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## **Standing Committee on Finance**

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**EVIDENCE**

**Monday, October 24, 2016**

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**Chair**

**The Honourable Wayne Easter**



## Standing Committee on Finance

Monday, October 24, 2016

• (1530)

[English]

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

I have a quick question before we start. On Wednesday, we have votes at six o'clock. We're in the Wellington Building, and we have 16 witnesses, which normally takes three hours. We really don't want to leave them sitting idle while we come up and do five or six votes.

Are we willing to tighten the panels up to about an hour and seven minutes per panel, which would mean we could get out of there at 5:45 p.m.? We could go to five questions, two from the Liberals, two from the Conservatives, one from the NDP, which would be about five minutes for questions.

Are people okay with that, so that we can give them notice now? Part of the problem is the second panel comprises two separate video conferences, so we need to line this up.

Are we okay with that? Agreed. The clerk will inform the witnesses. Thank you all.

Turning to the business at hand, pursuant to Standing Order 108 (2), we are studying the report of the Bank of Canada on monetary policy. We are most fortunate to have Bank of Canada Governor Stephen S. Poloz, and Carolyn Wilkins, senior deputy governor.

I believe you have a presentation to start. Welcome.

**Mr. Stephen S. Poloz (Governor, Bank of Canada):** Thank you and good afternoon, Mr. Chairman and committee members. Senior deputy governor Wilkins and I are happy to be here before you today.

It is our normal practice to appear before this committee twice a year to discuss the bank's monetary policy report. We published our latest MPR last week, and we're happy to answer questions about it and other economic topics.

However, I suspect you may also want to ask about the agreement with the federal government that was announced this morning, which renews our inflation control framework for another five years. Before we respond to questions, allow me to say just a few words on both topics, beginning with the MPR.

Since our last appearance, there have been two significant developments that led us to downgrade our outlook for the Canadian economy. The first is a lower trajectory for exports. After a sharp decline in goods exports over a period of five months earlier this

year, we had a significant rebound in July and August. That was not enough to make up for the ground that had been lost.

We worked hard to determine the reasons for this shortfall. About half of it can be explained by weak global trade and composition changes in the U.S. economy; however, the rest is unclear.

In our outlook, we now assume that longer-term structural issues, such as lost export capacity and competitiveness challenges, are responsible for the remainder. This assumption led us to reduce the projected level of GDP by the end of 2018 by about 0.6%, compared with our July projection.

The second major factor behind our downgraded growth outlook is the federal government's macro-prudential measures to promote housing market stability. These measures are welcome because they will, over time, ease vulnerabilities related to housing and household imbalances. That is important because such vulnerabilities can magnify the impact of negative economic shocks.

We expect the government's measures will restrain residential investment by curbing resale activity in the near term, and lead to a modest change in the composition of construction toward smaller units. We estimate this will leave the level of GDP 0.3% lower at the end of 2018 than projected in July.

Given these two sets of developments, we cut our growth estimate for 2016 to 1.1%. The expansion in both 2017 and 2018 should be around 2.0%, which is above the growth rate of potential, which I will remind you is around 1.5%.

However, because the output gap is now larger, and will close later than we projected in July, the profile for inflation is now slightly lower. We project that total CPI inflation will remain below 2% through the end of the year, and be close to the 2% target in 2017 and 2018.

The outlook is clouded by a number of uncertainties at this time. These include: first, the macroeconomic effects of the new mortgage rules; second, the likely path of our exports; third, the impacts of the federal government's fiscal measures; and fourth, the effects of the U.S. election on business confidence.

Given the two-sided nature of these uncertainties, and with the flexibility inherent in our inflation-targeting framework, we judged that the current setting for monetary policy remains appropriate.

Let me now speak about the renewal of the inflation-targeting framework.

• (1535)

[*Translation*]

Today, the bank and the government announced that we will continue to target inflation at the 2% midpoint of a 1% to 3% range for another five years. This is good news, as our framework has served Canadians well, in both calm and turbulent times, for 25 years. The framework's track record is impressive.

Annual inflation has averaged almost exactly 2% since 1991. Inflation has also been more stable, which has meant that unemployment and interest rates have become lower and more stable. In turn, this has helped households and firms make spending and investment decisions with more confidence, encouraged investment, contributed to sustained growth in output and productivity, and improved Canada's standard of living.

As is the case at every renewal, a great deal of research and analysis went into the process, and we took on board the experiences and lessons of the past five years. Bank staff published dozens of research papers and worked with researchers from other central banks and academic institutions, as well as private-sector economists.

And, as usual, we asked some fundamental questions to make sure inflation targeting is still delivering its economic benefits effectively. We examined potential alternatives to inflation targeting to see if they provide even more benefits. That is one of the great advantages of our five-year renewal cycle—the framework is not set in stone; we are always looking for ways to improve it.

[*English*]

Now it's fair to say that even after years of very low interest rates, the recovery from the great recession in many economies remains weak, so it's not really surprising that some are wondering if monetary policy has lost its power.

Low interest rates are actually doing a great deal to support the economy. To illustrate this point, if we were to raise interest rates to pre-crisis levels, say 3% or 4%, there would be a significant contraction in the economy, and it's these contractionary forces that we are offsetting with low interest rates today. While monetary policy is still powerful, it is true that at the current setting the impact of any interest-rate reduction is less than it would be if rates were at historically normal levels. That's the case in a number of economies.

In this environment, it's particularly important that all policies—monetary, fiscal, and macro-prudential—work in a complementary way. This is why our agreement with the government is crucial. The government is making it clear that it also supports low, stable, and predictable inflation, while leaving us the independence to pursue that goal as we see fit. It's a framework that has worked extraordinarily well for 25 years, and after looking at all the evidence, we could find no compelling reason to change it.

With that, Mr. Chairman, Ms. Wilkins and I would be happy to answer your questions.

• (1540)

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

We will start the seven-minute rounds with Mr. MacKinnon.

[*Translation*]

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

Welcome Ms. Wilkins and Mr. Poloz. We would like to thank and congratulate you. I don't want to speak for my colleagues, but I think there's a broad consensus on inflation targeting. Congratulations on the new agreement with the Government Canada.

This afternoon, I'd like to discuss what you said at the end of your presentation. If I understood correctly, you indicated that, at this point in time, new monetary policy measures would have little or marginal impact in Canada or around the world. You talked about the need for fiscal policy to take over, in terms of moving the economy forward. I don't want to put words in your mouth. I'll let you explain.

In light of your observations, how can Canada, but other countries as well, more effectively structure their monetary and fiscal policies to speed up growth in western countries?

**Mr. Stephen S. Poloz:** Thank you for your question.

You are right that a global consensus is emerging, but the post-crisis focus on monetary policy was probably excessive. Immediately afterward, monetary and fiscal policies were implemented simultaneously around the world. After about two years, we saw a fairly strong recovery, and it was assumed that the bulk of the work had been done. Today, it is clear that it was too early to claim victory and that the world is still experiencing significant distress. Consequently, fiscal policy became more balanced, and monetary policy had to become more accommodative during the second phase.

Today, a consensus exists, but not everywhere, not in every country. It's not universally accepted, but we are in a situation where incremental changes in monetary policy will have less of an impact. We are almost in the same situation as during the Great Depression of the 1930s. That is when Keynesian economics comes into play, meaning that, in such situations, the use of fiscal policy is more appropriate.

As for us, I would simply say that, with the mix of the two policies, which are both important, we anticipate an interest rate of 0.5%, rather than a lower rate, because the fiscal policy is more accommodative.

**Mr. Steven MacKinnon:** If the United States were to raise its rates in the near future, what do you think the impact on Canada's economy would be? I realize you aren't going to want to comment on what the United States might do, but it is something we are hearing about.

In the event that were to happen, what impact would it have on the Canadian economy? How sensitive is Canada's economy to interest rates in the U.S.?

**Mr. Stephen S. Poloz:** I want to start by pointing out that our monetary policy is independent of the United States and that we are in a situation where the economic forces are more or less opposite. Two years ago, the two economies were in a similar situation, but the oil price shock lowered the growth rate in Canada while having a significantly positive impact on the U.S. economy. During that time, as adjustments are made to reflect the lower price of oil, Canada's economy is experiencing a second period of distress. So all the ingredients are there to create a divergence between the two countries for a few years, three or perhaps more.

Within the economic models, a divergence in monetary policy is also expected. It is true, then, that, potentially, if a normalization of interest rates were triggered in the U.S., it would affect our bond market. It's a global market, and Canada would feel an impact, but an analysis of the impact would be necessary at the time. It's tough to predict exactly what the consequences would be, and I'm certainly not going to comment on American monetary policy. It is true that such an event would affect us, but it's important to stress that our policy would remain independent.

• (1545)

**Mr. Steven MacKinnon:** I know my colleagues will want to talk to you about productivity. Economic competitiveness is a key element in your report. You point to weaknesses, gaps, indeed an output gap. Can you tell us what you think the government could do to rectify the situation? What steps could be taken, and how could monetary policy play a role as well?

**Mr. Stephen S. Poloz:** It is true that we currently have excess economic capacity; that's clear in terms of output and the labour market. The signs are visible.

The extent of the gap is putting downward pressure on the inflation rate. We are trying to eliminate the gap, a process that should take two years, bringing us to May 2018.

Obviously, the interest rates favour growth, as do the other policies, and specifically, fiscal policy. Those are the areas we are working on to close the gap in a period of about 18 months.

[English]

**The Chair:** Thank you both.

Mr. Deltell.

[Translation]

**Mr. Gérard Deltell (Louis-Saint-Laurent, CPC):** Thank you, Mr. Chair.

Ms. Wilkins, Governor, it's an honour to meet with you today and to have the opportunity to speak with you.

Governor Poloz, I'd like to commend you on your French skills.

**Mr. Stephen S. Poloz:** Thank you.

**Mr. Gérard Deltell:** Like all Canadians, I've had a chance to hear you speak on a number of occasions. Since you had such a lovely conversation in French with my colleague, I'm going to continue speaking in Molière's language.

Is that okay with you?

**Mr. Stephen S. Poloz:** It's fine. Thank you.

You'll have to excuse my Oshawa accent.

**Mr. Gérard Deltell:** I hadn't noticed.

Governor, can you explain to us why Canada's economic growth rate is lower than you had predicted some time ago?

**Mr. Stephen S. Poloz:** Do you mean lower right now or overall?

**Mr. Gérard Deltell:** I am asking about both.

**Mr. Stephen S. Poloz:** At this time, our downgraded outlook is due to two main factors. Firstly, we have observed a sharp rebound in exports since the decline. However, during this recovery period, exports did not increase as much as our models had predicted. It is a gradual process and the margin of error keeps widening. We have been monitoring this situation closely for two years, so it is not new to us.

Over the past year, we did other research, and for different reasons, downgraded our forecast for exports. On the one hand, it is clear that global trade is weak. All countries are experiencing a decline in exports relative to GDP. On the other hand, the American economy was very weak during this year's first trimester, which led to composition changes in U.S. demand. To give you an example, new houses are smaller than usual. This is probably a demographic trend, but it has reduced Canadian exports of goods such as construction materials. Investment is also a very important category for our exports. All of these factors have caused the current decline in our exports.

In addition, the government's recent announcements regarding mortgages led to a slight drop in housing sales. There is a lot of uncertainty around that forecast, and we will have to follow the situation closely to see the results.

• (1550)

**Mr. Gérard Deltell:** So, I understand that some factors are due to developments elsewhere, but there are also local factors such as the new mortgage rules announced three weeks ago by the Minister of Finance.

Concerning investments and exports by our SMEs, what will be the impact of measures such as the increase in contributions to the Canada Pension Plan, the introduction of a carbon tax, and the decision to maintain the tax rate on small business at 11%? All of these measures will have a direct impact on our small, medium, and even large enterprises.

In your opinion, will these three new measures — the increase in contributions to the Canada Pension Plan for employers and employees, the imposition of a carbon tax, and maintaining the small business tax rate at 11% — stimulate the economy, or on the contrary, have an adverse effect on our entrepreneurs?

**Mr. Stephen S. Poloz:** That is quite a complex question. It is true that a lot of things could encourage competition and make our businesses more competitive. You expressed some hypotheses on that topic, but I do not have any figures to give you on each of them.

Last week we discussed important factors that can affect competitiveness. It is important that every change has a positive effect, but we will have to study each element carefully using our models. The Department of Foreign Affairs, Trade and Development, for instance, has specific models to analyze these factors.

**Mr. Gérard Deltell:** Governor, generally speaking, is it a good thing to maintain the small business tax rate at 11% rather than 9%? Is it good for an enterprise that taxes be higher?

**Mr. Stephen S. Poloz:** I have no comment to make on that. Our taxation rate is already low when looked at in the international context. I think we are competitive in that area.

Businesses share other concerns with us during our visits. They mention deficient infrastructure, and the cost of electricity, which in Toronto is practically twice what it is in Detroit or Chicago. As far as I know, they did not raise the tax you mention.

● (1555)

**Mr. Gérard Deltell:** The new pension plan will mean that each business will have to pay \$1,000 more per employee.

Do you think this additional burden will stimulate the economy, and business growth?

**Mr. Stephen S. Poloz:** Once again, there are two sides to that coin.

It is true that anything that increases an enterprise's expenses has an effect on its competitiveness. However, the confidence of households plays a role in economic demand. If the changes made to the pension plan mean that there is greater long-term confidence in the economy, this will stimulate growth.

**Mr. Gérard Deltell:** For economic growth ...

[English]

**The Chair:** I'm sorry, Gérard, we are well over time.

Mr. Caron.

[Translation]

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

Welcome, Governor and Ms. Wilkins.

[English]

I will speak French and English. I'm the only member of my party here, so I'll do both languages.

I'd like to start by going back to something you said, which is, and I agree with you, that monetary policy is much less effective at such low rates as we have been experiencing, but I do remember that in the last few years we've been debating the famous tool kit and what we have as tools in the tool kit. We talked about quantitative easing. We talked about the possibility of a negative interest rate.

If you think that the right move right now is to actually stand on the sidelines and let the fiscal policy do its work, when would those tools in the tool kit be used if they are not used in the situation right now where monetary policy seems to be less efficient?

**Mr. Stephen S. Poloz:** Our analysis is that given the shocks we've incorporated into our projection, the economy has slower growth and

a larger output gap for longer. That longer period takes us out to the middle of 2018.

On the one side we'd say that's unfortunate. We thought just a few months ago that by the end of 2017 we would be back at full capacity. So adding, say, two quarters onto that process means a longer period of time where someone may be out of a job. It increases the side effects, the scarring, or the loss of skill sets, and so on. We know that's not without cost.

We also must ask ourselves what is the complexity of the trade-off and when is it appropriate to try to speed it up? As we said last week, we actively discussed the possibility of cutting interest rates a little further at this time to try to speed up that process, and given the uncertainties that we're facing, we decided we were best to hold where we are.

When I say uncertainty, I don't necessarily mean something bad. It's just that some things are not as concrete today as they might be in a short time. For instance, a lot of companies mention that the U.S. election is giving them uncertainty about the future. Whether it's about their investment plans, NAFTA, or whatever, it doesn't really matter which candidate ends up winning, there's uncertainty. There's a natural tendency both in the United States and in Canada to delay those kinds of decisions.

It's possible, therefore, that when the election is over some of that uncertainty will be lifted and that would be a positive. It's not all one way. But in that context, we decided the uncertainties were sufficient, that we should watch the export data a little longer and make ourselves more confident in that.

● (1600)

**Mr. Guy Caron:** You made comments on spending on infrastructure, that deficits might be positive if infrastructure spending is bringing a good rate of return for the economy eventually. You also said that for any decision on the rates there is a lag before you see the effects. I would submit, it's the same thing for infrastructure spending as well. How long are you willing to wait to see results on both sides, either for a decision on the rates or on the impact of infrastructure spending?

**Mr. Stephen S. Poloz:** I don't have an answer to that question, but there's nothing mechanical about it. Each of these decisions is a complex combination of risks, and we have to weigh the risks of waiting longer against the costs associated with doing something more immediate.

Certainly, as the first part of your question alludes, if we were to be easing further, we'd be very close to using unconventional tools. That's of course not a decision we would take lightly.

When we have the Canadian economy operating on two tracks, one track doing reasonably well and in certain regions doing quite well, and others adjusting through something quite difficult, it's not as easy as it sounds to speed up the fast growing parts to offset the slow growing parts. If everything were the same it would be an easier decision in many ways to do that kind of thing.

This is what I mean by the uncertainties. They are multi-dimensional. We do a fresh judgment every time. Again, we can't plan it that way. Our best plan right now, we think, is to wait for the next 18 months or so.

[*Translation*]

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

I have a final question about the agreement, targeting and inflation.

In the document drafted jointly with the Minister of Finance, you stated that is a method that has proven effective since its was created.

Yet we live in a very different world than when it was created. You admit this yourself: we are in a slow growth period, which was not necessarily the case when this mechanism was created.

We are in a situation where the target has always been 2%, plus or minus one percentage point, of course.

[*English*]

Was there any discussion or any possibility of actually trying something different, adding this as one more tool in the tool box, as you just said?

The other question is, have you considered having an agreement for less than five years, just to see if maybe we can try something else? We'll try it for a few years and it might actually bring us different results in a very different economic situation.

**Mr. Stephen S. Poloz:** Those are good questions, ones I'm going to pass over to Ms. Wilkins.

[*Translation*]

**Ms. Carolyn Wilkins (Senior Deputy Governor, Bank of Canada):** With our lower growth rate and a higher savings rate around the world, we note that the neutral rate, the neutral interest rate, is lower. We have questions about the fact that, with a target inflation rate of 2%, there is a greater likelihood of an interest rate that is close to zero or even negative. In the end, we estimated that it was essentially twice that.

We now believe that the lower interest rate is at minus 50 basis points, whereas we thought it was at plus 25 basis points during the crisis. The probability of achieving the lower interest rate and employing conventional monetary policy means that we have consolidated the possibility of increasing the target inflation rate to 3%.

Upon closer examination, we concluded that the costs by far outweighed the possible benefits. It is very intuitive. We have a tax system and the ability to transfer wealth between savers and lenders, but an increase in the inflation rate means that lower-income or older people must bear the cost of that increase.

In this context, we considered employing unconventional tools. Their effects are limited but positive nonetheless. Some studies show that they do work. It is preferable to keep the inflation rate relatively low, stable and predictable.

• (1605)

[*English*]

**The Chair:** Thank you all.

Mr. Sorbara, for seven minutes.

**Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.):** Welcome Governor and Deputy Governor.

I would like to start off with a couple of comments. It's going to be a three-part question, if I can get it and your response in within the full seven minutes.

First of all, congratulations on the agreement, the policy statement on inflation targeting, going for another five years. Sending price stability to the market is very important for decision-makers, whether you're a saver or investor, and putting capital to work. It's important to know that's in place. So congratulations on that.

My first question deals with fiscal policy.

Governor, in your September 20 speech, "Living with Lower for Longer", if I can quote you, it says here on policy prescriptions:

One important impediment to business growth that is widely shared globally is weak infrastructure. We know that infrastructure projects spur growth in the short term by boosting demand. More importantly, infrastructure projects can support long-term growth by raising an economy's potential output.

With that statement from your September 20 speech, and really where monetary policy has done a lot of heavy lifting here in Canada.... The monetary policy transmission mechanism has worked very well here in Canada over the last number of years, but it's time for fiscal policy to take over, in my view. I would love to hear your wise words on that. That's part one.

The second part is to deal with two themes that have been identified in the deputy governor's speech in London that were re-emphasized in the monetary policy report that you've touched on, Governor. One has to do with labour supply, not labour participation rates, because they've held steady if you look from 1976 to now. The other one is productivity/competitiveness.

The labour supply we can deal with it with immigration. I think there's a solution there on the labour supply front, the labour growth rate. On the competitive front, on page 15 of the monetary policy report, there are a number of things that are concerning about our competitiveness and headwinds that are restraining export growth. I would appreciate some feedback on what fiscal policy or policy measures you think we may need to look at in terms of strengthening our ability there.

The third and final part is to deal with some ratios. We widely are given the 170% number for debt to disposable income, but if I look at the Stats Canada report where that number is provided, there are a number of measures on net worth of Canadians that we don't talk about. I'm somewhat, not concerned, but it raises a question on which side of the balance sheet we're looking, because if we look at financial asset ratios, Canadians are generally wealthier than they have ever been. There's a lot more net worth there. If I can get my iPad to open, I could pull them up.

I would like to get your take on the balance of looking at this one ratio, but in that same Stats Canada report, a number of other ratios point to a different picture of how the consumer is doing.

Those are the three questions.

**The Chair:** If you could answer those three lengthy questions in three and half a minutes, that would be great.

**Mr. Stephen S. Poloz:** Okay, so I'm going to take one minute, and then I'm going to give two minutes to Ms. Wilkins.

**The Chair:** Sounds good.

**Mr. Stephen S. Poloz:** In my minute then, yes, the speech on "Living with Lower for Longer" talked about our estimate that the Canadian economy can aspire to a long-term trend growth rate of about 1.5% for the foreseeable future. That's our estimate of growth potential.

The whole world has slowed down because of slower demographics. We're not excepted from that, and the U.S. is only slightly higher at 1.7%, with a slightly younger population.

It's 1.5%, and in that context, what is it that we can do to make the trend line higher? We can remove some of the impediments to growth, which are structural things. These are not things that monetary policy is equipped to do much or anything about. Indeed, in the narrow sense, neither is fiscal policy.

By structural things we mean deficient infrastructure, which, of course, would mean providing better infrastructure, but it can be other things such as interprovincial free trade and free trade internationally. These are things that, when changed, can boost that growth rate by 0.1%, 0.2%, 0.3%, and pretty soon you're rounding up to 2.0% instead of 1.5%. That's what I was talking about there, and we have control over many of those policies.

Of course, the one that's happening right now is the infrastructure plan, which will be welcomed by firms. That helps them grow their business. Turning to labour supply, productivity, competitiveness, and the debt-to-income ratio, over to you, Ms. Wilkins.

• (1610)

**Ms. Carolyn Wilkins:** In two minutes....

It's interesting that about half of the decline in Canada's growth and potential output is due to slower growth in labour supply. There's a real focus on figuring out how to increase that. Of course, the arithmetics of it are that immigration can do that.

I think there are other things, as well, that we've noticed, and that's just trying to look at the prime-age worker participation rates. Getting those segments of the population, discouraged men and

women—women who perhaps haven't yet decided to join the labour force—could increase the labour input to potential output.

There's also the youth. When you look at the participation rates for young people since the crisis, they've declined. The governor's standing line is that they're probably not retiring. I think that's true. Some of them are in school, but some of them aren't. They're looking for work and could be productive.

When I talk to firms, they talk about the need to have the right labour in the right place at the right time. With regard to labour mobility, especially when you have the kind of shock we've had, where some areas are doing less well but there are jobs in another part of the country, that labour mobility is so important. Having the right education to fill the needs that are emerging is important as well.

That's not independent of productivity. The governor already mentioned a few things that firms tell us with respect to productivity. Clearly, regulation in electricity prices and other things affect their decisions about where they're going to locate.

You're right to say that on the measures of the health of the household balance sheet and their financial position, it's always wise to look at a number of indicators. Looking at that aggregate debt-to-income ratio is one way to look at it. We delve in, looking at net worth. That is another thing.

I think the best way to look at the health of the household sector is to look at the distribution of those things. You can have a lot of those average numbers hiding a lot that's underneath.

If you look back at our financial system review in June, you'll see that we did a strong analysis of debt-to-income ratios and loan-to-income ratios, and that a very high and growing percentage of the population is taking on loans that are over 450% of their income. That means that their debt service ratios are very high.

It may be that they have an asset. Most Canadians' assets are their houses. The issue, though, is that if they get into trouble from an employment point of view or an income stream point of view, they don't necessarily have those liquid assets that allow them to keep meeting their debt obligations.

It's great to see that net worth is high, but that depends on the value of the asset and the stability of the value of that asset, but also the liquidity of that asset. It's good to look at a number of indicators and look at the distribution across those indicators.

**The Chair:** Thank you all.

Mr. Albas.

• (1615)

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** Governor, I appreciate your commitment to our country and your service. I appreciate your presence here today and making yourself available to parliamentarians. I'd like to talk a bit about the government's growth plan.

You did an interview on the weekend where you talked about a percentage, or a point of a percentage here or there, that could have a drastic input when we're talking about such anemic numbers: 1% growth versus 1.5% or 1.7%.

Obviously, infrastructure is a big part of that. Now, not all infrastructure is the same. When you speak of infrastructure, productive infrastructure, things that make us more efficient or allow us to grow our economy, what kind of things are you referencing? It's a bit of a hazy bubble out there for a general term.

**Mr. Stephen S. Poloz:** You're right that not all infrastructure is the same. The term I think I used on Sunday was "targeted growth-enabling infrastructure". Even that I suppose is a bit vague. The filter that one would want to put on this would be, "Here's my infrastructure proposal." "Okay, tell me, then, how that would be growth enabling for the economy."

I hear people sort of saying, "Well, if it's just a bunch of roads...". They dismiss roads. Well, I'm remembering the project to twin the road to the main border in New Brunswick, which made an enormous difference to seafood producers supplying northeastern United States restaurants. They were able to promise much faster, fresher delivery. We actually saw the impact of that on exports.

**Mr. Dan Albas:** Like the Confederation Bridge? Mr. Easter pointed—

**Mr. Stephen S. Poloz:** Those kinds of things can make a big difference to business, and those are the kinds of arguments you'd like to hear.

**Mr. Dan Albas:** The challenge I have is that about two-thirds of the \$60 billion that the government has put in its fiscal plan over the next two years for infrastructure relates to green and social infrastructure, which doesn't seem to meet the same category. Are you concerned that the government is moving too much money around to too many areas that may not see the growth potential you've been talking about?

**Mr. Stephen S. Poloz:** I am not going to judge specific things that the government is doing on the fiscal front. I am explaining that, if you can make the argument that something will be growth enabling, then it passes the infrastructure test as I described it. You could think about infrastructure that may help women participate in the workforce more easily. That would be social infrastructure.

**Mr. Dan Albas:** I don't think it's a good idea for us to use terms that become vague and whatnot.

**Mr. Stephen S. Poloz:** Understood.

**Mr. Dan Albas:** There is the term "helicopter money", where the approach is just to deposit money across the country, and there may be some stimulative effect, versus what you said in your comments, which is roads, ports, etc., things that help us sell more of our exports.

I do take the point that there are investments the government can make, but I don't think it's under the terms of infrastructure. Earlier, we talked about interprovincial labour mobility, participation, and education. That's a bit of a different thing.

You have downgraded the amount of growth potential you see, so either the forces outside Canada and some of the things that are happening are worse than expected, or we are not getting as much

pep for the fiscal dollars that the government is putting into it. Could you explain how much growth we are getting from the government's fiscal plan?

**Mr. Stephen S. Poloz:** The downgrade is almost entirely from external forces, as has been our series of downgrades. There has been a global disappointment, which has pushed down everybody's forecast, over and over again, over the last five or six years, in our case, primarily the U.S. On the edge of that, it's even a little less for us, because our share of exports to the United States has been gradually declining. That's just to put it into context.

In terms of how much growth we expect from the fiscal plan, that remains something to be monitored. What we have built in is approximately 0.5 percentage points this year, and one percentage point on the level of GDP by the end of the next fiscal year. Of course, that remains to be seen, because there are no signs yet in the data we have available. It's a little early. We had the child benefit in July, so as we go through the rest of this year, we should see something in the retail sales data.

Importantly, there is no category in the StatsCan publication that is going to tell us, "This came from fiscal expansion." It will tell us how much of a contribution the government made to GDP, but that won't be mapped directly to the fiscal plan. It's important that we understand that.

Years from now, we will be analyzing this episode, and the economists will figure out how much actually came, but that's very common. We referred to the U.S. infrastructure spending, where the components on roads and bridges delivered over an eight-year period three times the initial investment. That came both on the level, because of the spending, and because of the fact that those roads increased the potential growth rate for businesses to move their stuff around.

● (1620)

**The Chair:** Thank you, both.

After we get through our initial round, Dan, I think we'll have some time for a couple of supplementaries.

Mr. Ouellette, go ahead.

**Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.):** Thank you very much, Governor, for coming here today. I really appreciate it.

Just as a philosophy point, I don't view the Bank of Canada as outside or above the economy, but as an integral part of it.

I was just wondering, how many times a year do you meet with indigenous leaders in this country?

**Mr. Stephen S. Poloz:** I'm sorry, could you repeat it?

**Mr. Robert-Falcon Ouellette:** How many times a year do you meet with indigenous leaders? I know you meet with the Prime Minister and other officials. I was just wondering how many times you meet with indigenous officials, or indigenous peoples.

**Mr. Stephen S. Poloz:** Personally, I've only met one time with an indigenous leader, when we were visiting Fort McMurray. Oh, excuse me, and then again when we were in Yukon, in Whitehorse. So, for over two years, that is once per year.

**Mr. Robert-Falcon Ouellette:** As you are the leader of one of the foundational economic institutions of our country, I was just wondering if you could share some of your views on the nation-to-nation relationship and what you can do to further that relationship.

**Mr. Stephen S. Poloz:** Do you mean as the Bank of Canada?

**Mr. Robert-Falcon Ouellette:** Yes.

**Mr. Stephen S. Poloz:** I don't have any idea how the Bank of Canada monetary policy, which just moves interest rates around, could have any bearing on that relationship.

**Mr. Robert-Falcon Ouellette:** Statistics are very hard to come by, for instance, on indigenous unemployment in this country on reserves. I know Stats Canada often has difficulty compiling it. I know you use statistics an awful lot—you're economists—and I think if you perhaps would push Stats Canada, maybe it would compile better statistics that would be able to inform your decision-making, because we are making decisions and Canada is made up of many different societies and groups and peoples and nations within this one nation-state. I'm just encouraging you, in a friendly way, to think about those issues.

I guess we are talking about social infrastructure as well, and the middle class and the poor spend a higher proportion of their income on consumer goods in the economy, and they don't save as much as some other groups in society in the upper classes or upper middle classes.

You were talking a bit about the Canada child benefit that we put in place. Do you believe that would have a beneficial impact on people's lives as a social infrastructure? Would that be something that could be money well spent? People could use that money for educational purposes and trying to improve their conditions and economic and educational opportunities.

**Mr. Stephen S. Poloz:** I'm not in a position to comment on the specific nature of that policy and all the various effects it could have. From our perspective, our primary interest is in trying to evaluate its impact from a macro point of view: how much of an effect it would have on the economy and therefore on the things we talked about earlier, how much excess capacity we have, and how long it will take us to close the excess capacity gap and get inflation back to target.

In that sense, it plays a role there because it is expansionary. It is clearly an expansionary policy, so it reduces the output gap compared to what we would have without it.

• (1625)

**Mr. Robert-Falcon Ouellette:** We were talking about deficits. In some cases we've had low growth for a long period of time. Deficit spending in itself could be seen as being an investment if it's used in the right way in order to increase growth and to get us over the hump

so we don't have a recession or other long-term socioeconomic impacts. Would you agree with that statement?

**Mr. Stephen S. Poloz:** Well, I would, but importantly, infrastructure spending has two dimensions. One is that you spend the money and that increases jobs in the actual building of the infrastructure. Second, if it's targeted in the way I described before, targeted at growth-enabling investment. It's not really different from what a company does, which is to invest in new machinery or equipment so that the company will grow in the future, and that machinery then pays for itself, as you go through time. Infrastructure should be seen in a very similar way. If it's growth enabling, it will produce more economic growth and therefore tax revenues and so on to support it in the future.

**Mr. Robert-Falcon Ouellette:** Thank you.

**The Chair:** We'll leave it there. I think we are stretching into some areas that the Bank of Canada does not have complete responsibility for, but that's fine. It was a good exchange.

Go ahead, Mr. Liepert.

**Mr. Ron Liepert (Calgary Signal Hill, CPC):** Thank you, and welcome, Governor.

I'm from Alberta. There has been a view in the yesteryear, I think, that if oil prices came down, the dollar would come down with it, exports would increase, and we'd be back to the good old days. That has not happened.

There are strong indications that, regardless of the outcome in the U.S. election, the fed is probably going to increase interest rates in the United States. Maybe you have some information on this that is different from what we are led to believe, and if your monetary policy doesn't track that, the obvious result is going to be a lowering of the dollar.

I'd like you to make some general comments about where the dollar can go, based on some of the monetary policies we have little control over, before it becomes an issue in itself, relative to inflation.

**Mr. Stephen S. Poloz:** The relationship between the Canadian dollar and all those things is not very predictable. The one thing we've seen as a steady indicator of the level of the dollar has been our terms of trade, which are highly correlated with the oil price in most periods. It can be other things. If oil is constant and other commodity prices are rising, then the dollar might reflect that. Interest rate differentials, which you mentioned, are also a factor. On any given day, in any period, however, those two things could move in opposite directions. It's not just the actual interest rates; the expectations about interest rates also matter.

**Mr. Ron Liepert:** How low can we go when it comes to the dollar? Where is your head at, relative to the dollar?

**Mr. Stephen S. Poloz:** I would decline to comment on the level of the dollar, just as I wouldn't want to make a clear statement about where oil prices might be over a certain horizon. If oil prices were to rise, chances are that the Canadian dollar would rise. If nothing else, we're moving at the same time. If oil prices went down, it would be the same thing.

There is no magic number for us to have on that. It's driven by almost every fundamental in the economy. We tend to think only about those two headline ones, but underneath all that is the economy's competitiveness and the forces acting on it. The exchange rate is a major equilibration channel that is affected by almost everything in the economy and outside of it.

• (1630)

**Mr. Ron Liepert:** Let me change the direction a little bit. One of the things that I continue to hear about, certainly in Alberta, is the continued piling on by government. Increased taxes in Alberta's case, an increase in the minimum wage, Ontario hydro rates—all these are in some way influenced by government policy, be it federal, provincial, or whatever it is. We have a situation now where we have a huge deficit this year, and for the foreseeable future, at the federal level. We have huge accumulating deficits at the provincial level.

Do you have any sense as to how much longer we can continue to build those deficits before it starts to impact the dollar and all of these other numbers we've been talking about?

**Mr. Stephen S. Poloz:** I don't have anything exact. Historical experience certainly supports your main point, which is that deficits and government debt matter. These factors matter primarily to international investors' impressions of an economy, and their decisions tend to drive your currency around. We've had episodes in the past, in 1993, 1994, and 1995, where we had very rapidly rising federal debt and markets began to react negatively. There was nothing magic about the level, but it suddenly started to happen that way. No one, including me, thinks this is without limit. However, we don't have, really, measures of those things; we just see tendencies.

**Mr. Ron Liepert:** Maybe you don't have measures, but is it starting to give you concern?

**Mr. Stephen S. Poloz:** At this time, no. At this time, our fiscal situation is among the best in the world, so I think for the time being, the government has considerable flexibility on that front.

**Mr. Ron Liepert:** That says to me—

**The Chair:** I'm sorry, Ron. We're well over the time.

I'll just throw in a question here.

Where does the debt-to-GDP ratio come into this discussion? We have been holding pre-budget consultations across the country, and to Ron's point, there are people who wonder what the road map is going into the future, where the government is going to end up, but when we talk to Finance officials, they will come back to the debt-to-GDP ratio, which puts Canada in pretty good stead, I understand, so what about in that particular area?

**Mr. Stephen S. Poloz:** The federal debt-to-GDP is in the 30-odd per cent range, which is around half of what it was back in the

nineties when we had this troublesome period. That is a very large difference. GDP is a very big number. I don't want to say that in some way that gives you the size of the room to manoeuvre, it just says that there's quite a lot of room to manoeuvre from a financial point of view, and I would not want to express a specific limit on it.

**The Chair:** Thank you, Governor.

Mr. Grewal.

**Mr. Raj Grewal (Brampton East, Lib.):** Thank you, Governor and Deputy Governor, for being here with us today.

I want to pick up on a comment that appeared in an article yesterday. The headline read, "Canada has room to run deficits".

The average Canadian isn't going to understand monetary policy in depth. When they read a headline like that, it gives them confidence. One of the roles of the Bank of Canada is to give consumers confidence in monetary policy.

If we're running these deficits up to almost \$30 billion, what is the room? What is the gap? Where do we start to get into trouble in the debt-to-GDP ratio?

**Mr. Stephen S. Poloz:** As I was explaining just now, there is no magic number for that. We have seen countries in the past get into trouble, let's just say, at debt-to-GDP ratios that are much higher than what we have here in Canada, and by much higher, I mean double, or in the case of Japan, it's—I'm sorry, I forget—a very large number.

• (1635)

**Mr. Raj Grewal:** Is it comfortable to say that when you say "room", that means significant room to run deficits in our country?

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

**Mr. Raj Grewal:** Thank you, Governor, for that.

I also want to touch base on the concept of infrastructure. We've travelled the country from coast to coast. We've heard about the importance of government stimulus in growing the economy. Infrastructure is seen as one of the things the government can do to stimulate the economy.

You had a comment in the paper which said that infrastructure can lead to tax revenues, which keeps the system turning. Can you comment a little further on what you meant by it keeps the system turning?

You also mentioned that in the U.S., it's three times the investment from infrastructure spending on roads and bridges. What do you anticipate happening in Canada?

**Mr. Stephen S. Poloz:** Let me start with the last part, because I want to be very careful that I'm not confusing you. In the United States, I was referring to a historical study by economists as to what infrastructure spending solely on roads and bridges has done to economic growth. They discovered that, in the short term, it has more or less a dollar-for-dollar effect. However, what happens over the subsequent years, by eight years, which is quite a long time, it gives time for the growth rate to pick up a little, and then for that effect to accumulate. Economists call that a multiplier. How big is your multiplier? In that case, it turned out to be very close to three times the original investment, which over eight years is quite a good return. But that's only one specific study; it's not a rule of thumb, or anything like that.

In the case of the infrastructure program that's been announced here, we have simply assumed that the multipliers would be very conservative, a dollar for a dollar. There's a little more than this, and correct me if I'm wrong, because you're on top of—

**Ms. Carolyn Wilkins:** It depends on the source.

**Mr. Stephen S. Poloz:** It depends on the source.

**Ms. Carolyn Wilkins:** It's less than a dollar for the child tax benefit—

**Mr. Stephen S. Poloz:** That's right.

**Ms. Carolyn Wilkins:** —and more than a dollar for some of the other ones.

**Mr. Stephen S. Poloz:** For the infrastructure side, it's slightly more than one for one, and for the other ones, it's less than one for one.

**Mr. Raj Grewal:** —on the Canada child benefit.

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

**Mr. Raj Grewal:** As my colleague from Alberta also mentioned, we have a lower dollar compared to the U.S. Generally, we would assume that exports would increase, but you opened up your statement saying that we've had a sluggish export market. Do you have any other comments on why that's happening? You also mentioned that the U.S. election is causing consumer confidence to be at an all-time low. What percentage of decreased export demand or investment in the American economy is because people are worried about the outcome of an election?

**Mr. Stephen S. Poloz:** It's important that we bear in mind that Canada's exports have recovered tremendously and are now higher than they were pre-crisis. There was a massive decline in the wake of the crisis and global recession, and a very large recovery that took several years to complete. All I was saying before is that even though that recovery has been very impressive, cumulatively it has tended to fall short of what our models predicted. The dollar has had the effect we expected it to have, but on average just a little less than normal, not zero.

We've done a lot of research to try and refine our models to try to capture effects that aren't always in there, and one of the important ones is a shift in mix in the U.S. economy. Investment in the U.S. economy is a really important demand source for our exports, and investment has been weaker in the U.S. and, of course, not only in the U.S. but globally. This is one of the reasons that virtually everybody's trade is slower than it was before. We aren't alone in

this. We're experiencing the same thing, and everybody's wrestling with the same issue.

**The Chair:** You can squeeze in a quick one—

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

**The Chair:** —but quick.

**Mr. Raj Grewal:** Governor, obviously, your biggest tool in the Bank of Canada is interest rates and the adjustment of the interest-rate variable. People are commenting that from reading the *Financial Times* or *The Wall Street Journal*, and you mentioned this in your comments as well, monetary policy isn't as important a stimulus as it used to be, that the economies don't move as much when the interest rates change. We've held the rate the same. My colleagues have mentioned, and I also agree with them, that the rate by the feds may change south of the border. We have countries around the world going into negative interest rates. At this point in time, what would an interest rate cut do for the Canadian economy?

• (1640)

**Mr. Stephen S. Poloz:** What we have said is that interest rate cuts in this low-rate environment are likely to have a smaller effect than they did when they were higher, but that's not the same as saying that low interest rates aren't doing anything. In fact, they're doing a lot. What's important to bear in mind is the relationships that we're modelling here are between interest rates and exchange rates and the level of the activity in the economy, the level of GDP, in the case of the dollar, and the level of exports. When those things change, you get a move to a higher level, which means growth picks up. But growth picks up only temporarily. Then when the effect is over, the level stays higher but the growth impact dissipates. We're not usually in this situation for as long as we've been at present, and this is why those comments are more prevalent. The fact is that those things are having a very large effect. Just imagine what it might look like if we stopped. That gives you an idea of the counterfactual.

**The Chair:** Thank you both. We're considerably over time.

Mr. Caron.

[Translation]

**Mr. Guy Caron:** Thank you very much.

I would like to go back to the inflation-targeting agreement.

Ms. Wilkins, you said that you had considered setting a range from 2% to 4% with a target of 3%. You said the disadvantages by far outweighed the possible benefits. It is still an increase of one percentage point though, which represents a 50% increase over the current rate.

Were other possibilities considered, such as a target of 2.25% or 2.5% rather than 3%?

Are there studies comparing the potential costs and benefits?

[English]

I'm just trying to see what the process was in studying that possibility. I would like to put that in the light also of the announcement that core inflation will not be used as a benchmark anymore. We're going to have to have different types of inflation with CPI. On the other side, in the last few years we have been a lot more worried about the possibility of getting into deflation than out-of-control inflation.

That said, I'd like to see what the thought process was at the bank on that issue.

[Translation]

**Ms. Carolyn Wilkins:** Yes, we did consider a 3% target in a range from 2% to 4%. As you will see in the documents we provided, we assessed the benefits in the context of a lower interest rate. We examined this for various targets up to 4%.

What we observe in this process is that the benefits of changing the target are limited and that the costs, which are in a way fixed, are the same. One of the reasons that monetary policy works so well is that inflation expectations are very stable. The potential benefits would be derived if people revise the credit system and their expectations in an orderly way.

As to core inflation measures, we have for a long time used the index measuring basic inflation or the inflation trend, CPIX, which strips out eight of the most volatile CPI components. As you can imagine, we try to target inflation, but—if you look at a graph—, it goes up and goes down; it fluctuates a lot. That is usually due to consumer energy prices. If we truly want a monetary policy that achieves stable inflation, the volatile components must be removed.

We did a study including the various core inflation measures used around the world. We found that, among certain criteria, there were three that worked. We also noted that the CPIX no longer works and was not helping us much. No measure was perfect, though. So we decided that it wasn't the target that was important, but rather that these measures would serve as an operational guide for us. We found that it was better to keep the criteria that worked very well and to use them as a base case.

• (1645)

**Mr. Guy Caron:** I have very little time left.

I have one last question for you, going back to the inflation target.

I completely understand the success of the targeting agreement that has been in place since the 1990s: the key is that expectations are known. This also stabilizes expectations.

Ultimately, the argument you are making for the future, say in five years, when the agreement will be renegotiated, is that once again the rate will not be changed.

The agreements are for five years, but your argument is that the target rate will always be 2% because market expectations, those of investors and other influential actors, are always based on a rate of 2%. Would there be a way of changing that in the future or will it always be 2%, even though the agreements are for five years?

**Ms. Carolyn Wilkins:** What that means is that the bar is high.

I would not say it is impossible to change the inflation target for something better, because there are other factors that change at the same time. We will examine various things that will help us ask different questions for the next time. For example, from now on we will be relying on unconventional policies. So we might employ those policies.

Five years from now, we will have gained a lot of experience with countries that are employing this type of policy. We will be able to see how effective these policies are. That is one thing.

There are others where over time we have seen more indexing of the system. That is something that changes.

So a lot changes in five years. It is not impossible that this could change in the future, but we have to make sure it would be for the better.

[English]

**The Chair:** Thank you.

Mr. Abouttaif, you have five minutes.

**Mr. Ziad Abouttaif (Edmonton Manning, CPC):** Governor, I would like to go back to my colleague Mr. Liepert's question about provincial debt.

You've answered the federal debt part of it. Should we care about the debt of the provinces? As you are the Governor of the Bank of Canada, how much do you care about the debt that the provinces are carrying right now?

**Mr. Stephen S. Poloz:** At the Bank of Canada we care about all of these things. There's no question about that. I don't mean to oversimplify when talking about only the federal debt situation, because obviously, the provinces are also borrowing on international capital markets, and that debt counts, too.

I agree with you that it matters. It matters, but I don't have specific numbers for you that is a bright line that we should be worried about.

**Mr. Ziad Abouttaif:** In your April report, you said you expect 0.5% this year and 0.6% next year as a return from stimulus. TD Bank expects 0.1% and 0.3%, respectively. Why is there such a difference between your expectations and TD Bank's expectations?

**Mr. Stephen S. Poloz:** You said it was TD Bank?

**Mr. Ziad Abouttaif:** Yes, TD Bank.

**Mr. Stephen S. Poloz:** All I can say is that every economist and every economics team does their own analysis. This is less a matter of opinion, but more a matter of modelling, and the assumptions that go in them. There can be many, many reasons why two different estimates could differ.

Traditionally, the kinds of models that we use would show that if there was a government fiscal expansion, there would be a tendency for interest rates to rise in response to this, and would actually cut off some of the effect.

If you look at any model that economists use, it will give you this result, but what's important is that you take the model into today's context. Today's context is one in which the economy has a great deal of excess capacity; whereas the original analysis would be where the economy is more or less where it belongs, so you get this kind of adjustment that happens.

When you're in a situation like we find ourselves in today, where interest rates are very low, where there is indeed a risk, as we talked about last week, that interest rates would need to be adjusted lower in order to get our inflation on target, in that context, you don't have those kinds of offsets that you often have in a standard model.

It is why we say that the mix of policy is such that fiscal policy has quite an advantage in this situation compared to monetary policy. Nevertheless, they both can work on the same issue at the same time, and it gives you a better mix than you'd otherwise have.

All those possibilities are open. I'm not going to debate a specific estimate with you, but economists are like that.

• (1650)

**Mr. Ziad Aboultaif:** I'm not going to ask who we should believe or—

**Mr. Stephen S. Poloz:** No.

**Mr. Ziad Aboultaif:** My third question is a shorter one.

**The Chair:** I believe, Ziad, you'll get a different analysis. I see the parliamentary budget officer standing back there as well. I think he'd have a different estimate, too.

**Mr. Ziad Aboultaif:** Mr. Poloz, you said that the child benefit should drive retail sales up, but retail sales fell off by 0.1% in August. That's three months straight.

Do you have any opinion on why this is happening, and why retail sales have been driven down?

**Mr. Stephen S. Poloz:** I know why we had a decline in August. It was mostly because of automobile sales. I don't think the child benefit would be the thing I'd be using to buy an automobile. I'm not sure we're getting a direct reading on that yet.

I'd like a little more time. The cheques have only been out there for a couple of months relative to the data, and it may be more of a back-to-school thing. I don't know, but we'll have to give it a little more time.

We can never make a conclusion off of one or two data points. These are very noisy data, and always are. That's the problem economists have, seeing through the noise.

**Mr. Ziad Aboultaif:** I know the child benefit is one of the measures that should have a quick impact on enhancing the economy, improving the economy, the immediate stuff at least to hold on to, and then it will kick-start and continue. However, nothing has made an impact. Rather, we've seen a negative impact or a negative turn.

Why? Instead of having at least a bit of a boost, regardless of how small or big, we've seen the opposite. Why?

**Mr. Stephen S. Poloz:** I'm going to disagree with you there. We simply do not have the data to support a conclusion like that at this stage.

It's simply too early to make any conclusion about how that fiscal impact will play out, none. It's just too soon.

**The Chair:** We'll leave it at that, and turn to Mr. MacKinnon for the final questions. You have five minutes.

[Translation]

**Mr. Steven MacKinnon:** Thank you, Mr. Chair.

Governor and Ms. Wilkins, thank you for taking the time to be here today.

From your remarks I can see that you have done your job, if I may say so. Now it is up to the government to do its job by adopting sound policies and a fiscal policy that support Canada's monetary policy.

We also know that psychology plays a major role in an economic recovery.

Can you talk to us about the role that consumers play in Canada's economy at present? Can you talk specifically about the mortgage rules and housing rules? How do you see Canadian consumers today? To what extent do they contribute to economic recovery?

**Mr. Stephen S. Poloz:** First of all, thank you very much. We are not the ones who did the work; it was the financial authorities. We have some leeway as regards monetary policy and we are prepared to use it if the data do not match ours. For the time being, the economy is on the upswing. We have made conservative hypotheses regarding exports. We are waiting for the rate of economic growth to top 2% in the coming quarters. The process of closing up the excess capacity will begin then.

• (1655)

**Mr. Steven MacKinnon:** In reply to a question from Mr. Aboultaif, you said that it is too early to assess the impact of fiscal measures, but you seem to be saying, at least in the abstract, that the fiscal measures taken by the government are necessary to support Canada's growth. I am just trying to understand your point. You are saying that an expansionist fiscal policy is necessary at this time to ensure Canada's growth.

**Mr. Stephen S. Poloz:** I'm not saying that it is necessary, but that it can improve matters. As I said, we have some leeway with monetary policy and we are prepared to use it. At the same time, there is a great deal of uncertainty. We will have to monitor the data over the coming months. We will know more then, but for now we will keep the rate as it is. We are prepared to take action.

**Mr. Steven MacKinnon:** I will conclude with the following question. How would you describe the current state of mind of Canadian consumers?

**Ms. Carolyn Wilkins:** In our forecasts, there is a table. You can see that Canadian consumers will continue to contribute to growth until the end of this year and over the next two years.

[English]

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

I note the bank's mandate is to conduct monetary policy to promote the economic and financial well-being of Canadians. You have a lot of experience coming before this committee, Governor, as MPs try to get you to look into your crystal ball from various political persuasions.

As a committee that sits around this table, Governor, I think you and your team, and you, Deputy Governor, are to be congratulated on the work you do. We certainly thank you for coming forward today and answering the questions put to you.

**Mr. Stephen S. Poloz:** Thank you very much, Chair.

**Ms. Carolyn Wilkins:** Thank you very much.

**The Chair:** We will suspend for a few minutes and then hear from the parliamentary budget officer.

•(1655) \_\_\_\_\_ (Pause) \_\_\_\_\_

•(1705)

**The Chair:** We'll reconvene. Pursuant to Standing Order 108(2), we're doing a study of the economic and fiscal outlook.

With us this afternoon, we have the parliamentary budget officer and his team.

Mr. Fréchette, I'll let you introduce your team and we'll go from there.

**Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Library of Parliament):** Good afternoon, Mr. Chair, vice-chairs, and members of the committee.

[Translation]

Thank you again for the invitation to appear and discuss the October 2016 economic and fiscal outlook. Today I am joined by Mostafa Askari, assistant parliamentary budget officer, as well as Jason Jacques, Chris Matier, Tim Scholz, and Trevor Shaw. They will be pleased to answer any questions you have regarding our outlook or other PBO analysis.

[English]

Before reviewing the key points of our report, I would like first to note that our updated outlook reflects the June agreement in principle and the Canada pension plan enhancement. However, our updated outlook does not incorporate the government's recently announced measures related to the housing market, the carbon pollution pricing, or the indexation of the Canada child benefit amount.

Regarding the economic outlook, on balance, the PBO's outlook for the Canadian economy is unchanged from our April report. Weaker real GDP growth in the near term is offset by stronger growth over the medium term due to increased provincial government spending, as well as additional monetary stimulus and lower long-term interest rates. Over the period 2016 to 2021, we project real GDP growth to average 1.8% annually, the same as in our April report.

Average annual growth in nominal GDP, which is the broadest single measure of the government's tax base, is only marginally lower than we projected in April, at 3.7% versus 3.8% in April. This revision reflects weaker GDP inflation in 2016. Adjusted for

historical revision, the level of nominal GDP is on average \$15 billion lower per year over the period 2016 to 2021 compared to our April report.

[Translation]

Despite this downward revision, PBO's projected level of nominal GDP is, on average, \$26 billion higher per year over the period 2016 to 2020 compared to the budget 2016 planning assumption. That includes the government's downward adjustment to the average private sector forecast of nominal GDP.

Our fiscal outlook is largely unchanged from April. We continue to project that the deficit will decline over the medium term, falling from \$22.4 billion in 2016-17 to \$9.4 billion by 2021-22. Compared to our April report, we are now projecting slightly larger deficits in 2016-17 and 2017-18, but smaller deficits thereafter.

PBO's outlook for the budgetary deficit over 2016-17 to 2020-21 is \$4.8 billion lower, on average, than budget 2016. This difference is roughly in line with the government's forecast adjustment, which removed the equivalent of \$6 billion in revenues in each year of its planning horizon.

•(1710)

[English]

In budget 2016, the government committed to reducing the federal debt-to-GDP ratio to a lower level over a five-year period ending in 2020-21. This translates into a fiscal anchor of 31% or lower for the federal debt-to-GDP ratio in 2020-21.

Under current tax and spending plans, we project that a federal debt-to-GDP ratio will decline to 29.7% in 2020-21. Consequently, based on the PBO's outlook, the government is on track to reach its debt-to-GDP target two years ahead of schedule. As such, the government has flexibility within its current fiscal plan to meet the medium-term debt-to-GDP target.

[Translation]

On that note, Mr. Chair, my colleagues and I would be happy to respond to any questions you may have regarding our economic and fiscal outlook or any other matter related to our mandate.

[English]

Thank you very much, Mr. Chair.

**The Chair:** Thank you very much, Jean-Denis.

Mr. Grewal, the first round will be about seven minutes.

**Mr. Raj Grewal:** Thank you to the witnesses from the PBO for coming to testify today.

You mentioned that your new forecast didn't include the changes that we made to the housing market. Could you add some colour? In your opinion, how will the changes we've made impact the economy?

**Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Office of the Parliamentary Budget Officer, Library of Parliament):** We have taken that into account, not in an explicit way—it's full of underlying of forecasts—because we already assumed in our projection that the investment in residential construction would actually slow down over time.

Now the measures that the government has introduced, certainly in principle, should reduce demand for housing and have some negative impact on the speed of investment in the housing sector.

**Mr. Raj Grewal:** Locally, and this is obviously a very small-scale example, demand hasn't slowed down. But if you look at housing across the country and in the markets, predominantly Vancouver and the GTA, they're driven mostly by demand and the shortage of supply. We've addressed it. The government has had an opportunity to restrict the mortgage rules and introduce a stress test.

In your opinion, in the long run, will the government's changes to the mortgage rules slow down the housing market, or will this thing kind of settle down?

**Mr. Mostafa Askari:** The objective is to slow down—

**Mr. Raj Grewal:** Absolutely.

**Mr. Mostafa Askari:** Whether that is going to happen in reality remains to be seen. But based on the rules and the principles, there has to be a negative impact on the rate of growth of residential investment.

**Mr. Raj Grewal:** We just heard from the Governor of the Bank of Canada, and he was also quoted in the paper today saying that Canada has room to run deficits. When I asked him a question about the extent of that room, he said it is significant room, that the Government of Canada is well positioned to run these deficits.

In your latest forecast, you've also said that the deficit will be \$4.6 billion lower than the government is stating it will be. What is that driven by?

**Mr. Mostafa Askari:** The difference between our projection and the government's is really due to the assumption that the government has made about the level of nominal GDP. In its projection, it made an adjustment of \$40 billion to nominal GDP as a prudence factor, and we do not take into account any sort of prudence in our projection. Our projection, based on our view, is the balanced risks—or the risks on the upside and the downside are balanced—so we do not make any room for any kind of prudence in our projection.

That's really the difference between the two projections on the deficit.

**Mr. Raj Grewal:** We also asked the Governor of the Bank of Canada the impact of interest rates, but we won't get into that discussion here.

The Canadian economy has always been very dependent, in my humble opinion, on what's going on to the south of us and world economic factors.

I asked the Governor of the Bank of Canada about the fact that we have a lower dollar compared with the U.S., and he said that, yes, that has also increased export growth but we're still seeing sluggish exports.

Have you any other commentary on why that's happening? Why aren't Americans coming to Canada to manufacture their goods? Why aren't we having an increase in manufacturing? It's cheaper to make the products here and then ship them south of the border.

• (1715)

**Mr. Mostafa Askari:** Unfortunately, I don't think there is a good answer for that, yet. I think this is being studied. I know the Bank of Canada is studying this issue and it is trying to figure out why exports have been weaker than it expected. We are seeing the same thing. We haven't really figured out exactly why that is the case.

Chris, do you want add something?

**Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis and Forecasting, Office of the Parliamentary Budget Officer, Library of Parliament):** I'll quickly add that, while the Canadian dollar has depreciated, the exchange rates of a lot of countries that Canada competes with in the U.S. market have also fallen and, in some cases, more. Therefore, that competitive edge that you would think Canada's lower dollar would be providing isn't as effective this time.

**Mr. Raj Grewal:** That makes a lot of sense, especially when competing with Mexico and its labour advantage.

**Mr. Chris Matier:** Exactly.

**Mr. Raj Grewal:** Thank you very much.

**The Chair:** Thank you, Raj.

Mr. Albas.

**Mr. Dan Albas:** I want to thank the parliamentary budget officer and his staff for being here today. It's wonderful to see you. Thank you for what you do for our country.

Let's start off on the job numbers. In April you said that budget 2016 had overestimated the number of jobs. The government had put forward a projection of 100,000 jobs, and your own projections showed 60,000. Has that changed at all given what we've seen since April?

**Mr. Mostafa Askari:** As far as our estimates of the impact of the stimulus go, no, we haven't really done the impact of the stimulus. It's still too early to see exactly how that's going to affect it.

**Mr. Dan Albas:** Okay. Do you still stand by the original projection that it's 60,000 versus 100,000?

**Mr. Mostafa Askari:** That's based on our projections and model, yes.

**Mr. Dan Albas:** You said that right now there's flexibility within the current framework. The question we asked the Governor of the Bank of Canada was on the larger picture. You pointed out in your recent fiscal sustainability report that new spending by the Liberal government had actually put us on a path of being financially unsustainable when you look from the lens of a federal-provincial fiscal policy. Is that still the case?

**Mr. Mostafa Askari:** Well, we have not updated our latest FSR yet. I think that stays valid, as far as we are concerned, until the policy is changed. Based on that report, the federal government actually was in a position of having room to spend or reduce taxes further based on the long-term sustainability criteria.

The provincial governments have some challenges. If things don't change, the debt-to-GDP ratio at the federal level will continue to decline, whereas with the provincial level we see the opposite, and that's the situation.

**Mr. Dan Albas:** Many people at home might be interested to learn that right now at the federal level, we actually spend more on debt servicing than we do for health care transfers or even the military, so it is a sizeable amount. What you're saying is that currently, within the government's own fiscal framework, we are sustainable. However, given the fact that there's no provision in our Constitution for how we handle provincial debt, if there was a default, then I think people would expect the federal government to take that up.

I see we have members from all across the country. Is that something as parliamentarians you believe we should be keeping an eye on even as we speculate on the short-term run of the economy?

**Mr. Mostafa Askari:** Certainly, it's important to watch the overall financial situation of the country as a whole. That's why we do the fiscal sustainability report and we provide a nationwide assessment of that, the total CPP, QPP, and the provincial, local, and federal government.

**Mr. Dan Albas:** In regard to—

**The Chair:** Go ahead, Mr. Fréchette.

**Mr. Dan Albas:** Oh, I'm sorry.

**Mr. Jean-Denis Fréchette:** To add something to that, I think there was a question with the governor about the federal-provincial fiscal sustainability report that we're doing. It is an aggregate measure of all the provinces, and I can tell you that in the past three years, we've had several requests from various members asking us to do it on a provincial basis. We don't do it because we don't have the capacity for now. It's a huge task to do, but it would be certainly an interesting task, an analysis that the PBO team would like to do.

Thank you.

• (1720)

**The Chair:** Are you saying that if the government gave the PBO more money, you'd be able to do more things? Is that what I'm hearing, JD?

**Mr. Jean-Denis Fréchette:** That's what I'm not doing, including a federal-provincial sustainability report.

**The Chair:** I just wanted to be sure that I heard it right.

Dan, go ahead.

**Mr. Dan Albas:** That was an intervention by the chair that I do appreciate, Mr. Chair. They don't happen often, so feel free to do more like that.

You've said that there will be larger deficits in the short term. Eventually, there will be additional revenues that will come in, I think you said around 2020-21 or 2020-22. Why is the government showing that it...? What's the difference between what the

government is projecting and the smaller deficits that you're projecting? They're projecting quite a bit more this year and for the next few years. Your office is saying there's less. Would they be under-reporting their revenues or anticipating?

**Mr. Mostafa Askari:** I think it's two things. In the very short term, our projection is more up to date. For the government, we have to wait until next week when they provide their update and see exactly where they are in the very short term.

On average, over the five years, when we look at their projection of the deficit and our projection, the difference can be accounted for by the difference in the nominal GDP. They have made an assumption to reduce the nominal GDP from the private sector projection as a prudence factor, and we do not take that into account, so that is really the difference between our projection and theirs.

**Mr. Dan Albas:** Okay, so the prudence factor is the main difference between the two.

**Mr. Mostafa Askari:** Yes.

**Mr. Dan Albas:** Okay.

Last, there are many parliamentarians who do not get the benefit of hearing from all of you today. If there is one thing that sticks out in the parliamentary budget office, what is the one thing you think parliamentarians should be focusing on as we look toward the November 1 economic update?

**Mr. Mostafa Askari:** An update really has to be very similar to the kind of report that we provide—the economic situation projection for five years, the fiscal projection, and any other news, and the government sometimes includes those in the update. It would be hard for us to tell you exactly what you have to look for. The deficit profile is obviously—

**Mr. Dan Albas:** Is there something that parliamentarians who don't have the ability to come to the finance committee to ask you should be looking at?

**Mr. Mostafa Askari:** Until we see the update, it would be difficult for us to say exactly what you have to look for.

**Mr. Dan Albas:** Fair enough, and I do appreciate your answers today.

Thank you.

**The Chair:** Thank you both.

Mr. Caron.

[Translation]

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

I would like to thank the witnesses for being with us today.

Not to insult anyone, but I notice that Ms. Cadieux, our clerk, has the dubious honour of being the only woman among the 20 people around the committee table. That is something I think we will eventually have to think about.

[English]

**Mr. Ron Liepert:** Very true.

[Translation]

**Mr. Guy Caron:** My first question is the following. At the outset, you said that the projections you had published did not include data related to measures taken by the finance minister with regard to the real estate market or to the approach to carbon pricing.

Without a precise calculation, can you give me an idea of the impact they will have on the economy, in your opinion? Would that be possible?

**Mr. Jean-Denis Fréchette:** We do not really have an idea, either for the carbon market or the housing market.

For the carbon market, as you know, a few months ago we released a report essentially outlining the impact it might have on economic growth, but not necessarily on revenues. That is something we have not yet examined.

**Mr. Guy Caron:** Very well.

Your document does, however, reflect the changes made to the Canada child benefit. Yet the indexing for 2020-2021 that Mr. Duclos mentioned was not included.

• (1725)

**Mr. Jean-Denis Fréchette:** Since the announcement was made on Friday, as far as I know, we did not include it in our calculation.

**Mr. Guy Caron:** When you did the financial analysis of federal child benefits in early September, you said that fewer and fewer families will benefit from the program because it is not indexed. You probably received information from the finance department or from families, children and social development that enabled you to determine the impact of this measure. At any time before your study was published, did the government tell you that the benefit would indeed be indexed or were you not given that information?

**Mr. Jean-Denis Fréchette:** We were not informed of it but I believe we were told within an hour of the publication of our report. The minister said he was considering indexing the benefit, but he did not say when that would be. On Friday, he provided that information.

**Mr. Guy Caron:** For the time being then, you do not know and you cannot really assume the impact that indexing will have as of 2020-2021.

**Mr. Jean-Denis Fréchette:** We have not done that yet but we will take the time to do it.

Mr. Jacques, would you like to add something please?

[English]

**Mr. Jason Jacques (Director, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer, Library of Parliament):** If you go back to the annex in our report of September 1, we presented this scenario with respect to indexation. Using the growth rates that were presented within that report, we'd be looking at roughly \$1 billion within the first year, on July 1, 2020, when indexation takes effect, consistent with the proposal tabled on Friday, and then growing over time.

[Translation]

**Mr. Guy Caron:** Okay.

I asked you the following question in April, but there were a few developments over the summer. The government put forward the

idea of giving the Office of the Parliamentary Budget Officer greater independence and more resources. There was some confusion as to the extent of this. It seems that a bill was prepared, but we have not received any information about it yet.

Do you have any information about it?

**Mr. Jean-Denis Fréchette:** I do not have any whatsoever.

We did prepare the two documents you mentioned that were published this summer, one of which was leaked to the press. So is not a bill. The Prime Minister's Office had asked us, at a meeting, to prepare a legislative scenario, applying the measures announced during the election campaign. It was indeed about increasing the PBO's independence and budget, but primarily about calculating the election platforms.

So we developed something close to a bill. It is like a bill, but it is not one. Since we drafted it, a good many measures were not included in it, such as bilingualism and so forth. We gave the document to the PMO in May. We were then asked to do a business case analysis in order to assess the costs. We provided the cost to the PMO in June and have not heard anything further since then.

**Mr. Guy Caron:** You have not received any information whatsoever?

**Mr. Jean-Denis Fréchette:** We have not received so much as an email, a request for information or a call, and we have not attended any meetings.

**Mr. Guy Caron:** These measures must eventually be adopted and implemented. A certain amount of time will be needed to assess and provide the financial resources. The Office of the Parliamentary Budget Officer will also need a certain amount of time to adjust to the new reality.

**Mr. Jean-Denis Fréchette:** The measures for the financial resources are really the easiest, given that they aren't legislation. Changing the legislation involves opening up the Parliament of Canada Act, which I think is more difficult to do. That's at least how I see things now.

**Mr. Guy Caron:** I want to go back to your economic and fiscal assessment. You focused on the employment issue. The current trend is a concern. The unemployment rate is more or less stable, despite some slight variations. However, precarious jobs—part-time rather than full-time work—are the current trend.

Have you observed this trend and can you confirm it?

What will be the short- and medium-term impact of the trend on the Canadian economy?

Have you already started this type of study or do you plan to do so?

Do you already have the answer?

• (1730)

**Mr. Jean-Denis Fréchette:** We do indeed have a report on the labour market update, but to avoid stealing his chance to make the announcement, I'll let Mr. Scholz answer your question.

[English]

**Mr. Tim Scholz (Economic Advisor, Analyst, Office of the Parliamentary Budget Officer, Library of Parliament):** I'm glad you asked. We actually are releasing our report on our labour market assessment, hopefully, on Thursday.

One of the key things we found when we looked at all the labour market indicators relative to trend, the thing that really stood out is hours worked. If you look at a number of indicators on employment, they're pretty close to their trend levels as suggested by demographics, but hours worked is below trend.

If you think about labour's input into the economy, it's really hours worked that's dragging this below trend. That includes the fact that we've seen a lot of growth in part-time work relative to full-time work.

We actually have divided this. We looked at different age groups and found, particularly for prime-age males, that hours are way down. Even for some older age groups and younger females, hours are up. That's definitely something we're looking at. On Thursday we'll probably have some more hard figures for you.

**The Chair:** I am sorry, Guy, you're well over time, but just on that question, did I catch it right? Did you say part-time work is going to full-time work?

**Mr. Tim Scholz:** Yes, sorry—

**The Chair:** I was under the assumption there was less full-time work and more part-time work.

**Mr. Tim Scholz:** That's exactly what I meant to say. If you look at the last 12 months for which we have data, from the third quarter of this year to the third quarter of last year, all of the net jobs created in the economy were part-time, and there was actually a small contraction in full-time employment.

**The Chair:** Either I heard you wrong or you said it wrong, it doesn't matter. We have cleared it up.

I have one other question in that area, though. We're doing pre-budget consultations across the country. I don't know whether your report has touched on this in any way, but what we're hearing about in the meetings is the mismatch of skills to jobs. Have you done anything in that particular area?

**Mr. Jean-Denis Fréchette:** Tim.

**Mr. Tim Scholz:** We haven't looked at that in the report this year. One thing we have looked at is the regional outcomes. Outcomes for employment are very different across provinces, particularly between oil-producing ones and places like B.C. and Ontario, where the employment outcomes tend to be stronger, and even among industries over the past year. We've seen that in the service sector employment growth has been quite strong, whereas in goods and mining, oil and gas, it's contracted. It's not specifically a skills mismatch, but you do see definitely different outcomes when you look at different industries and provinces.

**The Chair:** Okay.

Mr. Ouellette.

**Mr. Robert-Falcon Ouellette:** Thank you very much for coming here today.

I was just looking at the projections for GDP growth, the gross domestic product, and the Bank of Canada said that they see growth of 1.1% in 2016, 2% in 2017, 2.1% in 2018. You have similar projections, but, in fact, yours are a little bit more optimistic about growth. I was just wondering if you could explain those differences.

**Mr. Chris Matier:** Sure.

I think the biggest difference is in 2017. As you noted there's the 2.3% versus 2% from the bank. Looking at least at the composition of growth, it appears that the bank would have a weaker contribution of growth from the housing market. This may reflect some of the timing of the recently announced housing market measures, but for us, the adjustment in the housing market occurs later on in the projection horizon.

**Mr. Robert-Falcon Ouellette:** You also mention in your report that the rates for employment insurance premiums were going down, from \$1.88 for every \$100 in contributions to the new break-even point of \$1.63 for every \$100, meaning Canadians will have more money in their pockets when they're working. What impact would that have on the economy?

**Mr. Mostafa Askari:** It's additional money in the pockets of individuals, and obviously those firms also pay less for EI premiums. We haven't really separated that impact in our analysis in terms of exactly how that's going to impact the economy.

**Mr. Robert-Falcon Ouellette:** So that's a good thing, if you want the economy to grow.

**Mr. Mostafa Askari:** Certainly, it has a positive impact.

• (1735)

**Mr. Robert-Falcon Ouellette:** Okay, perfect.

This is a question for Tim Scholz.

I was intrigued with your new report coming out in a few days, on Thursday. I was just wondering if you had looked at indigenous employment.

**Mr. Tim Scholz:** We have not.

**Mr. Robert-Falcon Ouellette:** Why have you not? It sounds like you looked at every province. I go into a lot of communities and they have 75% unemployment. We're not really sure of the statistics. I'd like to know if those statistics are true. If they're not real statistics, how can government make really good policy in order to have a positive impact on people's lives? I know you're interested, but is there something you could do to be looking into that?

**Mr. Tim Scholz:** We rely quite heavily on Statistics Canada's labour force survey data. We'd be happy to look into the micro files and the data, and then see what we can find on that and get back to you and let you know what we could do.

**Mr. Robert-Falcon Ouellette:** It's important that the public know. I think if there was 75% unemployment in Alberta there might be a small revolution, but indigenous communities seem to have been a little bit forgotten for so long. With the more light that's shone on that, we can make a difference.

The next question concerns fiscal estimates.

During his appearance on September 29, 2016, before the House of Commons Committee Standing Committee on Finance, Sahir Khan, from the University of Ottawa's Institute of Fiscal Studies and Democracy, advocated reforming the estimates process consistent with the 2012 recommendations of the Standing Committee on Government Operations and Estimates. According to Mr. Khan such an approach would allow parliamentarians to "vote on program activities representing key business lines within government departments" and "get both financial and performance information...to support their scrutiny".

Would such a reform to the estimates process, in your estimation, enable parliamentarians to conduct a more thorough review? What other measures could help parliamentarians conduct a more thorough review of estimates?

**Mr. Jean-Denis Fréchette:** Before I ask Jason to maybe elaborate a little bit more, as you are probably aware, the minister this morning appeared before the government operations committee to table his new proposal about exactly what you mentioned. It's going to be interesting because our position is a little bit like what the 2012 government operations committee report was about, more in line with programs. Certainly the big problem—and after that Jason will elaborate, he likes that issue a lot—will be for parliamentarians to have the time to review all those. If you have the best data or the best information, you still have to take the time to review all this.

Jason.

**Mr. Jason Jacques:** To elaborate on the PBO's point, I think, broadly speaking, the position we've had in the office is that the 2012 government operations committee report did represent a consensus among parliamentarians of all political parties with respect to the 16 recommendations to the House of Commons at the time, regarding how the estimates and budget process and the business of supply needed to be reformed to serve all parliamentarians better. Those 16 recommendations, for the most part, as Jean-Denis mentioned, were focused on the content, the quality of the reports being presented to parliamentarians.

In addition to that, it was also a question of capacity in which we play a very limited role, but also the capacity in training available to parliamentarians and the time available to them. There's a question of time devoted by committees to look at the work, but also how much time you are provided to examine the work, taking the example of the timing around which main estimates are tabled and how quickly the first appropriation bill has to be approved. You're currently waiting for supplementary estimates (B), which will be the fourth appropriation bill, and how many weeks or how many days you have to devote to scrutinizing the additional billions of dollars' worth of expenditure.

It's not for us to advocate a specific position to the House. Consistent with the PBO's mandate, our only role is to analyze and research the estimates. It's up to the members around the table and the members in the House to determine what makes the most sense, but going back to the last time parliamentarians spoke on the 2012 report, it's a very good starting point.

• (1740)

**The Chair:** Thank you.

On this particular issue, where part of the problem is, is in the budget documents. I've been around here for a while and in the early years in the budget documents, in the budget itself, you could determine program by program in each department how much money was spent over a five-year period. It isn't done that way now. In the budget documents for, probably 1993 to 1997-98, it was clear where the money was spent. You could understand it easily by looking at the budget document. You didn't even have to wait for the estimates. That's not the case now, so this does have to be simplified. We shouldn't have to take a lot of training. It's a matter of the Department of Finance laying out the figures in a way they can be understood by a layman.

Mr. Liepert.

**Mr. Ron Liepert:** You're in a position to make those changes now, Mr. Chair.

I'd like to ask a couple of questions about a slide in your presentation.

It's the five-year gross domestic product and employment growth slide.

**The Chair:** It comes out of the analysis done by the Library of Parliament. That slide is in their documents.

**Mr. Ron Liepert:** Let me preface it by saying this particular slide says year-over-year real gross domestic product growth and employment growth. It runs from quarter one of 2010 to the current quarter. With one blip for a couple of quarters, it shows growth in the two and a half to three year range right up until quarter one of 2015. Does that ring true with what you have concluded?

Let's assume that the analysts have the information correct because they always do.

**Mr. Jean-Denis Fréchette:** Chris is looking into—

**Mr. Ron Liepert:** I'm curious to get your response to this.

This seems to me to be a chart that shows real growth in the economy over the last five years of somewhere in the range of 2% to 3%. However, the finance minister has consistently said that one of the reasons for plunging the country into a \$30-billion deficit is that we've gone through a period of slow economic growth. Who's right? Are these numbers correct? Is the finance minister not looking at the right numbers, or is this chart not an accurate reflection?

**Mr. Chris Matier:** I agree. I think the numbers are probably correct in that chart. I would agree with the statement that we have seen real GDP growth and moderate employment growth over the last several quarters. I think the issue is more about what we see going forward.

**Mr. Ron Liepert:** Right now, I'm interested in going backwards.

**Mr. Chris Matier:** Okay.

**Mr. Ron Liepert:** Would you disagree that we have not had a period of slow economic growth over the last five years?

**Mr. Chris Matier:** It has been slow compared to historical growth rates, even relative to estimates of a potential growth rate. That's partly why we have.... You'll recall the Governor of the Bank of Canada saying that the Canadian economy is operating well below its sustainable capacity. You get to that point by having growth that is weak and low.

• (1745)

**Mr. Ron Liepert:** Okay, this certainly doesn't reflect that. I will follow that up at another time.

As we go through this budget year, I am interested in your analysis on revenue. I happen to represent an Alberta riding, and every day somebody new is being let go by a company. Are you seeing the revenue from taxation, both corporate and personal, taking any kind of a hit in this fiscal year, or is it on target?

**Mr. Trevor Shaw (Financial Analyst, Office of the Parliamentary Budget Officer, Library of Parliament):** For the current fiscal year, we did see that some of the slowdown in economic growth in Alberta did feed a lower forecast for personal income taxes in the near term. As for this most recent fiscal year, in 2015-16, personal income tax revenues were relatively strong, partly owing to persons moving forward, and recognizing higher-income individuals due to the new 33% tax bracket. On balance, what we're seeing is that personal income taxes over the first few years of our projection are slightly weaker than we had anticipated in our last forecast, but that should rebound over our five-year, medium-term horizon.

**Mr. Ron Liepert:** Just for clarification, could you be a little more specific? Are you saying that the next few years are going to be below projections but that years four and five will recover?

**Mr. Trevor Shaw:** Yes. Over years three, four, and five, it should recover relative to our last forecast. However, we do see a slightly larger reduction in personal income tax revenues relative to our last forecast in the first two years of our projection.

**Mr. Ron Liepert:** Okay.

**The Chair:** Mr. Sorbara.

**Mr. Francesco Sorbara:** Good evening, everyone, and welcome.

I have a quick question I haven't been able to reconcile. It seems that the growth numbers that are projected by the PBO are slightly higher than the growth numbers that we have seen from the monetary policy report, by I think it's 0.2 in one year and 0.1. Is there anything the PBO is forecasting that the Bank of Canada is not picking up, or anything you can point to?

**Mr. Chris Matier:** For 2017, the gap between our growth projections is around 0.3 percentage points, and I think you can point to the housing market there. The Bank of Canada has a larger negative contribution to growth in the Canadian economy for that year.

**Mr. Francesco Sorbara:** They are predicting negative 0.3 for 2017 on the housing market. Is the PBO flat on that?

**Mr. Chris Matier:** I think they have minus 0.2, though I could be wrong. We have a very small positive. For us, the adjustment in the housing market comes in the following year, and after that, it's a more gradual adjustment, but it's a very significant one.

**Mr. Francesco Sorbara:** If I'm understanding this modelling correctly, with our commitment to invest \$120 billion in infrastructure over the next 10 years, and looking at this forecast period, the government is still on track, looking at our fiscal anchor, to reduce the debt-to-GDP ratio, incorporating our investment into infrastructure. Is that correct?

**Mr. Jean-Denis Fréchette:** Yes, that's correct.

**Mr. Francesco Sorbara:** We've committed as a government to introduce a policy with regard to looking at major infrastructure projects in balancing the needs of the economy and the environment. I'm looking at where WTI and Brent are and the gap versus where Western Canadian Select is. It's around \$36 a barrel right now, and Brent and WTI are around \$50 and change. I'm curious to know if you have done any modelling to see whether that gap would narrow if we had a project to build a pipeline to tidewater with a new and improved environmental process. Have you done any modelling to see what the implications would be on revenues and tax revenues?

• (1750)

**Mr. Mostafa Askari:** We haven't really modelled that.

Part of that difference has to do with the quality and type of oil you are measuring. It's not all the supply and the pipeline issue. Exactly how the pipelines would affect that difference, we don't really know. We have never looked at what would happen if the gap were to close to zero or to 50% of what it is. No, we have not done that.

**Mr. Francesco Sorbara:** A large portion of that discount is due to the bottleneck in—and the name escapes me for the area—the Midwest of the United States. .

My final comment concerns page 10 in the last paragraph. With budget 2016, we brought in an extra estimate of prudence in the \$40-billion adjustment. We've seen the transitory factor of the Fort McMurray wildfires come into effect, but also there are a lot of global uncertainties we're still dealing with, and I don't think they're going to subside at all.

I would slightly disagree with the language describing where we forecast nominal GDP to come in these two years. I would still call it prudence in forecasting. You've used other words, but I would still call it prudence. If you'd like to comment on that, it would be great.

**Mr. Jean-Denis Fréchette:** I'll ask Chris. I remember the last time we called him Mr. Prudence, so that's his field.

**Mr. Chris Matier:** It is true that we have revised down our outlook for the level of nominal GDP. However, it hasn't been revised down by as much as that forecast adjustment factor. I think on average we've revised down our outlook by about \$15 billion, just to put it in a rough ballpark.

The choice of characterizing it as excessive is relative to historical experience and how we've seen the private sector misses. At least historically speaking, it's very rare that you see both years come in so weak. We can put aside the longer term or the more medium term, but at least one year and two years out, it is very rare, outside of the great recession, to see this happening.

The last point I would comment on is about the use of prudence. The government isn't constrained like households and businesses are. When there are shocks to the economy, the government can absorb them, whereas it's very difficult for businesses and households to do so. That and the current fiscal situation in Canada are other factors you want to take into account in setting these adjustments.

It's also possible to have adjustments made on the opposite side. I'm sure there could be instances when the government might feel that there's some upside risk to the private sector outlook, but that's something we just haven't seen historically. It's always been an adjustment to the downside.

**Mr. Francesco Sorbara:** Thank you, gentlemen.

**The Chair:** We'll turn to Mr. Deltell.

**Mr. Gérard Deltell:** It's a real pleasure for me to welcome you, gentlemen. I will make two points before asking questions.

First of all, when I was in a provincial parliament, I asked many, many times to have the privilege in the province of Quebec to have that kind of institution. I think it's very useful. It's non-partisan. We have a clear indication of how things are running for this country. Thank you for the job you are doing. We know it's not very easy. That was the first point.

The second point is that I want to pay my respect to Mr. Fréchette.  
[Translation]

Mr. Fréchette, you were the first non-parliamentary Canadian official to greet me at an informal meeting a year ago, when we arrived in the House of Commons. I appreciated your courtesy.

• (1755)

**Mr. Jean-Denis Fréchette:** Thank you.

**Mr. Gérard Deltell:** Mr. Chair, I want to address two points with Mr. Fréchette.

We have completed the first year of the new government's management. There were many complications regarding the issue of whether the previous government left a large or small surplus.

Can we set the record straight for Canadians on the new government's management? What was the Canadian government's financial position a year ago?

**Mr. Jean-Denis Fréchette:** If we exclude all the measures taken in the 2016 budget, we can see that the government ended the 2015-16 fiscal year with a \$2.9-billion surplus, instead of a \$1-billion deficit as reported.

**Mr. Gérard Deltell:** Thank you.

Let's keep that in mind, of course.

Three weeks ago, the Minister of Finance unilaterally decreed—without holding consultations, as we understand it—new rules for

mortgage rates. We basically agree that the challenges created by the housing bubble in Toronto and Vancouver need to be addressed. However, the fact remains that the new rules affect all Canadians, whether they live in my community in Quebec City, where housing prices have dropped by 4%, or in Calgary, Alberta, where people are experiencing problems in general with the economy.

Do you think these new rules will affect Canadian economic growth and, as a result, the Canadian government's revenue?

**Mr. Jean-Denis Fréchette:** We haven't estimated that yet. It's one of the things we didn't calculate in our update. We'll probably do so in the next update.

**Mr. Gérard Deltell:** Earlier we were discussing businesses that, according to the Governor of the Bank of Canada, create jobs and wealth. These businesses are sensitive and vulnerable to global imperatives, particularly to exportation.

Do you think maintaining the small business tax rate at 11% tax instead of lowering it to 9% stimulates the economy?

**Mr. Jean-Denis Fréchette:** I'll ask Mr. Scholz to answer your question, since it's also his chosen field.

[English]

**Mr. Tim Scholz:** At the request of an hon. member last spring, we calculated the fiscal and economic impact of the decision to maintain the small business tax rate at 10.5% instead of its legislated decline to 9%. We found that over five years, at the end of 2021, there would be a negative impact on real GDP of \$300 million, and it would reduce the level of employment by about 1,240 jobs created or maintained.

[Translation]

**Mr. Gérard Deltell:** Thank you.

Did you conduct the same study on the implementation of the Liberal carbon tax?

**Mr. Jean-Denis Fréchette:** No, we haven't done calculations on the carbon tax. As I said before, we prepared a report a few months ago on how the carbon tax may affect the GDP per capita, but we didn't calculate the revenue as such.

**Mr. Gérard Deltell:** What did it tell you about the GDP?

**Mr. Jean-Denis Fréchette:** We took a rate of \$100. This would lower the GDP by \$1,400 per capita.

**Mr. Gérard Deltell:** Regarding the Canada Pension Plan, we're currently debating Bill C-26 in the House of Commons. We estimate that it could cost about \$2,000 per employee, meaning \$1,000 for the employer and \$1,000 for the employee.

Do you think the measure will generate economic growth?

[English]

**Mr. Mostafa Askari:** We have estimated the amount of revenue that will be collected as a result of this tax, and by 2021, that will be about \$6 billion, which is almost a quarter of a percentage point of GDP.

Certainly that has an impact on households that are paying that tax and the businesses that are paying that tax, but the amount is very small. Overall, in terms of the impact on GDP, it would be very small. We haven't really done that study, but it would be very small because the amount of revenue generated would be very small.

•(1800)

**Mr. Gérard Deltell:** Are we talking about a reduction?

**Mr. Mostafa Askari:** We are talking about increasing the revenues that the government will collect and the reduction in the disposable income of households.

**The Chair:** Thank you. The time is up on that.

I would question, Mr. Askari, whether you should call this payroll deduction a tax or not.

Mr. MacKinnon.

[Translation]

**Mr. Steven MacKinnon:** Yes. Let's start there. Isn't it a premium rather than a tax?

[English]

**Mr. Mostafa Askari:** Yes, of course, it's a payroll deduction. Whether you call it a tax or something else, that's an issue that has been debated for a long time. Different people have different views on that.

[Translation]

**Mr. Steven MacKinnon:** Sorry for the abrupt start. I also want to welcome Mr. Fréchette and his team.

Thank you for your work. It doesn't surprise me that Mr. Deltell acknowledged your courtesy, Mr. Fréchette. You're from Gatineau, where everyone is very courteous.

I want to take a quick look at the decisions we'll need to make, that the government will need to make and that this committee will need to make for the 2017-18 budget. We'll be meeting with Mr. Barton, who chairs the Advisory Council on Economic Growth and who advises the Minister of Finance. Based on his recent reports, I think he'll tell us that Canada should first increase its immigration levels.

How would an increase in Canada's immigration levels affect us? How would you deal with an increase in immigration levels in your economic models?

[English]

**Mr. Mostafa Askari:** When we do a fiscal sustainability report, that is driven to a great extent by demographic factors. Certainly an increase in immigration would increase the labour force over time and would help in that sense. It would help in terms of the overall economic growth.

We have done simulations. I don't have those in front of me right now, but we have done simulations for our fiscal sustainability report in terms of how big that impact is. From what I remember, the impact of raising immigration by a reasonable amount on the overall fiscal sustainability is not going to be very significant.

Whether or not you increase immigration, there are many other reasons for doing that, which we are not really taking into account and we can't really comment on.

[Translation]

**Mr. Steven MacKinnon:** We often hear about natural caps on growth imposed by our demographics, both in Quebec and across Canada. You referred to short-term effects. Obviously, in the short term, there are integration expenses and so on. However, with a higher cap on growth, we could have a better financial situation in the long term.

[English]

**Mr. Mostafa Askari:** As I said, there will be some positive impacts in terms of overall potential growth for the country as you increase the labour force and the labour input into the economy. However, as to the size of that impact, as I said, I don't have those numbers in front of me, but from what I recall, they weren't that big. It is certainly positive.

[Translation]

**Mr. Jean-Denis Fréchette:** I'll make a quick comment. Mr. Askari is basically saying that we don't know the policy at this time. It's one thing to increase immigration to compensate for the aging population. You know very well that some provinces speak of immigrant investors more than others, and so on. All these factors can marginally affect the economic growth rate. For now, since only one number has been put forward, we don't really know whether it will be targeted. We don't have any idea, so it's more difficult to comment on the matter.

**Mr. Steven MacKinnon:** Yes, we're thinking in abstract terms.

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

**Mr. Steven MacKinnon:** Based on his recent work, I think Mr. Barton will recommend to the government that private money from investors of pension funds, either foreign or Canadian, be added to the federal infrastructure spending. Private investments in infrastructure would help increase the country's strategic infrastructure investments.

For the purposes of assessing future growth, do you think it's a good idea, knowing that we're still thinking in abstract terms? Do you think it could add or eliminate another obstacle to our growth?

•(1805)

[English]

**Mr. Mostafa Askari:** I think, in general, in principle, any kind of investment, especially investment in infrastructure, will increase potential growth. In that sense, if you are looking for growth, that's a good thing. Whether it's a good decision or not, we cannot obviously comment on that. That's a policy question.

[Translation]

**Mr. Steven MacKinnon:** I was speaking in abstract terms about increasing spending beyond the government's fiscal capacity and adding significant infrastructure investment amounts. If a dollar invested in infrastructure by the federal government amounts to a certain percentage of GDP growth, would increasing the amounts and investing in strategically economic infrastructure ensure a higher potential growth cap?

**Mr. Jean-Denis Fréchette:** I'll make a brief comment and I'll ask Mr. Matier to also make a very brief comment.

You referred to the infrastructure bank. The goal is to align infrastructure spending with the private sector so that pension funds can get money because they desperately need returns. I think the Governor of the Bank of Canada mentioned that a great deal of time is needed to generate economic benefits. That's the case for infrastructure spending. It's extremely difficult to say whether the multiplier effect will be two, three or four over an eight-year period.

[English]

Do you want to comment on this?

**Mr. Chris Matier:** I would just add that when we did prepare our assessment of the economic impact of different types of government measures from budget 2016, we did find that the multiplier effect or the increase from one dollar of spending was very similar, whether that was government undertaking its increased capital formation or whether that was coming from the private sector. They were very close and both would raise the level of GDP and therefore have a positive impact on government revenues.

**The Vice-Chair (Mr. Ron Liepert):** I'm going to stop it there as you're way over the time, Steve.

Mr. Caron.

[Translation]

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

I want to go back to your report on the monitoring of spending, at the end of September.

You spoke of additional spending by the government in relation to the same period in the previous fiscal year. You mentioned that part of the increase, \$1.22 billion, was the result of infrastructure commitments. Can the economic benefits or impact of the investments be determined? How much time should we wait to see improvements or economic benefits?

[English]

In other words, what would be the lag that we could be expecting in terms of the benefits we could be getting?

[Translation]

**Mr. Jean-Denis Fréchette:** I'll ask Mr. Jacques to answer part of the question.

A Senate committee asked us to monitor infrastructure spending. We'll monitor the spending more closely to give them some information. We met with the Senate Standing Committee on National Finance members at a public meeting. They asked us to monitor infrastructure spending and also to monitor green infra-

structure spending. They want to see whether there is a link or a larger multiplier effect for green infrastructure. That's what we're currently doing. At this time, we haven't completed the analysis.

Mr. Jacques, you have the floor.

• (1810)

[English]

**Mr. Jason Jacques:** To elaborate on Jean-Denis' point, with respect to our ability to actually assess the real impact on the economy from the jump we saw in the first quarter's cash flows coming out from the government, the short answer is neither yes nor no; it's not yet. That said, obviously there's a lag associated with that, and the lag will depend on the nature of the projects.

As Jean-Denis mentioned, our office has initiated working with many federal departments and agencies to actually identify the specific projects that they're undertaking with infrastructure funding. To the best of our knowledge at this point, the list is at over 1,000 and growing in terms of those individual projects, both with start dates and end dates and the specific locations of the projects. So, stay tuned.

**Mr. Guy Caron:** That begs a question. Do you have enough resources to actually take on such a major undertaking?

**Mr. Jason Jacques:** Jean-Denis is better placed to respond to that question, but I myself have been with the office since 2008. Thankfully, we have the same person on staff who undertook that project in 2009. He led that project pretty much single-handedly. Thankfully, he's still with us now. I notice that he's losing some hair, but I think we're adequately resourced simply owing to the high quality of staff we currently have.

[Translation]

**Mr. Jean-Denis Fréchette:** As I said before, we hope to have more resources eventually. I know the parliamentarians want the answer next week. However, since we're discussing projects that will last several months, you'll have the results of the study only in one year. At this time, we aren't telling the committee no because I think it's important to do it.

Mr. Jacques mentioned the fact that we've asked 28 departments, organizations or agencies to provide their data. We've received a very good response rate. Things are going well in that area.

**Mr. Guy Caron:** We haven't met since April, and you've prepared a few reports since that time.

Let's go back to the report in June on fiscal sustainability. One of the important things you emphasized was the dangers or failures that lie ahead for provincial governments in terms of their debt. The situation isn't improving. In the report, you said that provincial and local governments should generate about \$30 billion annually to maintain their debt burden at its current level.

I want to ask you a question about the report you just released. In the past six months or in the past year, can you identify measures taken by the federal government that will help the provinces and municipalities with their debt burden and fiscal sustainability?

[English]

**Mr. Mostafa Askari:** In terms of the measures that the federal government has done, no, I cannot name any right now that would help provinces to deal with their shortfall.

[Translation]

**Mr. Guy Caron:** Is the warning still in effect?

[English]

**Mr. Mostafa Askari:** The warning?

**Mr. Guy Caron:** The warning is about the situation provinces and municipalities are in, in terms of their debt levels and how much it would actually take just to sustain their current situation.

**Mr. Mostafa Askari:** Yes, of course. The situation for the provinces in terms of their debt and their future debt profile is still the same. That hasn't changed.

**The Vice-Chair (Mr. Ron Liepert):** Mr. Caron, I'll have to stop you there.

Mr. Aboultaif.

**Mr. Ziad Aboultaif:** I have a couple of things to ask about. You mentioned in the carbon tax analysis that the impact would be \$1,400 on the GDP per capita. Is that figure correct? Did I hear that correctly?

**Mr. Jean-Denis Fréchette:** GDP per capita.

**Mr. Ziad Aboultaif:** That's about \$50 billion based on the calculation, which is equal to about 2.5% of the GDP.

• (1815)

**Mr. Mostafa Askari:** Let me just clarify that. The study we did a while ago on climate change and the impact of a tax actually did not come directly from us. It came from the round table on the environment and the economy, and it was based on a hypothetical situation.

Concerning the current announcement the government made on the tax it's planning to impose, we don't really have enough information on exactly how that's going to work out. It all depends on how the provinces are going to react to this and how they're going to recycle the money they're going to receive from this. With all that information, then we can actually sit down and measure the overall impact of that change. Right now it would be very difficult to actually pinpoint a number and say what the impact would be.

**Mr. Ziad Aboultaif:** I do appreciate that and I agree with you. I made some kind of calculation, and it's not to the point where I have the time and ability to do so, but this is a very scary number. We're talking about \$50 billion and for the size of the Canadian economy, it's huge.

Regardless of how the money is going to be circulated, we know that some of it could be wasted here and there and we would not benefit from it whatsoever. Rather, it's an imposition of taxation on Canadians.

The other question is on the CPP. You mentioned the figure of \$6 billion which is equal to one-quarter of a per cent of the GDP. Economically, I call this an artificial growth of the GDP rate, because we're collecting extra taxes from people and then we're putting it in the economy and we call it growth in the GDP. Am I correct?

**Mr. Mostafa Askari:** I'm sorry, I didn't call it growth in the GDP. I was just talking about the amount relative to the GDP. I wasn't saying that this is going to increase growth in the GDP. I was just saying that this is equal to one-quarter of a per cent of the GDP.

**Mr. Ziad Aboultaif:** Beautiful. I only wanted to clarify that.

Now, the \$6 billion is on one side, and then we have job reduction, wage freezing, and maybe reluctance of consumers to spend, because of less income at the end of the day. Have these factors been calculated into the raw picture of impact?

**Mr. Mostafa Askari:** Only that we mentioned in the report that the CPP impact is already taken into account in our baseline projection.

**Mr. Ziad Aboultaif:** This is a very common question, and I believe we asked the question before. Do we have a revenue problem or do we have a spending problem in Canada?

**Mr. Mostafa Askari:** I don't know whether we have a revenue problem or a spending problem, but we do the projection and the bottom line is whether there is a fiscal deficit or a fiscal surplus, and that's what really matters at the end.

Do we have a revenue problem? I don't know. I don't think so. I don't know whether we have a revenue problem or a spending problem. It is a decision of the government to spend money and raise taxes in the way they wish, so I can't say whether it's good or bad in that sense.

**Mr. Ziad Aboultaif:** Thank you.

**The Chair:** You may have one quick question, Joe.

**Mr. Joe Peschisolido (Steveston—Richmond East, Lib.):** Mr. Askari, thank you so much for attending with your whole team.

For the past three hours we've heard a lot of economic analysis, and talk of fiscal and monetary policy. It seems as if we're having a TA in an economics department, which is very, very helpful to us as a government and as opposition members in devising economic policy.

Perhaps I could ask if there would be any advice you would have for hard-working Canadians who may not be in tune with economic jargon but are looking into the future and are making plans. What things can they be looking for toward buying a house, mortgage payments, getting prepared for their kids' education? Could you give some practical advice to those folks who are not into the difference between economics and policy on the fiscal side?

• (1820)

**Mr. Mostafa Askari:** May I change places?

**Mr. Joe Peschisolido:** It was a very thorough three hours in which a lot of good issues were discussed.

**Mr. Mostafa Askari:** I don't consider myself a financial adviser for households. I don't know whether I would want to provide that kind of advice.

On public policy, our job is to arrive at an impact of public policy on the overall fiscal situation in Canada, and that's what we have done with this report. We normally don't go beyond that in terms of providing advice and assessing whether it's good or bad.

**The Chair:** Is there anything else the witnesses want to say as a last word?

**Mr. Jean-Denis Fréchette:** No.

**The Chair:** Then on behalf of the committee, we would certainly thank you for all the work you do, and I guess you would call it constructive criticism of the government's fiscal and monetary plans. We appreciate that and it's always helpful for us in terms of doing our analysis as well.

Thank you very much.

The meeting is adjourned.

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