lines of credit, which they have had to do, the banks are there for them as much as they can be and so on. That complements some of the actions that CMHC has made in their IMPP, and OSFI has made in reducing the countercyclical capital buffer.

With respect to the decision on the restrictions to place on banks, their dividends versus their buybacks, that's out of the Bank of Canada's purview. The only thing that I would add before I turn it back to the governor is that's a decision of OFSI. It needs to be taken in the context of the fact that banks always have extra buffer in their capital than what they need as a regulatory requirement and that can be seen as a restriction on dividends the whole time. I'm going to turn it back to—

Mr. Peter Julian: Thanks very much for that.

The concern in the public's mind, of course, is that the big banks have had over \$5 billion in profits so far during this pandemic and, anecdotally, businesses are not getting access to liquidity. We're not seeing that trickle down into the community. In fact, in many respects the programs where businesses are accessing loans are ones where the Government of Canada has basically picked up through BDC and EDC 80% of the guarantees. What we have are the banks taking that massive amount of support, an unprecedented amount, and it's not trickling down. The loans they seem to be giving are the ones that have already been guaranteed and underwritten by the Government of Canada.

Does that worry you? This doesn't seem to be working, all this massive amount of support to Canada's big banks, except for them, of course.

Mr. Tiff Macklem: Deputy Governor Wilkins and I are not here to defend the banks, but let me just say a few things.

First of all, as the senior deputy governor highlighted, OSFI regulates the banks. They have imposed some restrictions. The banks can't increase dividends, and they can't increase buybacks. We're not the U.S. We're not the U.K. OSFI is imposing restrictions that are appropriate for Canada.

With respect to the response of the banks, it's worth underlining that this crisis is very different from the one we faced in 2008 and 2009. That was a financial crisis. Banks, particularly in the U.S. and in Europe, were very much at the centre of that crisis. There was a huge credit crunch, and that's what caused the recession. In the last dozen years since the financial crisis, there has been a tremendous reform effort in the financial system. Hundreds of billions of dollars of additional capital have been built up, liquidity is much reinforced and leverage is much lower. That has put the financial system in a position this time to be part of the solution as opposed to the problem.

I recognize that not every person feels like they've been well treated. They're not happy with the pricing and they found the negotiation with their bank unpleasant, but banks in Canada have deferred 700,000 mortgages. They have increased business credit substantially. Loan growth to businesses is up about 30%. Loan growth to households is down, which really reflects what I was talking about earlier. The government has replaced the income that households have lost. Household savings are going up. They're not shopping as much, certainly not for large purchases, so their credit growth has slowed, but banks have dramatically increased their loans to businesses to help businesses bridge across that.

For the Bank of Canada's part, by lowering our policy rate and by embarking on large-scale asset purchases that have lowered

yields at the curve, the cost of those loans to businesses has gone down. The interest rate of business loans is reduced by an average of about 140 basis points.

It's not perfect, but they are providing part of the solution.

• (1550)

The Chair: Thank you, all. We are quite substantially over on that round.

We have Mr. Morantz, and then we'll go to Mr. Fragiskatos.

Marty, you have a five-minute round.

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

Congratulations on your appointment, Governor.

I want to circle back to the question of interest rates. The reason I want to do that is, when it comes to the relationship, if you will, that millions of Canadians have with the Bank of Canada, whether they realize it or not, it comes down to the interest rate, because that's what affects their pocketbooks.

You said at the beginning that the overnight rate at 0.25% was the lower boundary of the rate. You also said that you don't anticipate rates going up at all. Are you of the view, basically, that it's going to be 0.25% for a long period of time? How long might that be?

Mr. Tiff Macklem: We're not here today to take monetary policy decisions. As I indicated in my opening statement, the focus in the initial months of the crisis was very much on restoring orderly market conditions. We are pleased to see that market conditions are normalizing.

With that, we are turning our focus more to monetary policy. An important step in that regard will be the publication of our monetary policy report in July where we will provide an outlook for the Canadian economy, recognizing there is still a lot of uncertainty, particularly around the evolution of the pandemic. I imagine it's going to be more of a scenario, possibly with some risk scenarios around that. It will provide us a planning scenario that will be important for the calibration of monetary policy, because as you're aware what we do today affects inflation, with some lag. We have to look forward.

That's the next step in the process to determine how much monetary stimulus will be needed and help us figure out for how long.

Mr. Marty Morantz: Is your inflation target still going to be 2%, or are you going to be changing that target?

Mr. Tiff Macklem: I'm going to ask Deputy Governor Wilkins to say a word about our research program related to the renewal. The target has been 2% for close to 30 years now, and it has served Canada and Canadians extremely well. One of the strengths of our inflation targeting regime is that we review it every five years. We are in the process right now of reviewing it. We are and will be consulting with a broader range of Canadians on that.

I'll ask Senior Deputy Governor Wilkins to say a few words about our research in that area.

• (1555)

Ms. Carolyn A. Wilkins: Sure. I'll be brief because we've spoken at length about this in different venues.

We're conducting an extensive research program that is doing, if you like, a horse race among different monetary policy frameworks, one of which is the one we have today: 2% inflation targeting. Another example is a dual mandate, something similar to what they have in the U.S. that looks not only at inflation but also full employment, price-level targeting, among others. We have a set of clear criteria for choosing which one seems to be best, knowing, as the governor just said, that 2% has served us extremely well. Those criteria are how well they served Canadians in terms of stabilizing the labour market, stabilizing production and if they will stand the test of time in different kinds of environments, like the one we have today.

We're expecting to consult widely with Canadians. You'll start to see our research work out there. The objective is to have an agreement signed with the government in 2021.

The Chair: Mr. Morantz, go ahead. We'll give you another minute, Marty.

Mr. Marty Morantz: Thank you.

Back to the governor, I'm having a little trouble understanding exactly what the reticence is around discussing interest rates. You seem not really quite ready to go there. You have said, in this meeting, that you've no plans to raise them. They're at the lower bound. Are interest rates going to stay at that lower bound, or do you think they're going to rise?

One of the other things that play into this is—and you mentioned this earlier with the mortgage deferrals—many people have described what they see as the “deferral cliff”. I don't think we're anywhere near the end of this crisis from a monetary perspective. How long can the bank keep this up and not have to deal with the possibility of inflation?

The Chair: Governor, the floor is yours, but we don't expect you to come to this committee and get into speculation. I do not believe this is the place for it.

Mr. Tiff Macklem: Thank you, Chair.

I can give you either a very long answer or a very short answer, but I think the chair wants me to give you a short answer.

Our—

Mr. Marty Morantz: Sorry, I just want to say, Mr. Chair, that this isn't speculation.

Your immediate predecessor in this committee only a few weeks ago said that interest rates will certainly go up. Pardon me if this isn't a real question that I think you should be answering. Do you think they'll certainly go up as well? That's not speculation. That's the opinion of your predecessor. What do you think?

The Chair: We are over time.

Go ahead, Governor.

Mr. Tiff Macklem: Someday, we will have gotten through this, the economy will be recovered and interest rates will start to move back to more normal levels, but we're in a deep hole and it's going to be a long way out of this hole.

The Chair: With that, thank you all.

We'll turn to Mr. Fragiskatos and then to Mr. Cumming.

Peter.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you very much, Mr. Chair.

Governor, congratulations on your appointment.

Deputy Governor, it's great to have you back at the finance committee.

My friend Mr. Poilievre talked about insolvency. I want to ask you about insolvency but in a different way, and indulge me if you can. It is a hypothetical question. I realize that, but I think it's an important question.

Mr. Tiff Macklem: I don't like hypothetical questions. I'll tell you that up front.

Mr. Peter Fragiskatos: I haven't asked it yet. I don't think it's one that compromises your position or the bank's perspective, but I did want to ask you this. How many households would have become insolvent if the Bank of Canada did not take the measures it took to secure and stabilize the Canadian economy and, by extension, protect Canadians? How many households would have been in a difficult position if the Canadian government had not introduced the various programs it introduced? This includes the CERB, the wage subsidy and the Canada emergency business account.

Do you have any thoughts on that, Governor?

Mr. Tiff Macklem: I don't have the precise numbers that you're asking for. As we start to revise, as we start to come to a base case or a central scenario for the economy going forward, with the economy now stabilized.... In the month of May, we saw some job growth. We are expecting that to pick up.

We are now in a position to start thinking about the path of the economy going forward. As we do that, we can start evaluating the effects of different policies, but it's a bit premature. I don't have those numbers. Senior Deputy Governor Wilkins does have some information, I think, from the—

• (1600)

Mr. Peter Fragiskatos: I appreciate that, but let me put the question another way.

I'm not expecting you, Governor and Deputy Governor, to have numbers on this, but suppose—let's just engage the counterfactual here—the Bank of Canada did nothing. Suppose the federal government did nothing in the face of COVID-19. Is the prospect of a depression possible?

When the Parliamentary Budget Officer testified at the committee just a few weeks ago, he described a situation that very much mirrored a depression situation. When your predecessor testified, Governor, just a few weeks back, it was the same scenario.

Mr. Tiff Macklem: I don't have precise numbers, but the big risk here, whether it's for Canadians, for businesses or for governments, is the duration of this crisis. The longer it goes on, the more painful it becomes and the problems accumulate. That is why the government has come in very aggressively with very large programs to support businesses and households, to defer tax collections, to provide credit supports through BCAP and other measures. That's why the Bank of Canada is undertaking using tools it has never used before to support the economy.

We can't change the fact that the pandemic has resulted in a very severe recession, the most severe in our lifetime. The best we can do is to do everything we can so that the bounceback is.... Our expectation is that you'll probably see some pretty good numbers in the near term as the economy reopens. That's going to be a bit mechanical and there will probably be a slower period of recuperation thereafter. What we really want to avoid is a non-recovery. That would create huge problems, and that's why these measures are so important.

Mr. Peter Fragiskatos: Thank you very much.

Inflation has come up a few times in this meeting. I believe you know of the work of the Harvard economist Alberto Cavallo, who specializes in inflation and has taken a very nuanced approach to the study of inflation as it relates to COVID-19.

In a recent paper, he wrote the following, and I'd love your thoughts. Of course, he's writing in an American context, but like every other country in the world, Canada is also dealing with the economic impact of COVID-19, so I think his findings are applicable to our situation.

In any case, what he says is that “social-distancing rules and behaviours are making consumers spend relatively more on food and other categories with rising inflation” in these areas—and he points to meat prices in particular as really escalating dramatically in the United States—“and relatively less on transportation and other categories experiencing significant deflation” in these areas. Is this something that can apply to the Canadian context? If it does, to what extent does that worry you?

Mr. Tiff Macklem: As you point out—and I raised this, actually, in my opening statement—the CPI is a basket of goods that reflects what the representative household buys usually. Obviously, right now we're in a very unusual situation, so we're not buying many of the things that we normally buy. We're not travelling. We're not driving our cars as much. What we are buying is more food. We're at home more. We're buying more home goods and things like that.

Yes, the standard measures of inflation do not capture the reality that most Canadians are facing. We are working with StatsCan to get some measures of inflation that are more representative of what Canadians are really experiencing.

Keep in mind, though, that a lot of these effects will be fairly temporary. The economy is beginning to reopen. Essential stores have been open. Non-essential stores and services are beginning to reopen. People are probably going to go back and start shopping. Their basket will probably get more back to normal, but there may be some long-lasting effects, and it's going to be very important that we understand those.

• (1605)

Mr. Peter Fragiskatos: Thank you.

The Chair: Okay. Thanks, all of you.

Mr. Cumming will be followed by Ms. Koutrakis, who will split her time with Mr. Sorbara.

James.

Mr. James Cumming (Edmonton Centre, CPC): Thank you, Chair.

Welcome, Governor, and welcome to your new role, although given the times that we're in right now, you must wonder some days what you got yourself into.

That being said, when your predecessor last appeared at this committee, we had a discussion about the importance of the resource industry pre-COVID and, more important, how important that sector was in the recovery of the economy as we go forward. Do you agree with that?

Mr. Tiff Macklem: There's no question. The resource sector, the oil and gas sector, is a big part of Canada's economy. As Governor Poloz and Senior Deputy Wilkins have highlighted on a few occasions, the Canadian economy is getting a double whammy. There's the COVID crisis, but we've seen a dramatic drop in both the price of oil and the demand for oil, and that is certainly affecting incomes in Canada, particularly in our oil-producing regions.

We have seen some rebound in the price of oil. On the WCS, the Western Canadian Select, the spread relative to the WTI is actually unusually small, so that's good news. Having said that, oil prices are still well below where they were, and the reality is that global demand for oil is probably going to be lower than normal for some time to come. It's probably going to take a while to work our way out of this, but yes, that is an important element of the Canadian economy.

Mr. James Cumming: When your predecessor was here, the bank had purchased \$10 billion in corporate bonds, I believe it was. Can you give us an indication of what that number is now?

Mr. Tiff Macklem: I'm going to ask Senior Deputy Governor Wilkins to say that. It will be quite a bit bigger. The program was just getting going.

Ms. Carolyn A. Wilkins: Yes, you're right that the intent is to purchase up to \$10 billion in corporate bonds. That program just started, so we haven't purchased the full amount as of yet. There's about \$90 million that has been purchased. You will be able to see that on our balance sheet as time goes on. We will be very transparent about the amount of those purchases.

Mr. James Cumming: Along with the corporate bonds and other bond buying, the balance sheet for the bank has pretty much quadrupled.

How sustainable is this? Are you concerned about how long you can keep up this size of purchase?

Mr. Tiff Macklem: I'm not concerned about the size of the balance sheet. The expansion of the balance sheet is entirely necessary to implement our stabilization of funding markets and monetary policy.

If you look at our balance sheet compared with a number of other central banks, you'll see that it's still relatively small and we have significant capacity.

Mr. James Cumming: How concerned are you about increased liquidity? For the most part, that is involved with the banks doing deferrals, both consumer deferrals on mortgages and corporate deferrals.

Regarding the capacity of the marketplace to be able to repay that deferred debt, are you concerned that, come this fall, we're going to see a fairly steep condition for both businesses and individuals to repay that deferred debt?

Mr. Tiff Macklem: With respect to debt, this is a risk, and for some time the Bank of Canada has underlined that household debt is high. The government and CMHC have taken a number of actions to try to ensure that the debt levels of more vulnerable Canadians are not going up. We don't want to get Canadians into more debt than they can handle, so a number of what are often called "macroprudential" measures have been taken by OSFI, by the government and by CMHC.

There have also been some provincial initiatives with respect to the housing market. Those are helpful in making sure it's not only the level of the debt; it's who holds the debt. Some people have the capacity. What you want to do is make sure that others don't.

Yes, it would have been better if we'd gone into this crisis with less household debt, but the fact that we've lowered interest rates is making that debt easier to service. The fiscal programs that are replacing the income lost are helping people service their debts, and as I said before, the most important thing to servicing your debt is having a job. We have to support recovery and get people back to work.

• (1610)

The Chair: We will have to end that round there.

We'll go to Ms. Koutrakis, then on to Mr. Lemire, Mr. Julian and Mr. Cooper to start the next round.

Go ahead, Annie. You'll be splitting your time with Mr. Sorbara, I believe.

Ms. Annie Koutrakis (Vimy, Lib.): Yes, I am. Thank you, Mr. Chair.

Congratulations on becoming the new Governor of the Bank of Canada, and welcome to the finance committee. Hopefully, your tenure will eventually become less demanding than it is at this critical time.

A few weeks ago, I asked your predecessor, Mr. Poloz, if our economy, which is forecast to resume growing again in 2021, following a possible 6% decline in 2020, will recover the growth lost in 2020. He was quite optimistic that we can regain growth and even recoup lost ground relatively quickly, as the economy will be operating under its capacity.

Given what has happened since that time with COVID-19, such as the gradual reopening of our economy, are you as optimistic as your predecessor that we can achieve strong growth? What can the government do to ensure that we recover our lost growth and reach our full potential as quickly as possible?

Mr. Tiff Macklem: That's a pretty big two-part question. I think I'll focus more on the first part, because I think I've spoken quite a bit about the second part.

With respect to the first part, since Governor Poloz and Deputy Governor Wilkins were last at this committee, we have seen that the economy has stabilized. We probably hit bottom about a month ago. We saw 290,000 new jobs on a national basis across the country in May. I think it's important to stress, though, that different provinces are opening at different speeds, so the experience, depending on where you live in Canada, may be different.

The other thing I would stress is that this crisis is affecting Canadians in different ways. Unfortunately, the crisis is disproportionately affecting the lowest-income workers. You can see in the labour force statistics that women, recent immigrants and youth are particularly affected. Their unemployment rates have gone up the most.

I am optimistic. The good news is that we are starting to see some rebound. The containment restrictions are coming off. I am optimistic that we are going to see.... We expect growth to resume in the third quarter. I think we could see some good numbers, but I would stress that even the good case is still pretty bad. We've seen an unprecedented decline in economic activity, and it's a long way back.

• (1615)

The Chair: Thank you.

Mr. Sorbara.

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

Thank you to my colleague for splitting her time.

Again, congratulations, Governor, on your appointment.

When the COVID-19 pandemic hit, it knocked off, from what I've understood, about 20% of our Canadian economy. About 20% was taken offline. In economics we use the term “output gap” in terms of measuring. I'd like to get your thoughts, as the economy goes along, on where Canada is in terms of that output gap and how quickly we can close that output gap.

I have a follow-up question afterward.

Mr. Tiff Macklem: As I indicated previously, right now the staff is updating our economic outlook. The last monetary policy report gave two quite different scenarios, one more optimistic and one quite dire. Now that the economy has stabilized and is starting to reopen, while there is still a lot of uncertainty out there and particularly a lot of uncertainty about the course of the pandemic, that range of uncertainty is narrowing. Our intention is to provide at least a central scenario in the next monetary policy report. At that point, we'll be able to say more about what the size of the output gap is.

I would say, though, that one thing that is very unique about this crisis is that there are important both supply and demand effects. By locking down the economy, we have shut down supply in large parts of the economy. As that supply reopens, our expectation is that demand will not reopen as much as supply, so there will be a sizable output gap. There will be a lot of uncertainty about that, but we will begin to provide some estimates.

Mr. Francesco Sorbara: The famous term “liquidity trap” came from Keynes about deflation. In terms of tying that in with your counterpart in the United States, Federal Reserve Chairman Powell, who gave the famous quote in the last week or so that they were “not even thinking about thinking about raising rates”, would you care to come up with a famous quote this afternoon?

Mr. Tiff Macklem: I wish I could be so eloquent, but I'm still a very new governor. Give me some time.

The Chair: Not thinking about thinking—that's quite a line there, Francesco.

Mr. Francesco Sorbara: It's not mine.

The Chair: Mr. Lemire will be followed by Mr. Julian and then Mr. Cooper.

Mr. Lemire, you have four minutes.

[*Translation*]

Mr. Sébastien Lemire (Abitibi—Témiscamingue, BQ): Thank you, Mr. Chair.

Congratulations on your appointment, Mr. Macklem.

The government keeps reminding us that the situation is too unstable to provide an economic update.

Do you think the situation has stabilized since the government's first announcement in March?

Mr. Tiff Macklem: That is for the government to decide. It has been very transparent about its spending and the costs of several programs. It has provided an update on those.

As I mentioned, we think it's important to have a plan, a scenario to assess the need for monetary stimulus. In our next monetary policy review, we will propose at least one scenario.

Mr. Sébastien Lemire: If I understand correctly, March was difficult, April was more stable and there was growth in the economy in May.

Given what you just mentioned, does the lack of an economic update from the government affect your work adversely?

Mr. Tiff Macklem: As I mentioned, what is most important in our monetary policy review is government spending, and the government has been transparent about it. It has provided several updates on its spending, including when it has introduced new programs. For example, spending on the Canada Emergency Response Benefit has increased and spending on the Emergency Wage Subsidy has decreased.

• (1620)

Mr. Sébastien Lemire: What are your expectations about consumer behaviour after the crisis? Is there a change in behaviour, particularly with respect to the digital economy?

Mr. Tiff Macklem: These are difficult questions. On the one hand, I think most consumers would be very happy to return to more normal behaviour. They look forward to going shopping and doing things they did before the crisis. On the other hand, it's obvious that there will be permanent effects. For example, many people now have their food delivered. It is likely that many people will be satisfied with this service in the future.

You mentioned the digital economy. I am sure that this crisis will accelerate a large trend, a large force in the economy. New technologies are changing the way we work and entertain ourselves.

We're really at the beginning of that process. It will be important for the Bank of Canada to have a clear understanding of what changes will prove to be sustainable.

Ask me that question at a future meeting, and I may be able to give you more information.

[English]

The Chair: Thank you, both.

Ms. Wilkins, you were shaking your head. Did you want in to give a supplementary there? Okay.

Mr. Julian.

Mr. Peter Julian: Thanks, Mr. Chair.

I have a comment before I start with my questions.

When \$750 billion is being handed in supports to the banking sector at the same time that people with disabilities have not yet gotten a cent in this country, I think that's why there's increasing resentment. People with disabilities are trying to put food on the table and keep a roof over their head, and they've received not a single dollar. Seven hundred and fifty billion dollars, three-quarters of a trillion dollars, is going to the banking sector with the results that I mentioned earlier.

There has been \$5 billion in immediate profit so far in the pandemic. Governor Macklem mentioned 700,000 deferred mortgages, but they all come with penalties and fees and compounded interest charges, which means the windfall profits for the banking sector are going to skyrocket later on in this year. That's my comment.

My question is more on the issue of climate change, and thanks for talking about the importance of a whole-of-economy approach.

Deputy Governor Wilkins mentioned the issue of the risks of transition. We'd like to hear how the Bank of Canada and you as new governor evaluate the cost of climate change so far per year to the Canadian economy. What do you think the cost is, and how do you see that growing over the next decade if we do not take the action that is required to reduce greenhouse gas emissions?

Mr. Tiff Macklem: I'm not going to give you any numbers, but I'll give you some different ways to evaluate that question.

As Senior Deputy Governor Wilkins highlighted, the most visible tangible risks are the costs of extreme weather events. We're seeing this happen with increasing frequency in the eastern half of the country. It manifests itself mostly in increased flooding, particularly in the west, but also in the north, and in increased forest fires.

One way to measure the cost of that—though I don't think it really captures the human cost—has been the Insurance Bureau of Canada, which can show you the quite dramatic increase it has seen in the last 20 years in its claims related to extreme weather.

With respect to the other costs, we're going to need to adapt to climate change. Some parts of climate change are irreversible, so we're going to have to invest in the ability to adapt to it. We're also going to have to invest, and we are investing, in mitigating climate change. Those investments will cost money, but not doing them is going to be a lot worse.

• (1625)

The Chair: Mr. Julian.

Mr. Peter Julian: You're giving me extra time, Mr. Chair?

The Chair: Yes, I am. I gave the other guys four minutes, so I'll give you the same.

Mr. Peter Julian: That's wonderful.

Let's go into the issue of offshore tax havens. The Parliamentary Budget Officer, a year ago, evaluated the annual hemorrhage outside our country, in what should be tax dollars used in common, at \$25 billion a year, which he said was a conservative estimate.

For the Bank of Canada, is that a concern? Do you have a position on this hemorrhaging of these tax dollars overseas? It doesn't create jobs in Canada, it doesn't provide the economic stimulus here that is needed.

Does the Bank of Canada have a position and have you made recommendations around that? Do you not feel that it, plus the complete absence of taxation of the web giants like Amazon, is something that government should be dealing with?

The Chair: Governor, beyond what is policy for the minister, answer as you can.

Mr. Tiff Macklem: You've pretty much nailed it. These are issues for the government and parliamentarians. These are issues for the Minister of Finance, so they're not really in the purview of monetary policy.

The Chair: Okay.

Before I go to you, Mr. Cooper, I want to come back to the point that Peter made at the beginning about the \$750 billion in support for the banks. I'll ask you about this, Governor, because I think some will view that \$750 billion in liquidity for the banks as going to the banks.

Is this not money that flows through to businesses and consumers, to others in society, to make the economy run, to make capital available in these kinds of times? I would like you to expand on that if you could, because I do not believe we want the impression left that the government is just dumping money into the banks. We're not. We're providing a liquidity service so they can provide loans.

Mr. Tiff Macklem: Yes, Chair, your understanding is very clear.

I'll ask Senior Deputy Governor Wilkins in a minute to say a bit about the evolution of those liquidity programs.

Exactly as you describe, these programs from the Bank of Canada as well as other programs are effectively loans. These are effectively providing funding to the banking system precisely so it can defer mortgages and precisely so it can increase business loans. Those loans and deferred mortgages have to be funded from somewhere, and in March and April in particular, funding markets were seizing up.

Had the Bank of Canada not come in to provide that liquidity, which, as you said, flows through to households and business in the form of loans and deferrals, there would have been a massive credit crunch in this country. That would have severely exacerbated the serious economic impact of this crisis on Canadians. That's why we came in, and that's why the government has come in.

Here's where I'm going to turn to Senior Deputy Governor Wilkins. As conditions begin to normalize in funding markets, our repo programs are starting to run off, and Senior Deputy Governor Wilkins can give you some numbers to give you a sense of the order of magnitude.

• (1630)

The Chair: Senior Deputy Governor.

Ms. Carolyn A. Wilkins: Clearly we've tailored our programs to be right-sized for the problem when it's occurring and not to replace private markets when it's not, when the problem has been resolved. That's why our short-term lending programs, lending for one year or less, or buying securities for one year or less, have been rolled off. They were great to use when markets were dysfunctional, but when market functioning was restored, they became expensive. So as we intended, banks and other market participants just started to use the regular programs at the regular private markets. I think that's extremely good news.

It's trying to see how much is flowing to people and what would have happened if we hadn't done that. We need a counterfactual. In our financial system review, we did two experiments. They're going to be imperfect, but I would direct you to those. There are chart 14 and chart 15, on which we said, okay, what would arrears be in our worst-case scenario that we had in our monetary policy report in April for households if we had not helped banks do the deferrals and if the deferrals had not been put in place? You can see that the arrears would have been much higher without that.

We do a similar experiment saying, okay, what would have happened if there were no government programs to households and businesses in terms of their non-performing loans? That's not a good thing for the financial system, but it's not a good thing for businesses or people either.

That's a way to get a sense of how much we could have helped. It's always hard to give a caveat around counterfactuals, but we've tried to do that work, and it shows that the effects are quite large. The positive effects are quite large.

The Chair: Thank you.

We will go to Mr. Cooper.

My apologies, Michael. You were supposed to be the second questioner on our list and I jumped over you somehow. Then we will go to Ms. Dzerowicz.

I don't know if you want in, Ms. May. We'll give you an opportunity if you want in.

Michael Cooper, the floor is yours.

Mr. Michael Cooper (St. Albert—Edmonton, CPC): Great. Thank you, Mr. Chair.

Thank you, Governor, for appearing, and congratulations on your appointment.

I just want to ask a few questions to seek an update on some of the extraordinary measures that the bank has taken to deal with truly an extraordinary set of circumstances arising from COVID-19. Also in that regard, I would be curious to know whether you could provide an update on the provincial bond purchase program and the dollar value of purchases under the program to date.

Mr. Tiff Macklem: I am going to turn directly to Senior Deputy Governor Wilkins, who was instrumental in setting that up.

Ms. Carolyn A. Wilkins: You will recall that we set this program up to purchase bonds of a term of maturity of between one and 10 years across all the provinces up to \$50 billion. To date, we have purchased \$3.5 billion worth of these securities through a third party asset manager.

Mr. Michael Cooper: Okay. Could you also provide an update with respect to the bankers' acceptance purchase facility? ?

Ms. Carolyn A. Wilkins: With respect to bankers' acceptances, again this was set up early on when markets were not functioning very well and we agreed to purchase a certain amount per week of bankers acceptances. Right now, we have only \$3.7 billion on our balance sheet. Many of our purchases have matured and peaked at around \$47 billion.

The reason we don't have many more left is that they've matured and markets aren't interested in providing us with any. When we go out every week to buy a certain amount, they're not being offered, because the market is working extremely well. That's why, as Governor Macklem said earlier, we've been able to scale back some of these programs, including the bankers' acceptance program, as market conditions have improved.

Mr. Michael Cooper: What about the commercial paper purchase program?

Ms. Carolyn A. Wilkins: The commercial paper purchase program is \$1.7 billion right now. It peaked at \$3.6 billion. Again, it's the same story.

Mr. Michael Cooper: Right.

Ms. Carolyn A. Wilkins: It was very important at the beginning, but if you look at spreads and market activity, it's improved quite a lot.

• (1635)

Mr. Michael Cooper: Okay. Thank you for that update.

I want to ask the governor to comment a little more broadly on the issue of household debt, which the governor has commented on already during this hearing. The bank issued a report in May that raised serious concerns about household debt being likely to rise. It was noted at the end of that report that the number of vulnerable households, those putting more than 40% of their income towards paying off debt, is likely to rise due to the economic circumstances arising from the pandemic. It's been about a month since that report. Would you care to comment on that serious issue, especially at a time when we see that the household debt ratio has reached 176.9% according to Statistics Canada, which is close to an all-time high?

Mr. Tiff Macklem: Yes, I can give you a bit of an update.

Debt is a stock, so it doesn't usually change really rapidly, but I think that we've seen two things in the last month that are affecting this.

On the one hand, as I indicated, thanks in large part to the government's fiscal programs, particularly the transfers to households—they have replaced the income lost from COVID-19, and people are buying less—we've actually seen some increase in the savings rate, and some households are using that to pay down their debt. We're seeing that the rate of growth of household credit has come off. On the other hand, the denominator in that ratio—household debt over disposable income, of course—is falling because people are losing their jobs, and their disposable income may be going down. Again, the government is replacing much of that, so hopefully disposable income will be going down much less than GDP—let's put it that way. There are these two things going on, and we'll have to see how they evolve going forward.

Mr. Michael Cooper: Thank you.

The Chair: Mr. Cooper, we'll give you time for a quick one, if you have one.

Mr. Michael Cooper: That's okay.

The Chair: Okay. Thank you.

We'll turn to Ms. Dzerowicz and then to Ms. May.

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

I also want to extend my congratulations, Governor Macklem. Thank you for taking on this important role, and thank you for your important service to our country at this time.

I have two questions for you.

Mr. Cooper started asking some specific questions around the new program to support provincial funding markets, and Ms. Wilkins gave a wonderful reply.

It's the first time that the bank has ever offered this program. Is there any worry from you that a big take-up by the provinces would actually have any type of an impact on Canada's overall debt-to-GDP ratio?

Mr. Tiff Macklem: Well, let me just say a few words about the design of this program because I think it speaks to how you manage risks.

An important feature of the design of the program is that our purchase program is designed to be relatively neutral across the

provinces. The purchases are aligned to reflect both the size of the province and the historical pace of issuance of the province. That creates a reference portfolio. What we purchase won't be exactly on the reference portfolio because it depends on what's available, but it should be pretty close. The idea is that it's not targeting any one province, that it's not trying to help one province more than the other. It's really designed to ensure liquid funding markets and to ensure that provinces have access to markets and can borrow.

The other element of that program is that, like the corporate bond program that Senior Deputy Wilkins just talked about, reducing the spreads relative to the Government of Canada curve improves the transmission and effectiveness of monetary policy.

● (1640)

Ms. Julie Dzerowicz: Okay. Perfect.

Canada, as we know, is a huge country with a small population and relatively small economy, so we very much rely on external markets as well to be successful from an economic perspective. What are you keeping an eye on internationally, globally, with other G7 countries, that you're kind of worried about or monitoring that might have an impact on Canada either in a positive or negative way?

Mr. Tiff Macklem: It is worth highlighting that trade is a big part of our economy. As you highlighted, we're a relatively small economy, and in order for us to compete effectively globally, it makes sense for us to achieve critical mass in some areas and import goods in other areas.

There's no question that global supply chains have been severely disrupted by this crisis. Companies are rethinking their supply chains. They're looking to shorten their supply chains. They're looking to improve the resilience in their supply chains. That's going to affect trade.

More broadly, for a number of years now, we have seen increasing trade tensions. Canada has been managing that reasonably well. Canada actually is almost unique in the sense that it has a trade agreement with Europe, it has one with the United States, and it's part of the new TPP.

Nonetheless, there is a risk in this crisis that countries look increasingly inward and protectionism increases. That is certainly a concern. It's going to be important for Canada to have a voice at the international table.

The reality is that we're probably going to have to be a little more reliant on internal growth, at least for a time, than we have been in the past. That's one of the structural features we're going to need to make sure we understand at the Bank of Canada.

Ms. Julie Dzerowicz: Thank you.

The Chair: Ms. May, we'll give you a question and a supplementary.

Ms. Elizabeth May (Saanich—Gulf Islands, GP): Wayne, you're so generous today.

First of all, to Governor Macklem, I add my congratulations and welcome to a critical role at this critical time.

This is a little different direction than some of my colleagues have taken, but I want to ask you about modern monetary theory and how you see this affecting us as we come out of the pandemic. Modern monetary theory seems to imply that sovereign insurers such as Canada need not have too much fear about large deficit as long as the debt is held within the country.

I wonder how you think this might affect the position of large international borrowers like many of the developing countries and whether we might anticipate some type of debt forgiveness such as the jubilee year suggestions of some years back, as the COVID crisis will really impact the poorer nations far more and their ability or inability to repay foreign lenders.

Mr. Tiff Macklem: There are a few things in there. Let me try to take them in turn.

With respect to modern monetary theory, I'm sorry if I'm going to disappoint you, but I'm not a big fan.

Ms. Elizabeth May: Okay, you're not a big fan.

Mr. Tiff Macklem: Our extraordinary actions are very much anchored in our inflation target. They are anchored in doing and providing the monetary stimulus that is needed, providing the market funding in the face of a liquidity crisis to support the economy and close the output gap, get the economy back and keep inflation on target.

The difficulty with modern monetary theory is that it has all sorts of objectives, and while they may be worthwhile objectives, monetary policy is not the way to achieve them.

With respect to issues of debt forgiveness, I will highlight that we are incredibly privileged in this country. We are a very rich country. As difficult as this is, it's way more difficult for many emerging market countries. They have nowhere near the capacity to provide the type of stimulus that we are able to put in place to support Canadians. Their health systems cannot cope with this crisis.

These are really decisions for the government, and governments globally, but I think one of the issues going forward is going to be, how does the world support countries that don't have the resources to deal with this?

The IMF is certainly putting in place new programs, as is the World Bank, and we participate in those forums. It is a big issue.

• (1645)

Ms. Elizabeth May: You've raised the issue of the World Bank and the IMF. I'm attracted to the notion that, post-pandemic, we can actually ask some big questions. As you said, this is unprecedented as an economic hit, certainly, and not just in our lifetimes, but a while back.

I'm wondering whether you think there's any attraction among other central banks and policy-makers around the world to really think in terms of something on the scale of a new Bretton Woods and sit down and ask if we want to look at the role of the World Bank and of the IMF, which was obviously originally established to set currency rates—it doesn't do that anymore—and also at the larger questions of how we structure our arrangements in a global economy in order to better meet the need for stimulus to get economies back up and staying stable post-pandemic.

Mr. Tiff Macklem: I will say that this pandemic has underlined once again that many of our biggest challenges are global, whether it's climate change, whether it's a global pandemic or whether it's global financial stability, which we had to confront 12 years ago. We cannot solve these problems one country at a time.

I worry that the lesson some people are taking from this is that we need to close our borders and look inward. I think that actually the lesson is the opposite. We cannot solve these problems on our own. We are going to have to find mechanisms to work together more effectively and more co-operatively globally. For Canada, that's particularly important. We're not a big country, as others have underlined, and the global rules-based system has served Canada very well.

Ms. Elizabeth May: Thank you very much for your time.

The Chair: Thanks, both of you.

Coming off that question, I have a couple myself.

During these times, Governor and Senior Deputy Governor, what is happening globally between the central banks? You are absolutely right that this is a global pandemic that affects the economies of all countries globally and certainly the health of people globally. What's your strategy in terms of central banks globally? Are there discussions? How do you work?

Mr. Tiff Macklem: Well, I'm two weeks into this job, so I haven't had a huge number of discussions with other central banks. I'm going to ask Senior Deputy Governor Wilkins to say a few more words about that, but I will say, as somebody who has spent a long time in the international central banking community in the past, that it is a very valuable community, and there is a certain professional affiliation, a common bond among central bank governors and senior central bank officials, and a long tradition of working together.

Many of us are embarked on unprecedented policies, and there is a fair amount of comparing notes, but I'll let the senior deputy say a few words about this, because she has actually been involved in a number of these meetings leading up to where we are today.

● (1650)

Ms. Carolyn A. Wilkins: It is extremely valuable, Governor.

He's absolutely right. We've spent a considerable amount of time at the beginning—daily, then a couple of times a week and weekly—in a number of forums as central banks, collaborating on the actions that we thought would be appropriate. We weren't coordinating timing or divulging information, necessarily, but certainly were sharing notes on different programs, some of which we have put in place. For some countries, one of the most visible would have been the U.S. dollar swap lines, which we do have in place but we've not needed to use, although other areas like Europe or Japan have.

We've also been working at the financial stability board on financial stability issues, particularly right now those that are arising in some emerging markets, with Latin America and Brazil being some specific examples, with some close monitoring there. It's interesting. It feels like central bank digital currency and digitalization have nothing to do with COVID, but in fact they've put those issues front and centre, so the Bank of Canada is collaborating with a group of central banks on our work on central bank digital currency.

Within the G7, just as another example, we've been collaborating on digitalization. If this is going to be accelerated and we know that our statistics are not up to the task of measuring the economy at this time, then what can we do to help promote a better universal measurement that all countries can use and benefit from as they design their policies?

The Chair: Thank you very much.

We had better end with that.

We have estimates next. I think there are three departments with 12 witnesses.

Governor and Senior Deputy Governor, on behalf of the committee, I want to thank you very much for coming to the finance committee to answer our questions.

It's not always easy when you've been in the job only a few weeks, Governor. We certainly thank you. You can also pass on our thanks to the staff at the Bank of Canada, the other deputy governors and certainly your board for the work you do. You're a major instrument in the stability of our financial system. We thank you for appearing and for answering our questions.

All the best.

Mr. Tiff Macklem: Thank you for that, Mr. Chair.

I will be sure to pass that on. It will be appreciated.

The Chair: With that, committee members, we will suspend for about five or seven minutes and then come back to deal with the estimates.

The meeting is suspended.

● (1650)

(Pause)

● (1700)

The Chair: We'll call the meeting back to order.

In the next hour we'll be meeting on the main estimates 2020-21, votes 1 and 5 under the Canada Revenue Agency, votes 1 and 5 under the Department of Finance, vote 1 under the Financial Transactions and Reports Analysis Centre of Canada, and vote 1 under the Office of the Superintendent of Financial Institutions.

We have with us a number of representatives from the Department of Finance, from the Office of the Superintendent of Financial Institutions and from the Financial Transactions and Reports Analysis Centre of Canada.

We'll let you folks make your presentation first, then we'll go to questions.

For the information of committee members, first questions will be by Mr. Cumming, Ms. Dzerowicz, Mr. Ste-Marie and Mr. Julian.

Ms. Bess, go ahead.

● (1705)

[*Translation*]

Ms. Darlene Bess (Chief Financial Officer, Department of Finance): Good evening, Mr. Chair and members of the committee.

Thank you for the opportunity to present the main estimates for the 2020-21 fiscal year on behalf of the Department of Finance. Joining me today are departmental officials to assist in providing you with a more in-depth perspective on the rationale and policies that support the numbers within our estimates.

[English]

As you know, the Department of Finance develops policies and provides advice to the government with the goal of creating a healthy economy for all Canadians. In 2020-21, the Department of Finance will continue to support the Minister of Finance and the Minister of Middle Class Prosperity and Associate Minister of Finance in delivering on a responsible fiscal plan that will continue to invest in people and in the things that give people a better quality of life while continuing to build confidence in Canada's economy.

The 2020-21 main estimates reflect a departmental budgetary spending of \$99.5 billion and non-budgetary spending of \$50.2 million, which is composed of \$105.5 million of voted budgetary expenditures, \$99.4 billion in statutory budgetary expenditures and \$50.2 million in statutory non-budgetary expenditures.

In comparison to the 2019-20 main estimates, these main estimates reflect a net increase of \$4.7 million in voted budgetary expenditures, mainly due to increased activity for analytical capacity building within the department to manage government assets including the Trans Mountain Corporation as well as an increase in payments due to collective bargaining.

Statutory expenditures are not included in the appropriation bill, as they have already been approved by Parliament through enabling legislation; however, they are included for information in the estimates documents. The statutory budgetary expenditures in the main estimates reflect a net increase of \$500 million in statutory budgetary expenditures, which is mainly due to increases in major transfers to other levels of government. This net increase is offset by decreases in interest on unmatured debt and other interest costs. The statutory non-budgetary expenditures included in these main estimates reflect Canada's fourth of five equal installment payments to the Asian Infrastructure Investment Bank.

Mr. Chair, this concludes my high-level overview of the main estimates for the Department of Finance. My colleagues and I would be pleased to answer any questions the committee members may have.

Thank you.

The Chair: Thank you very much, Ms. Bess, chief financial officer of the Department of Finance.

We'll turn to questions.

We'll start with you, Mr. Cumming.

Mr. James Cumming: Thank you, Mr. Chair.

Thank you to all the officials who are here today for the work you put in to create these estimates. In fact, I think I complimented all of you when the minister was here by saying that you're a very talented crew.

Given that we have this very talented crew, can you describe for me as a new parliamentarian how difficult it would be, given the work that's been put into these estimates, to produce either a budget or a budget update?

Ms. Darlene Bess: I think I'll let my colleague Brad Recker comment on that. I think he'd be able to provide some more information on that front.

• (1710)

Mr. Bradley Recker (Director General, Economic and Fiscal Policy Branch, Department of Finance): I've been having some trouble with audio set-up.

I'm sorry, but I missed the question. Would you mind repeating it, sir?

Mr. James Cumming: Sure. Given the work that's been put into these estimates, how difficult would it be for the department to produce either a budget or a financial update so that we have a better understanding of the bigger picture of what's going on?

Mr. Bradley Recker: Producing a budget or an update is a pretty significant amount of effort for the department. It is something, however, that we are able to do and is core to our mandate in general.

Mr. James Cumming: In addition to these estimates, the main budget and the supplementary estimates, do you believe that you'd be in a position to create a budget and/or a financial update?

Mr. Bradley Recker: The department can and does produce both budget and fiscal updates annually.

Mr. James Cumming: For the last hundred years of Parliament, we've always had one each fiscal year. Is it something that you're currently working on?

Mr. Bradley Recker: The department continually monitors the fiscal situation as it evolves. We're in constant contact with private sector forecasters, think tanks, etc. We are always working to monitor the situation.

In the current environment, there's a very high degree of uncertainty. This is evident in any of the outlooks that have been put out by international agencies and others. To that extent, putting out any sort of detailed fiscal outlook over a longer horizon would be a significantly difficult endeavour at this point.

Mr. James Cumming: We have seen other governments do it and have seen provinces do it, so it strikes me as something that could be done.

Mr. Bradley Recker: Several provinces have gone ahead and produced budgets or near-term outlooks, but we do not have a date for an outlook for ourselves at this time.

Mr. James Cumming: Within the main estimates—and this is probably still for Finance—I tried to find a breakdown for the infrastructure programs, and it's spread out through a variety of departments.

Is it not possible, when an infrastructure budget is set, to have clarity within the budget as to where those expenditures went so we are able to find the projects they were allocated to?

Mr. Bradley Recker: I'm not the expert on the infrastructure profiles. I'll turn that over to my colleague in EDCF.

Ms. Evelyn Dancey (Associate Assistant Deputy Minister, Economic Development and Corporate Finance Branch, Department of Finance): I can offer a bit of background on this.

As the member would know, there are now a large number of federal infrastructure programs, both legacy, from the first mandate of this government, and more recent announcements by the government. Overall, the responsibility for integrated reporting on the infrastructure plan is with the infrastructure and communities minister, Minister McKenna, and my colleagues at INFC. They are the ones wrestling and integrating the data—

[Translation]

Mr. Sébastien Lemire: I'd like to raise a point of order, Mr. Chair.

[English]

The Chair: Yes, Mr. Lemire.

[Translation]

Mr. Sébastien Lemire: The interpreters have been telling us for some time that interpretation is difficult because the microphone is either too close or too far from the various witnesses. This interrupts the interpretation.

[English]

The Chair: Okay, I'm not getting your translation either, Mr. Lemire.

Ms. Dancey, you may need to pull the mike away from your mouth a little bit as well.

Go ahead, Ms. Dancey.

• (1715)

[Translation]

Ms. Evelyn Dancey: I'm sorry. Thank you, Mr. Chair.

[English]

I'll just give it in short form.

What I was saying is that Infrastructure Canada is the best place to bring together and integrate the data on the federal infrastructure programs. It does release reports on its website, but this is continually an area of improvement that we are working on across the relevant departments involved in infrastructure spending. While it is not part of the Department of Finance's main estimates, we are collaborating with our INFC colleagues to improve disclosure around the infrastructure plan.

The Chair: Mr. Cumming.

Mr. James Cumming: It certainly needs some improvement because we can't seem to find out which projects the money was allocated to.

I want to move to FINTRAC.

The main estimates state that Canada will be paying over \$20 million for compliance with anti-money laundering and anti-terrorist financing legislation and regulations. Can you give us an update on that money? What are the KPIs around that money, and what's the expected return or the expected results of that level of funding?

Mr. Bruce Wallace (Manager, Strategic Policy and Reviews, Financial Transactions and Reports Analysis Centre of Canada): In terms of our compliance efforts most recently we have received funding to ensure compliance, particularly with regard to the casino sector and the real estate sector, particularly in British Columbia. I don't think I need to remind people here of the Cullen commission. There's been a lot of attention paid to real estate and casinos in B.C., and we've been doubling down our efforts to ensure compliance in those sectors. At the same time, we are continuing to ensure compliance in the money services businesses, banks and other reporting entities.

In terms of performance, I'll say that it's an uneven playing field for compliance. Large financial institutions generally are quite compliant. As for real estate agents and money services businesses, we invest a fair bit in terms of outreach, guidance and training to ensure that they're aware of their obligations, and to conduct examinations to ensure that they are abiding by their obligations.

The Chair: Mr. Cumming, we lost a little time there, so go ahead and ask another question.

Mr. James Cumming: How do we determine whether we're getting value for the money? I didn't hear anything in your answer that would indicate how you will measure whether you've been successful or not. Can you give us some indication of how that would be determined?

Mr. Bruce Wallace: Absolutely.

When we go and conduct an examination in the sector, for example, we maintain statistics as to how the specific reporting entity is complying but also as to how the sector generally complies. Our expectation is that, over time, compliance would increase and non-compliance would decrease, and that has a direct effect on the quality of the information that we receive. It's generally tracked through the level of compliance in the reporting sectors that have obligations.

The Chair: Okay.

We'll turn to Ms. Dzerowicz, followed by Mr. Ste-Marie.

Julie.

Ms. Julie Dzerowicz: Thank you so much.

Thanks to everyone for being here today, and thank you for all your tremendous work.

My first questions are directed to the Canada Revenue Agency.

The Chair: They're not on yet, Julie. They're on in the next hour.

Ms. Julie Dzerowicz: Well then, I will not be directing any questions to them right now. I will be directing my questions to the Office of the Superintendent of Financial Institutions.

Thank you, Mr. Chair, for correcting me.

In the 2020-21 main estimates, OSFI has requested funding of \$1.2 million for program expenditures under vote 1, a net increase of \$35.6 million or 12.8% from the funding requested in the 2019-20 main estimates. What are the major factors that are contributing to the increase in the amount requested under vote 1?

Mr. Marc Desautels (Chief Financial Officer, Office of the Superintendent of Financial Institutions): That amount pertains mainly to actuarial advisory services provided by the office of the chief actuary, which is an independent section within the broader group. There's been an increase in staffing there, so it's mainly related to salaries. There was a bit of a catch-up in regard to staffing vacant positions. There was also an increase in salaries as a result of the most recent collective agreement.

• (1720)

Ms. Julie Dzerowicz: There's also been a request for \$199.8 million in statutory expenditures, which is a 21.6% increase from the funding requested in 2019-20. What were the major factors contributing to that increase?

Mr. Marc Desautels: That's a good question. What happened in 2019-20 is that you would have seen the main estimates at a lower level than what you're seeing for the upcoming fiscal year. Post-submission of the main estimates last year, we put forward a new strategic plan to ensure that we built the OSFI of tomorrow so it would remain at the forefront of an increasingly complex financial sector.

Therefore, we put forward a strategic plan after the submission of the main estimates. It included a large set of initiatives that supported that strategic plan, whether on the non-financial risk side of things or building our technology infrastructure to better support front-line supervisors.

As I said, post-submission of the main estimates last year, we did revise our strategic plan, revised our financial envelope, which has led to the increase you see there. If you look at our spending for the past fiscal year, 2019-20, it would have been reasonably in line with the revised budget that we prepared post the main estimates.

Ms. Julie Dzerowicz: Thank you.

Maybe I could shift my questions to the Department of Finance.

With respect to the COVID-19 pandemic, to what extent have any additional costs borne by the Department of Finance been accounted for in the 2020-21 estimates, and does the department anticipate significantly greater operational costs as a result of the pandemic?

The Chair: Who wants to take that?

Ms. Darlene Bess: I'll start. I'm the CFO at the Department of Finance.

I'll say that the main estimates right now don't really incorporate the COVID-19 response. Our supplementary estimates incorporate some of those costs right now. We're still looking, as a department,

to understand what the implications will be from a staffing point of view to deal with some of the pressures on the department in responding to COVID-19.

In short, the main estimates really don't incorporate much of the COVID-19 costs, but more so the supplementary estimates, and we're still assessing things as we go.

Ms. Julie Dzerowicz: Does anyone have anything to add?

Okay.

I'm trying to think if I have any other questions. I have one for—

The Chair: We know you have some for the CRA.

Ms. Julie Dzerowicz: I have many for them. Can I tell you?

The Chair: You can hold them for now, Julie, and we can move along, unless you have an urgent one.

Ms. Julie Dzerowicz: Actually, I'll ask a question quickly of FINTRAC then. It's similar to the one I just asked with respect to COVID-19.

To what extent have there been any additional costs borne by FINTRAC, as accounted for in the 2020-21 estimates?

The Chair: Is that for Mr. Wallace, or who will take that?

Mr. Christopher Veilleux (Manager, Finance and Administration, Financial Transactions and Reports Analysis Centre of Canada): I'll take this one.

Actually, it's very similar to the response that Ms. Bess provided. You won't see any expenditures related to COVID-19 for FINTRAC represented in the main estimates for 2020-21. Rather, similar to what was articulated, you may be seeing some of that coming through supplementary estimates (A) further on in the supply cycle.

Ms. Julie Dzerowicz: Thank you.

The Chair: We'll turn now to Mr. Ste-Marie, followed by Mr. Julian.

[*Translation*]

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

I would like to begin by greeting all government officials and agency representatives. I thank them for being here to answer our questions, and we are grateful to them.

My questions are for Department of Finance officials and relate to high-speed Internet access expenditures.

Due to the COVID-19 pandemic, people are confined to their homes. Access to a quality high-speed Internet connection must be considered an essential service today. It is unacceptable that rural areas, remote municipalities and indigenous communities do not have that access today, in 2020.

The document presented mentions contributions. I will start with a technical question. According to the department's report, the investments planned for 2018-19 under the connect to innovate program appear to have been postponed. Can you tell us why?

• (1725)

[English]

The Chair: Who wants to take that?

Ms. Bess?

Ms. Darlene Bess: I'll try.

The Chair: It may be unrelated to the estimates and more on the political side, but go ahead, Ms. Bess.

Ms. Darlene Bess: Yes, I was going to say there's nothing in the main estimates that really talks about high-speed Internet involving our department in particular. It's probably something that would be part of ISED, Innovation, Science and Economic Development Canada, or one of the other departments.

I don't know if any of my colleagues have any comments on that based on the work we do with any of those departments on high-speed Internet, but there's nothing in the main estimates that we have in particular for high-speed Internet.

The Chair: Not to take time away from you, Gabriel, but one of the difficulties is that we are dealing with the estimates for the specific department itself. I know a lot of the questions would relate more to the budget as a whole, which we could ask questions on.

Go ahead, Gabriel.

[Translation]

Mr. Gabriel Ste-Marie: All right, I understand. Thank you, Mr. Chair.

The Parliamentary Budget Officer has just issued a statement regarding supplementary estimates (A) 2020-21. Here is a lengthy excerpt:

Parliament will vote on billions of dollars worth of authorities, which includes amounts for both COVID-19 and non COVID-19 measures. It will be difficult for parliamentarians to perform their critical role of properly scrutinizing proposed government spending in a four-hour window. They will have limited capacity to question witnesses, including public servants with expert knowledge of the programs funded through these estimates. Furthermore, they will not have the capacity to perform the critical role of amending, reducing or denying any provision in these estimates, despite the fact that opposition parties hold a majority of the seats in the House of Commons. Parliamentarians are therefore left with only two options: approve supplementary estimates (A) as tabled, or reject them.

I would like to hear the reaction of the Department of Finance officials. Is that their reading of the current situation?

[English]

The Chair: I'm not sure if anybody can answer that one either, but go ahead and give it a stab, Ms. Bess.

Who else was coming in there?

Ms. Bess, I guess we'll go to you.

Ms. Darlene Bess: The COVID-19 benefits or anything related to COVID-19, as my colleague Christopher Veilleux mentioned as well, are included in the supplementary estimates (A), and we're here to discuss the main estimates, which don't have the COVID-19 package. I don't really have anything to say in terms of the amount of time that has been allocated. That's not really at my discretion. Sorry, my apologies for that.

The Chair: We understand that it puts you in a difficult position.

For committee members—not to take time away from you, Gabriel—as parliamentarians, we have until November 2020 to study the estimates and supplementaries, so hopefully we can find the time to get into some of those more dicey questions a little later.

I'll give you the time back. Go ahead, Mr. Ste-Marie.

[Translation]

Mr. Gabriel Ste-Marie: Mr. Chair, thank you for that clarification. I think it would be essential to come back to it. We're voting on billions of dollars. The situation surrounding the pandemic is certainly changing the rules of Parliament, particularly because of the physical distancing requirement. That said, we must still take the time to play our role as elected officials.

The Parliamentary Budget Officer said the following:

While these supplementary estimates include a significant amount of the spending announced by the government in response to the global pandemic, it does not include all of the planned spending. The estimates documents only provide details on authorities of appropriated organizations which make payments from the Consolidated Revenue Fund. Thus, it does not provide parliamentarians with a complete picture of how much the government will spend on COVID-19 response measures. Some of the measures not included are: the Canada Emergency Wage Subsidy (CEWS); the Business Credit Availability Program (BCAP) and the Canada Emergency Business Account (CEBA); and additional benefits delivered through the Employment Insurance Operating Account.

We aren't talking about small amounts here.

Mr. Chair, I understood what you said, but I would like to repeat to all the departmental officials present that, for the public and parliamentarians, it is important to have a complete picture of the situation, including all the measures. This means that an economic update must be presented as soon as possible.

Mr. Cumming mentioned it in his presentation. In my view, the Department of Finance has all the tools it needs to provide this update as quickly as possible. It's important to do that; otherwise, we only have partial details. We do not have the time to thoroughly go through the questions and answers and analyze everything that is presented. So I'm sending this message to the Department of Finance and other officials.

• (1730)

[English]

The Chair: Who wants to take a stab at that one?

Ms. Bess again.

Ms. Darlene Bess: Thank you for the question. Could you clarify exactly what you need in terms of statistics and details?

[*Translation*]

Mr. Gabriel Ste-Marie: As the Parliamentary Budget Officer reminds us, the document we will be voting on tomorrow does not include information on the Emergency Wage Subsidy, the Business Credit Availability Program and the Canada Emergency Business Account. That is not in the expenditures charged to the Treasury Board. The same is true for the additional benefits charged to the Employment Insurance Operating Account.

As parliamentarians, we want to see a full picture of the spending. This necessarily requires an economic update. There was no budget in the spring and there will not be one this summer either, which is understandable. Measures are announced and rushed through. However, we need a picture of the situation. We need to know the cost of the measures announced to date and the assumptions you are working on for recovery. So we need an economic update as soon as possible.

[*English*]

The Chair: Go ahead, Ms. Bess, but I think Mr. Ste-Marie's point has been made. We have the biweekly report on the COVID-19 pandemic that we get at committee, which includes some of that. We have the estimates. We don't have the supplementary estimates yet, but Mr. Ste-Marie's key point is that we really don't have a budget that parliamentarians can delve into and ask the broader questions that need to be asked.

I just make that point. I don't know if anybody from Finance or another official wants to give a response.

If not, we'll turn to Mr. Julian, followed by Mr. Morantz.

Mr. Peter Julian: Thanks very much, Mr. Chair.

I should note that the Conservative motion from a few weeks ago, which was not voted on in Parliament, would have only given us three and a half hours for discussion of the estimates tomorrow night. We actually have more because of the NDP motion than we would have had with the Conservative motion. I think that's an important note to make.

Thank you very much to our witnesses for being here. We deeply appreciate your availability. We hope that your families are safe and healthy.

I have two questions to start for the Ministry of Finance.

First off, are there any projections in terms of corporate loan writeoffs for this year? In 2018, the federal government wrote off about \$2.6 billion in corporate loans. Earlier this year, 2019-20, they wrote off \$196 million. We still don't know which company received that benefit.

The second is on the amount, the line item in the main estimates around managing government assets including the Trans Mountain pipeline. We are losing \$150 million a year with Trans Mountain. Is there a projection within the Ministry of Finance for the construction costs currently?

Has it been updated? The last one we had from the company is way out of date. The costs have skyrocketed since then.

Has the Ministry of Finance done an estimate of the cancellation costs? If we cancel the project right now, how much would Canadians save?

Those are my questions to start.

Thanks for being here.

• (1735)

The Chair: That's just to start.

Who's taking it?

Ms. Bess, go ahead.

Ms. Darlene Bess: I think I will refer to my colleague in EDCF to see if she can provide some more information.

Ms. Dancey, please. Thanks.

The Chair: Ms. Dancey, go ahead.

Ms. Evelyn Dancey: Sure.

On the first part of the question, in respect to corporate loan writeoffs, the Department of Finance does not extend loans directly to companies, to my awareness. That information wouldn't be reflected in our individual departmental reporting.

My understanding is, for example, the financial Crown corporations or the departments that extend repayable contributions are all reporting on a departmental or organization-based basis on what their provisioning is and any breakdown of the assets for which they're responsible. I don't have that kind of estimate to offer.

In respect of the TMC entities, I know this committee had a meeting last Thursday where Mike Carter from the Canada Development Investment Corporation was present. He received a very similar question. I can reiterate his response, which continues to be the timely response, which is the public cost estimate most recently provided by Trans Mountain Corporation, which is a subsidiary of CDEV, where Mike Carter is the executive vice-president. It continues to hold as our best estimate right now of the construction costs. At this point, TMC is spending on construction, but that is actually an investment activity.

Overall, the entity is not experiencing a loss. It is making investments, however, that are using up cash from that perspective.

These estimates are disclosed through the TMC reporting as a federal Crown corporation as well as subsumed in the parent's reporting—that's CDEV's reporting.

Thanks.

Mr. Peter Julian: Thank you very much.

After interest charges, Canadians are losing about \$155 million a year on TMX.

As I mentioned earlier, the costs are skyrocketing. It's the biggest boondoggle in Canadian history.

I'll move on to another item.

This is for FINTRAC. Thank you for being available today.

As you are aware, there is a lot of debate and discussion. The implementation of a beneficial ownership registry is fundamental.

I would love an update on where that is, and where FINTRAC may be as well, on the issue of public accessibility to a beneficial ownership registry.

Ms. Leah Anderson (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): I'm happy to take that. I'm with the Department of Finance.

The Chair: Ms. Anderson, go ahead.

Ms. Leah Anderson: I'll kick that off.

It's a very important issue. Thank you for raising it.

We did extensive consultations early in the year. Actually, we were able to begin and finish them just prior to the onset of the pandemic. We did broad-based consultations across the country, including with the provinces, on beneficial ownership.

We released a consultation paper. We are taking the results of those consultations to assess an appropriate way forward on beneficial ownership and what policies may be required.

Mr. Peter Julian: Do you have a timeline for implementation?

Ms. Leah Anderson: Not at this time. Timelines have shifted given the urgent priorities of COVID-19, but it does remain very much a priority given the issues involved.

The Chair: You have time for a quick question, Peter.

Mr. Peter Julian: This is for OSFI.

Thank you very much for providing us with the update on the overall supports to the banking sector. We got this a couple of weeks ago, and \$750 billion, three quarters of a trillion dollars, are going to Canada's big banks. We've seen \$5 billion in profits so far during this pandemic while people are literally fighting to put food on the table.

Is there an update that OSFI has on the overall figures? The Bank of Canada gave us a support level earlier today of \$341 billion, which is \$41 billion more than what was projected in the OSFI figures from a couple of weeks ago. Do you have an update to give us about the overall supports for Canada's big banks right now?

• (1740)

Ms. Judy Cameron (Senior Director, Regulatory Affairs and Strategic Policy, Office of the Superintendent of Financial Institutions): I'll take this question.

The Chair: Ms. Cameron, go ahead.

Ms. Judy Cameron: Though OSFI does not have an update on the overall supports at this time, what I can say is that OSFI announced in early March the release of \$300 billion in lending capacity for Canada's largest banks when we reduced the domestic stability buffer, and no further change to that buffer has been made since then.

The Chair: Okay, we'll have to end that round.

We'll go to Mr. Morantz, followed by Ms. Koutrakis.

Marty.

Mr. Marty Morantz: Thank you, Mr Chair.

I have to say, as a new MP, I do agree with Mr. Ste-Marie's comments that it's difficult to put their estimates into proper context without a budgetary plan, but I'll do the best I can.

Back in 2018, the Department of Finance put out a backgrounder called "Ensuring Transparency". In it, it says, "The Government of Canada will not keep any direct proceeds from carbon pollution pricing".

In the CRA departmental plan—I know they'll be here in about an hour, so we'll have a chance to ask them this as well—they say that there's basically a \$3.7-billion transfer to CRA. Of that, roughly \$3.4 billion is to fund the climate action incentive, which, they say, returns the majority of the direct proceeds from the fuel charge.

I'm wondering if someone could explain to me why one government department is saying that all of the direct proceeds are returned to Canadians, and another department is saying a majority of the direct proceeds are being returned to Canadians.

The Chair: Andrew Marsland, go ahead.

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Thank you for the question. Perhaps I'll start, and Ms. Dancy may want to supplement my answer.

The vast majority of the proceeds from the federal carbon charge is returned under the climate action incentive payments through the CRA and paid when individuals in particular provinces file a tax return. The payment is made at that time. That represents, I believe, roughly 90% of the direct proceeds from the fuel charge. The balance is returned to support particular sectors such as SMEs, other essentially public institutions and so on in the provinces through funding programs.

Perhaps I'll let Ms. Dancey describe those programs to you.

The Chair: Ms. Dancey.

Ms. Evelyn Dancy: I was going to say exactly what my colleague Andrew said in that a portion of the proceeds have been identified for federal programming that has just been named for the MUSH sector and SMEs.

Mr. Marty Morantz: This “Ensuring Transparency” back-grounder does say, though, that the Government of Canada will return those proceeds directly to the governments of those jurisdictions that choose to adopt the federal system. I guess that 10% is care being taken to make sure that it is going back to the provinces and territories from which it came. That's one question. I have a follow-up, though.

The Chair: Go ahead, Andrew.

Mr. Andrew Marsland: It is the case that we calculate the amount by province. In those provinces that choose to adopt the federal climate system, those proceeds are returned to the government of that province. We do account for them. Then in the other provinces they're returned—as I say, the vast majority—to the climate action incentive payment, and roughly around 10% in various programs to support small business and the commercial sector.

• (1745)

Mr. Marty Morantz: This “Ensuring Transparency” back-grounder from 2018 goes on to say that the Government of Canada “will provide an update each year on exactly how those proceeds were used”. This was from 2018. Has such an update ever been provided?

Mr. Andrew Marsland: The update has not yet been provided. The announcement was in 2018, the first year was 2019, and we'd expect that an update would be provided in the coming months when the account is complete.

Mr. Marty Morantz: Okay. I look forward to that.

Someone on the panel was talking about the difficulties in preparing an economic forecast. I have a question for that person. I don't recall the name. I apologize.

The Chair: It was Mr. Recker. Go ahead, Marty.

Mr. Marty Morantz: Just to follow up on some of my colleague's questions, I'm curious. Have you prepared an internal economic outlook?

Mr. Bradley Recker: Our department continually monitors the situation. We have not prepared any sort of official economic outlook to this date.

Mr. Marty Morantz: Is there an internal one, though, an unofficial one?

Mr. Bradley Recker: We continually monitor the situation, so we're always following the evolution of the economy.

The Chair: Go ahead with the supplementary, Marty, and then we'll have to go.

Mr. Marty Morantz: On that point, is there any document whatsoever that you have and could table with the committee that would help us shed light on what the fiscal position of the country is?

Mr. Bradley Recker: We don't have anything like that at this time, no.

Mr. Marty Morantz: Okay. Thank you.

The Chair: That would only be the budget, Marty, so you know what to call for.

We will go to Ms. Koutrakis, who will be followed by Mr. Cooper, and we'll end with Mr. Fragiskatos.

Annie.

Ms. Annie Koutrakis: Thank you, Mr. Chair, and thank you to all our witnesses this afternoon.

I have two questions, both for the Department of Finance.

First, the main estimates show that there is a net increase in statutory budgetary expenditures which has been offset by decreases in interest on unmatured debt and other interest costs. Given that interest rates are at an all-time low but borrowing will go up because of dealing with the COVID-related deficit, how do you see the net impact on interest payments playing out? Also, how are we taking advantage of these extremely low interest rates on our overall debt costs?

The Chair: Ms. Bess?

Ms. Darlene Bess: Thank you very much for the question. I think I'll refer it to my colleague, Ms. Leah Anderson, to see if she's able to respond to that question on the declining interest rates and the impact.

The Chair: Ms. Anderson.

Ms. Leah Anderson: Overall, declining interest rates are a good thing in terms of the debt. We have had to issue quite a bit more debt given the COVID crisis, the response and the unprecedented number of support measures that we've put in place.

Going forward, given these expenditures and the debt incurred, we are actively looking at the debt structure and what is the best structure of that in the circumstances, given interest rates and estimates. We're actively looking at that and we'll be advising this committee and the public on plans as that's developed.

Ms. Annie Koutrakis: Okay.

The main estimates include an amount to support analytical capacity building within the department. Can you offer some detail about what exactly these analytical capacity-building activities are? Also, how will these analytical capacity-building activities support the work that is being done by the Department of Finance? Perhaps you can offer some examples, if possible.

The Chair: Ms. Bess.

Ms. Darlene Bess: Most of the work is related to new and continuing work on Trans Mountain entities and the divestiture of Ridley Terminals that we can't address with our existing departmental resources. We're looking at this funding to other departments to engage indigenous groups and to engage with expert financial and legal advisers and additional staff. It will help support the government's ongoing ownership of these assets. That's the main part of that capacity building.

I don't know if any of my colleagues would like to elaborate on that.

• (1750)

The Chair: I don't see anyone coming forward.

This is your last question, Annie.

Ms. Annie Koutrakis: Yes. I'm sorry about that.

My question is for OSFI.

Can you offer some detail around how the \$1.2 million—I know it's not a big amount—in program expenditures will be used to support the work of the chief actuary?

The Chair: Mr. Desautels or Ms. Cameron.

Mr. Marc Desautels: I'll answer that.

The office of the chief actuary provides, as I mentioned a earlier, a set of actuarial and valuation advisory services to various benefit and pension plans within the government. Those services include assessing obligations and costs, and looking at the design, funding and administration of plans and programs.

Hopefully that gives you a little bit of flavour of the types of services it offers and the funding that goes with it.

The Chair: Thank you.

We have about four minutes each for Mr. Cooper and Mr. Fragiskatos.

Michael, you're on.

Mr. Michael Cooper: Thank you, Mr. Chair.

Thank you to the officials.

I see the Office of Infrastructure of Canada is set to receive an additional \$5.7 billion. I would note that the Office of Infrastructure of Canada has seen total spending increase by 82.6% between 2014 and 2018-19. Would any of the officials be in a position to elaborate on what this additional funding is directed for?

The Chair: We'll turn back to you, I believe, Ms. Bess, to direct that question somewhere.

Ms. Darlene Bess: Okay. Thank you very much for the question.

We're here, I guess, to study the Department of Finance main estimates. I can't really comment on the Office of Infrastructure of Canada, unfortunately. My apologies.

Mr. Michael Cooper: Yes.

Speaking of something relating to the Department of Finance specifically, I would note that in the department's recent departmental results report for 2018-19, of the 39 targets provided for in that

report, one of the indicators was to see total business tax costs be lower than the G7 average. I see that the status has not been updated. Would you be able to provide an update on whether or not that target was achieved?

Mr. Andrew Marsland: Thank you for the question.

I don't have the data in front of me. There are various ways of measuring this. For example, the effective marginal tax rates on new business investment, I believe, are the lowest in the G7. I think there are indications that the Canadian corporate income tax system is competitive. As you know, the government took steps in late 2018 to implement accelerated writeoffs of capital investments, and those actually significantly reduced the effective marginal tax rate on new business investment.

If the committee would like more information—

Mr. Michael Cooper: Yes.

Mr. Andrew Marsland: —I would be happy to provide it.

Mr. Michael Cooper: Okay. Thank you for that.

I know the point has been raised already by several of my colleagues, but I am struggling to understand the difficulty in providing a fiscal update of some sort, or preferably a budget. The PBO has provided a fiscal outlook twice in the past several months. If the PBO can do so with significantly fewer resources than the Department of Finance, why can't the Department of Finance?

• (1755)

The Chair: I think that message is noted. I don't believe there is a response to it.

Do you have one further quick question, Michael?

Mr. Michael Cooper: That's okay. I think my point was made.

The Chair: Your point was made, along with several others.

We'll end with Mr. Peter Fragiskatos. The floor is yours.

Mr. Peter Fragiskatos: Thank you, Chair.

Thank you to the officials.

In the 2019-20 main estimates, the Department of Finance requested funding in the neighbourhood of \$819,555 for the purposes of "Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime".

How was the funding deployed, and what successes have resulted from this expenditure?

Ms. Leah Anderson: I think our FINTRAC colleague answered a similar question earlier.

Bruce, did you want to take that one?

Mr. Bruce Wallace: We invested in five areas. The first is with regard to compliance. We continue to conduct a lot of outreach activities—education, training with the reporting entities, and particularly focusing last year and next year on real estate and casinos in British Columbia.

In addition, we're also ramping up work on public-private projects. We've had success with project protect, which was a collaborative effort between the banking sector, FINTRAC and law enforcement to target human trafficking. We've done the same thing with project guardian, which targets fentanyl as well. We're going to be investing more in these types of projects going forward.

In addition, we have two new disclosure recipients. We are now disclosing financial intelligence to the Competition Bureau as well as Revenu Québec.

Finally, we are working with CBSA to strengthen our capacity with regard to detecting trade-based money laundering.

Mr. Peter Fragiskatos: Thank you very much.

Ms. Leah Anderson: I would add, if I may, from a Department of Finance perspective, that we also requested funding for anti-money laundering. It was for two purposes mainly. First was to support the policy capacity, given this growing area of attention for the government and the need to further refine and elaborate policies and responses in this area. Second was to support our international memberships for anti-money laundering, for example, through the Financial Action Task Force, because those fees go up every year.

Mr. Peter Fragiskatos: Thank you, Ms. Anderson.

The Chair: You have time for one quick one, Peter.

Mr. Peter Fragiskatos: OSFI is requesting funding of \$1.2 million for program expenditures under vote 1. This amounts to a net increase of \$35.6 million or 12.8% from the funding requested in the main estimates under that vote.

What are the major factors contributing to the increase in the amount requested under vote 1?

Mr. Marc Desautels: I had a somewhat similar question to that a little earlier.

If you look at the difference between our 2019-20 main estimates and the ones we presented this year, there is a notable increase. That said, post-production of the main estimates, we came out with a revised strategic plan that was anchored by four key goals. That drove a series of initiatives to support the evolution of OSFI in several areas, whether it is our financial risk capabilities, non-financial risk capabilities or our technology infrastructure.

Most of our funding comes from the institutions we regulate and supervise. Whether it is the banks, insurance companies or pension plans, we get roughly 93% to 94% of our funding from those sources.

That was the key driver behind the increase in our financial footprint: to support the new strategic plan that we put forward at that point.

• (1800)

Mr. Peter Fragiskatos: Thanks very much.

The Chair: Thank you. We will have to end it at that.

There are a lot of witnesses on here today. You're seeing some of the difficulty of having to meet over Zoom on some of these complicated matters, and to complicate it even more, we've not had an economic update or a budget. As I think you can see from some of the questions from some of the members, a lot of the areas that members of the finance committee would like to delve into go beyond the estimates of the Department of Finance and the other two agencies on here.

In any event, I think that message has been made loud and clear. There's a desire by members of the finance committee for information on the broader-based policy approach. We'll leave it at that. You know the message I'm sending.

With that, we thank you for appearing today. Even more so, we want to thank each and every one of you—and, for that matter, your families—for the extra effort you've put in over the last several months. I know these are trying times. There's been mental pressure and there's been fatigue. You have our very heartfelt thanks for the work you do as we go through this difficult period in our history as a country.

With that, we will suspend for the next panel.

Thank you very much.

• (1800)

(Pause)

• (1805)

The Chair: We'll call the meeting back to order and reconvene.

During this session, we're dealing with the main estimates for 2020-21: votes 1 and 5, under Canada Revenue Agency. I'd like to welcome the witnesses who are here from the Canada Revenue Agency.

Ms. Caron, I believe you have an opening statement. I will give the floor to you, and then we'll turn to questions.

Just for the benefit of the committee, the first questions will be by Mr. Morantz, Mr. Fraser, Mr. Lemire and Mr. Julian.

Ms. Caron, the floor is yours. Welcome.

Ms. Janique Caron (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency): Thank you, Mr. Chair.

Good evening, and thank you for the opportunity to appear before the committee to present the Canada Revenue Agency's main estimates for 2020-21, and to answer any questions you may have on the associated funding.

My understanding is that a copy of my full remarks, in both official languages, has been provided to the clerk. To respect the members' time and to avoid technological issues, I will be providing my remarks in one official language and will be prepared to respond in either official language.

I am accompanied today by my colleagues: Frank Vermaeten, assistant commissioner, assessment, benefit and service branch; Geoff Trueman, assistant commissioner, legislative policy and regulatory affairs branch; and Ted Gallivan, assistant commissioner, compliance programs branch.

As you are aware, the CRA is responsible for the administration of federal and certain provincial and territorial tax programs, as well as the delivery of a number of benefit programs. Each year, the agency collects hundreds of billions of dollars of tax revenue for the Government of Canada and distributes timely and accurate benefits to millions of Canadians.

It should be noted that the CRA's 2020-21 main estimates do not reflect incremental resources required for the payments or the administrative costs in support of the Government of Canada's measures to support Canadians and businesses facing hardship as a result of the global COVID-19 pandemic. These measures include, as you know, the Canada emergency response benefit, the Canada emergency wage subsidy and the Canada emergency student benefit, to name a few. The cost of the emergency benefit payments will be funded through statutory authorities, including those under the Department of Employment and Social Development. The funding associated with the administrative costs will be sought separately by the CRA in the coming months. Our priority is to deliver on these measures as quickly as possible.

In the meantime, to fulfill its mandate in 2021, the CRA is seeking a total of \$7.9 billion for these main estimates. Of this amount, \$3.5 billion requires the approval of Parliament; whereas, the remaining \$4.4 billion represents forecasts for statutory authorities that are already approved under separate legislation. These statutory items include the climate action incentive payments, children's special allowance payments, employee benefit plan costs and, according to section 60 of the CRA Act, the spending of revenues received or activities administered on behalf of the provinces and other government departments.

These 2020-21 main estimates represent a net increase of \$3.4 billion when compared with the 2019-20 main estimates. Almost the entire amount of this increase is related to the forecasted statutory climate action incentive payments of \$3.4 billion, which returns the bulk of direct proceeds from the federal fuel charge to eligible individuals and families living in provinces that have not met the Canada-wide federal standard for reducing carbon pollution. The CRA is responsible for administering the fuel-charge component of the Greenhouse Gas Pollution Pricing Act, which includes the climate action incentive payment.

Excluding the statutory climate action incentive payment, the agency's 2020-21 main estimates represent a net increase of approximately \$33 million, or 0.7%, when compared with the 2019-20 main estimates. The largest component of this change is an increase of \$69 million for collective bargaining adjustments for some 12,000 employees represented by the Professional Institute of the Public Service of Canada.

Other increases to the agency's budget include a \$24-million adjustment to forecasted statutory payments under the Children's Special Allowances Act for eligible children in the care of agencies and foster parents. These payments are equivalent to the Canada child

benefit paid to biological and adoptive parents. There is also \$27 million in incremental funding for measures to improve tax compliance that were announced in prior budgets. Thanks to the significant investment made in recent years, the CRA has expanded its tools and capacity to target clients who attempt to conceal their assets to avoid paying their share of tax.

To give you a sense of the kind of programs that are being supported by this funding, allow me to touch on some specifics. To further combat tax evasion and aggressive tax avoidance, the CRA has hired additional auditors, conducted outreach and education, and built technical expertise to target non-compliance associated with cryptocurrency transactions and the digital economy. Offshore audit resources have been expanded, which directly supports the fairness and integrity of the tax system by ensuring that wealthy individuals and corporations do not circumvent their tax obligations.

● (1810)

Improved information technology tools and systems, combined with closer international co-operation, allow the CRA to focus on the higher-risk taxpayers. Although efforts in this domain have been affected by COVID-19, preparation for the eventual full resumption of this important work is under way.

These increases are partially offset by a \$49-million adjustment associated with changes in the funding profile for various measures announced in previous federal budgets, a \$25-million reduction in statutory contributions to employee benefit plans and in the forecast of cost recovery revenues for initiatives administered on behalf of the provinces and other government departments, and \$13 million in transfers with other government departments, including an adjustment to accommodation and real property services provided by Public Services and Procurement Canada.

In closing, the CRA is listening to Canadians, changing how it works and improving services. The resources being requested through these estimates will allow the agency to continue to deliver on its mandate to Canadians by making it easier for the vast majority of taxpayers who pay their taxes and more difficult for the small minority who do not, and by ensuring that Canadians have ready access to the information they need about their taxes and benefits.

At this time, we will be pleased to respond to any questions you may have.

The Chair: Thank you very much, Ms. Caron, and thank you for the in-depth remarks that spell out where some of those expenditures have gone.

Next is Mr. Morantz, followed by Mr. Fraser.

Marty, you have six minutes.

Mr. Marty Morantz: Thank you, Mr. Chair.

I just have a few questions. Regarding the climate action incentive, I understand that the budgetary allocation has essentially gone from \$4.5 billion to \$7.9 billion, which is a massive increase. When I first saw that, I was asking why, but it's clear that most of that \$3.7 billion is for the refund of the climate action incentive.

What I'm getting hung up on though is your use of the word "majority" in your departmental plan. I think you call it "the bulk of". My understanding, and we just had this confirmed by finance officials a few minutes ago, is that 90% of the monies collected under that program are supposed to be returned to Canadians through the climate action incentive. Can you confirm that it is actually 90%? I'm just curious why you used the word "majority".

• (1815)

Ms. Janique Caron: Thank you for the question. Perhaps my colleague, Geoff Trueman, can take the question.

Mr. Geoff Trueman (Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency): Thank you.

Yes, I can confirm that the majority is returned to the provinces and those jurisdictions. I believe, as our finance colleagues noted a little earlier this evening, that the remaining portion is available to be distributed through a number of other mechanisms, some of which may return funds to businesses, for example. That's where the remaining 10% of the allocation would go.

Mr. Marty Morantz: Okay, so when you use the word "majority", you're saying 90%. Is that right?

Mr. Geoff Trueman: That's subject to a final reconciliation of those amounts, but on an ongoing operative basis, that would be the target amount. That's correct.

Mr. Marty Morantz: Okay. In the Department of Finance's backgrounder, entitled "Ensuring Transparency" in 2018, it said that it would be providing an update each year on exactly how the proceeds were used. Mr. Marsland, in our last meeting, said that's never been done.

Is your department responsible for that update?

Mr. Geoff Trueman: No. It would fall to the Department of Finance to do that reconciliation or accounting of the amounts.

Mr. Marty Morantz: Okay.

With respect to the taxpayers' ombudsman—let's turn to that for a second—this year their allocation is \$3,780,000, but it was \$3,471,000. That is over an 8% increase, which is a pretty big increase. I'm just wondering if you could explain what that increase is for.

Ms. Janique Caron: I believe there were a few more employees funded for the taxpayers' ombudsman. I would have to come back

to you with specific details, but it's a fairly small budget to start with.

Mr. Marty Morantz: Just getting back to the estimates, the \$7.9 billion was tabled before the whole COVID crisis came. CRA is responsible for administering a large number of the emergency programs. We didn't see any additional allocations in the supplementary estimates. I'm just wondering why that would be.

Ms. Janique Caron: A number of the benefit programs that we administer are covered under the statutory authorities that are included in supplementary estimates (A) for Employment and Social Development Canada. The emergency response benefit, the CERB, and the emergency students benefit as well come out of the statutory authorities that are included in the ESDC supplementary estimates. For the emergency wage subsidy, we're still working on confirming the source of funds for that. It will come from the consolidated revenue fund.

Mr. Marty Morantz: In your report you say \$3.4 billion of the \$3.7-billion transfer is for the climate action incentive. What is the other \$300 million for?

Ms. Janique Caron: It's for the children's special allowance. That's equivalent to the Canada child benefit and is paid to foster homes and children's aid societies. That's about \$361 million.

Mr. Marty Morantz: The transfer is for those two programs solely.

Ms. Janique Caron: Yes, the total amount of that transfer payment is engaged for these two programs solely.

Mr. Marty Morantz: That's good to know.

Those are my questions, Mr. Chair.

The Chair: Thank you, Mr. Morantz.

We're turning to Mr. Fraser, followed by Mr. Lemire.

Sean.

Mr. Sean Fraser: Thanks so much. I'll build upon the line of questioning on the climate action incentive that my colleague began.

I find the numbers that are cited are meaningless to most Canadians. I don't think very many of us, including, I assume, some of my colleagues on this panel, really know in a person's life how far \$3.4 billion goes. I'm curious if you can break it down to a level that is more familiar to household finances.

During the debate about putting this plan in place in the first place, we often used—"we" being the government—the example of a four-person household, two kids, two adults. I'm curious if you have the data on what the payouts in the various provinces would look like. I'm curious. Are you able to break down the household-level data on that \$3.4 billion?

• (1820)

Ms. Janique Caron: Mr. Trueman is probably best positioned to answer the question.

Mr. Sean Fraser: More specifically, Mr. Trueman, there are two things. If you could perhaps pick two provinces to illustrate, I think maybe Ontario and Alberta, just for the sake of illustrative purposes, what would a household look like? The key question I'm trying to hone in on is this: Is the payment to households in fact greater than the cost to households of this climate action incentive, as compared to the cost of the fuel charge?

Mr. Geoff Trueman: Thanks for that.

Yes, the general working assumption is that the payment to the household—and we use the typical family of four in most of our examples—would be greater than the cost of the fuel charge to them.

The way it's structured in each of the jurisdictions, there's a base amount that applies to the first individual in a household. There's a secondary amount that is for a spouse or common-law partner, or in the case of a single parent it would apply with respect to the first child. There's a child amount, thirdly, that is simply multiplied by the number of children in a household.

If you look at that family of four in Ontario, for example, the basic amount is \$154. The secondary amount is \$77. The per-child amount is \$38. In doing the math very quickly in my head, for a family with two adults and two children, you're looking at a little over \$300 for that family of four in Ontario.

Did you want the numbers for Saskatchewan?

Mr. Sean Fraser: Yes, sure, it's a different province. I think there are certain provinces that have higher emissions intensities, and it would be helpful, because we're not using this to transfer money between provinces, to illustrate the impact in another province as well.

Mr. Geoff Trueman: Exactly, and Saskatchewan is an example of a province with a higher intensity of emissions, so you'll see that the amounts in Saskatchewan are larger.

The base amount in Saskatchewan for that first individual is \$305, for the second person in the household it's \$152, and then \$76 for each additional child. Again, for a family of four, that will put it at a little over \$600.

Mr. Sean Fraser: As a general rule, in each of the provinces where the family of four example is being used, you would be confident to say that most households would in fact be better off in each of the provinces in which the federal program applies.

Mr. Geoff Trueman: That is correct.

Mr. Sean Fraser: Just changing tack for a moment, I expect it will be Mr. Gallivan who answers this question, but I'm not certain.

I appreciate that the estimates don't touch on the COVID measures necessarily, but during your last appearance before the committee, you made very clear on the enforcement around the CERB that the punitive measures for fraudsters would be reserved for egregious examples. You cited criminal organizations pushing 300 or 400 CERB claims in other people's names.

Today a question came out in the House of Commons from one of my colleagues, Mr. Blaikie with the NDP, regarding one of his constituents he was concerned about who would have to be taking time away from work to take care of a loved one. I believe that was the scenario he raised. He was asking whether this person was going to be treated as a fraudster. I think one of the things we cannot make clear enough is that the punitive measures are certainly for those egregious examples.

Can you confirm that somebody who needs to be away from work to take care of a loved one would not be punished as a fraudster, but would likely actually be eligible to continue receiving the CERB?

Mr. Ted Gallivan (Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): Thank you very much for the question.

You're right. The intent of the program is to support Canadians in positions of need.

There's recognition, in the fluid situation, that the rules did change retroactively. An example would be an employee who rightfully claimed the CERB, only to find their employer claimed the wage subsidy after the fact, and then found themselves in double receipt of payments for the same work period. In its external messaging, the CRA is trying to be absolutely clear that it understands there are people needing to repay the CERB who may have received it entirely in error through no fault of their own.

Turning to the fraudsters who were the focus of the conversation, it's worth mentioning that we have a public prosecutor in Canada. I was asking the committee to trust me that the CRA would only apply this to cases where it's warranted, but on reflection, it's not just me who you would have to trust but that the public prosecutor would apply the public interest test.

Obviously, in the case you described, the CRA has no intention of applying criminal sanctions to somebody in that scenario, and there's the added protection of the Public Prosecution Service, which has to apply a public interest test. Obviously, in this case, there would be no public interest in bringing criminal charges in that type of scenario.

• (1825)

Mr. Sean Fraser: For some of those cases, I think we're dealing with people who are actually entitled to the benefit as well.

During the previous testimony before this committee, we heard about, frankly, what I would have thought was unachievable in the administration of the CERB: processing 1,000 applications a minute. I seem to recall that EI applications were processed somewhere in the range of five per minute.

What lessons do we have to learn on the administration of social supports? Are there strategies we can borrow from the phenomenal delivery of these emergency benefits in an emergency situation that can be applied in a non-emergency situation, going forward?

Quite frankly, the people who come into my constituency office who seem to have trouble with these programs are navigating a byzantine structure to achieve a mishmash of federal and provincial supports and are often living in poverty. Are there lessons that can be taken from this effort that could be applied to help those people going forward?

Ms. Janique Caron: Mr. Chair, I can start and Mr. Vermaeten will be able to complete it.

Definitely, living through COVID and seeing how quickly we could deliver on these emergency measures, we've learned a lot. One of our mottos going forward is what good can we take from this, going into the future, in terms of how to manage programs in the agency.

Perhaps Mr. Vermaeten can offer more insights into that.

The Chair: Mr. Vermaeten.

Mr. Ted Gallivan: It's Mr. Gallivan here, Mr. Chair.

Mr. Vermaeten has sent me an email saying that he got disconnected.

The Chair: Yes, I don't see him. I'm looking for him.

Go ahead.

Mr. Ted Gallivan: I can return the favour and answer something in his space.

We had embarked on a “people first” initiative within the CRA to try to design our programs and business practices from the taxpayer perspective, including by talking to taxpayers. In the case of the CERB, we had no time to do that.

In the case of the wage subsidy, for example, we had actual citizens focus test the tools we were applying and we brought in stakeholder groups. It's something that we started before COVID, but it's certainly something that we'll continue after—bringing stakeholders and citizens into the design of the program to give us feedback before we implement.

The Chair: Thank you.

Mr. Sean Fraser: Mr. Chair, just quickly, before I wrap up, I want to say that it is public service appreciation week.

There are millions of Canadians who are better off for the work that you have done, folks. Thank you so much. They're the people I represent and they still have roofs over their heads, largely, and food on their tables, in no small part because of your work. I want to say thank you on this occasion. Thank you, thank you and thank you.

The Chair: Thank you, Sean. We'll second that sentiment.

We have Mr. Lemire, followed by Mr. Julian.

Go ahead, Mr. Lemire.

[*Translation*]

Mr. Sébastien Lemire: Thank you, Mr. Chair.

In the Library of Parliament's accompanying documents, one of the questions mentions that the 2016 budget provided \$351.6 million over five years to the Canada Revenue Agency, or CRA, to im-

prove its ability to collect outstanding tax debts, with the hope of recovering an additional \$7.4 billion over that period. In the previous intervention, it was also mentioned that these budgets had been increased.

In the 2020-2021 main estimates, how much money does the CRA allocate annually to combat tax avoidance and tax evasion?

• (1830)

[*English*]

Ms. Janique Caron: I wonder if Ted wants to take that one.

[*Translation*]

Mr. Ted Gallivan: Thank you for the question, Mr. Lemire.

Half of our overall budget of \$900 million is aimed at abusive tax planning by multinationals or wealthy citizens. This represents 50% of our overall budget, or about \$450 million.

I can follow up to give you the exact number, but it's usually 50% of our effort, which is aimed at 1,200 multinationals and 10,000 affluent Canadians.

The other budget is \$2 million for small and medium enterprises.

Mr. Sébastien Lemire: Since 2016 and over a five-year period, you estimate that you can recover an additional \$7.4 billion.

How did you come up with this evaluation? Is this amount still up to date?

Mr. Ted Gallivan: I'll make a clarification.

You're talking about an amount related to collection, not assessment. In the current fight, we're assessing, and then there's the collection. For these analyses, we rely on the past. We look at what the marginal ratio of our results is. Because we have a risk-based approach, the marginal results go down. In planning, we assume that it will be the marginal result we see today, with a decline. That's the basis on which we produce the estimates. Just prior to COVID-19, our programs and estimates were generally meeting expectations. We were able to collect the expected amounts. We had the green light just before the COVID-19 pandemic started.

Mr. Sébastien Lemire: You are certainly in a position to point to companies that are at fault that you find difficult to catch or to hold to account for repaying that money. In many cases, these companies have taken advantage of the Emergency Wage Subsidy, the Canadian Business Emergency Account or the very large business support funds that were put in place in the context of the COVID-19 pandemic.

Is that the case? In your opinion, should these companies have been denied access to the assistance programs put in place to support businesses during the COVID-19 crisis?

Mr. Ted Gallivan: That's an excellent question.

When it came to these emergency programs, the rules were pretty clear. With regard to the emergency wage subsidy, for example, we had to base our decisions on existing legislation. For people with a history of aggressive tax planning, we spent a lot of time making sure they were eligible for the program. However, it should be remembered that this is a program that is designed to help employees and the funds are intended to subsidize salaries. We therefore limited ourselves to scrutinizing these companies before making payments. We are talking about a ten-year period. It's really about supporting the employees at the end of the day.

Mr. Sébastien Lemire: This is indeed part of the answer that the minister often gave us during question periods. Nevertheless, some countries, such as Denmark, have been bold in passing laws to better fight fraudsters.

Would you have liked to have benefited from additional legislation? Would it have had a concrete impact on your work?

Would you have been able to increase collections if the law had been tougher?

Mr. Ted Gallivan: I think there's work to be done on the legislation itself. There are a number of ways, outside of the assistance programs, to address this issue that we are all concerned about.

When we see cases, such as the Loblaws case, before the courts, or the Cameco case where, despite the audits and the efforts of the agency, the Tax Court of Canada or the Federal Court of Appeal say that tax planning is done in good faith under the current law, I think we have to invoke the need to close loopholes.

Outside of the crisis, we have other ways to achieve the goal we all aim for, such as closing the loopholes.

Mr. Sébastien Lemire: Are you able to identify these escape mechanisms or the ways in which companies are doing it today? We are all familiar with tax havens, like Barbados, for example, but what are the modern ways of doing things?

Is there anything in the digital economy that you're particularly concerned about that could be changed?

• (1835)

Mr. Ted Gallivan: There's a lot packed into that question.

Before turning to the digital issue, I will limit myself to the issues that concern us at the agency. In terms of our protocol regime, which includes protocols with Barbados and Luxembourg, those arrangements were made at a certain point in time, and I think we have a good track record in the courts that gives some food for thought.

As far as multinationals are concerned, when we started to have country reports under a program of the Organisation for Economic Co-operation and Development, or OECD, we found that Luxembourg, for example, appeared in a disturbing number of documents. We were aware of that, but when we saw the percentage of Canadian companies that had trusts in Luxembourg, it gave us pause for

thought. This is an example of a debate we could have to determine whether it is time to review our protocols with Luxembourg.

Mr. Sébastien Lemire: My speaking time is up, but I will take the time to thank you for your work. I think it's essential work if the Treasury is to receive the revenue that should be remitted to it.

Thank you very much.

[English]

The Chair: Thank you to all.

Internet in the country is sometimes so much fun I get kicked off.

Peter Julian, the floor is yours.

Mr. Peter Julian: Thank you very much, Mr. Chair.

Thank you, witnesses, and thank you for your service to our country. In the public service we have remarkable individuals, and I appreciate that.

I'll start off with a comment, following up on Mr. Fraser's questions. We already know that fraud is covered in the Criminal Code. We already know that the police can prosecute. If you do a Google search, you can find several cases of fraud that are being followed up on right now and in prosecution. I'll just put aside the idea that there needs to be some draconian enhancements to force people who have gotten the emergency benefit...to penalize them, put them in jail or fine them. The Criminal Code already covers that.

I think that comment is important. I don't like this dialogue about somehow penalizing people who are in desperate straits and putting them in jail. In cases of systemic fraud, they already can be prosecuted. That is the solution, and that is why we certainly won't support any draconian provisions in any omnibus legislation going forward.

My questions are around the auditor provisions. The amount of \$27 million is for, I believe, enhanced auditing through CRA. Could you tell me how many auditing positions that would represent?

The Chair: Okay, who wants to take that question? CRA officials also have the right, Peter, to comment on your comment if they so decide.

Mr. Peter Julian: It's a free country.

The Chair: Go ahead, Mr. Gallivan.

Mr. Ted Gallivan: Thank you, Mr. Chair.

I will answer your second question first, and I will accept your invitation, thank you. There are 270 auditors roughly, and our ramp-up was definitely in the space of multinationals and high-net-worth individuals, but we also leaned into the real property sector, which is a very complex issue. CRA doesn't necessarily want to take ownership for the escalating home ownership costs in Toronto and lower mainland Vancouver. There is some work there, but also organized crime is trying to use the sales tax regime. Roughly 270 FTEs spread across all of our programs are focused on aggressive non-compliance.

I think to the point about law enforcement, for the information of the committee, the point is valid. Law enforcement does have the ability to pursue these cases, and we have seen in many communities local law enforcement taking up CERB fraud.

In our experience, the challenge is that there often has to be a nexus, a nexus with more violent crime and with distribution of drugs, so local law enforcement has to make prioritization decisions, and they often prioritize more violent crimes or crimes that have a broader impact on the community, as is their right, and that would explain this difference of opinion in terms of owning CRA powers or not. I will stop so that there can be a follow-up.

• (1840)

Mr. Peter Julian: Thank you very much.

I just want to go to the issue of prosecution of fraud, tax fraud and tax avoidance. The Parliamentary Budget Officer last year told us it's \$25 billion that the federal government loses every year. That was the conservative estimate they made at the time.

I am sitting here in New Westminster, B.C., and right next to me is the international consortium of investigative journalists and their offshore leaks database. I just want to ask about that, because it's very detailed. It has a whole list of Canadian corporations.

I want to start with the Panama papers. How many of the corporations named in the Panama papers on the offshore tax leaks database have been charged by CRA?

Mr. Ted Gallivan: We have confirmed publicly that we have a small number. I believe we have confirmed publicly that there are five criminal investigations under way. At this point, given people's legal rights and the aggressive criminal defence in these cases, we haven't brought any to charges laid.

Mr. Peter Julian: Okay, thank you. I just wanted a quick answer.

Now the Paradise papers are also listed here with hundreds of Canadian corporations. How many corporations in the Paradise papers have been charged?

Mr. Ted Gallivan: Again, I think we haven't confirmed publicly the exact number that we have under criminal investigations. I think the point needs to be made, though, that many of these sophisticated taxpayers paper over their tax planning with multiple legal opinions and law firms. I think there's no lack of willingness on the part of CRA to pursue these cases criminally; I think it's the forethought of the perpetrators to really paper over what they are doing to make it very difficult and complex to bring criminal charges.

Mr. Peter Julian: That's my point. So, nobody has been charged in the Paradise papers. I know for a fact nobody has been charged in the Bahama papers. On the Isle of Man scam, CRA's response was what? How many of the corporations involved have been charged?

Mr. Ted Gallivan: Again, I think in all four cases, Panama, Paradise, Bahamas and Isle of Man, 100% of the taxpayers' names were risk-assessed by the audit function. Based on the facts, the current jurisprudence and current Canadian law, we believe we took whatever action we could. In the case of Isle of Man, every single taxpayer who was found to be non-compliant with Canadian tax law has been put through audit, and both tax and gross negligence penalties are being levied. I would say that the facts of that situation have driven the CRA response.

Mr. Peter Julian: Okay, I have a very quick question to end, Mr. Chair.

So, \$27 million obviously is not enough, and draconian powers shouldn't be given to go after widows and students. They should be given to CRA so that the big tax cheats can be charged. It's appalling that, of the hundreds and hundreds of corporations, not a single one has been charged. Would it not be better to put a lot more money into auditing and to have powers given to CRA so they can go after the big tax cheats?

The Chair: Is it the intent of CRA to go after widows and students?

Mr. Ted Gallivan: No.

The Chair: Okay.

We'll turn to Mr. Cumming, followed by Ms. Koutrakis, Mr. Cooper and Mr. Fragiskatos, and then we'll end.

Go ahead, Mr. Cumming.

Mr. James Cumming: Thank you, Mr. Chair.

Thank you to the CRA officials for being here today.

In budget 2019, CRA will receive \$50 million over four years to create these dedicated audit teams for real estate in high-risk regions such as B.C. and Ontario.

To date, what's been the return on this investment?

Mr. Ted Gallivan: Just before COVID, we had reported that we'd exceeded a billion dollars in gross reassessments. I think that's the direct economic impact. I think the real property community, some real estate agents and lawyers involved, have also got the message that it's a higher area of coverage. It's not always a positive that our ROI is going up, and we've exceeded a billion dollars. It's sometimes positive when you see people changing their behaviour, which is one thing we're after.

With some of these latest amounts, we were starting to go a little higher in the food chain, away from flips and individual real estate agents maybe to the broker or the developer level. I think as our work changed, we've also been trying to get up to the influencers, because we're trying to send a message that the CRA and the government will continue to put resources toward non-compliance in the real estate sector.

We have the analytics. We have excellent support from our provincial partners in sharing data, and we intend to stay in those sectors until we see a decline in our ROI, which is really what we want to see—people paying the tax they should up front.

● (1845)

Mr. James Cumming: Along the same lines, a budget amount of \$350 million over five years was provided in 2016 to improve your ability for audits and tax collection.

Can you give the committee the information that would indicate you've seen an improvement, and how great an improvement that's been since 2016?

Mr. Ted Gallivan: Overall, across a couple of budgets we were expecting to gross \$5 billion in identified additional tax revenue non-compliance. As of March 31 this year, we should have been at \$3 billion and we were at \$4.4 billion, \$1.4 billion ahead of where we projected to be in identifying non-compliance and sending out a bill.

The court system, on the other hand, is feeling the strain. The Tax Court of Canada reported a 70% increase in complex cases over a recent period. We're seeing that some of the fight around the CRA identifying non-compliance is now shifted to the Tax Court of Canada and the Federal Court of Appeal.

We're doing more to get our audits for litigation up front, to make sure our appeals function and colleagues in the Department of Justice have funds. I think there are real pressures now with colleagues in Justice, because we're more successful in identifying non-compliant people, but they're not just rolling over and paying us. In some ways this has become a legal fight around CRA access to information and then the tax bills.

In some ways that's a strategic win. We have a lot of cases in front of the court, where they need to be perhaps, but we're a long way from winning those legal fights and having the capacity to successfully defend those in Justice.

Mr. James Cumming: I want to go to the climate action incentive payment. My colleague asked some questions regarding what's being paid out versus what is being brought in.

It's clear to me that we're collecting a tax and the assumption is that we're going to give it back to the people. It was cherry-picked...a family of four and very specific circumstances around that family. Are you able to say that every individual in Canada is ahead when you assess this tax, including whatever the increases in prices would be? A lot of the suppliers of goods and services have to build this into their pricing models.

Mr. Geoff Trueman: I'm happy to take that.

To clarify, there certainly was no cherry-picking. Those are the general rates that apply in the provinces to all individuals who qualify.

Is every person better off? It would depend on the rate of fuel usage in a family. Circumstances may change, but on average the design of those rates is intended to return to families more than they would pay for the fuel charge.

Mr. James Cumming: Is it fully loaded, including all costs? I hear from a lot of business owners that because of the taxes imposed on them, they've had to increase prices and those prices of course are paid by the consumer.

● (1850)

Mr. Geoff Trueman: It's intended to return to families more than the cost of the fuel they consume. I'm not sure how many rounds of multipliers that would take into account, so that might be a question better directed to the Department of Finance.

The Chair: Thank you, both.

Ms. Koutrakis.

Ms. Annie Koutrakis: Thank you, Mr. Chair.

It's nice to see everybody from CRA again this afternoon.

There are always calls to go after taxpayers who are evading taxes, and a lot of resources are rightly being put into this effort, as you stated in your opening remarks, Ms. Caron. On the other hand, what resources are you investing in educating or making it easier for many Canadians who are doing their best to pay their share of taxes, but who perhaps cannot afford to hire tax specialists and must navigate very complex tax rules and may face the risk of not following the rules? Is any program in place that would help the smaller taxpayer?

Ms. Janique Caron: We do have some outreach activities. We also have a community volunteer program across the country to help a number of low-income taxpayers complete their tax returns and get access to the benefits they are often owed. I wonder if Mr. Vermaeten can offer more information.

Mr. Frank Vermaeten (Assistant Commissioner, Assessment, Benefit and Service Branch, Canada Revenue Agency): Sure, I'd be happy to do that.

As Janique said, there's a range of programs. The community volunteer income tax program helps low-income Canadians. That program typically helps 800,000 to 900,000 low-income Canadians a year, so that's a very important program. We also do a lot of outreach in trying to educate taxpayers, not only about their obligations, but also about the benefits of filing, so they get the GST rebate, Canada child benefit and all those things.

We also have recently launched a program called "file my return", which allows lower-income Canadians to file by telephone. As you pointed out, not everyone is going to be aware of all the tax rules nor are they going to be comfortable with all the technology so they can file via telephone.

We also work with the software companies to produce affordable tax programs. The market has provided a wide range of free tax programs, which have a lot of advice built into them and that we examine closely to make sure they're getting the right calculations.

Those are just some of the things we're doing, and I think it is helping a lot of Canadians file their taxes.

Ms. Annie Koutrakis: That's great. I'm really happy to hear that.

Do I have time for one more question, Mr. Chair?

The Chair: Yes.

Ms. Annie Koutrakis: In the 2020-21 main estimates, the CRA is requesting funding of \$74 million for capital expenditures and recoverable expenditures under vote 5, which is an increase from last year of \$45 million or 63%. Can you provide details with specific examples on what this increase represents?

Ms. Janique Caron: These are the investments we do and the many systems we have in the agency to deliver the tax programs. One of those systems is the program benefit system. That is currently operating in an aged infrastructure, so we have a multi-year project to be able to upgrade the system and make it more nimble and more modern. We need to invest our own dollars into that benefit system, so it's the main increase.

We also have a number of systems that help support many of the compliance activities led by Mr. Gallivan, accessing tools and data from third parties, for example, to inform our risk analysis.

The Chair: Thank you, all, for that.

We'll split the remaining time, about four minutes each, between Mr. Cooper and Mr. Fragiskatos.

Michael, you're on.

Mr. Michael Cooper: Thank you, Mr. Chair.

Thank you to the officials from CRA for being here.

In looking at the estimates for CRA over the last several years, we see that the main estimates have been relatively stable: \$4.1 billion in 2016-17, \$4.2 billion, \$4.2 billion and \$4.5 billion. Obviously there's been a big increase, but that's due to the climate action incentive. In terms of actual expenditures, each year, starting in 2016 through 2018-19, there's a fairly sizable and growing gap between the main estimates and expenditures: \$300 million, then \$500 million, then \$900 million in 2018-19, which is 21.8% more than was provided for in the estimates. Do you have any explanation for why there's this growing discrepancy?

• (1855)

Ms. Janique Caron: I'll take that question, Mr. Chair.

Often the main estimates do not reflect the amounts that—

Mr. Michael Cooper: I understand that. Just to be clear, I totally get that. I'm just saying there may be a very good reason or many reasons for it. I was just curious, because it is stable on the one hand and then growing each year.

The Chair: Maybe we'll get an answer here, Michael.

Go ahead, Ms. Caron.

Ms. Janique Caron: The main estimates amounts often do not reflect the amounts that are voted in prior years, either to the main estimates or the supplementary estimates, then not spent and available for spending in the following year. That spending really reflects, I believe, the amounts that are available to the agency, legitimately available through parliamentary approvals, but not necessarily reflected in the main estimates. That's often one reason.

Last year in 2018-19, one big change was that the climate action incentive started to be paid through the 2018 tax system, and therefore there were \$660 million of expenditures in the climate action incentive.

Mr. Michael Cooper: With respect to the climate action incentive, following up on a question that was asked by Mr. Morantz in terms of reconciliation and the fact that no reconciliation has taken place, when will that happen? I guess, perhaps, that is a question that could be posed to Finance, but I don't know if any of the CRA officials could elaborate further on that.

Ms. Janique Caron: Mr. Chair, I'll start, and if Mr. Trueman can offer....

We're responsible for collecting the revenues and for paying the climate action incentive. We will produce, at the end of the fiscal year, which we're working on right now, a statement that will show the fuel charges that we've collected and the climate action incentive that we've paid. We will provide that to the Department of Finance. It will do the reporting, as it is responsible.

The Chair: Mr. Trueman, do you want to close out that round?

Mr. Geoff Trueman: I've nothing to add, thank you. That's correct.

The Chair: Mr. Fragiskatos, you will wrap it up with a couple of questions.

Mr. Peter Fragiskatos: Thanks very much, Mr. Chair.

Thank you to officials.

With respect to the effort, and I'm quoting here from budget 2019, the plan was, "to create four new dedicated residential and commercial real estate audit teams in high-risk regions, notably British Columbia and Ontario". I'm just wondering to what extent these audit teams have been collaborating with provincial authorities in Ontario and B.C. If you wish to give other examples from other provinces or the territories, that would be welcomed as well.

Mr. Ted Gallivan: Thank you, Mr. Chair. I'll take this one.

All four teams are stood up in those areas of the country showing the highest risk. The team approach is linked to that BI concept where we try to look for patterns in the data and trends and, again, look for those common denominators. You can imagine that, when a condo building going up, what we'll try to do is look at every single condo. How many times did they flip? Who were the principals? Who was involved?

Yes, data on land use from the provincial governments, both the provinces of B.C. and Ontario, has been very helpful as has been collaboration with provincial partners who may signal certain buildings or developments that are more problematic. They also pick up intelligence from things like worker safety. There's this idea that a construction company that plays fast and loose with the safety of its employees may not be all that compliant with its tax obligations either.

We have subcommittees and working groups with colleagues at the provincial level. We tell them what our results are, and they talk about areas that may be of interest to us. Yes, information sharing from those two governments is really important.

There are some mixed results outside of those two provinces. We have some good results with some provinces. With some others, where we haven't been active, there may not be as much information as we want.

• (1900)

Mr. Peter Fragiskatos: Can you, Mr. Gallivan, explore in a bit more detail the nature of the collaboration? How exactly did the audit teams interact? Who does what? What's the nature of the relationship? In fact, maybe partnership sounds like a more apt description, because what you're describing sounds like a very close working relationship.

Mr. Ted Gallivan: Again, we have to be mindful of the information-sharing agreement. Yes, it's true—

Mr. Peter Fragiskatos: No, that's fine, but I mean in general. Obviously I'm not going to put you in a compromised position. It's one thing to say we're working together, but, on behalf of taxpayers, how exactly are you doing that?

Mr. Ted Gallivan: Internally within the CRA, we're trying to bring data from some parts of the organization to other parts of the organization. A really quick example is if you are trying to get the GST/HST home renovation credit or the GST/HST rebate on a new home. Normally we used to look at that in isolation, but with these advances in data analytics, we look at that and say, "Well, does that make sense?" You're reporting income you can't sustain. You're saying you have eight kids for a child tax benefit, but you're buying a one-bedroom home. And then pushing up the food chain into developers, we see through these claims maybe a developer who's reporting building only maybe five or six houses a year but who has clients saying, "No, they actually built 60." So I think a lot of the partnership focus for us has been that internal partnership, and with the province more leads and data, and in particular data on real property transactions.

Mr. Peter Fragiskatos: My next question relates to the funding for the taxpayers' ombudsman. What is the funding that's requested for that position for 2021?

The Chair: Ms. Caron.

Ms. Janique Caron: Yes. Let me see. I believe it is \$3.780 million for the fiscal year.

Mr. Peter Fragiskatos: Okay. Thank you very much.

The Chair: Okay, thank you for that. Thank you for appearing on the estimates.

Mr. Fraser made the point earlier on the public service. I'd like to express our appreciation for all the public service does for Canadians in this country and for the efforts you make. It seems that at this committee, we have seen Mr. Gallivan and Mr. Vermaeten every few days over the last several months.

I do want to, on behalf of the committee, give a special thanks to CRA, your staff and your families as well. This working from home is not necessarily easy on families all the time either. Thank you for appearing today and for answering our questions.

With that, we will see committee members on Thursday.

The meeting is adjourned. Take care.

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