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Chair: The Honourable Wayne Easter





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Thursday, March 18, 2021

• (1000)

[English]

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

Welcome to meeting number 28 of the House of Commons Standing Committee on Finance. Pursuant to the order of reference of March 8, 2021, the committee is meeting to study Bill C-14, an act to implement certain provisions of the economic statement tabled in Parliament on November 30, 2020, and other measures.

Today's meeting is taking place in the hybrid format pursuant to the House order of January 25, 2021. Therefore, members are attending in person in the room and remotely using the Zoom application. The proceedings will be made available via the House of Commons website. Just so you're aware, the webcast will always show the person speaking rather than the entirety of the committee.

Welcome to our witnesses under this new format. We have three witnesses in the first hour-long panel, and we'll start with Mr. Macdonald with the Canadian Centre for Policy Alternatives.

Mr. Macdonald, could you hold your remarks pretty close to five minutes? We're tight on time.

Go ahead. The floor is yours.

**Mr. David Macdonald (Senior Economist, Canadian Centre for Policy Alternatives):** Excellent. Thank you, Mr. Easter.

I hope everyone can hear me.

Thanks so much to the committee for the invitation today.

Certainly, the economic response to COVID-19 from the government has been unprecedented in Canadian history. We'd need to look back at the World Wars to see government expenditures on this scale, although we'd also have to look back to the 1930s, almost a century ago, to see unemployment at this scale, particularly in the early months.

My recent report, "Picking up the tab", was a comprehensive dataset of all 850 direct federal and provincial COVID-19 measures through the end of December 2020, including the fall fiscal update. The overall conclusion of this compilation is that, when it comes to measures to combat COVID-19, this has been almost entirely paid for by the federal government, with 92% of every dollar spent on measures to combat the coronavirus—everything from the purchase of PPE, to business and individual supports—having come from the federal government. Even in areas of provincial jurisdiction, like health care, 88% of the cost was borne by the federal government.

The largest expenditure, including both federal and provincial programs, has been in support of businesses, amounting to \$4,100 a person. Supporting individuals comes in a close second at \$3,900 per capita, and health care support is a distant third at \$1,200 a person.

In each of the categories examined, except one, federal support was larger than provincial support. The one area where the provinces are spending more is on physical infrastructure to stimulate growth. This is being driven particularly by the western provinces. The federal government's major infrastructure program at this point is the resilience stream of the Canada infrastructure program, although this only reallocates existing funds and doesn't spend new funds.

It's worth pointing out that as the federal government embarks on new rounds of upcoming spending in the spring budget, in the last round of spending many of the provinces didn't properly match federal spending in support of municipal deficits, and many provinces didn't fully access the federal money available to them. In the next phase of the recovery, the federal government should keep a close eye on matching dollars and fund utilization to ensure the maximum impact for its expenditures.

This brings me to the next stage of federal COVID-19 spending, which has been promised at \$70 billion to \$100 billion in the upcoming spring budget. As I mentioned, infrastructure spending is already budgeted in several western provincial budgets. This is certainly an area where the federal government can back provincial efforts, like it did in the safe restart agreement. New infrastructure spending that reduces the country's carbon footprint can be an important opportunity to build back better, and further encourage central and Atlantic provinces to devote more of their COVID-19 dollars to infrastructure.

I'd also like to take a moment to call members' attention to our annual child care fee survey, published just this morning. It provides a detailed look at child care fees and COVID-19 impact in 37 Canadian cities. This year's survey shows a very concerning decline in enrolment in child care due to COVID-19, at the same time as fees remain high across many cities in the country. The decline in enrolment is worse in cities with high fees, and worse in cities with high unemployment. Without immediate consideration, site closure and/or the loss of staff may make a rapid recovery in the summer and fall impossible as parents can't find spaces for their kids as they hopefully go back to work.

One of the other ongoing lessons of the child care fee survey, which may be instructive for future federal efforts, is that the lowest child care fees are always found in cities where providers receive provincial operational grants, and then charge a low set fee. Just last year, Newfoundland became the fourth province to join Quebec, Manitoba and Prince Edward Island in this approach, and it looks like the Yukon will soon follow suit.

More broadly, I am encouraged that the federal government is committed to rebuilding the economy, rather than being overly pre-occupied by federal deficits. Large federal deficits were necessary to avoid much worse deficits in other sectors. Had the federal government not covered expenses, as it had, those deficits would have occurred elsewhere in the economy, particularly in the provinces, as they covered health care costs; for individuals, as they lost jobs and weren't covered by EI; or for businesses, as public health measures wiped out incomes while expenses remained.

A deficit is neither good nor bad on its own. It is merely one side of an accounting relationship, with an equally sized surplus created in another sector. Every dollar comes from somewhere and goes to somewhere. To evaluate the utility of a deficit in a particular sector—say, the federal government sector—we have to track where the surplus was created, the other side of that accounting relationship.

● (1005)

For the past four quarters, the federal deficit of \$220 billion has created a surplus of an equal amount, three-quarters of which has ended up in the household sector and one-quarter of which has ended up in the business sector. Thankfully little of the surplus has escaped Canada in the form of financial flows to non-residents.

The federal government isn't constrained by deficits or debt-to-GDP ratios. It is constrained by the country's productive capacity. As long as we have people who can't find jobs, as well as empty stores and restaurants, we aren't at our productive capacity.

Inflation is the constraint the federal government faces. We have to remember that going into this crisis we managed historically low unemployment and rock-bottom interest rates, and we still weren't seeing sustained inflation. When we have 800,000 low-wage workers still out of a job compared with the numbers in February last year, we are nowhere near full capacity and inflation will remain subdued for a long time to come.

Thank you. I look forward to your questions.

**The Chair:** Thank you very much, David.

We will now turn to Ms. Susie Grynol from the Hotel Association of Canada.

Welcome, Susie. The floor is yours.

**Ms. Susie Grynol (President and Chief Executive Officer, Hotel Association of Canada):** Thank you very much.

[*Translation*]

Thank you for inviting me to join you today.

[*English*]

As I sat down to prepare my remarks, I was struck by the unique challenge that faces the hotel sector, and indeed this committee and the federal government. We face a balancing act. On the positive side, we have hope and a potential recovery on the horizon with vaccinations under way, which could lead to a possible domestic tourism recovery for some segments, such as resorts, this summer.

On the negative, and frankly, more realistic side, if we don't get all Canadians vaccinated by summer and we have a third wave of the virus, if people are encouraged to stay home, domestic and international borders stay closed and mass-gathering bans remain in place, we could enter COVID year two having lost the most important season for our industry once again.

Let me first address the positive summer scenario and what government action would be required. If we get most Canadians vaccinated by June, the government must pivot quickly—all levels of government—to allow for a safe reopening and invest in stimulating our recovery to maximize the summer tourism season.

This should include implementing best practices from other countries that have successfully reopened before us, breaking down provincial barriers to travel, stimulating domestic demand and confidence by providing tax incentives or rebates to people to spend their dollars in Canada, investing in domestic marketing campaigns and aligning with the U.S. Biden administration on an expedited Canada-U.S. border reopening.

In the second scenario, the worst case, in which restrictions are still necessary and remain in place for the summer, the government will need to provide financial support for the tourism and hospitality sectors until the recovery is possible.

I, unfortunately, believe that the worst case is the likely case. While most other sectors bounce back the day after lockdowns are lifted, we do not. Nobody books a trip the next day. Travel takes lead time. Event planning takes lead time, and those events are what drive the movement of people and the core of our business—festivals, fairs, concerts, theatre shows, weddings, major sporting events and conventions. None of these are planned for this summer or fall and are probably not likely until the spring.

We are asking for what Mark Carney called for in his new book: “Support for companies should be targeted at regenerating the most affected industries, rather than provided as expensive blanket support for all”. It is time for the government to tailor CEWS and CERS towards those who need them most.

In this worst-case scenario, we are looking for two things in the federal budget: big subsidy extension until the end of 2021 for the hardest-hit sectors, and an extension and expansion of the CERS program to help cover fixed costs until the end of 2021 while we are not in a position to make revenue.

Today this program is woefully inadequate. It cuts out the M from SMEs with the monthly cap. It does not cover enough eligible expenses, and it fails to account for the rising business costs like insurance, which has skyrocketed in our sector since COVID.

Our members' survey from March showed that 70% of Canadian hotels will go out of business without an extension of CERS and CEWS to the end of the year. This is a massive-scale loss and it is upon us. Simply put, if the government doesn't extend these programs past June and tailor them to the sectors that need them most, we will lose the majority of the hotel industry.

The government deserves credit for rolling out these programs quickly and for providing tailored debt solutions to the hardest hit. These programs are the reason we still have an industry standing today, but now is not the time to pull away from the sectors that will lag behind through no fault of their own.

The anchor businesses in the travel industry, including hotels, need to be preserved. Hotels support essential travel. They are the cornerstone of tourism regions. They allow Canada to compete for global events. They host our country's hockey tournaments and weddings, but they will not be there if the government does not plan adequately for both scenarios.

We need a clear signal in the budget that the government acknowledges our unique challenges and will stand behind us until recovery is possible.

Thank you.

• (1010)

**The Chair:** Thank you very much, Susie.

Before I go to our last witness on the panel, I will just say that the lineup for questions will start with Mr. Kelly, followed by Ms. Dzerowicz.

We turn now to Mr. Cross with the Macdonald-Laurier Institute.

Welcome, Philip. The floor is yours.

**Mr. Philip Cross (Fellow, Macdonald-Laurier Institute):**  
Thank you, and thanks for having me back.

Because I've addressed this committee before, I'm going to follow up on previous discussions I've had with you. I'm going to focus pretty much exclusively on inflation and interest rates. As Mr. Macdonald said, it's low inflation and low interest rates that make all of this work, so it's worth understanding that a little better.

Now I'll turn to my prepared statement for the translators.

Rising commodity prices early in 2021 are fuelling speculation that inflationary pressures could surface faster than central banks anticipate. Central banks took extreme measures to bolster the economy after the pandemic began, lowering interest rates to historic lows and expanding their balance sheets substantially. This led some to accuse central banks of “printing money”, which risks rekindling inflation.

The money supply has long been at the centre of macroeconomics. This reflects a centuries-long reliance on the quantity theory of money to guide the economy. The quantity theory is based on the identity that the money supply and its velocity determine GDP. Assuming velocity is stable over time and output grows steadily, changes in the money supply would be reflected in prices. Milton Friedman's famous statement that “Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output” summarizes what many believe is the origin of inflation.

Applying quantity theory is not simple or straightforward. There is no universal definition of money. Velocity is the rate at which money is spent, reflecting the number of times money is turned over while making the transactions that generate nominal GDP. A key tenet of the quantity theory is that velocity is stable, or at least predictable.

However, with interest rates approaching zero in both 2009 and 2020, central banks resorted to quantitative easing to boost the economy. QE involves central banks buying bonds, mortgages and other assets to inject money into the financial system. By adopting QE, once again central banks have become “quantity theorists”.

Canada had a brief experiment with QE in 2008-09; however, the money supply and private sector credit did not accelerate. Even the Fed's greater use of QE did not spark faster money supply growth. We can say that in 2008-09 these experiments with QE did not disprove the quantity theory of money because the broad money supply did not expand rapidly.

QE failed to deliver its promise to boost output and raise inflation after the financial crisis partly because it could not control whether banks increased lending or whether money was spent on GDP and not on existing assets like housing and the stock market. Since QE did not trigger faster GDP growth, neither did it fuel inflation. A regional Fed president bemoaned in 2012 that "the historical relationships between the amount of reserves, the money supply, and the economy are unlikely to hold in the future". I'm going to return to that quote in a minute.

In 2020, central banks rapidly resorted to even more QE, in Canada's case mostly by buying federal debt to keep interest rates low while governments provided emergency pandemic relief. Unlike in 2008, however, the broad money supply soared from a 7% to a 30% growth. However, private sector credit demand has not accelerated.

Both prices and inflationary expectations are rising early in 2021, with the latter rising to 2.2% in the U.S. Economists have warned that the U.S. risks overheating because the Biden's administration's \$1.9-trillion stimulus is arriving just as the economy reopens with the rapid distribution of their vaccines. Fed chair Jerome Powell cites a "flat Phillips curve" as one reason inflation will not take off. The Phillips curve is the trade-off between inflation and capacity utilization, and a flat one shows resource utilization does not affect inflation.

I'm going to skip a paragraph here.

Easy monetary policy was adopted to directly stimulate the economy and facilitate government borrowing needed to help people during the pandemic. Monetary policy is a tool to stabilize the economy in the short term and control inflation, not to bail out governments from the long-term consequences of their fiscal choices.

If the economy recovers better than expected and inflationary pressures or expectations begin to rise—and nobody knows how pent-up demand will respond to the reopening after an unprecedented pandemic—then central banks will have to choose whether to continue to keep interest rates low to enable ongoing fiscal stimulus or start to tighten. In such a circumstance, I have no doubt that they will focus on inflation. In that case, governments that are slow to withdraw fiscal stimulus will face an unwillingness from central banks to continue to make borrowing easy and cheap.

• (1015)

Central banks will not abandon decades of building confidence in their inflation targets. It would take years and probably decades to restore that confidence. The risk of higher interest rates is much greater than that of inflation. The cost of higher interest rates will quickly be felt by governments with large debt loads.

For example, in Canada the PBO estimates that a 1% rise in interest rates would increase federal costs by \$4.5 billion in the first year and \$12.8 billion by the fifth year.

Both the Fed and the Bank of Canada will tolerate whatever inflation occurs in 2021 as both transitory and salutary. Inflation will accelerate to at least 3% and probably more because of base period effects. Gasoline prices were unusually low last spring, so automatically that's going to raise inflation this year. As well, firms need to rebuild profit margins and balance sheets, especially in industries such as restaurants, travel, recreation and personal services, as Susie mentioned.

Customers are flush with government transfers and are therefore able to afford higher prices, but if inflation becomes embedded into behaviour and especially expectations in 2022 and 2023, central banks will then take decisive action.

Thank you.

• (1020)

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

We turn now to questions. We have Mr. Kelly first, followed by Ms. Dzerowicz.

**Mr. Pat Kelly (Calgary Rocky Ridge, CPC):** Thank you.

I'll keep Mr. Cross going and ask him a question.

Given your testimony just now, what do you make of Bill C-14's unprecedented expansion and raising of Canada's debt ceiling? There's no budget, so we don't know why the debt ceiling would need to be raised. The debt ceiling is part of a second act, and we don't even know why it would necessarily be connected to this bill, which implements the fall economic statement.

Mr. Cross, what do you make of adding hundreds of billions of dollars to Canada's debt ceiling?

**Mr. Philip Cross:** As mentioned, a lot depends on the course of inflation and especially interest rates. At near-zero interest rates, almost any amount of debt is affordable and sustainable. The minute interest rates start rising very quickly, this country could find itself in a difficult position.

This was exactly the conundrum the economy faced in the 1994-95 debt crisis. At that point, interest payments especially became unsustainable. The Bank of Canada made it clear that it was not going to bail out the federal government. As the federal government made difficult fiscal choices, the Bank of Canada then maintained lower interest rates to ease that path to restore fiscal equilibrium. A lot depends on the course of interest rates, and a lot of people seem to be counting on interest rates staying low.

A lot of what I said today was based on Chairman Powell's comments for the Federal Reserve board yesterday. He clearly indicated that the central banks will put up with almost any amount of inflation this year. However, going forward, once people start to expect inflation, all bets are off and interest rates could rise quite quickly.

We've already seen interest rates rise this year. The 10-year bond rate in the U.S. has jumped up from less than 1% at the start of the year to 1.7% already. I sit here and watch every day and there's an increase of almost 0.1% a day. This is the story in financial markets these days: How long and how sustainable will the upward movement in interest rates be? That's going to determine everything.

**Mr. Pat Kelly:** Yes.

The whole sustainability of this plan is predicated on near-zero interest rates forever, it would seem. That's concerning, especially given your testimony.

You also mentioned in your testimony the extent to which quantitative easing contributes to GDP growth as opposed to just inflating the value of assets. At this time, during the worst economic crisis in almost a century, we have seen record real estate market activity and new price hikes in Canada's main real estate markets. We have also seen the stock market perform extremely well—albeit after a huge correction in the spring—with this incredible resurgence and recovery.

To what do you attribute the asset price inflation we've seen and the disconnect between that and GDP activity?

**Mr. Philip Cross:** That's been a feature of the economy since 2008. We've seen this huge quantitative easing. This huge stimulus in monetary policy seems to have disproportionately gone into financial assets—the bond market, the stock market. Now we're seeing, in the commodity market, that commodity prices are blowing through the roof. Even oil is up substantially. Crazy stuff like cryptocurrencies such as bitcoin are up, so there seems to be a lot of gambling going on in asset markets.

We're not seeing a lot of this, but a little more than in 2008-09 we're seeing this spillover into areas like retail sales. However, mostly it's gone into financial markets. That's created....

I should mention too that, much more so in Canada than the U.S., it's gone into our housing market. Exactly why I don't know. Obviously our housing market has been more.... The housing market in the U.S. had a tremendous crash in 2008. That's made people nervous down there. A lot of people think we have the conditions for a bubble here. Why exactly that money goes into housing, I don't know.

• (1025)

**Mr. Pat Kelly:** This though has a direct impact on the least wealthy and most vulnerable Canadians. When we talk about inflation, economists don't like to include and will typically exclude things they consider too volatile to measure in inflation, things like food, energy and the cost of housing. If you want to subtract the three things that people need to survive, I don't doubt it might be easy to convince people there's no inflation.

What would you say to especially lower-income Canadians who are feeling the pinch of all the things they need to survive, month to month, rising in price?

**The Chair:** Please give a fairly quick answer, Philip.

**Mr. Philip Cross:** That's been one of the features of this recession: the widening of inequality. What's happening in asset markets.... We saw the inequality widen in the labour market because lower-wage workers were obviously the most affected, but what we're seeing in asset prices only reinforces and widens this inequality.

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

We will turn now to Ms. Dzerowicz, followed by Mr. Ste-Marie.

Julie.

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

I want to thank all the presenters for their very thoughtful presentations.

Mr. Macdonald, I'm going to start with you. I love it when people start off with numbers. It's always helpful to have the latest, so thank you for that. You are a true economist.

You mentioned 92% of every dollar to combat COVID-19 comes from the federal government. We have heard quite a bit of commentary from some of our opposition colleagues that we spent too much money on our emergency programs and that the supports we have implemented have caused us to go into massive debt.

We all know we have very few options to actually fund these types of programs, so we're going to have to increase our debt, raise taxes or cut crucial programs. In your opinion, how should the federal government have financed this emergency and extra spending?

**Mr. David Macdonald:** Thanks so much for the question.

Certainly, when it comes to debt and deficits, the federal government does not exist alone. It exists within the Canadian economy, across from other large sectors in the economy, and deficits and debt are fungible. In essence, they can move between sectors. In this case, the federal government took on a massive deficit in this year and what that did was create smaller deficits and in fact some surpluses in other sectors of the economy. For every deficit there's a surplus of equal value in another sector of the economy.

The federal government could have decided to spend none of this money. It could have decided to have no CERB, no support for business, no support for provinces and no support for health care and individuals. What would have occurred in that case is that those deficits would not have occurred on the federal books. They would have occurred on provincial government books as they covered health care costs. They would have occurred on household books that incurred deficits because they lost work but still had expenses, or on business books.

Despite the federal and provincial governments' efforts, we've nonetheless seen increases not only in federal debt but also in household and corporate debt at the same time. In fact, the household and corporate sectors are far more leveraged than the federal government is. If we were to see interest rate increases, they would certainly hit the federal government, but they'd hit the household and business sectors much harder. Not only do they pay higher interest rates, but they have a lot more debt.

I think it's worth understanding the federal government and its deficits not on their own, but by how it and those deficits relate to other sectors in the economy.

**Ms. Julie Dzerowicz:** The other thing you're alluding to and you're reminding me about also, Mr. Macdonald, is the fact that if the federal government didn't take on the debt, we have heard from others that there would be worse repercussions for the economy and, as you just mentioned, there would be far higher debt levels whether on corporations or on the provinces.

We have often heard our Minister of Finance say that the government is taking on the debt so that Canadians don't need to. Do you think that's a fair statement?

**Mr. David Macdonald:** I think it is a fair statement. The debt could have occurred someplace else. Certainly even in the corporate sector, despite the businesses being the primary beneficiaries of the federal government's COVID-19 efforts, the debt-to-GDP ratio for the corporate sector has risen 15 percentage points in two quarters. It's going to be very difficult for the corporate sector, which already had very high debt, to dig itself out of this, and it would have been much worse had they not received things like the wage subsidy or support for rent.

Despite the help for households, household debt has continued to go up, and despite help for the provinces, provincial debt has gone up over the last three quarters.

Debt has to be understood across the entire economy. It should be looked at not in isolation, at only the federal level or the household level, but also with regard to how it moves and can move between sectors.

• (1030)

**Ms. Julie Dzerowicz:** Maybe the other question...and I didn't mean to ask this, but I think it was just a comment Mr. Cross made at the end of one of his answers. I think there was a real attempt on the part of our government to make sure that our emergency programs really supported right across the income spectrum. I know a recent Stats Canada report indicated that households in the lowest income quintile increased their share of disposable income from 6.1% in the first quarter to as high as 7.2% in the second quarter of 2020, while those in the highest income quintile decreased their share of disposable income from 40.1% to 37.7% over the same period of time.

Would that give an indication that our emergency programs have been helpful and have worked particularly for those on the lower end of the income scale?

**Mr. David Macdonald:** I think some of the programs could have been better targeted. We think of top-ups to old age security, for instance, which goes across a large spectrum of seniors. It might have been better to devote that money purely to the guaranteed income supplement. There were broad top-ups across the entirety of people receiving the Canada child benefit, which goes quite a ways up into the income spectrum. Those might have been better targeted particularly to the lower-income recipients of the CCB.

Certainly if we look at some of the big programs to support individuals, like the CERB and its knock-on benefit, the CRB, as well as improvements to EI, the floor for what one can receive in benefits, at \$500 a week, would have been a substantial benefit, particularly for lower-income households, which not only benefit from improvements in access in most cases but wouldn't even have gotten into the EI system period. Now even when they get in, they're sustained at a much higher level.

I certainly think that those changes in the CERB, EI and the CRB have been some of the more important ones in supporting low-income households, particularly those attached to the labour force. I certainly hope that going forward those are the types of changes that will be made permanent in upcoming EI reforms, when the CRB program is wound down this summer.

**The Chair:** We will have to end it there.

Thank you, both.

**Ms. Julie Dzerowicz:** Thank you.

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

[Translation]

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

First of all, I would like to welcome our guests, including our colleague Geoff Regan, who is joining us today.

My questions go to Ms. Grynol.

Ms. Grynol, thank you for your testimony; it was quite alarming.



As I understand it, if the measures are not extended, 70% of your members are at risk of bankruptcy. Is that correct?

[English]

**Ms. Susie Grynol:** Yes, that was from a survey that came out of the field just three weeks ago.

[Translation]

**Mr. Gabriel Ste-Marie:** That is a very troubling statistic.

You suggested some solutions, such as extending the programs for your sector, at least until the end of 2021.

You gave us one optimistic scenario and another more negative one. Given those scenarios, do you think that your members will see a return to normal in 2022, or will they have to wait even longer?

[English]

**Ms. Susie Grynol:** I think the best shot at recovery for our sector is next summer, but all of the projected data on that recovery suggests that a true recovery to 2019 levels is not forecast for several years to follow. By next summer, if we have restrictions lifted and people can move around and we are able to generate enough revenue to pay the bills, we are not going to need more government support at that time.

What we're asking today is for the government to acknowledge the fact that we are still being asked to effectively close down. We can't operate in these circumstances, and we're one of the only sectors that has been asked to do this from the beginning to the end of the pandemic. There's just not enough money to pay the bills.

We can't have an entire sector go under—at least, I certainly don't believe that makes any sense—so we are asking the government to acknowledge the reality that there are going to be some sectors that fall behind, and we are certainly in that category.

• (1035)

[Translation]

**Mr. Gabriel Ste-Marie:** Thank you.

Your sector and your members play an essential role in the economy.

What case can you make to the government to remind them of the important role that your members play in the economy?

[English]

**Ms. Susie Grynol:** There are critical infrastructures that support the travel economy. Hotels are one of them. Airlines are one of them. When we get back to a post-COVID universe, in order to have a functional society we are going to need this infrastructure in place.

With the numbers we're talking about, this kind of loss with 70% of the industry going down, what this means is that when we have.... There are only two or three hotels in some of our northern and remote regions. How do you get essential services up there to provide to those Canadians? How do our tourism regions survive? The first thing you do when you plan a trip is look to see if there's a hotel available. There are not that many hotels in P.E.I., as an example. If we start to see the crumbling of the infrastructure and

flights reduced so that people can't move around, and if when they get there there's nowhere for them to stay, it will significantly affect the rebound of the overall economy.

It's not just about Canadians booking their next holiday. It's about people moving around this country and having the infrastructure there to support them. It's about the rebound of business travel. It's about our downtown cores. What attracts people to downtown cores are the events: the conventions, the festivals, all of those things. Our cores are hollowed out right now. Our hotels have been sitting empty for 12 months. We can't even bid on those international events if we don't have an accommodation sector to support them.

My plea to this committee and to anyone who is listening today is that we cannot let the critical infrastructure that supports this industry crumble. The cost on the other side would be even greater to the government, on the backs of Canadians, and to the functioning of our society.

**The Chair:** This is your last question, Gabriel.

[Translation]

**Mr. Gabriel Ste-Marie:** Thank you. That is very clear and very heartfelt. I hope your members will manage to get through the crisis, that the government will manage to properly target the support measures, and that it will extend them.

That said, I am very concerned about the hotels in large cities. A good part of their revenue comes from international conventions. I'm particularly thinking about those in Montreal and Toronto.

Can you talk to us about the importance of those international conventions?

Do you believe that, after the pandemic, we will be able to get those events going again?

[English]

**Ms. Susie Grynol:** Well, we certainly won't be able to play host to them if we don't have accommodation. That's the first thing you do when you bid on any of these international events. You need to have enough places for people to stay, so first of all we need to preserve the infrastructure. I do believe that Canada has the capacity to build back if we get the kind of tailored support that we are looking for.

I would echo your comments that our downtown cores have been devastated. In terms of the loss in the cores, even today we're sitting at between an 80% and 90% RevPAR loss, which is revenue per available room, the metric that we use to measure in the hotel industry. Nobody is moving around. These events are not taking place. They are going to be critical if we are to see a rebound of our urban cores.

**The Chair:** Thanks, both of you.

[Translation]

**Mr. Gabriel Ste-Marie:** Thank you.

[English]

**The Chair:** We will go to Mr. Julian, who will be followed by Ms. Jansen.

**Mr. Peter Julian (New Westminster—Burnaby, NDP):** Thanks to all our witnesses for being here today. We certainly hope that you and your families continue to stay safe and healthy during this pandemic. We appreciate your coming forward today to talk about Bill C-14, but also the fall economic statement.

My first question will be for you, Mr. Macdonald. The fall economic statement, when you look at the summary statement, foresees as of the next fiscal year starting April 1—starting in two weeks—a dramatic reduction and cuts in program expenses. At the same time, we've had many witnesses talking about the importance of continuing supports, particularly in light of the third wave, and in fact expanding some of the supports to sectors that have suffered the most during this pandemic, yet in the fall economic statement there was really no effective initiative around revenue.

I'm particularly addressing the issue of the wealth tax. The CCPA did a study a couple of weeks ago, which showed that the wealth tax would be bringing in substantially more revenues than originally foreseen. When we're looking at a scenario where Canada's billionaires have added over \$60 billion to their wealth through this pandemic, do you not believe that the idea of tackling that massive inequality that we're seeing, through such provisions as wealth taxes, is a good way for the government to respond to the crisis?

• (1040)

**Mr. David Macdonald:** I certainly think that there will be a time to come in the next couple of years to start to examine new revenue measures. Broadly, when we start to look at new revenue measures, I think one of the things to understand is that this pandemic has not been bad for everyone.

Financially, there are certain firms in certain sectors that just happened to be on the right side of the pandemic and have made record profits as a result. As a result of firms making record profits, CEOs attached to those firms will make record profits. Even CEOs working for companies that did not make record profits will still likely see massive bonuses at the end of the year as the rules are changed, such that if the economy does really well, CEOs get massive bonuses, and if the economy does badly, they change the rules so that CEOs get massive bonuses in any event.

Then we come to the issue of wealth taxation. Again, for the highest decile of Canadians, this recession was over in July. Jobs had completely recovered for people in the top quarter of earnings. Also, for the top 1%, asset values had increased, based on stock market valuations as well as real estate valuations. This has not been bad for everyone.

I think that as a general principle we should certainly be considering things like a wealth tax, and Canada is the only country in the G7 that doesn't have an inheritance tax. Every other major country does have an inheritance tax. A wealth tax would have to be built on lessons learned through inheritance taxes elsewhere. It's easy to make wealth taxes that are terrible in terms of their implementation, but that isn't to say that we shouldn't try to learn from lessons from other countries to build more effective wealth taxes.

I think other things that we might want to start considering are things like a surplus profits tax, again, for the corporate sector or sections of the corporate sector that have done very well from the pandemic, as well as, potentially, new top marginal tax rates for individuals, again for people like CEOs who will see record bonuses out of this.

I think it is worth questioning who should, in part, contribute to the pandemic. The people who've done the best, at the very high end of the income spectrum, I think should be asked to contribute some of what they've gained, so that other people, particularly low-income Canadians, are more likely to get support and more likely to get a job.

**Mr. Peter Julian:** Thank you for that.

When you appeared before this committee on June 18, you said something very prescient. You said that the protected nature of the Canadian banking sector has led to extraordinary profits to its shareholders and tremendous bonuses being paid to its executives. However, in a time of great need for many Canadians, it is time for more to be asked of this sector—not only for the good of Canadians but also the good of our economy.

Now, one of the most striking aspects of the government response on the pandemic was the \$750 billion—three-quarters of a trillion dollars—in liquidity supports given within days of the pandemic hitting. It appears that nothing was really asked of the banking sector in return, so we've seen banking profits of over \$40 billion so far during the pandemic. This is through this government's policies.

Do you feel that enough has been asked of the banking sector in light of the unprecedented levels of liquidity supports given to it?

**Mr. David Macdonald:** There was a Financial Post story looking at CEO bonuses at the big banks despite the fact that revenues were off from last year, although they were still making profits. Despite the fact that revenues were down in the banking sector, CEOs' benefits and their bonuses seem almost entirely unaffected. CEOs will continue receiving the same massive bonuses that they received in previous years, despite the actual performance of the company. The situation is that if times are really good, CEOs get big bonuses. If times are bad, you change the rules, and CEOs get big bonuses, and I think we'll see exactly the same thing this year, as we've already seen most of the proxy circulars come out for the big banks.

One of the arguments I was making in June was around the deferment of mortgages, which came about as a result of federal government regulatory changes. It wasn't at the banks' behest that this happened but rather because the federal government changed the rules. Household debt has risen from about 100% of GDP, where it stood for several years, up now to 110% of GDP, as of the latest data, partly because of those deferments. People took banks up on those deferments and built up a bit of a cash reserve so they were better able to make their mortgage payments. Thankfully we haven't as of yet seen mass defaults as a result of the deferment programs ending.

When it comes to asking more of banks, I think one of the things the federal government could be asking for from banks is a substantial reduction in the cost for homeowners to break particularly fixed-rate mortgages. Those fees can be high. They can be very unpredictable, and given the support that the banking sector receives and that CEOs continue to receive through bonuses, I think it's fair to ask the banking sector to reduce the fees that they're charging people to break mortgages, typically fixed-rate mortgages, in the hopes that if Canadians do continue to see sustained job loss and they can't make their mortgage payments, then at least in a high-cost housing market, they're able to sell their houses and get into something that they can afford.

• (1045)

**The Chair:** We will have to end it there.

We now turn to Ms. Jansen, who, I believe, is splitting her time with Mr. Cumming, followed by Ms. Koutrakis.

Go ahead, Tamara.

**Mrs. Tamara Jansen (Cloverdale—Langley City, CPC):** Thank you.

Mr. Cross, the finance minister has told Canadians ad infinitum that we can easily afford the debt we have because interest rates are so low and are guaranteed to stay low.

Would you say that her confidence is based on fact or fantasy?

**Mr. Philip Cross:** When it comes to interest rates, there are no guarantees. I said I think central banks have made it clear they will not be raising interest rates under any circumstance this year, but as you get into next year and the following year, that's where already we're seeing inflationary expectations and upward pressure on longer-term interest rates building in the U.S. We're going to have to match that; otherwise all the money will just leave this country and go to the U.S.

Counting on interest rates staying lower forever is, I think, already... That's been the story of financial markets so far this year—that interest rates may rise faster than central banks had thought or promised.

**Mrs. Tamara Jansen:** Okay. Thank you.

It breaks my heart that Bill C-14 links the help Canadians need to survive the pandemic with huge increases in borrowing capacity, basically giving the government a blank cheque. Do you think it's responsible for MPs to vote yes on Bill C-14 or do you think we should split the bill so we can vote yes to further support but no to massive increases in spending?

**Mr. Philip Cross:** As an economist and lifelong employee of Statistics Canada, I don't have any idea as to how bills should be presented in Parliament. I'm going to pass on that one, thanks.

**Mrs. Tamara Jansen:** Okay. I'll pass my time to my colleague Mr. Cumming.

**The Chair:** Mr. Cumming, welcome back. The floor is yours.

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

I'll direct my questions predominantly to Mr. Cross.

It's good to see you at committee again, Mr. Cross.

You talked quite a bit about quantitative easing and the Bank of Canada's massive bond buy. Should we be concerned that the majority of Canada's debt is really at a floating rate right now? What's the impact of that? Even if we were to fix it today, would we see an uptick in debt-servicing costs?

**Mr. Philip Cross:** It's not all floating. As I mentioned, the PBO study found that an increase in interest rates in one year would have an impact of \$4.5 billion, but over five years, it would be \$12.8 billion, and that's because it takes time for that longer-term debt to roll over. It wouldn't be immediate, but even \$4.5 billion is significant. Once rates start rising, they're not going to stop at the 1% scenario that was in the PBO's report. Once rates start rising, there's a potential there for them to rise quite significantly.

• (1050)

**Mr. James Cumming:** Prior to COVID, we had pretty anemic growth in Canada. Did you see anything in Bill C-14 or the fall statement that would give you some comfort that there's an actual targeted program on growing our way out of the crisis we're in today?

**Mr. Philip Cross:** No. Everything—and perhaps correctly—in fiscal monetary policy is being aimed at short-term stimulus to the economy. It's understandable. We're still in a major crisis. Until that's resolved, I'm afraid short-term considerations are going to dominate.

However, it is a concern that there's almost no focus on the underlying determinants of long-term growth in this country, in particular investment in innovation. There's virtually no talk about it. All the focus, all the discussion in policy, is on labour, child care and guaranteed annual incomes. Everything is about labour. You don't hear anything about investment. Especially, you don't hear anything about the number one determinant of long-term growth in this country, which is productivity and innovation.

**Mr. James Cumming:** For investment to come back into Canada, because we saw an exodus of investment from Canada, the investors need some kind of certainty. Would you agree that, in this ask of significant dollars from the taxpayers of Canada, there should be at least some indication as to where that money would go to increase productivity and to encourage that kind of investment?

**Mr. Philip Cross:** I wrote a paper last summer for the Macdonald-Laurier Institute, which I'm representing today, that talked about innovation. We've had programs to stimulate productivity and innovation in this country for decades. We have government programs all over the place. They just haven't worked. We have to get away from this mentality that if we fiddle with the inputs of innovation, or the presumed inputs of innovation, like research and development and education and so on, that we'll fix innovation. That's not working. We have to get back to how we encourage an entrepreneurial mindset in this country.

We've heard a lot of talk today about how somehow being wealthy is almost a crime in this country. It's something we should penalize. If somebody becomes rich, we immediately should increase taxes on them. Why don't we celebrate these people? Why don't we ask them: What is it that you did right that the rest of us can learn from?

That's much more the mentality you see in the U.S., and guess what. Guess who's the number one most innovative country in the world by far. It's our neighbours to the south, but we denigrate them. I just don't get it.

**The Chair:** Okay.

We'll jump over to Ms. Koutrakis, followed by Mr. Ste-Marie.

Annie.

**Ms. Annie Koutrakis (Vimy, Lib.):** Thank you, Mr. Chair.

Thank you to all our witnesses for presenting this morning before the committee. It's a great conversation.

Ms. Grynol, I listened to your testimony with great concern, especially the numbers you quoted with regard to hotels and possibly 70% of them going bankrupt unless the federal government extends, specifically, the wage and rent subsidies to the end of the year.

With that in mind, can you share your thoughts on the proposed application of the GST and HST to short-term accommodations through digital platforms such as Airbnb? How do you think this will level the playing field for hotels, which feel they have been disproportionately disadvantaged by these platforms?

**Ms. Susie Grynol:** We've had an uneven playing field for some time now, at multiple levels of government, frankly. Here you have an industry that's emerged where they're basically selling the same

product, but they're just doing it online. Who is competing with us are the operators who are buying up whole buildings and kicking people out of their homes, who are taking long-term housing supply off the market and who are using it to rent on a short-term basis. They can do that right across the street from a hotel, in a condo building where Airbnb owns all the units, or half of them, but they don't have to pay tax, the same health and safety standards don't apply and none of the rules governments have put in place to govern the accommodation space have applied to them up until this point.

We are delighted to see—and we've been working on this issue for a long time now—that effective July 1 there will be a levelling of the playing field for GST and HST application. This means Airbnb and other short-term rental platforms will have to charge and remit GST at the point of purchase. That will help to level the playing field.

I will also say that we are also seeing people booking cottages all over this country through Airbnb right now. You have no idea what their cleaning protocols are. They're not subject to the same standards as hotels are. Hotels, which have been playing by the rules all of this time and which are building hotels and contributing to communities, are sitting empty. I'll just leave that as an open comment.

• (1055)

**Ms. Annie Koutrakis:** Thank you.

This next question is for anyone on the panel who wishes to comment.

There's been a lot of commentary from our opposition colleagues that we have spent too much on these programs, and that the supports we have implemented caused us to go into debt. We heard it again today in certain testimonies.

There are few options for financing monumental programs like the ones created to help Canadian weather this pandemic: either increase Canada's annual debt, raise taxes on Canadian families and businesses, or cut funding to crucial programs.

In your opinion, how should the federal government have financed this extra spending during this time?

**The Chair:** Who wants to start?

Mr. Macdonald, go ahead.

**Mr. David Macdonald:** In the short run those are exactly the three choices that governments face. They can raise taxes, they can cut programs or they can run deficits, or some mix of the three.

The decline in federal government revenues at \$60 billion is so substantial that there would really be no way for you to cut government programs to anywhere near balance the budget. To do so would be devastating. You'd have to totally eliminate EI, totally eliminate, say, the Department of National Defence, and totally eliminate the Canada child benefit program. That would have been sufficient to balance the books in 2020.

Clearly, deficit financing is the right decision at this point. The federal government interest rate on 5- to 10-year bonds is at, or near, historic lows. We haven't paid this little in interest rates on bonds going back to the 1950s. Under 2% is extremely low in terms of what we're paying to finance this debt. It's very different, actually, than the situation we faced in the 1990s, when interest rates were much higher.

Certainly there's a risk that interest rates could rise and could increase costs to the federal government, but interest rates don't just affect the federal government. Interest rate rises affect the household and corporate sectors in addition to the provincial sector, all of which pay higher interest rates and all of which are much more highly leveraged.

The federal government is sitting at 50% of GDP right now in terms of mixed debt. The corporate sector is 130% of GDP and the household sector is at 110% of GDP. Those sectors would be hit much harder. We'd be driven rapidly back into a recession if we were to see a big increase in interest rates, before the federal government suffered in any real degree.

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

Go ahead, Susie.

**Ms. Susie Grymol:** I would just say that without the investment in these programs, we wouldn't have a hotel industry today. I would just say thank you to the government for that.

However, I would say that moving forward, these programs have to be tailored. They have to be tailored to the people who really need them. If that doesn't happen, we will have spent all this money for naught.

**The Chair:** Susie, let me just throw in one question there, and that's on the wage subsidy. We have announced it to June 5, I believe.

If there was to be a change, when does that announcement have to be made? I'm talking to my tourist operators, and they're telling me, "We have to know now. It's too late to tell us in June."

What are your thoughts on that?

**Ms. Susie Grymol:** It has to be in the budget. The budget has to say to the travel and tourism industry, we've got your back; we are giving you predictability that you are going to be able to pay your bills through CERS, that CEWS is going to be there and you can hang on to your employees. It cannot be June; it has to be now, because the decisions on whether to close or stay open are happening today.

• (1100)

**The Chair:** We have only two minutes left here.

Is it okay to let Elizabeth May in?

Okay, Elizabeth. Go ahead with your question.

**Ms. Elizabeth May (Saanich—Gulf Islands, GP):** I have a very quick question for David Macdonald.

Appearing before this committee some time ago now, then Governor of the Bank of Canada, Stephen Poloz, was asked about whether these policies could become inflationary. With crystal clar-

ity, as I'm sure many of you remember, he said, "That's a problem I'd love to have." He was much more worried about deflation.

David Macdonald, would you comment?

**Mr. David Macdonald:** We're concerned about Canada's federal debt-to-GDP ratio at 50%, but the Japanese debt-to-GDP ratio is at 260%, and they're desperate for more inflation. They've been encountering deflation since real estate crashed there in the 1990s, and so that is exactly a problem that we should hope to have.

Certainly, higher inflation would give the Bank of Canada more flexibility. Frankly, they're scraping along with zero lower bound. There's no way to increase economic growth anymore by lowering interest rates; they're already at zero. Higher inflation would give the Bank of Canada more flexibility to have slightly higher interest rates and potentially provide a bigger kick to the economy in the next recession, which will inevitably happen.

**The Chair:** Thank you very much to our witnesses for appearing.

An hour goes by quickly; usually we have an hour and a half. We have a panel with the Parliamentary Budget Officer right now.

We'll suspend three minutes for the committee and come back with the Office of the Parliamentary Budget Officer.

The meeting is suspended.

• (1100)

(Pause)

• (1100)

**The Chair:** We will call the meeting back to order.

As everyone knows, we are meeting on Bill C-14.

The witness for this panel certainly needs no introduction. From the Office of the Parliamentary Budget Officer, we have Mr. Giroux, PBO. With him is Ms. Yan, who is the director of budgetary analysis.

The floor is yours, Mr. Giroux.

**Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer):** Thank you.

[*Translation*]

Good morning, Mr. Chair and members of the committee.

Thank you for the invitation to appear before you today. We are pleased to be here today to discuss our recent economic and fiscal analysis related to your study of Bill C-14, An Act to implement certain provisions of the economic statement tabled in Parliament on November 30, 2020 and other measures.

As you mentioned, Mr. Chair, I am accompanied today by Xiaoyi Yan, Director, Budgetary Analysis.

Consistent with my mandate to provide independent, non-partisan analysis to Parliament, my office has worked diligently since the beginning of the pandemic last March to provide parliamentarians with reliable estimates of the impacts of the unprecedented COVID-19 response spending on the government's finances and the Canadian economy.

We have also published independent cost estimates of a number of components of the government's COVID-19 Economic Response Plan.

• (1105)

[*English*]

On December 10, we released our assessment of the Government of Canada's fall economic statement. Our report identifies several key issues to assist parliamentarians in their budgetary deliberations, as well as updated fiscal and economic projections.

In terms of transparency, the government's fall economic statement does include elements that are essential for credible fiscal planning and scrutiny, such as a detailed five-year fiscal outlook.

However, the statement falls short on transparency in several areas, such as the absence of a fiscal anchor, the lack of clear thresholds for fiscal guardrails and the lack of detail related to the employment insurance operating account.

In addition to our report, my office has also released independent cost estimates of selected measures contained in the fall economic statement, including the elimination of interest on Canada student loans, the Canada emergency wage subsidy and Canada emergency rent subsidy programs.

We would be pleased to respond to any questions you may have regarding our analysis of the government's fall economic statement 2020 or other PBO work.

Thank you, Mr. Chair.

**The Chair:** That was a minute and a half. You're a speedy guy today, Mr. Giroux.

Mr. Fast, the floor is yours for six minutes.

**Hon. Ed Fast (Abbotsford, CPC):** Thank you Mr. Giroux, for keeping your remarks brief. That gives us more time to ask you the questions we need answered.

Bill C-14 includes a request to raise the debt limit by a historic \$663 billion—approximately 57% over the existing ceiling. This includes \$100 billion of undefined stimulus spending, and another \$223 billion of additional unallocated borrowing capacity.

I'd like you to comment on the merits of asking for a massive increase in borrowing capacity in the absence of a budgetary framework, and in the absence of any fiscal anchors to guide the government's management of its finances.

**Mr. Yves Giroux:** It's an issue that we have expressed concerns with in our December 10 report following the fall economic statement. In that December 10 report, we indicated that it's a bit unusu-

al to have such an increase in the debt ceiling when there are items that are included for which there is no clear path forward. For that, I refer to the \$100 billion that was mentioned in the fall economic statement—\$70 billion to \$100 billion to be spent over three years for which there are no clear indications as to what the amounts will be spent on.

We've flagged that as an area worth considering for parliamentarians to ask questions to the government, because that's unusual. It's unusual because there are no clear identifiable areas of spending for that amount, and the debt ceiling already includes some contingency amount of about \$87 billion, so there is enough room to at least get that spending going if the government wishes to provide economic stimulus.

In summary, we find that a bit unusual, and that's why we raised it in our December 10 report.

**Hon. Ed Fast:** Is it not more prudent to first table a proper federal budget and then request the borrowing authorities required to support that budget?

**Mr. Yves Giroux:** That's the usual way to proceed with increases in the debt borrowing authority. It's usually included in a budget or accompanies a budget bill. That's usually the way to do it. You present your longer-term spending plan to parliamentarians and Canadians, and then you also seek, by the same token, an increase in the borrowing authority to accompany and to accommodate these spending plans.

Some would say the fall economic statement was a mini-budget, and in that respect it contained many budgetary measures, but it's not a traditional budget in the sense that we expect it to be, because, as all of you know, it's been two years that we haven't seen a budget.

• (1110)

**Hon. Ed Fast:** As you just mentioned, there is a contingency already built into the debt ceiling, and yet there's a massive amount of discretionary spending or borrowing available beyond that. With respect to that additional discretionary spending and unallocated borrowing authority, do you believe that the amount is reasonable? We're talking about \$100 billion of stimulus funding and then, beyond that, there's still some \$223 billion of additional unallocated borrowing capacity.

Is that reasonable? If not, what would be a more appropriate ceiling to consider?

**Mr. Yves Giroux:** Well, "reasonable" is all in the eyes of the beholder, sir, so I would probably say it's amply sufficient. It's largely sufficient certainly, to say the least, to cover the needs expressed in the fall economic statement and then some.

In my humble opinion, the \$100 billion is probably premature to include in a borrowing authority act, although it's up to you parliamentarians to decide on that. It could have waited until such time as the government lays out its plans for that additional spending. If there are any unforeseen expenditures that need to take place, they could have been accommodated or they could still be accommodated with that contingency amount of some \$87 billion, which is, again, a very significant leeway in the context of a borrowing authority.

**The Chair:** This is your last question, Ed.

**Hon. Ed Fast:** Mr. Giroux, you've raised concerns over the inability of parliamentarians to properly evaluate and scrutinize the government's borrowing and spending plan. Could you comment on what you consider to be the minimum amount of transparency one should expect of a federal government when it's asking for massive debt ceiling increases and billion of dollars of discretionary spending?

**Mr. Yves Giroux:** Well, traditionally when the government tables a bill that seeks to increase its borrowing authority, it does that together with a budget that clearly lays out its plans going forward—usually five years into the future. We haven't seen that yet. We see a borrowing authority limit that's being sought before Parliament, but we don't have the same full picture that is usually accompanying such an increase through a budget.

Hopefully, the next budget will provide additional plans that will probably seek to better justify this increase in borrowing authority, but so far it's only been a partial picture through the fall economic statement.

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

We will turn to Mr. Fraser, followed by Mr. Ste-Marie.

Sean.

**Mr. Sean Fraser (Central Nova, Lib.):** Thanks very much.

I appreciate your being with us, Mr. Giroux. I have just a few questions.

I will start where my colleague Mr. Fast left off, on the issue of the borrowing authority sought in Bill C-14. Some of my colleagues on this committee have previously referred to it as a blank cheque. I think Ms. Jansen actually used that phrase in the previous panel.

I just want to get confirmation. There is a significant difference between the borrowing authority and spending decisions of Parliament. Could you just explain that distinction, please?

**Mr. Yves Giroux:** The borrowing authority is the maximum amount the Minister of Finance can borrow to finance government operations. It doesn't necessarily go together with the spending authority. The spending authority itself is granted through separate bills, and can be such legislative statutory authorities as employment insurance or old age security, which are permanent programs on which Parliament does not need to vote every year. There are also operating expenditures, grants and subsidies and so on, for which Parliament has to grant authority to spend on an annual basis. That's done through main estimates and various supplementary estimates.

Even though the borrowing authority can be increased, it does not grant authority for the government to spend. They have to seek spending through separate bills.

• (1115)

**Mr. Sean Fraser:** There would be an opportunity for parliamentary scrutiny over new spending programs that the government could introduce in the upcoming budget or through some of the measures you've suggested. There would be an opportunity for parliamentarians to actually scrutinize and potentially vote on those new programs at the appropriate time. Is that correct?

**Mr. Yves Giroux:** That would normally be the case, indeed, but that's assuming we revert to the normal legislative process. The government benefited from extraordinary powers in the previous session.

Assuming we have the normal procedures for approving spending, yes, you are right, sir.

**Mr. Sean Fraser:** Certainly.

I want to talk for a moment about the wisdom of having parliamentary authority over the borrowing limit. This is something that is relatively new. In 2016 we actually adopted a new legislative requirement that the government, every three years, seek a review or permission to increase borrowing authority, should they wish to do so.

This is, in my view, an exercise in transparency. My understanding is that we have actually now come up on the legislated deadline. Can you confirm whether it's actually an option for the government to ignore the requirement to come back to seek further borrowing authority?

**Mr. Yves Giroux:** I would have to get back to you on that. Not being a lawyer myself, I'd have to look at the details of the legislation.

**Mr. Sean Fraser:** I would appreciate it if you could get back to the committee on that, if you don't mind.

One of the things that I find to be very important here is that we've seen, frankly, with our neighbour to the south certain political brinkmanship coming up whenever the federal government in the United States approaches its debt ceiling. On a certain number of occasions, there have been government shutdowns as a result of the fact that they've come up to that debt limit.

I'm curious to know whether you think it's a good idea to signal a few years into the future where the debt limit may be, and to provide a bit of a buffer so that we don't find ourselves in that circumstance where political brinkmanship could lead to a government shutdown.

**Mr. Yves Giroux:** Having a debt ceiling, so to speak, under the Borrowing Authority Act is certainly a good idea in the sense that it increases transparency. The borrowing is not just a mere by-product of all of their government expenditure decisions. In that sense, it's a very good improvement in terms of transparency.

Having a buffer also ensures that we don't hit a wall where if, for whatever reason, such as an election where Parliament is dissolved, there is no consensus or possibility to increase that limit, and we hit that hard limit, we have to stop government operations. That's an unfortunate situation that we have seen happen a couple of times in the U.S. Having a buffer is certainly desirable. The size of that buffer is up for debate, but both the Borrowing Authority Act, having a maximum amount, and a buffer are good ideas in terms of transparency, first, and then for the continuity of government operations.

**Mr. Sean Fraser:** Mr. Chair, do I have time for a last question?

**The Chair:** Yes. Go ahead for your last one, Sean.

**Mr. Sean Fraser:** You mentioned that you have conducted an assessment on the cost of some of the programs outlined in the fall economic statement. I know that you have done it previously on other measures as well.

Throughout the course of this pandemic, we've heard testimony from Mr. Macdonald from the Centre for Policy Alternatives that in fact had the government not borne the expenses of some of these programs—let's use the rent subsidy as an example—that cost would have fallen somewhere else.

Could you confirm whether there's a counterfactual or give us your assessment as to whether the cost actually would have been greater across the economy had the federal government not introduced some of these programs and instead had let the cost of the pandemic response fall to the private sector, to the household or even to provincial levels of government?

**Mr. Yves Giroux:** We didn't do a counterfactual because for the counterfactual the shock would have been so immense that I'm not sure our models would have been able to absorb all of that. The best alternative to a counterfactual would probably be trying to look at other similar countries that didn't provide the same level of support, if there are any, and I doubt that there are any that ran that very rough experiment. It's certain that there would have been very difficult situations for millions of Canadians, businesses and households had the government not provided support.

• (1120)

**Mr. Sean Fraser:** Thank you.

**The Chair:** Thanks, all of you.

I might say, Ms. Yan, that if you have a supplementary point you want to make at some point in time, just raise your hand. Hopefully, I will catch you.

We're turning to Mr. Ste-Marie, who will be followed by Mr. Julian.

Go ahead, Gabriel.

[*Translation*]

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

Good morning, Mr. Giroux and Ms. Yan. Thank you for joining us. Thank you also for the important work you are doing. You must have some impossible weeks, with all the work you have to accomplish and all the analyses you have to do. You are doing particularly essential work during this pandemic, when it is difficult to obtain

reliable data and to track the historic expenditures that are being made. My hat is off to you; on behalf of all my colleagues, you have my thanks.

I would like to begin by asking you once again about the topic that two of my colleagues have addressed, the spectacular increase in the debt ceiling. I'd like to make a clear distinction between borrowing authority and spending authority.

You told Mr. Fraser about it, but I would like to be assured that this borrowing authority is not automatically the approval for the government to spend that money as it wishes.

More specifically, I would like the assurance that each of the government's additional expenditures will have to be voted on by parliamentarians. Is that in fact the case?

**Mr. Yves Giroux:** Thank you, Mr. Ste-Marie.

Yes, the debt limit is one thing. It allows the government to incur debts up to a maximum amount. The amount proposed is \$1,800 billion. That does not mean that the government can keep spending until that amount is reached. It's not a credit limit, as on a credit card, for example. Another process has to be followed in order to do that. So this is a constraint that combines with others that already exist in the process of approving appropriations.

In order to fund its annual operations or programs, the government has two methods it can use. One method applies to existing programs that are established in legislation, like old age security. In that program, the expenditures depend entirely on the number of recipients. The amount of the expenditures for old age security is therefore not limited by a budget envelope.

The government can also spend using budget appropriations, which must be approved each year by an act voted on in Parliament. That is the case for the operating expenses of the departments and of Parliament, as well as for grants and contributions. So that is a constraint also.

In addition, the government cannot borrow more than the current limit, which is \$1,168 billion. The government is proposing to increase that to \$1,800 billion. Those two constraints combine to limit expenditures or at least control them.

**Mr. Gabriel Ste-Marie:** Thank you.

I would like to be sure that it would not be possible for the government, using the signature of the person representing the Governor General, to use that increased ceiling on borrowing to spend as they like, even during an election.

**Mr. Yves Giroux:** No, you are right.

When Parliament is dissolved, a special procedure called the Governor General's Special Warrants is used. The goal is to fund government operations only so that the operations can continue or emergency situations can be dealt with.

It's a convention; the idea is not to fund new initiatives. If ever that were the case, the Governor General could refuse to sign the warrants, which, in practical terms, basically never happens. In an election campaign, the public service and the government apparatus make sure that operations continue.



**Mr. Gabriel Ste-Marie:** That is how I read it, but now that you are confirming it, I am greatly reassured.

It will be two years ago tomorrow that the Government of Canada last brought down a budget. As you said earlier, Mr. Morneau presented an economic and fiscal snapshot last summer, and the Minister of Finance presented the Fall Economic Statement 2020.

Is it acceptable that parliamentarians have not had a budget for two years, at a time when expenditures are reaching exceptional levels?

**Mr. Yves Giroux:** I will leave you to decide whether it is acceptable or not. It certainly makes your work more difficult, because you are being asked to approve expenditures and initiatives, at a time when no one has the full picture of the impact on public finances and the economic situation.

In addition, we do not know the government's short-and medium-term plan for the direction of public finances and the economy. That makes your work and mine a little more difficult, because we have to gather information based on announcements made over weeks and months to try and understand the situation and guess the government's future direction.

Without a budget having been tabled, we are missing a complete picture and the direction that the government will be taking in the coming years.

• (1125)

**Mr. Gabriel Ste-Marie:** Okay, thank you.

May I ask another quick question, Mr. Chair?

[English]

**The Chair:** Okay, but very quickly, Gabriel.

[Translation]

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

Mr. Giroux, does the government provide you with the data you need in order to properly analyze the programs?

**Mr. Yves Giroux:** In general, yes. We have had some problems or concerns with some departments from which information seems to be more difficult to obtain, such as Innovation, Science and Economic Development Canada and the regional development agencies.

However, overall, things are quite good.

**Mr. Gabriel Ste-Marie:** Thank you.

[English]

**The Chair:** Thank you.

We're turning now to Mr. Julian.

[Translation]

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

Thank you for joining us today, Mr. Giroux and Ms. Yan.

We are grateful to you for the huge amount of work you have done for Canadians during the pandemic. We hope that your loved

ones and yourselves are healthy and safe as we go through an extremely difficult time.

When my constituents ask me for explanations about the way certain things work or about the way in which they could be improved, I tell them about your studies.

My question is along the same lines as Mr. Ste-Marie's. No budget has been brought down for two years. I know that you are in contact with your international counterparts. In your opinion, are there any other major industrialized countries that have had no budget for two years?

What price do Canadians have to pay if no budget has been tabled for so long? Having no budget for two years is unprecedented in Canada's history.

**Mr. Yves Giroux:** Thank you, Mr. Julian.

We actually do have regular meetings and discussions between parliamentary budget officers or the equivalent positions in the industrialized countries, and even in countries that are a little less so.

To my knowledge, no country, at least in the G-7, has not yet brought down a budget. Most countries are facing the same pandemic and the same level of uncertainty but, to my knowledge, most, if not all, of the G-7 countries have tabled at least one budget since the pandemic began.

The lack of a budget therefore sets Canada apart. It deprives Canadians of a good look at what will happen in the coming weeks, months and years, once we have come out of the pandemic. The government has not yet indicated what its plans will be for the economic recovery or for the time after the pandemic. That would probably be included in a budget.

Everyone understands that there is a lot of uncertainty. All the provinces have to deal with that uncertainty, of course, but all provinces and territories, I believe, have been able to table a budget, despite the high degree of uncertainty.

It is therefore a little surprising that the federal government has not yet done so. I don't believe that it is because it can't do so, because the officials in the Department of Finance are top-notch when it comes to crafting budgets. They are certainly capable of doing so.

[English]

**Mr. Peter Julian:** Thank you for that answer; it really puts Canada in the worst possible position compared to all other industrialized countries. It really is perplexing to so many Canadians that when other industrialized countries have been able to produce a budget, we have now been waiting for an unprecedented two years.

Another concern that has been raised around the fall economic statement is the issue of the revenue side of the equation. The government is not making any provision for wealth taxes or pandemic profit taxes; in fact it has rejected those scenarios, and yet we've seen Canada's billionaires increase their wealth by over \$60 billion through this pandemic. I'm interested in asking about the revenue side. You did an excellent study on the wealth tax and evaluated the ability for a wealth tax to actually contribute to the overall fiscal framework of the government. I'm wondering—because the last study dates to before we saw an increase in assets among Canada's wealthiest citizens—whether the PBO is in the process of revising its overall figure in terms of how much a wealth tax would bring.

My other question is around the borrowing authority. There are concerns being raised about raising the borrowing authority. What are the alternatives, for example, on the revenue side, that would mean that raising the borrowing authority would not be necessary because the overall balance of federal finances was taken care of?

• (1130)

**Mr. Yves Giroux:** With respect to the wealth tax, as some of your colleagues pointed out, we have been quite busy. I could say I had a full head of hair before the pandemic and I lost it as a result of hard work, but that would not be true as you all know. We have, nonetheless, been quite busy. For now we don't have plans to update our work on the wealth tax, but if it's the desire of the committee for us to do so, we would certainly undertake to do that and we could provide the committee with a timeline under which we would be able to do that. As I said, if it's of interest to the committee, we'd be happy to undertake that work.

The alternative to increasing the Borrowing Authority Act or the borrowing limit would be to decrease spending in other areas to ensure that the government did not bust that ceiling but still delivered on core areas of priority, or increased its overall revenues to ensure that its debt ceiling was not busted. Besides increasing taxes or revenues, or decreasing spending in other areas to ensure that it continues to provide services in areas that are determined as key, there are not that many alternatives to increasing the borrowing authority or the borrowing limit.

**The Chair:** Thanks, all of you. We are out of time.

We'll turn to Mr. Falk next. I believe he's splitting his time with Mr. Cumming.

**Mr. Ted Falk (Provencher, CPC):** That's correct. I will be splitting my time.

**The Chair:** And then we'll have Ms. Koutrakis.

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

Thank you, Mr. Giroux and Ms. Yan, for your testimony this morning at committee.

I think that penalizing the individuals who have become wealthy is very short-sighted. I think the government should be focused on creating initiatives and plans for individuals to become wealthy, for our country to prosper and for there to be economic growth and abundance here.

I'm wondering if you can comment on that. Have you seen anything at all from this government that would indicate they have plans for people to prosper and to become wealthy?

**Mr. Yves Giroux:** That's a broad question. Generally speaking, the best way to increase wealth across a country is to increase the productive capacity of an economy. That could be done in a few ways, but not that many ways.

One way is to increase the number of people who participate in the labour force, by providing incentives to work and join the labour force. Another good way is to provide incentives to increase the capital, the machinery and equipment. Finally, there are measures that increase productivity, and these take a variety of ways, depending on the sector that you are targeting or looking at. These are generally the main ways of increasing the wealth of a nation.

As to whether we have seen that many initiatives from the government, that's an area that's probably highly sensitive politically and policy-wise, so I'll let each and every one of you be the judge of that, because different persons may have different perspectives on that. By that, I mean that some investments that are socially oriented might increase productivity in the economy, while others could be reducing the productive capacity of an economy, and not all investments are created equal.

• (1135)

**Mr. Ted Falk:** Thank you.

I have a very quick question before I turn my time over to Mr. Cumming. The government has indicated that they don't have fiscal anchors. Instead, they're using the terminology “fiscal guardrails”. Can you very briefly explain to this committee and to Canadians the difference between an anchor and a guardrail?

**Mr. Yves Giroux:** That's a very important distinction.

An anchor is a goal you have that's guiding the overall fiscal decisions: spending, taxing and so on. A guardrail, rather—at least as described by the government—is something that will determine when you stop some types of expenditures. In that case, the guardrails have been expressed, at least so far, as the labour market indicators: the unemployment rate, the number of hours worked and the participation rate, if I'm not mistaken. One is shorter term. The other is longer term.

**Mr. Ted Falk:** Thank you very much.

Go ahead, Mr. Cumming.

**Mr. James Cumming:** Thank you, and thank you to the witnesses.

Mr. Giroux, it's good to see you again. Thank you for the work you do.

You have talked about measurables. It strikes me that within Bill C-14 or the fiscal update we see significant spending and unallocated spending. At the very least, should there not at least be some outcome-based analysis when putting these numbers together?

You've talked about productivity. You've talked about growth rates. You've talked about efficiencies. When I look at the level of spending that we've had—the second-highest level of spending in the G7, with also the highest rate of unemployment—should we not at least have some form of outcome-based spending so we can do an analysis to see if it's effective?

**Mr. Yves Giroux:** That's certainly among the best practices for governments to decide how they allocate spending. They have to have in mind an achievement, a target or a goal that they're pursuing, whether they quantify it publicly or not—that's probably up to them—but I would hope that they would have these types of trade-offs or quantified objectives in mind.

I haven't seen anything—yet at least—from the government on recent measures. I don't think I've seen that very often in the Canadian government setting, to be honest, but that's certainly something that should be top of mind among decision-makers when they make these allocation decisions.

**Mr. James Cumming:** On the analysis that you did on growth rates, are you somewhat concerned that those growth rates are achievable without knowing whether the spending anticipated will be related to productivity, to innovation—things that will drive the Canadian economy?

**Mr. Yves Giroux:** It's certain that it's a bit more difficult to determine whether an investment or an expenditure will have a long-term or short-term impact when we don't know the areas that will be targeted. I assume you're referring to the \$70 billion to \$100 billion mentioned in the fall economic statement. It's very difficult to determine precisely what will be the short- and longer-term impacts on the economy of these expenditures without knowing exactly where they will go. Not all spending is created equal when it comes to generating economic growth and generally social welfare.

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

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

You have five minutes, Annie.

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

Thank you, Mr. Giroux, for your testimony this morning and for your service.

I think it's important to remind all Canadians who may be watching today of what Bill C-14 is and what we're studying here at committee. The only spending Parliament is being asked to approve through Bill C-14 is to introduce a temporary and immediate support for low- and middle-income families who are entitled to the CCB, the Canada child benefit, totalling up to \$1,200 in 2021 for each child under the age of six; to provide the regional development agencies an additional \$206.7 million; to replicate the CEBA loan limits for gap-filling programs and the RRRF gap-filling capacity; to ease the financial burden of student debt for up to 1.4 million Canadians by eliminating the interest on repayment of the federal portion of the Canada student loans and Canada apprentice loans for one year, 2021-22; to provide funding of up to \$505.7 million as part of the new safe long-term care fund to support long-term care facilities, including funding to prevent the spread of COVID-19 infection, outbreaks and deaths in supported care facilities; to provide additional funding of up to \$133 million to support

access to things like virtual care, mental health tools and substance use programming; and to provide up to \$262.6 million for a suite of COVID-19 initiatives, including testing, medical research, counter-measures, vaccine funding and developments, border and travel measures and isolation sites. I think it's important to put that on record and to remind everyone of what Parliament is being asked to approve.

Having said that, I hear my colleagues on the opposition harping on the fact that there's the lack of a budget.

You're right that this is an unprecedented event. It has never happened before in our Canadian history. We've never had to deal with such a pandemic, and I think it merits keeping that in mind.

Having said that, Mr. Giroux, I'm interested to know what were or are your thoughts on the biweekly updates provided to the committee by the Department of Finance earlier last year.

• (1140)

**Mr. Yves Giroux:** I think that was a very good practice in the sense that it provided parliamentarians with a very good idea of how quickly the pandemic was evolving and how the impacts on Canadians were being felt. It provided the committee members, as well as parliamentarians and Canadians, with an idea of how many people were using these benefits. In that sense, it was a very welcome transparency initiative. I personally was hoping it would continue after prorogation because of the value of the information it represented, certainly for me and my office as well as many stakeholders.

**Ms. Annie Koutrakis:** I'm sure the Department of Finance will hear that. Perhaps we could put that in place once again until the budget is in place.

The fall economic statement provides a fiscal outlook for the course of five years, as well as alternative economic scenarios should a more extreme resurgence of COVID-19 arise. Can you comment on the value of providing these five-year projections to parliamentarians?

**Mr. Yves Giroux:** Of course.

A five-year planning horizon is very welcome. It provides an idea also as to what the future would look like. The fall economic statement did not include all of the policy initiatives the government plans on implementing—by definition, a fall economic statement is a partial picture. We saw it as a welcome addition to have a scenario where the pandemic would evolve differently from the central scenario. Again, that provided—not clarity, because it's providing alternative scenarios—a welcome addition regarding transparency with respect to the potential future path of government finances and the economy. In that sense, it's a development that I personally welcome and that the office also looks upon favourably.

**The Chair:** We will have to move on. I'm sorry, Annie.

**Ms. Annie Koutrakis:** Thank you.

**The Chair:** Mr. Ste-Marie.

[*Translation*]

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

Mr. Giroux, I want to make sure that I fully understood the discussion you just had with Ms. Koutrakis. You were actually talking about the bi-weekly updates on expenditure programs that the Department of Finance used to provide, correct?

I heard you correctly. So, after your testimony, about noon, I will introduce a motion that the committee make that request to the Department of Finance, in the hope that that will work.

You said that some details about the employment insurance operating account are missing. What details are those?

What should the government provide us in order to give us a complete picture?

• (1145)

**Mr. Yves Giroux:** Thank you, Mr. Ste-Marie.

The Fall Economic Statement 2020 mentioned the employment insurance operating account, but it did not give a very clear picture of the way it has evolved in the current economic situation, given that benefits have been expanded and extended. Clearly, we are expecting the employment insurance operating account to incur huge deficits, which is to be expected in the current economic situation.

The government also committed to freeze the employment insurance premium rates at \$1.58 per \$100 of insurable earnings, at least until the end of 2022. However, the government makes no mention, either in the update or in general, of what will happen afterwards. It does not actually say how the very significant deficit of \$52 billion in the employment insurance operating account will be eliminated over the five-year period.

Current legislation limits the annual increases in the premium rates. However, even if the premiums were increased to the maximum allowed by the legislation, the deficit in the employment insurance operating account would probably be about \$52 billion. There is a lack of clarity over what will happen with this very significant deficit. We hope that the budget will provide more details about it, because it's clearly a colossal deficit for the employment insurance operating account.

If we maintain the status quo, that is, if we apply the legislation as it presently stands, the employment insurance premium rate will increase by \$0.30, going to \$1.80 per \$100 of insurable earnings in the next three or four years.

**Mr. Gabriel Ste-Marie:** Let's hope that the next budget will—

[*English*]

**The Chair:** Thank you.

We have Mr. Julian and then Ms. Jansen.

Peter, you have two and a half minutes.

**Mr. Peter Julian:** Thanks, Mr. Chair and Mr. Giroux.

In the same vein as talking about the alternatives, the borrowing authority and looking to potentially increase income revenues to the federal government, it's important to cite, as per your previous studies, that there is a lot of money that already should be paid in taxation that goes to overseas tax havens. I cite your landmark study of June 2019, where the estimate was over \$25 billion in federal tax revenues that go to overseas tax havens.

You provided a legislative costing note on strengthening tax compliance on February 18. I would like to ask you two questions. You've indicated some difficulties in terms of the investments by the federal government actually leading to the kinds of revenues that Canadians would expect. We also have testimony before this committee from Ted Gallivan of the Canada Revenue Agency, back on June 16, reacting to the failure of the federal government to prosecute, basically, anybody who's been involved in overseas tax havens. He said at that time, to this finance committee, that we'd come as far as we could with the tools we had.

My question is twofold. First, where do you see the federal government as lacking, in terms of initiatives to strengthen that tax compliance?

Second, do you have any recommendations for the federal government that would curb the massive leak of federal tax revenues to overseas tax havens among the wealthy and very profitable corporations?

**Mr. Yves Giroux:** That's a very broad question, Mr. Julian. I don't know if I should thank you for that or not.

With respect to the capacity or what the CRA could do, or where it is lacking, it's probably a question that would be best answered in a much longer study. I would say, generally speaking, the CRA does not take as aggressive a stance towards tax evasion as, for example, Revenu Québec does. Anybody who lives in Quebec and owns or operates a business, or has been subject to an audit by Revenu Québec, will probably know that there usually is a difference.

In that sense, the CRA takes, generally speaking, a more educational approach and a less aggressive approach. It also shows in its prosecution of tax planning. That being said, it may be bound by different legislation. I haven't done a comparative study of the legislation that applies to both jurisdictions. Generally speaking, that's what I would say; it's an approach that's less aggressive when it comes to prosecuting egregious cases of tax evasion.

• (1150)

**The Chair:** Thank you all. We're out of time.

Ms. Jansen is next, followed by Mr. Fragiskatos, for a five-minute round.

**Mrs. Tamara Jansen:** Thank you very much.

We know that Canada has had subpar results compared to our G7 partners in terms of income loss, job loss and debt increases, as well as, of course, the largest increase in housing prices, due to low interest. Our COVID-19 supports do not appear to have been particularly efficient.

With all that said, would you say that the current path of another \$100 billion in stimulus appears wise? I believe Einstein said that the definition of insanity is doing the same thing over and over but expecting different results. Shouldn't we be focusing the government support on growth and innovation?

**Mr. Yves Giroux:** That's an interesting question and a question that could be a minefield, too. I'll answer in the following way. When the government indicated that it would spend \$70 billion to \$100 billion, it indicated it would spend that with a goal or a target of enhancing economic growth and economic stimulus. However, when we released our own economic and fiscal outlook in September, we indicated that it would probably not be necessary to have that big of an economic stimulus over a three-year period. That was in September. I qualified that, on a few occasions, as potentially being too much and too late if the objective is to stimulate the economy and return to the pre-pandemic levels of employment according to various indicators.

If the government wants, on the other hand, to make structural changes to the economy, that's a different issue. That was in September. Since then, we have seen job numbers that are slightly better than we had expected back then, and we have also seen the U.S. launch a massive stimulus campaign, from which Canada will benefit.

All that being said, \$70 billion to \$100 billion in economic stimulus might be more than is necessary to return to pre-pandemic levels, but again, if the plan is to make structural changes to the economy, that's a totally different discussion.

**Mrs. Tamara Jansen:** In your opinion, why is this government the only government in the G7 that hasn't managed to produce a budget? Is there something special about Canada that makes it impossible to produce one?

**Mr. Yves Giroux:** There are many things special about Canada but not when it comes to justifying the absence of a budget.

**Mrs. Tamara Jansen:** You mentioned that it's good to have a borrowing buffer. However, you also said that the size of the buffer needed is up for debate. In your opinion, is the current debt ceiling increase in Bill C-14 of over \$650 billion, in the absence of a budget and any idea of what the government's planning to spend on, a reasonable sum?

**Mr. Yves Giroux:** It certainly provides lots of flexibility to the government to have that level of borrowing authority. It's probably more than what is absolutely strictly necessary, from what we have seen so far, but it provides a very good buffer. Is it reasonable or not? Again, I leave that in the very capable hands of members of this committee.

**Mrs. Tamara Jansen:** Thank you.

I will pass my time on to my colleague Mr. Kelly.

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

**Mr. Pat Kelly:** Thank you for debunking, I think in your earlier testimony, the notion that Canada is at any risk of seeing American-style brinkmanship over borrowing authority. In a Westminster system, those kinds of impasses are solved through the concept of confidence in the government. It's a nonsense argument in defence of having extraordinary or enormous debt ceilings.

I do want to ask a question about this and about the debt ceiling. Having a buffer that is so far beyond any current or contemplated future need for borrowing really makes something of a mockery of the idea of having a debt ceiling. Why have a debt ceiling at all if the idea is that the ceiling should be so high that no such spending is contemplated? One has to conclude either that there is a plan to actually borrow the \$600 billion or that there's really no excuse or reason to have it.

I ask, with the limited time that is left, for a comment on the scope and scale of the debt ceiling increase.

• (1155)

**Mr. Yves Giroux:** I understand the question clearly, and I also understand that it's probably a matter of judgment much more than of facts. I have provided you with my views on the ceiling and on the buffer. Whether it's an unnecessary buffer or not... Different stakeholders will tell you different things. That's why these decisions are better left in the hands of elected officials like you than for mere servants like me, to be perfectly honest.

**The Chair:** Thank you.

Mr. Fragiskatos, the last five minutes will go to you.

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

Thank you, Mr. Giroux, for being here.

Thank you, Ms. Yan, as well for all your work.

Mr. Giroux, what is the current federal debt-to-GDP ratio?

**Mr. Yves Giroux:** At last count it was about 48% to 50%, based on the projected spending and the size of the economy. More accurate numbers will probably be available after the end of the fiscal year, when we have a clearer picture of the financial situation of the government.

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

How does that compare to the situation in G7 countries, if you look at the central governments and their debt-to-GDP ratios?

**Mr. Yves Giroux:** It's difficult to make a one-to-one comparison, central government-to-central government, given the different structures of many countries. For example, the U.K. is a unitary country with a unitary government for the most part. It's the same with France.

However, Canada is generally considered to be one of the good students in the pack, so it's probably at the low end of the spectrum when it comes to debt-to-GDP ratio.

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

I asked that because obviously the debt-to-GDP ratio is an important measure of debts levels and a good way to assess the fiscal health of a country's economy.

I did read your recent report, and although we are focused on Bill C-14 here, your recent report is, in my view, very relevant because it helps to provide a context for MPs, particularly on this committee, to understand the overall economic picture. Your recent report, of course, focused on a number of things, but mainly the federal government's expenditure plan and the main estimates for 2021 into 2022.

Correct me if I'm wrong, but there was a breakdown there. As far as the expenditures are concerned, transfer payments to provincial governments, municipal governments and individuals, as far as support goes, amounted to 64%. Operating and capital expenditures amounted to 30%. The public debt charges were 6%. Is that correct?

**Mr. Yves Giroux:** I don't have the report in front of me, but for these numbers, if you quote them from the report, I assume them to be correct.

**Mr. Peter Fragiskatos:** Okay. I just wanted to confirm the breakdown, because we do hear a great deal, particularly from our Conservative colleagues on the committee, about government expenditures and their worries about taking on especially the emergency programs, which have certainly added to our deficit and debt level. But in a context where interest rates are remarkably low, it would make sense that public debt charges are at only 6.1%, which is quite low compared to the other items I just listed.

Finally, Mr. Giroux, could you speak to the Canada child benefit? There is, in Bill C-14, additional temporary support of up to \$1,200 for kids under six, and if Bill C-14 is approved, that support will go to families.

On the CCB's impact over the years for families in the middle-income brackets and lower-income families in general, but specifically in helping to lower child poverty, I know that Statistics Canada has monitored this closely. Hundreds of thousands of kids lifted out of poverty because of this one program: Could you speak to the importance of it from that perspective?

• (1200)

**Mr. Yves Giroux:** Well, I can certainly remember studies released by Statistics Canada which indicate that the CCB has lifted a tremendous number of kids out of poverty. Because it's a Statistics Canada study, I don't remember exactly the numbers, but I certainly remember that it is the overall conclusion of that study that was released by StatsCan.

**Mr. Peter Fragiskatos:** Okay. You also identify with the findings that it has been an important program as far as alleviating child poverty in Canada goes.

**Mr. Yves Giroux:** Yes.

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

**The Chair:** We will have to end it there.

Thank you, Mr. Giroux, and you as well, Ms. Yan.

On behalf of the committee, we certainly do want to thank you for all the work you do. There's no question that your workload went up with COVID and the many requests that are coming in from members of Parliament and so on. On behalf of the committee, we want you to thank your staff in the office as well, because it takes many people to come up with the kinds of reports you do, and we appreciate them very much.

I think we all sit up with interest when we know that a new one is coming out, because we're going to read it. The government members will read it from the point of view of saying how well we're doing and the opposition members will read it from the point of view of asking if there is something that they can dig into there. You cover all the bases.

With that, thank you again, and we will—

**Mr. Peter Julian:** Mr. Chair, I have a point of order.

**The Chair:** What's your point of order?

**Mr. Peter Julian:** Thanks, Mr. Chair.

Mr. Ste-Marie mentioned potentially moving a motion. As I mentioned to you, Mr. Chair, I'll be leaving in about 45 minutes, so I won't be available to speak at the end of the meeting. If we are to treat his motion, I think it should be at the beginning of the next segment or now.

**The Chair:** Okay. Let's take it at the beginning of the next segment. We'll take a three-minute suspension and bring in the new witnesses.

With that, we're suspended.

• (1200)

(Pause)

• (1205)

**The Chair:** We will call the meeting back to order.

We are meeting on Bill C-14. We have two witnesses here in this panel, and we have a hard stop at one o'clock.

We will take a moment before starting off the committee, gentlemen, to hear a motion from Gabriel Ste-Marie. He said during the last panel that he wanted to introduce a motion.

You may move your motion, Mr. Ste-Marie.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Good afternoon, everyone.

Mr. Clerk, thank you for distributing the motion so quickly.

From the Parliamentary Budget Officer's remarks, I have certainly gathered that the Department of Finance's bi-weekly reports were useful. They provided us with good data to monitor expenditures related to COVID-19. As has often been mentioned, it is important that those reports resume. If I understood correctly, Ms. Koutrakis found it a worthwhile idea.

However, I have just had a discussion with Mr. Fraser and, in order not to inconvenience our guests and in order not to get into extended debates on this motion, I would like everyone's agreement to discuss it next week when we will be discussing all the motions. As the subcommittee has decided, time will be set aside next week for discussion on the motions. If that suits everyone, we could discuss this one at that time.

• (1210)

[*English*]

**The Chair:** I think I was going to have to rule in any event, Mr. Ste-Marie, that we are here on Bill C-14 and we would take this as 48 hours' notice. I think we can be assured that the motion can be pulled up at the next meeting, because 48 hours will have passed by then.

I think the motion is before you, committee members. You might have received a copy of it. It is translated.

Thank you for that, Gabriel. We will consider that as notice and discuss it at our earliest opportunity when we get into motions.

With that, we will go to Ian Lee from Carleton University.

On the point that the clerk raised, Mr. Lee, perhaps you could go fairly slowly and maybe be a little louder. This is one of the difficult situations for translators in the booths when we don't have these kinds of mikes.

The floor is yours.

**Dr. Ian Lee (Associate Professor, Carleton University):** Thank you, Mr. Easter.

I apologize for the technological hiccup. I do have a very high-speed connection, I assure you. I have Bell Fibe.

I want to thank the finance committee for inviting me to appear.

My disclosure is that, first, I do not belong to or donate to any political party, nor allow lawn signs on my lawn at all. Second, I do not consult to any company. I am paid by Carleton; that's who pays me.

Approximately 50 years ago, a very distinguished liberal professor of economics, Professor Arthur Okun, adviser to President John F. Kennedy, wrote a small monograph that became very influential. I studied it during my Ph.D. studies 30 years later. It was called *Equality and Efficiency: The Big Tradeoff*.

Professor Okun argued that almost every last public policy decision involves a trade-off between these two fundamental values, which could be understood, he said, as—to use synonyms—rights versus markets or equality versus efficiency. While most understand the idea of equality or equity today, or what some call “social justice”, the idea of efficiency or markets seems to be less and less well understood with the passage of time. “Efficiency” was the catchword that Professor Okun used to signify markets, economic growth, productivity, standard of living, jobs, or what Adam Smith characterized 300 years ago even more succinctly as simply “the wealth of nations”.

Restated using Professor Okun's phrases—and to be fair, I may be contradicting Professor Okun a little bit—equality requires effi-

ciency; equality requires markets; equality requires growth, just as efficiency requires equality or equity if markets are to succeed. To state it even more bluntly, rights need markets if rights are to be achieved, while markets need rights to succeed.

Some may disagree. You can see the fact that I have travelled and taught, for 30 years, over 100 times, in developing countries, and I have noticed that remarkable correlation. The countries with the greatest degree of rights are the wealthiest and most successful countries, the OECD high-income countries of the world.

Unfortunately, it's increasingly fashionable among populists to claim that rights and markets, or equity and efficiency, are opposed to each other, antithetical. I am directly challenging the simplistic slogan “people over markets”. You hear it regularly.

Professor Okun understood that equality or rights are not free. Indeed, from Professor Okun's time in the 1960s to our time today, we have developed a much deeper appreciation of how costly policies and programs are to try to develop and achieve inclusion, equity and social justice. This is why we are at a critical point in Canada. The costs of equity have become so very large, and the deficits even larger, that we must seriously discuss, once again, efficiency or growth if we do not want to unwittingly undermine or sabotage policies to continue to offer programs to support equity or social justice.

• (1215)

If that is seen as a little bit extreme by some people, I just want to remind you of the 1995 largest downsizing in Canadian history. I wrote what was, I think, the definitive article on that in *How Ottawa Spends*.

I turn now to these issues in Canada, and to my criticisms, in order to make my philosophical comments to this point much more concrete.

One, no budget or plan has been presented to Parliament to provide the analytical and policy justification for increasing the debt ceiling. I would merely note that many years ago, in the seventies and eighties, in my previous incarnation in a decade-long career as a mortgage and commercial lender, I lent millions and millions of dollars. If a business owner met me to discuss their borrowing needs and they didn't have a business plan, I told the owner to go away, create the plan, and then return to talk to me about the plan, which was, is, and always will be the foundation or basis for credit authorization.

Two, there is simply no justification for delaying the presentation of the budget. The Government of Canada has an excellent digital financial infrastructure for financial reporting and accounting. Indeed, if I may say so, some of my finest graduates from our program over the past 30 years—I've been teaching for 32 years—have entered into the Government of Canada as financial analysts and accountants, and have become very successful at modernizing the now excellent financial and accounting systems. As someone who has lived in Ottawa for over 60 years, and with friends and relatives inside the public service of Canada who are familiar with the financial reporting systems, it is simply inaccurate to suggest that the empirical data of daily, weekly and monthly expenditures in the Government of Canada is unavailable to produce a budget.

Three, there is an urgent need for a fiscal anchor, per the IMF, the OECD, David Dodge, Don Drummond et al. There are many others. Contrary to those opposed, a fiscal anchor is not a lockbox that prevents government decisions. It is a tool of evaluation and accountability for all stakeholders. I understand that no one wants a bad report card. I can tell you that I hate student evaluations if they say bad things about me. I love them when they say nice things about me. But the genius of liberal democracy lies in the myriad of checks and balances that go far beyond mere elections. A fiscal anchor is a critical check and balance of fiscal policy.

Four, concerning the post-pandemic recovery, I urge the committee to debate and discuss whether the stimulus that has already been provided over the past 12 months via income support programs—I strongly supported them, as I think every Canadian did—and that drove the savings rate from roughly 2% to just under 30% is stimulus. I'm referring to the \$200 billion. It can be argued that the Government of Canada, perhaps unwittingly and perhaps wittingly, engaged in post-pandemic stimulus with the plethora of income support programs.

Restated, there is approximately \$200 billion—per the TD Bank and their economic analysis of only this week—in bank accounts in Canada, waiting for mass vaccination and confidence to return to individuals and businesses before they start spending. What I'm suggesting is that I don't think we need to stimulate the stimulus. However, although I don't think further stimulus is needed, I recognize that a good number of people out there do think that.

• (1220)

If we do proceed with stimulus, I urge the committee to recommend to the finance minister that we shift from consumption and income spending to investment. If stimulus is decided upon, it should refocus from general consumption and income support to infrastructure, and I mean real infrastructure, not mislabelled consumption spending on day care centres or hockey arenas, but investments that enhance the productivity of the economy: ports, roads, rail, airports, pipelines and digital infrastructure.

The economy has not underperformed due to lack of resources. Large numbers of Canadians, and I am one of them...I have been sitting in this house since last March, and 99.999% of my life has been in this house, because I am waiting for a vaccine, along with millions—

**The Chair:** Mr. Lee, I'll have to get you to wrap up pretty quickly. We're about five minutes over.

**Dr. Ian Lee:** I'm on my final sentence.

We can see light at the end of the tunnel, and I do not believe that it requires a hundred billion dollars to cause each of us to venture outside and to start to live normally again.

Thank you.

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

We'll now turn to the C.D. Howe Institute, with Mr. Robson, CEO.

Slow and steady, please, and fairly loud as well, Mr. Robson, if you could. Thank you.

**Mr. William Robson (Chief Executive Officer, C.D. Howe Institute):** Thank you very much for the invitation to appear with you today. It's an honour to be with the committee. My only regret is that, even as we speak, Jagmeet Singh, leader of the federal New Democratic Party, is going to be addressing a C.D. Howe Institute webinar. I had hoped to host Mr. Singh for that event, but when the invitation came, I thought it was best to respond positively to an invitation to appear in front of parliamentarians, so here I am. I hope my contributions will help you in the important work you're doing.

I look forward to your questions. My opening remarks key off Bill C-14's provisions related to borrowing.

The federal government's current reliance on borrowing, rather than taxation, to fund its programs is unprecedented. That means that the apparent cost of federal programs to taxpayers is unprecedentedly low. This situation will not last. I urge members of this committee to evaluate all fiscal proposals, including those in Bill C-14, in light of the sharp increase in the tax costs of federal programs that is inevitable over the next four to five years.

As you know and have discussed already, Bill C-14 would amend the Borrowing Authority Act to increase the debt limit from about \$1.17 trillion to \$1.83 trillion. Those numbers are astonishing, as is the fact that this is projected to cover borrowings only until March 31, 2024, so about three years from now.



Those of us who remember the federal government's fiscal problems of the 1980s and 1990s get little comfort from assertions that borrowing on this scale is not a problem. Some of you will remember that successive governments, Conservative and Liberal, had to deal with tough trade-offs among programs and taxes during a period when interest payments meant that the federal government was asking Canadians to pay more than a dollar in taxes for every program dollar. We don't want that. We make better decisions when we are paying a dollar in taxes for every program dollar.

It came up earlier, and let me just say, since I'm talking about the quality of decisions, that I have not had an opportunity to comment in this forum on the failure to produce a budget in the 2020-21 fiscal year. That was a failure of accountability that was also unprecedented. Parliament needs and Canadians need proper conversations about fiscal choices. Those fiscal choices have to hold up over time, when the normal healthy process of evaluating each program and each tax, dollar for dollar, resumes.

I'm using this concept of the tax cost of a program dollar because the hundreds of billions or trillions of dollars that we're now talking about in programs and debt are a bit hard to grasp. I think it helps if we boil it down to ask how much tax each year Canadians are paying to the federal government for each dollar of program spending they get.

To give a simple example, if the budget is balanced, the number is going to be a dollar. It will be a bit more than a dollar if there are a few cents that are covering interest payments. If the government is targeting the ratio of debt to GDP—and I know many of you have talked about this and many economists have advocated it—then the number is going to be one dollar plus interest and then as much borrowing, as much of a deficit, as GDP growth allows subtracted from that. If interest rates are higher than growth rates, as was the case in the late 1990s, the number will be larger than one. If interest rates are lower than growth rates, it will be less than one, but over time it always gravitates towards one.

In the fiscal year about to end, the numbers in the fall economic statement show that the tax cost of a program dollar was 46¢. The federal government borrowed more than half of every program dollar it spent. To repeat, that is unprecedented. Even in the late 1970s, when the seeds of the fiscal problems of the 1980s and 1990s were planted, that number never got below 80¢. It won't last.

Even the projections in the fall economic statement, which has very low interest rates and continued heavy reliance on borrowing to finance programs, prefigure the tax cost of a program dollar doubling to 92¢ in 2025-26. If you project further out, it keeps rising. If you allow for the higher interest rates we're already seeing, it will surpass a dollar.

● (1225)

The message in my opening remarks is that the apparent cost of federal programs to Canadians is currently very low. It's less than 50¢ on the dollar. It is going to rise. In round numbers, it's going to rise back to a dollar. Our choices have to make sense when the cost of programs is not half-price. Easy credit undermines good decision-making. We prevent people from using credit cards to buy lottery tickets for a reason.

The federal government overextended itself in the 1970s. It expanded many of the programs, including income supports to people, and transfers to provinces got cut when the tax cost of a program dollar rose in the 1980s and 1990s. If we build big ongoing programs on the premise that Canadians can have them at 50¢ on the dollar, we build them on a foundation that will shortly melt away.

The only programs the federal government should promise are ones we can sustain: those for which the government is willing to charge and those for which Canadians are willing to pay full price.

Thank you for allowing me this opportunity to appear. I hope you found my opening remarks helpful. I look forward to your questions and comments.

**The Chair:** Thanks, both of you, for your presentations.

We are going to be tight on this timeline because we have a hard stop at 1 p.m. We have about 30 minutes.

Mr. Kelly from the CPC is first on my list.

● (1230)

**Mr. Pat Kelly:** Thank you so much to both witnesses for their great testimony.

Mr. Robson, I was particularly struck by the way you've illustrated through history how decisions made in the past, in the 1970s, led directly to the debt crisis of the mid-1990s. When Conservatives or other commentators talk about the concern for future generations, this is exactly the history you spoke of. I'll maybe give you a minute if you want to address that when we undertake decisions today in a certain environment of interest rates.

To be clear, we understand that we are in a crisis and support the spending measures that were necessary to get us through the crisis, but looking forward, if we don't deal with public finance, we risk doing exactly what the governments of the 1970s did, which would be to put the future generation at risk. Can you comment further on that?

**Mr. William Robson:** There is a lot to be said about the inter-generational impacts of what has happened. COVID has been very hard on young people. It has interrupted their schooling. Those who are graduating into the labour market currently are facing a rough time. There are many other things to be concerned about in addition to the question of when we are going to pay down the cost of this pandemic.

I know that there are arguments for spreading it out over a very long period of time. My own inclination would be to try to get the people who benefited directly, including from the transfer payments, to shoulder some of that cost in the near term, partly because other things are going to happen in the future. We have now begun to think perhaps these extraordinary events come along a little more frequently than we used to think they did.

It is very common for people to talk about the very good fiscal position Canada was in going into this crisis. That naturally followed from the prudent fiscal policy in the past. I think it would make sense for current governments to think similarly about what kind of legacy they're going to leave, because there will be additional problems in the future and you'd like future governments to also be able to say "we were in good fiscal shape when we went into that".

On the particular point I was making about how much you pay per dollar of program spending, I think what I might do in response to the question is observe that the numbers I'm talking about will be different depending on the level of interest rates and the level of growth rates. You can run a deficit consistent with a steady debt-to-GDP ratio if you are persuaded that it's a good guidepost. I'm not a big fan myself, but it makes sense. It's sustainable.

No matter what variation on that you choose, at some point the tax cost of a program dollar is going to be gravitating back towards one dollar. As I said, if you take apart the numbers in the fall economic statement, you'll see that, even though it's relying on low interest rates and heavy borrowing, and if you look at the Parliamentary Budget Office projections, again you'll see the same thing. It's just going to happen, so my plea—

**Mr. Pat Kelly:** I do want to get Mr. Lee into this too, but first, Mr. Robson, Mr. Lee said in his comments that there is no justification to delay a budget, which I think you addressed, fiscal anchors, and the debt ceiling...giving yourself such room in the debt ceiling. Would you agree that there's no justification for any of these three things?

**Mr. William Robson:** I think maybe it's a problem that the government is allowing its net worth to become as negative as it is. The debt we're talking about in Bill C-14, as you know, is a particular type of debt. The federal government has financial assets and physical assets, and it has other kinds of debt. It has a very large unfunded pension liability. One of the reasons I would like to see a budget is that I think it's time for an update on all of those things.

**Mr. Pat Kelly:** Do you—

**Mr. William Robson:** You have heard me on the question of whether I think there's too much debt. I think there is too much debt. I think it's time to rein it in.

**Mr. Pat Kelly:** Thank you.

Mr. Lee, I appreciated your experience in commercial lending. I have lots of experience in the mortgage industry myself. Yes, a loan application that contains no stated purpose is generally just utterly rejected. I understand that the borrowing limit.... They've tried to make the argument that the borrowing limit is not the same as actually borrowing the money, or even applying to borrow the money, but yet that is what it is under law. The debt ceiling is set under law, and there's an application right now to increase that.

Would you care to comment further on that or on either of the other points? Perhaps you would like to expand on the justification for a non-budget and fiscal anchors.

• (1235)

**The Chair:** You'll have to be fairly quick, Mr. Lee.

**Dr. Ian Lee:** Okay.

In terms of the budget limit, I'm not religious about that. To me, it's another check and balance. I've been arguing with my students for years. We tend to think in a democracy, "Oh, yes, we understand checks and balances. It means an election." But there are vastly many more checks and balances than elections. The annual report of every government to Parliament is a check and balance. The main estimates are a check and balance. All of these are checks and balances that are functional and necessary for the efficient functioning of a democracy.

It's not that I'm sitting around getting all excited and filled with angst over whether the debt ceiling is going to \$1.8 trillion or \$1.5 trillion. It's a check and balance on the government of the day to come forth with a plan to justify what it's doing. It's a very useful tool. It's not something we're doing just for fun. It's because it's a useful tool that helps democracies and stakeholders and citizens and journalists and academics understand what's going on.

I think if we think of it in those terms...rather than, "Well, the government's going to prove it anyways. Why go through the motions?" It's not about going through the motions. It's about the requirement to be accountable to Parliament and to the Canadian people.

**The Chair:** Thank you.

We'll go to Mr. Fragiskatos, followed by Mr. Ste-Marie.

Peter.

**Mr. Peter Fragiskatos:** Thank you, Mr. Chair.

Thank you, Mr. Lee and Mr. Robson, for being here.

Mr. Lee, I was quite interested when you mentioned the economist Arthur Okun. Thank you very much for bringing his example to the committee. You will be familiar with Okun's law, which states that for every 1% increase in the unemployment rate, there is a consequent and very dramatic decline in GDP.

Have I understood Okun's law correctly?

**Dr. Ian Lee:** I think so. I would make two points, because I think you're asking me to comment on that. The sixties in that context were very different. I grew up in the sixties. I do remember the sixties—going for Robin Williams' famous line—and it was a very different period. I wasn't invoking Okun's law so much as his insight about equality and efficiency or markets and rights. That's what I was trying to get across today.

**Mr. Peter Fragiskatos:** Point taken, but by invoking him, I think you raise someone who's quite relevant and whose thoughts and ideas are quite relevant, specifically with regard to some of the matters that we're discussing at the committee today.

I know you have issues with government spending, and that's fair to raise, but in the context of COVID-19, I wonder what else government could have done.

For example, have you had a chance to read the recent report of the International Monetary Fund, the IMF, that focused specifically on Canada? It was released this month, so it's very recent. If you haven't had a chance to look at it, that's quite understandable.

It did say that if emergency programs such as the wage subsidy and the Canada emergency business account—which is, of course, the loan that now goes up to \$60,000 for small businesses—the rent subsidy support, and many other examples that have been introduced, which admittedly are expensive, but have helped to sustain the country.... That's not just political spin here; that is the reflection of the IMF as well. It found, in this report, that unemployment would have risen by 3.2% beyond what we saw last April, which was 13% unemployment in Canada. It could have been even worse. As far as economic output goes, we would have seen, according to the IMF, a decline of 8% beyond what we saw in terms of the GDP decline.

What do you make of this? Absent the introduction of emergency programs, we would have had an enormously difficult time in Canada. We just heard from the Parliamentary Budget Officer, for example, who made clear to this committee that if emergency programs had not been introduced, Canada would have seen a situation of—he didn't use the term, but I think he might as well have—a depression.

What do you make of these things?

• (1240)

**Dr. Ian Lee:** To your first question, whether I read the IMF report, yes, I did. Yes, they commended us on our response. I've never suggested—I think you're dichotomizing this or turning it into a Manichaeic argument of the light being on or the light being off. I have never said, and I don't think any Canadian has said, that we shouldn't have helped anybody. The issue has never been whether we should help anybody versus not help anybody. The question is targeting, I think, a more precise, surgical targeting. We're the only country—and I've looked at the OECD report on this and at the StatsCan report—that paid out 150% of the total job loss income. That violates, I believe, the principle of the unemployment insurance system that all Canadians have supported all the way back to Mackenzie King. That is that you don't get 150% of your loss. If you're making \$1,000 a month, and you go into the unemployment insurance office, they don't give you \$1,500. They give you a portion of your job-loss income.

We've paid out more, in percentage terms—so we're comparing normalized data and not absolute data—than has anybody else, and those resources are scarce. Those resources that were squandered with our paying more than we needed to could have been used to pay other people who needed more help.

The issue is not whether we should help people; the issue is can we not ensure that we provide the greatest amount of help to the people who suffer the most.

**Mr. Peter Fragiskatos:** Mr. Lee, thank you very much. I think we'll agree to disagree. First of all, we're seeing a much better

labour market participation rate in Canada than in other G7 countries. Also, the rate of savings in Canada has increased to the point now where many economists—not all, to be fair—are looking at it and saying that with the pent-up demand that currently exists, once we're past the pandemic, Canada will be very well positioned because there is a high rate of savings that Canadians have been able to accumulate. That will have, obviously, a tremendous positive impact on the Canadian economy.

Let me end on something that I think we can agree on, which is the need to focus on infrastructure and to focus on it in a way that will increase Canada's competitiveness. You gave a number of examples of how in a future budget, government could prioritize things like ports, and you mentioned rail, for example. Could you expand on that? I think it's an important point.

**Dr. Ian Lee:** I do, too. Thank you.

Infrastructure has been studied, as you can guess, literally going back to Adam Smith.

I would bring up something in response to your question. I testified before this committee back in 2008-09, and I looked up the data on infrastructure spending. I think the data I'm quoting to you today is still current—I could be wrong, so please double-check me. Infrastructure in 2010, 2011 and 2012, based on all the studies that were done, had a higher multiplier than any other form of government intervention. This was confirmed by U.S. studies and Canadian studies. The number was 1.6 at the time. I remember it, and in fact Minister Flaherty had it in the appendix of one of his budgets, 2011-12.

In other words, every \$1 billion you spend on infrastructure generates \$1.6 billion of economic activity, whereas giving cheques to people can be used to pay down debt, or they can put it in a bank account. They might not spend it, whereas with infrastructure you know it will be spent because the contractor who is building the bridge or the road or the pipeline will not be paid until they build the bridge or the road or the pipeline, so you know it's going to be invested in the economy.

Second, to your point, infrastructure has been studied, and the reason it's so important for economic productivity and growth is that anything that contracts...or increases the efficiency of the movement of goods or services across the country, whether digitally or physically, enhances the growth and the productivity of the economy.

I think that's why the multiplier is larger and has a net-positive impact on the economy—whether it's railroads, airports, airlines or digital infrastructure broadband.

**Mr. Peter Fragiskatos:** Thank you.

**The Chair:** We have Mr. Ste-Marie, followed by Mr. Julian.

[Translation]

**Mr. Gabriel Ste-Marie:** Mr. Chair, since Mr. Julian has to leave the meeting soon, if we could trade our turns, he could ask his questions now. I will then speak afterwards.

[English]

**The Chair:** Yes, it's not a problem.

Mr. Julian, go ahead.

• (1245)

[Translation]

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

Thank you so much, Mr. Ste-Marie. This is extremely kind of you. I really do have to leave the meeting soon.

Mr. Chair, I would also like to advise you that I am going to give Ms. May the last minute of my time.

[English]

Thanks to our witnesses for being here. We certainly hope that you and your families are staying safe and healthy during this pandemic.

Thank you, Mr. Robson, for the shout-out to Jagmeet Singh, who is speaking today at the C.D. Howe Institute. I'm missing it too, so unfortunately we're both missing what I certainly hope will be our next prime minister speaking at the C.D. Howe Institute.

I wanted to come back to the issue that you raised, Mr. Robson, about the fact that there has been no budget. We just had the Parliamentary Budget Officer on, and he talked about the fact that there simply isn't another industrialized economy that has waited more than two years for a national budget, so I'd like to come back to that.

How big a failure is that, when we're the only industrialized country that hasn't produced a budget in over two years?

**Mr. William Robson:** I do think it is deeply regrettable.

We've already talked about the international comparison. Let me point out that here, within Canada, the provinces and territories have produced budgets, and municipalities have produced budgets. They all faced important uncertainties about what was going to happen. In some cases, those uncertainties would have been exacerbated by the fact that the federal government didn't produce a budget. The federal government's activities matter a great deal to the provinces, the territories and the municipalities.

One thing that I think is important to note is that budgets have traditionally been extraordinarily complete in the numbers they lay out and in their expression of the fiscal plan. I do not think the fall economic statement was an adequate substitute for a budget.

I will point out just one thing that really troubled me about the fall economic statement, and that was that we had between 70 and 100 billion dollars' worth of additional stimulus spending pencilled in, with different kinds of potential profiles over the three years, and yet even though this contemplated additional borrowing, there was no adjustment for the interest costs that would be involved in that additional borrowing. That looked to me a little bit as though it

was pencilled in without the fiscal planning that you would normally expect around something as significant as that.

I do look forward to a budget. I think it's highly regrettable that we missed one, and I think it's high time that we got one that was appropriately complete when it comes to helping Canadians and parliamentarians understand the fiscal plan.

**Mr. Peter Julian:** Thank you very much for that.

I have one more question before I pass things over to Ms. May, and it's around the issue of revenue. You talked about spending and how we raise money through taxation to make sure that we can pay for programs.

Over 80% of Canadians support a wealth tax. We've seen Canada's billionaires increase their wealth by over \$60 billion so far during the pandemic. How do you see measures like a wealth tax actually ensuring that we have the wherewithal to pay for the programs that you have cited as programs that are important for the health and well-being of Canadians? How important is it for the federal government to actually get the revenue side right?

**Mr. William Robson:** I think increased revenues will definitely be part of the answer. We are not going to sustain the programs that we're talking about unless there is something done on the revenue side.

In fact, I would go back to what I said about the cost of a program dollar. I think you're doing Canadians a service by charging them full dollar for the programs they're getting, because ultimately—as I was talking about with respect to history and the projections—that's what it's going to cost. You're not doing anyone any favours by pretending that you can have these things for 50¢ on the dollar.

About particular taxes, including the wealth tax, I would say that we have to be realistic about what kind of revenue yield there is going to be. I myself am wary about taxes that hit high-earning people harder than others, because we already have a brain drain to the United States. We haven't paid so much attention to it over the last little while, but the people who leave Canada—and there are about 70,000 of them every year—tend to be relatively highly educated and relatively high-earning people. We don't want that to continue. We want them to stay here in Canada. The—

**Mr. Peter Julian:** I'm sorry to interrupt, because I do want Ms. May to ask her question.

Thank you very much, and thanks again to Mr. Ste-Marie for his generosity.

• (1250)

**The Chair:** Ms. May, you have about a minute.

**Ms. Elizabeth May:** Thank you very much.

Also, thanks to Gabriel Ste-Marie for giving Peter the time that he just gave me.

I'm going to resume with a question that I was asking the Parliamentary Budget Officer earlier. We're very concerned with any increase in inflation, as obviously we have a lot of debt as a nation, but in two conversations this committee has had with two governors of the Bank of Canada, Steve Poloz and Tiff Macklem, both expressed not so much concern about inflation, but see deflation as a bigger risk.

If there's time, I'm not sure which one of the witnesses, Ian or Mr. Robson, is more interested in taking this up. What do you see as the relative risk between deflation and inflation?

**The Chair:** Who wants to go?

Go ahead, Bill.

**Mr. William Robson:** I wrote a piece in *The Globe and Mail* on this just this week, so perhaps I'll jump in.

The answer to your question is very much dependent on what kind of time frame we're talking about. I think the central banks have had a tough time even hitting their inflation targets over the past decade. I'll call them tactical errors: misreading the strength of the economy and perhaps being too quick to raise their short-term interest rates because they thought the economy was doing better than it was. We saw generally around the world this failure to hit inflation targets.

As I look at the longer term, and particularly when I look at what's happening in the United States, I feel a little differently. Central banks are buying huge amounts of these government debts that are being issued. Here in Canada, as you know, the Bank of Canada has a commitment to keep buying at least \$4 billion per week. The Fed, similarly, is absorbing large amounts of U.S. government debt.

What happens when the central bank gets to the point where they see inflation back on target, back where they want it, and they stop absorbing that debt? We've been there in the past. When the federal government had its fiscal problems in the 1990s, I remember that a lot of people said that the Bank of Canada should be buying more debt and getting those interest rates down to make the fiscal challenge easier to meet.

We didn't go that way, ultimately, but that was because the memory of inflation—when you did have too much debt being monetized by the central bank—was so fresh. People hate inflation when they actually experience it. I do worry as we look out over the longer term that we might be on that road. It would very much reassure me, particularly in the United States—not just in Canada—if I saw the federal government there willing to match its revenues and its expenditures more closely and stop relying on the central bank to buy so much of its debt.

**The Chair:** Thank you.

We went considerably over there, but I think we needed a full-some answer on that question.

We'll turn to Mr. Ste-Marie, and then we'll have time for one question each from Ms. Jansen and Ms. Dzerowicz.

Gabriel, go ahead.

[*Translation*]

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

Good afternoon, gentlemen.

My questions will be going to Mr. Robson and Mr. Lee.

I would like your advice on the following. A few weeks ago, the former Senior Director and Regional Representative at the Bank of Canada, Mr. Miville Tremblay, wrote an opinion piece in *La Presse*.

In that piece, he seemed to align himself with the thesis put forward by Ben Bernanke, the former Chair of the Federal Reserve in the United States, who described a global problem of too much money saved and too little invested, saying that the imbalance can particularly be seen with the low interest rates.

Do you agree with that analysis? Do you believe that the imbalance could resolve itself more quickly than we think and that interest rates and, potentially, inflation could go up?

[*English*]

**Mr. William Robson:** If I may jump in, I'll say that in the short run, I think there is going to be upward pressure on interest rates, because the economy is reviving and governments are still borrowing a great deal, so you have competition in credit markets that is likely to raise interest rates.

Over the longer term, many people who look at the situation that Mr. Tremblay was describing have looked at demographic explanations, in that we have had such a large proportion of the population in many countries, including here in Canada, in their peak saving years. To the extent that is responsible for the glut of saving and the fact that we saw low interest rates, that is now going into reverse.

There have been major forces that have caused interest rates to be low and there to be a large amount of saving looking for opportunities in the world. Some of those—both in the short term because of the revival of the economy and in the longer term because of demographics—are now reversing, and we will likely see higher real interest rates in the future.

• (1255)

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you.

What do you think, Mr. Lee?

[*English*]

**Dr. Ian Lee:** I'll be very quick.

I agree with Bill completely.

I just want to mention a couple of names. Charles Goodhart, the 81-year-old retired LSE professor of monetary policy, has written several books and was 30 years before that at the Bank of England. He is making the same argument in his latest book that Bill was. The boomers, in our peak years, were generating huge amounts of savings, and now we're going into our senior years when we're going to start—the evidence shows—to dissave. That's an ugly term for saying that you start to spend your savings because long-term care homes are expensive, you go on trips and cruise ships, and so forth.

The second point he made was that the emergence of China and the collapse of the Soviet Union in the early nineties brought hundreds of millions of consumers and workers into the world, which drove down wages, and that contributed to the very low interest rates as well. That's going to reverse, going forward.

He is on the record—I saw an interview of him recently, this year—suggesting that rates could go to 5% over the next five years. That's not huge compared to when I was at the bank, when they hit 20%, but we're used to one-quarter of one point. To go to 5% is going to be just apocalyptic for many of us.

I am agreeing with Bill, and I think rates are going to go up, for those reasons.

**Mr. William Robson:** Chair, if I may advertise, we're missing Mr. Singh's presentation at the C.D. Howe Institute, but if you're interested in what Charles Goodhart has to say, you can tune in to that. We should have more parliamentarians at our meetings.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you.

I will stop there, so that my colleagues can ask their questions.

[*English*]

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

We'll have about two minutes each for Mrs. Jansen and Ms. Dzerowicz.

Mrs. Jansen.

**Mrs. Tamara Jansen:** Thank you, Mr. Lee, for pointing out that no bank will lend money to a private business without a plan.

I made many a bank presentation in my time and, as you pointed out, was always required to present a clearly articulated plan on how the farm was going to spend those borrowed dollars. Without a budget and a plan, no regular Canadian is able to borrow a dime.

This government just seems so out of touch that it doesn't think those rules apply to it, and honestly, I have a tremendously hard time voting for Bill C-14 as is. Although Canadians continue to need support for what appears to be longer than any other G7 country due to the government's poor vaccine procurement, to green-light \$100 billion in consumption spending, as well as to increase the debt ceiling, without a plan or a fiscal anchor in sight is just painful.

Without assurances that funding will focus on growth and innovation, as well as a corresponding budget to detail the fiscal plan, I am wondering if you think we, as parliamentarians, should vote in

favour of this bill. I honestly feel I'm between a rock and a hard place because of the way the bill is crafted.

**Dr. Ian Lee:** Ms. Jansen, I won't tell you how to vote, as that would be presumptuous of me, but I do want to once again reiterate that these norms.... I've been fascinated all my life by British history and the constitutional evolution, because my late father was a Brit. I've studied it. The idea of a budget goes back to the dawn of the Westminster parliamentary system. It goes literally all the way back, 500 or 600 years, to when they seized control from the Crown, who insisted on saying, "I'm in charge. You get lost. I'll do whatever I want." They said, "No, no, no. In a democracy, you can't do that."

It's a tool of accountability. It's not some bureaucratic rule that's arbitrary. It's a tool of accountability and it's used for decision-making. I mean, investors look at budgets. The credit rating agencies look at budgets. Professors do. Voters do. Journalists do. This is not some frivolous requirement. Any government should be willing to say, "Look, this is who we are. This is what we stand for. Here is our plan."

**The Chair:** Ms. Dzerowicz, you get to wrap it up.

**Ms. Julie Dzerowicz:** Thank you so much, Mr. Chair.

My question will be directed to Mr. Robson, but first I want to make sure that something else is on the record around the budget. I don't want Canadians who might be listening to think that there's been a deliberate attempt by our government to not be transparent or accountable. Last year we actually announced a budget date. That was Monday, March 30. We didn't follow through with it, because there was a massive pandemic, and that had to be sidelined.

I also want to remind everyone that we did have reports every two weeks, once we started up with the finance committee, to make sure we were transparent and accountable with our spending. It took part right up until the end of August, when we prorogued. When we came back into session, then we were accountable through our Parliament. There also is an intention to be presenting a budget. I don't want people to think that's not coming—it is—or that we haven't been accountable and transparent.

Mr. Robson, in your opinion, how should the federal government have spent or financed emergency and economic restart programs? We have heard time and time again from many economists that if we hadn't spent what we did, our economy would have been much worse. We also have really good data to show that we're actually doing fairly well, considering. When we look at our labour participation rates, we are doing better than Germany, the U.S. and Japan. When we look at the fourth quarter of Canada's GDP growth, we grew more than the U.K., the U.S., Germany, France and Italy.

If you are worried about our debt levels, how would you have done things differently?

• (1300)

**Mr. William Robson:** The C.D. Howe Institute and I myself were at the forefront, early on, of urging some of the relief measures that we have seen. I am not critical of the CERB in principle. I am not critical of the CEWS in principle. I am not critical of many of the credit supports the government put in place. I admire them. I think they were timely. I was impressed with the speed of execution.

The concerns I have are more forward-looking. As was alluded to earlier, we are in a situation where many of the challenges we face economically are not related to propping up demand. The demand is there and the savings are there. What they are related to is the reopening of the economy...both the safety from the coronavirus and many of the infrastructure challenges. I'll just elaborate by saying that much of the investment that we now need to undertake in

airports and at the border, for example, is related to the need to make travel and the movement of goods and services safer and easier now that we are in this new situation.

The main point of my remark about the tax cost of program spending was about what comes next. There is a lot prefigured, in the fall economic statement, the Speech from the Throne and other promises that we have heard, about new ongoing programs. I would say that's out of place, at this point. We really ought to be thinking about things that will make the economy function better as we reopen and as we need continuing protection from the coronavirus. That's the main focus and the appropriate focus for future economic growth.

**The Chair:** With that, we will have to end it.

Thank you, Mr. Robson and Mr. Lee, for appearing. We had very good, wide-ranging discussions, I think. They brought out quite a number of key points.

Before I adjourn, I want to wish Pat, Tamara, Ted and Ed a productive, fruitful and good convention.

**Mr. Pat Kelly:** Thank you, Wayne.

And thank you, everyone, for your flexibility. That will allow us to attend our party's convention. I appreciate it. Thank you.

**The Chair:** It's not a problem. That's great. Have a good convention.

The meeting is adjourned.

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