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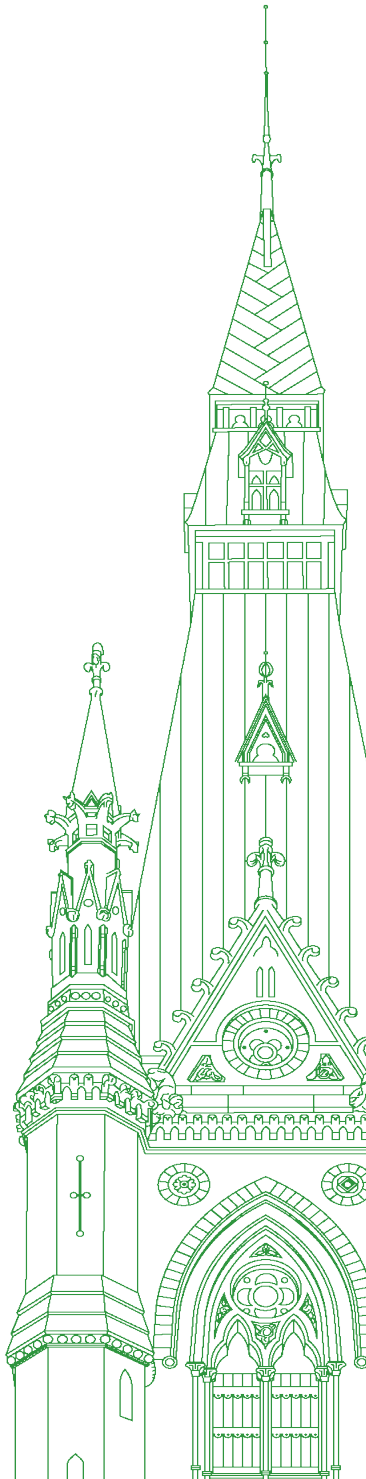
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Standing Committee on Government Operations and Estimates

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● (1530)

[*English*]

The Chair (Kelly McCauley (Edmonton West, CPC)): Good afternoon, everyone.

Welcome to meeting number 54 of the House of Commons Standing Committee on Government Operations and Estimates, termed by the PBO as the mighty OGGO, the only committee that matters. We thank them for naming us that.

Welcome back to our PBO, Annette Ryan, and her team.

I appreciate your being in attendance today. The floor is yours if you wish to make an opening statement. We're here on several of your reports, so if you're addressing one or all of them, just let us know in advance which one you're referring to.

Again, welcome back. The floor is yours.

Annette Ryan (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you, Chair McCauley, Madam Vice-Chair Gaudreau, Mr. Vice-Chair Danko and all members of the committee. Thank you for inviting us to appear before you today. We are very pleased to be here to discuss our recent reports.

I am joined today by Louis Perrault, director general of economic and fiscal analysis; Kristina Grinshpoon, director of fiscal analysis; Rolande Kpekou Tossou, senior analyst; and Albert Kho, senior analyst. They have all contributed deeply to the analysis and reports we will be discussing today.

I will begin with our most recent economic and fiscal projections. On Tuesday, October 20, my office published its latest economic and fiscal outlook and a supporting trade analysis. Our reports provide a baseline projection to help parliamentarians and Canadians assess potential economic and fiscal outcomes under current policy settings.

We project weaker economic growth yet higher federal revenues and higher federal borrowing than we anticipated in our June outlook.

[*Translation*]

According to our latest projections, real GDP growth is expected to reach 0.9% in 2026 and 1.5% in 2027, down from what was projected in June. This is due in part to revisions to tariffs and trade conditions.

By contrast, nominal GDP growth is expected to be higher than projected in June—5.6% in 2026 and 3.4% in 2027. This is due in part to rising prices for oil and other commodities.

Our analysis of trade measures estimates that the measures put in place by the United States and Canada since the beginning of 2025 will reduce the level of Canada's real GDP by 1.4% after five years, compared to a scenario in which bilateral trade agreements remained as they were in 2024.

[*English*]

Turning to the fiscal outlook, higher nominal GDP is expected to create stronger federal revenues than we projected in June. Higher nominal GDP, driven by inflation and commodity prices, improved revenues from June. Total new fiscal room over five years is projected to be $37.4 billion and is front-end loaded, highest in 2026-27 at $15.5 billion and declining to $3.4 billion in 2030-31. New spending and taxation measures since June are estimated to cost an additional $52.6 billion over those five years, rising over the period from $6.9 billion this year to $12.9 billion in 2030-31. As a result, PBO projects an improvement in the projected deficit this year versus June to $63.3 billion.

While the projected deficit for this year is lower than we anticipated in June, by 2030-31 the deficit is projected to reach $68 billion, or $9.5 billion higher than our June outlook.

Our report highlights that federal borrowing is projected to increase significantly more than budgetary deficits. Over the next five years, cumulative deficits, which follow accrual accounting, are projected to total $333 billion, while federal borrowing is projected to increase by $733 billion. This reflects borrowing needs to finance defence procurement, as well as loans, capital investments and other financial assets.

We also project that the government will meet one of its fiscal anchors. That said, our assessment is that these two anchors impose limited fiscal discipline on government spending and borrowing.

One important question for parliamentarians is whether the government's intended investments will deliver the anticipated gains in economic growth and productivity.

● (1535)

[*Translation*]

My office has recently published several other analyses, including one on the financial, economic and operational implications of Canada's NATO commitments and an estimate of the construction costs of the Alto high-speed rail project between Quebec City and Toronto. My office will soon be publishing a report on whether the projected ridership will be sufficient to sustain network operations.

We've also published analyses of the operating budget fiscal anchor and of trends in the federal public service workforce based on data from our federal employment tracking tool. I would also note that we published a report on the projected costs of the interim federal health program.

[*English*]

My colleagues and I are very pleased to answer your questions.

The Chair: Thank you very much, Ms. Ryan.

We'll start our six-minute rounds with Ms. Cobena.

The floor is yours.

Sandra Cobena (Newmarket—Aurora, CPC): Thank you, Chair.

Ms. Ryan and everybody else, thank you so much for being here and for your work. It is quite timely. As you know, we are just a couple of weeks away from the tabling of the new budget. The work you're doing right now provides the real picture of what's going on with our country's finances.

Ms. Ryan, I will be very blunt. My fear is that in two weeks' time, the Prime Minister will be able to stand in front of the House to table his budget and say that he has balanced the operating budget, creating an illusion of this fiscal discipline, when in reality the government is spending more and the debt is also growing more. This is important for Canadians to know, because, of course, saying that the operating budget is balanced will create this illusion that the country's finances are in fact improving, when the numbers are telling a very different story.

As you know as a finance professional, the numbers have to be crystal clear, because we make decisions based on those finances. I appreciate the work that you're doing through this in this report.

I'd like to go through some questions, if I may. Could you confirm that the Prime Minister has changed accounting definitions in terms of how he is treating operating expenses and capital investments?

Annette Ryan: Thank you, Ms. Cobena.

I would offer that the Prime Minister has not changed accounting definitions; rather, he has added a different, a second, measure of accounting to govern the fiscal anchor that they have put forward as their statement of what it means to have a prudent and balanced approach to fiscal policy.

I think, as you mentioned, we will continue to focus on measures like the total debt and total borrowing as a more concrete measure of these pressures.

Sandra Cobena: On the second definition that you referred to, is that a definition that is recognized internationally?

Annette Ryan: It has use in other countries, and if by that you mean the deficit–to-GDP, which is the government's second fiscal anchor, I would say that the more common view of a fiscal anchor that is internationally recognized would be the measure of debt as a share of GDP. In fact, the IMF has called for Canada to follow debt-to-GDP as its fiscal anchor.

Sandra Cobena: If we can just focus on the definitions themselves—if I may ask specifically on that—that new definition has allowed the Prime Minister to shift some operating expenses and qualify them as capital investments. Is that true?

Annette Ryan: Again, according to the public sector accounting definitions that have been in place for many years, those definitions do not change, so the accrual statements that have traditionally been the basis for measuring the government's deficit and debt do not change.

The government put forward this new definition of day-to-day operating budget and capital expenditures as its suggestion of how it would govern its own financing. I would offer that the difference between those two measures is significant, so it creates a different fiscal room by creating the new measure.

● (1540)

Sandra Cobena: Right, but creating the fiscal room allows the government to spend more without that additional spending being captured in the operating budget. Is that right?

Annette Ryan: That's correct.

Sandra Cobena: Do you know, approximately, how much of that additional spending has been reclassified from operating expenses into capital investments, based on the new definitions?

Annette Ryan: We do have it. I will either reach it or ask for one of my colleagues to....

If I understand your question well, Ms. Cobena, the difference between the government's definition of day-to-day operating balance and the measure it would have, based on accounting, would be a difference of roughly $19 billion.

Sandra Cobena: Your report says that these new definitions are applied inconsistently as well, in that it is very difficult to replicate the numbers with publicly available information. That is of course concerning, because a Canadian will not be able to follow the numbers. Is that true?

Annette Ryan: I think that's fair.

Sandra Cobena: In your assessment, has the government been disciplined in applying the new definitions that they themselves invented?

Annette Ryan: On balance, it is meeting its first operating budget anchor. According to our projections, it will not meet its second anchor.

Sandra Cobena: I mean the application of the definitions.

Annette Ryan: That's different from other measures of fiscal prudence, such as a debt-to-GDP ratio.

The Chair: Thanks very much.

Go ahead, Mr. Gasparro.

Vince Gasparro (Eglinton—Lawrence, Lib.): Thank you very much, Chair.

It's great to see you again, Ms. Ryan. Unfortunately, I can't be with you. I'm in the centre of the universe here in Toronto, as you can probably tell by the goalie mask behind me. Unfortunately, I can't be there with you, but I look forward to being with you again soon.

We spend a lot of time talking about decisions the Government of Canada is making. I think discussing those decisions in the current global context is important. You know this quite well. I think many members of the committee know this well, and Canadians know this well.

There are four major crises our government and our country are facing.

The first is the war in Ukraine, which is putting pressure on commodity markets and, in turn, on food prices here in Canada. The second is the war in Iran and the closure of the Strait of Hormuz. This is putting pressure on global energy prices, which is raising oil and gas prices here at home. The third, which you rightly touched on, is the Canada-U.S. trade war, which is affecting growth. The fourth is the global rise of long-term bond yields, which is affecting mortgage rates, auto loans and any other debt instrument Canadians are looking to apply for.

We are being hit by four major crises. While all this is going on, the Government of Canada is trying to reorient our economy from going north-south to going east-west. You're seeing that in the infrastructure investments we're making. Churchill Falls is a $10-billion investment that is going to create 23,000 new jobs and create enough renewable energy to heat, cool and power every home in Toronto, Montreal and Vancouver. We talk about a potential pipeline getting conventional energy out to market. There are investments in our ports and roads. It is all being done to reorient the economy from east to west, enhance productivity, build our asset base and, in turn, expand long-term tax revenue for the Government of Canada.

Do you believe it is good public policy for the Government of Canada to be focusing its borrowing toward capital investment rather than operating?

● (1545)

Annette Ryan: Thank you for that question. It is pertinent and rich.

Undoubtedly, we face multiple important challenges as a country. I think that our report is consistent entirely with what you've said, but it has an implication that I will put plainly for the purposes of supporting informed parliamentary debate, which is that the government is pursuing a very expansionist and ambitious agenda, as you have just said.

I have said in previous committee appearances that there is absolutely a logic to it that if the government is successful in creating that prosperity, productivity and so on that you describe, then, from a policy perspective, that would create the revenues, the employment and the tax base that would allow us to remain very fiscally healthy into the medium term.

Our report is trying to say that there is a contradiction between saying that you can have such an expansionary fiscal policy and then also suggesting that it is a conservative fiscal policy because anchors are being met. Had revenues remained flat, the operating budget may have had more of a fiscal discipline than it's having in practice. I think that is a factual statement that should be put before parliamentarians.

I don't want to push too far into your time, but I think that the risks that you flagged—the trade situation, the geopolitical situation, the economic clouds on the horizon—do also point to the need for considerable fiscal stewardship and caution in terms of the amount of debt and borrowing that we take on as a country. It is always difficult to navigate through the types of threats and challenges that you mentioned, but parliamentarians should be aware of not just the opportunities and advantages if the government is successful but also the risks and the need for transparency, oversight and stewardship that go along with such considerable investments.

Vince Gasparro: Absolutely, and I don't think you'll hear from anyone on this committee that there should be a reduction in transparency. I think, however, that there is a substantial difference between operating spending and capital investment. Some of my colleagues on this committee commingle operating and capital for a reason, and they make a blanket statement that there is an increase in spending. I think you and I can agree that there is a fundamental difference between the two, so a $10-billion investment in Churchill Falls—

The Chair: I'm sorry, but we're past our time, so I have to get you to wrap up, Mr. Gasparro.

Vince Gasparro: I'm sorry. Thank you, Chair.

A $10-billion investment that's going to create 23,000 new jobs is infinitely different from spending $10 billion on the operating side of the budget, which has very little economic growth attached to it.

The Chair: Thanks. There's no time for a response.

We'll go to Madame Gaudreau now.

[*Translation*]

Marie-Hélène Gaudreau (Laurentides—Labelle, BQ): Thank you very much, Mr. Chair.

Ms. Ryan, I'm going to start with the topic before us: transparency.

My first question is this: Do you have easy and complete access to the information you need to do your job well?

● (1550)

Annette Ryan: Overall, I would say yes.

Marie-Hélène Gaudreau: What do you mean by “overall”?

Annette Ryan: Most of our analyses rely on access to data obtained through our statutory information-gathering process. I write to the minister of a given department to request information relevant to our analyses. Sometimes the information doesn't exist in the format we prefer or the plans just don't exist yet. There are always exceptions, but, having been in this role for six months, I've found the public service to be surprisingly co-operative in this regard.

Marie-Hélène Gaudreau: Do you believe that the information disclosed to taxpayers is sufficiently transparent, given the current risk management environment?

Annette Ryan: I think the way in which the information is presented is too complex for taxpayers who want to follow the money from budget commitments to estimates to the actual spending.

I think it's important to stress that, in light of the government's agenda, which we just discussed, it's going to get even more complex because funds will be flowing through agencies, Crown corporations and special funds. Another factor is that the government will finance specific projects, such as pipelines, energy projects and the high-speed rail project. It will also spend on defence. Plans like that involve a mix of funding sources flowing through these entities.

Questions remain about transparency around how losses related to borrowing and revenue sharing are accounted for. I believe these additional layers of complexity will create new challenges for transparency.

Marie-Hélène Gaudreau: That worries me. I'm not a chartered accountant, so I ask people around me to explain the information and summarize it for me. Some of my colleagues are economists, but this worries me because it's complicated. People who read your reports get the key takeaways, and that's good. However, for anyone unfamiliar with a given agency's rules, authorities and duties, will what lies ahead be more transparent or much less transparent?

Annette Ryan: I think you would have a tough time getting ministers, deputy ministers and agency heads to spell out their duties at any given time.

Marie-Hélène Gaudreau: I have colleagues who are also ministers and who have a lot of skills, but they're not all tax experts or economists.

Ultimately, who in the machinery of government can provide access to the information that will enable you to do your job and us to do ours?

Annette Ryan: At the Office of the Parliamentary Budget Officer, we've initiated internal discussions on how to track projects, funding sources, and so on. We're talking with the Auditor General about how she's going to examine these things.

New government bodies, like the Major Projects Office, are open to initiating those discussions, but it's very complex. With all due respect, I think that transparency and spending oversight will be a priority for members of the relevant committees.

● (1555)

Marie-Hélène Gaudreau: We're really going to have to keep an eye on this, because some aspects fall within this committee's mandate. We want to be proactive so we don't have to bring scandals to the Auditor General's attention.

Frankly, I'm still very concerned, but I appreciate your candour, Ms. Ryan.

Thank you very much, Mr. Chair.

[*English*]

The Chair: Thank you.

Mr. Mazier, please go ahead.

Dan Mazier (Riding Mountain, CPC): Thank you, Chair.

Welcome.

Ms. Ryan, I'll start off with you.

I have the 2025 Liberal campaign platform here with me. It states that a Mark Carney-led government will ensure “that government debt-to-GDP declines over the budget horizon”. However, your report projects that this ratio will rise every year from fiscal year 2026 to fiscal year 2030. Is that not the opposite of the direction the Prime Minister promised?

Annette Ryan: Mathematically, it is, yes.

Dan Mazier: Under the government's current policies, debt will be growing faster than the economy in the future. Is that correct?

Annette Ryan: That is correct.

Dan Mazier: Ms. Ryan, in the fall of 2025, the Liberals stopped using debt-to-GDP as their fiscal anchor. However, the International Monetary Fund states that using this ratio would strengthen a country's fiscal “discipline, transparency, and credibility”.

In your view, is there any good reason to abandon this target?

Annette Ryan: There is. The fact that a debt-to-GDP ratio is going down does give discipline, transparency and so on, as you say, but the fact that it's going down doesn't tell you anything about whether that number was at the right place to begin with. To paraphrase arguments that the government has made, because of the context that Canada finds itself in, it is timely and pertinent to spend in the ways that the government has set forward in this expansionary plan, to create that additional economic activity into the future and so on. That's the logic.

Dan Mazier: Could this be a way to avoid fiscal accountability, though, like showing the complete picture?

Annette Ryan: I think that the government continues to publish against accounting standards and so on—

Dan Mazier: Against?

Annette Ryan: Yes. The figure that we forecast the deficit will be is $63.3 billion. That will follow long-established accounting principles. The government has put forward these additional fiscal anchors as saying they are what will govern their spending, but it is not the same as having fiscal discipline.

Dan Mazier: Not as transparent and not as.... There's a whole host of issues that come with that. That's okay. Thank you. You've answered that.

Ms. Ryan, there's a lot of concern right now over the rising yields in bond rates. Your year-end assumption for the 10-year government bond rates is 3.6%. However, yesterday's benchmark yield was 3.9%, which is already 30 basis points higher than your forecast. You state that for every 100-basis-point increase in rates, the annual public debt charges would increase by $5.1 billion. That's already an increase of over $1.5 billion annually since your report.

How big a risk to this government is the upward trend in bond yields?

Annette Ryan: It is one of the many risks that the government faces and the country faces: the trade situation, pressures on inflation, pressures on supply chains, risks from not just the bond market but also stock markets. There are multiple risks. Our report, the Bank of Canada and others have flagged them.

Dan Mazier: If the cost of borrowing is rising and the government expects to incur more deficit, shouldn't it be trying to restrain spending?

● (1600)

Annette Ryan: I would offer that what's new since last November and budget 2025 is that revenues are up much more sharply than were forecast at the time and much more sharply than were forecast in spring 2026.

Dan Mazier: So is the debt.

Annette Ryan: So is the debt, but so is spending. Had revenues remained flat, the operating budget anchor would have forced some of these choices between spending cuts or closing tax expenditures.

Dan Mazier: They didn't remain flat, though, right?

Annette Ryan: It is important to know that the mechanism of the operating budget anchor has worked out that it counts corporate income tax, GST and personal income tax as operating revenues. Those have gone up very sharply, and so has spending.

Dan Mazier: Thank you.

The Chair: Thanks.

Welcome back, Ms. Hirtle. The floor is yours for five minutes.

Alana Hirtle (Cumberland—Colchester, Lib.): Thank you, Mr. Chair. I'm very happy to be here.

Good afternoon, Ms. Ryan and your team. Thank you for being here as well today.

I'd like to shift the conversation to the defence spending commitments. My understanding is that the PBO uses its own projections for Canada's future GDP, whereas NATO uses projections from the OECD to report on defence spending across the alliance. How does this affect your defence spending projections?

Annette Ryan: Thank you for this.

One of the reports that we published recently is something that we call a “defence primer”, and what we wanted to do with that was make it clear to parliamentarians and Canadians what these NATO commitments and definitions mean. One important consideration about the government's commitment to meet defence spending to equal 4% of GDP in 2030, rising to 5% of GDP in 2035, is exactly as you say, that for international comparability, the government committed to follow the OECD's definition of GDP rather than Canada's StatsCan definition.

It's not, for all intents and purposes, a very large discrepancy. I think the bigger discrepancy between Canadian accounting and the NATO commitment that we wanted to highlight with that report is that the NATO commitment is on a cash basis, which, when it comes to military spending—buying things like planes, submarines and other physical equipment—means that the cash outlays in those five– or 10-year profiles will be much, much higher than is recorded in our government deficits, and that's part of what's driving this difference between borrowing requirements over the next five years.

We're going to be taking on a lot of debt that we have to pay back. We'll be getting assets, but in terms of what shows up on the books, it will be a bit of a flatter profile.

Alana Hirtle: Okay. Thank you very much.

You mentioned airplanes and submarines and a couple of things there. Can you elaborate a bit on the types of investments and activities that could qualify toward the NATO 5% spending commitment and on the flexibility available to Canada in determining how those expenditures are classified and then reported?

Annette Ryan: I'll turn to my colleague, Albert Kho.

Albert Kho (Senior Analyst, Office of the Parliamentary Budget Officer): I'd like to thank the honourable member for the question.

The NATO definition has two components. There's core defence spending, of course, and then there's ancillary spending. Ancillary spending is investments that support defence spending in a nation, or, I guess, in a NATO-allied nation, and it tries to capture expenditures that are related to defence spending but not captured by that core defence spending.

Now, as the honourable member alluded to, the core defence spending is what people generally think of as defence spending, and that includes capital procurements, but it also includes operational kinds of day-to-day expenses for the military. As a whole, it's expenses that support and are directly related to a country's armed forces for deployment of forces.

There is an annual process in which member nations will submit expenditures to NATO, and that is how it is accepted against the NATO definition.

Alana Hirtle: Okay. Very good. Thank you very much.

Canada is making significant investments in defence capabilities and infrastructure. From the PBO's analysis, what are the key factors that will determine whether the government can successfully deliver these planned investments on schedule and within the projected costs?

Annette Ryan: I think the key factor is execution readiness. That is the driver for the creation of the Defence Investment Agency, so that aspect of having more rapidity and ability to execute is the government's stated aim on that. That's, I think, an important balance from a policy perspective against some of the transparency issues that we flagged earlier in the conversation.

I think that the aspect of being able to work across multiple partners and get those deliveries is the short answer to that. I won't speak more unless you want to go into it.

● (1605)

Alana Hirtle: Do I have about 30 seconds?

The Chair: You have 15 seconds.

Alana Hirtle: Fifteen?

How important is it to accelerate the procurement process to meet the NATO targets in defence spending?

The Chair: You have five seconds.

Annette Ryan: A target is a target.

Alana Hirtle: There you go. Thank you.

The Chair: Madame Gaudreau is next for two and a half minutes.

[*Translation*]

Marie-Hélène Gaudreau: Thank you, Mr. Chair.

Ms. Ryan, let's talk about jobs. If these measures remain in place permanently, you estimate that employment could decline by nearly 1%. In numerical terms, that represents roughly 185,000 jobs, with the maximum impact occurring six quarters after the shock. Which sectors and regions are likely to be affected the most?

If you don't have those figures, you can send them to us. If you do have them, I'd be very interested in seeing them.

Annette Ryan: We analyzed the impact of the global trade situation on Canada. We don't have those specific figures, but the impact would reflect regional industries.

For context, we also provided statistics and analysis on regional employment impacts. The impacts appear to be more pronounced in Quebec than in the other provinces.

Marie-Hélène Gaudreau: I'm worried about that as well. We're talking about purchasing power. What should we expect if the situation persists for several quarters? Everything is connected: borrowing capacity, income and people who don't have jobs.

Can you share your perspective on that?

Rolande Kpekou Tossou (Senior Analyst, Office of the Parliamentary Budget Officer): We don't really have regional data, but what we've observed is that, in terms of exports, the impact is more pronounced in Quebec than in many other provinces. For instance, the aluminum industry is concentrated in Quebec and is one of the hardest-hit sectors, as is copper and so on.

Marie-Hélène Gaudreau: Thank you very much, Mr. Chair.

Thank you to the witnesses.

[*English*]

The Chair: Thank you, Madame Gaudreau.

Mr. Bragdon, go ahead, please.

Richard Bragdon (Tobique—Mactaquac, CPC): Thank you, Chair.

Thank you to the witnesses who are here today. I appreciate your time.

Ms. Ryan, your report projects that there will be $732.9 billion in federal borrowing over five years, compared with $333.3 billion in cumulative budgetary deficits. Why is borrowing projected to be more than twice the accumulated deficits? Does this risk understating the pace at which federal government debt is growing?

Annette Ryan: It's driven by a couple of large categories. The large spending on defence procurement will require cash outlays in the period in which the equipment is purchased. From an accrual accounting perspective, it will be recorded on the books, essentially with the period that it's amortized. When you buy a car, you have the debt associated with it. You could sell it at any time, so it constitutes an asset, but it depreciates every year. That's one major category.

The other major category, which has a lot of complexity within it, is essentially financing that goes to a range of Crown corporations, independent agencies, special funds, and so on that will create financial assets, but given that the funding will be in these separate entities, the borrowing is happening now and it's being moved to different organisms.

● (1610)

Richard Bragdon: With the increased borrowing, Ms. Ryan, the annual federal debt charges are projected to reach $83 billion by 2030-31. What's the cost for Canadians when more public money goes toward interest payments rather than toward health care, infrastructure and other public services? Obviously, this is going to be transferred down. There is a generational cost to this. We are continuing to add to the overall national debt.

I know that things are being described creatively and in different ways that I think Canadians have grown accustomed to—it's certainly a transformational approach—but there's a cost associated with it. Can you go into that a little bit?

Annette Ryan: I can. The report highlights that public debt charges are set to grow from $24.5 billion in 2021, when it was $640 per capita, to $59.3 billion in this current year, and then, as you say, to $83.8 billion in five years. It is the fastest-growing element in the budget.

Richard Bragdon: That's a huge concern. When you are accumulating that level of debt and then interest payments on the debt, that obviously is eventually getting transferred back to the taxpayer.

Another component I want to bring into this, Ms. Ryan, is oil prices. I know that the report references oil prices right now. Because of the high price of oil and since we're an exporter of oil, that is helping the bottom line for Canada's books big time, in that we're dealing with an ever-increasing amount of pricing on oil.

It's adding to the revenues, which is obviously allowing our borrowing capacity to grow as well, but it's effectively becoming a one-two punch, because there is inflationary pressure every time there are fuel prices that rise and the cost of oil rises. When we're able to borrow more as a government, what happens is that adds to the debt and puts inflationary pressure on.

Can you go into how this may very well be creating even more of an affordability problem for Canadians from coast to coast?

Annette Ryan: I'll make a couple of points.

First of all, I think revenues are up strongly in the five-year period, declining after oil prices and inflation go down, as we all hope they will, but the new spending that the government has taken on is back-end loaded through this five-year period. That's one way that there's a concern about the fiscal picture that we wanted to highlight with the report.

I think you're quite right that the number of public debt charges is going to rise through the period, from $640 a head to $1,400 this year, and then up to roughly $2,000 a head five years out.

Richard Bragdon: Thank you.

The Chair: Thanks.

Mr. Danko, go ahead, please.

John-Paul Danko (Hamilton West—Ancaster—Dundas, Lib.): Thank you, Chair.

Thank you once again for joining us. It's good to see you again. I think a lot has changed since you initially were here before committee, and you've had some time to settle into your role.

I want to first set the context of the discussion that we're having today, because my colleague earlier raised some of the crises around the world that are ongoing and unfolding at the same time.

We're talking about Canada's budget, Canada's finances and the stability of Canada's finances within the context of the trade war, which has been initiated against Canadians by the U.S. government. Their objective, as they've stated, is to destroy the Canadian economy and essentially force subservience and make us the 51st state, whatever that means.

My colleague mentioned the tariffs, the war in Iran, Ukraine, the bond market fluctuations increasing costs, Venezuela and Cuba. I'll just use one example. The Government of Canada put a temporary suspension on the excise tax on gasoline, diesel and fuel. Otherwise, in a normal period of time, this would be revenue that would contribute to meeting that second fiscal anchor, but, because of these global crises that are ongoing, the government is having to take extraordinary measures within the context of these crises.

My question for you is this. Is it fair to say that this is not business as usual and that some of the initiatives that the government is being forced to take are in response to these global pressures, which are also impacting other G7 countries around the world?

● (1615)

Annette Ryan: It is absolutely the case that we face many, many challenges as a country. Our role at the parliamentary budget office and mine as Parliamentary Budget Officer—six months in, thank you—is the aspect that.... You say that the government was forced to take these measures. I would respectfully offer that the government chose a very ambitious path to focus on investments into the medium term.

I think I would draw the committee's attention to our report about the operating budget anchor and the associated tables we published that display the details of several hundred subsidies to business and tax expenditures the government did classify as operating versus capital. I think the choices for committee, parliamentarians and so on include things like if some of those subsidies to business, tax expenditures and so on are not achieving their stated goals from the period when they were put in, perhaps those are choices as well.

I think that, in the interest of parliamentary debate, part of our role is to shed light on other choices that could accompany the very ambitious expansionary agenda that the government has set forward.

John-Paul Danko: I completely agree that it's the imperative of the government to make smart, strategic choices about how taxpayers' dollars are invested.

On the operating budget, there's reason for optimism there, but on the capital side, again going back to this theme of global uncertainty, a lot of the investment the federal government is making in these significant federal programs—whether it's in infrastructure, defence, housing, energy, nuclear or the electrical grid—is focused on creating market certainty, attracting direct foreign investment and using that public money to leverage private investment.

My question is, if we were to not make these investments, what would be the risks in just allowing the market to do what it's going to do and not trying to generate an anchor of certainty in Canada?

Annette Ryan: It's clear that there's always a risk in not acting. It's absolutely true.

What we've been trying to highlight to support informed parliamentary and public debate is that, essentially, in order to move from those commitments and aspirations to the results, there will need to be a range of activities that come together successfully to turn announcements into borrowing, spending, projects and assets, and then subsequent prosperity, productivity, revenues, incomes and so on. Setting the table so that all committee members and members of Parliament understand all of those subsequent stages that lie ahead of us is what we're trying to do, so that parliamentarians can decide not just whether it's a good plan but whether it's being properly implemented and executed in getting its results.

John-Paul Danko: Thank you.

The Chair: Thanks very much.

We'll go to Mr. Lawrence.

Mr. Lawrence, welcome back. It's always a pleasure to have you.

Philip Lawrence (Northumberland—Clarke, CPC): Thank you.

I believe the last time I was here, Ms. Ryan was here. There we go. It's a coincidence, I'm sure.

Congratulations on your six-month anniversary, Ms. Ryan.

I want to talk a bit about Alto, if we can. We'll go through some basic questions.

What was the government's estimate of the cost of the Alto high-speed rail?

● (1620)

Annette Ryan: It was $60 billion to $90 billion to construct.

Philip Lawrence: How much did your office place as the potential cost of the Alto high-speed rail?

Annette Ryan: We set our estimate at $75 billion to $113 billion.

Philip Lawrence: That's 25% more, if I'm doing my math correctly. Your guys are better at math than I am.

Of course, in costing a project like this, there are a lot of assumptions you have to make, and it's difficult work. One of the assumptions that I might take issue with is how you utilize the European construction and their overruns. Our infrastructure tends to run closer to the overruns we see in the U.K. or in the United States.

Could you explain your choice to utilize the European standard for overruns and undercosting of projects?

Annette Ryan: Super quickly, that is the basis for our study. We looked at other high-speed rail projects across the world, and their costs are driven by the number of kilometres you have to tunnel, the number of kilometres you have to build bridges for and that type of thing. In order to baseline against the government's figures, that's what we did. We benchmarked other projects.

On balance, the outliers in that international study were the U.S. and U.K. What we wanted to highlight with that study was that if Canada follows a path of good management and good execution, with that 25% shift that you mentioned, there is actually a lot of overlap in our two ranges of estimates. There's a chance that the government could hit its targets if it follows the European experience for construction. If, however, it gets into the cost overruns, judicial challenges and regulatory problems that the U.S. and the U.K. experienced, we wanted to flag that costs could be much, much higher.

Philip Lawrence: I'll say again that I would take issue with that. Can you name for me another high-speed rail project in Canada?

Annette Ryan: I cannot.

Philip Lawrence: That's because there are no other ones.

Annette Ryan: There aren't.

Philip Lawrence: Exactly. This is a novel thing in Canada, so I don't think it's fair to compare it to Europe.

If, in fact, the high-speed project followed more the precedent set by the high-speed in California or in the U.K., it's correct that the project could actually go up to $150 billion or $200 billion. Isn't that correct?

Annette Ryan: That is the message of our study. Mismanagement could take us into higher figures.

Philip Lawrence: On that, we've had some discussion back and forth on the capital versus the operating budget. I think it's been your position that, perhaps, if that capital is invested wisely and creates a return, then you can justify some of the fiscal expansion.

Would you classify the Alto as a capital investment? Do you think that would that go underneath the capital budget?

Annette Ryan: It's very much a capital project.

Philip Lawrence: All right. Then we need to see a rate of return on that. I understand you have a report forthcoming on that as well. I'll be interested to read that.

If you look at this project and you go, say, 30% over—which would actually be far less than the examples in the U.K. or in California—you get to a figure, with inflation, of about $240 billion. That represents a $9-billion interest cost every year by the time the first person steps on the passenger train.

Do you think it's realistic that this rail project will produce more than $9 billion in revenue?

Annette Ryan: There are a couple of assumptions there.

As you said, we are going to do a second study, which is going to look at things like potential ridership for the high-speed rail, what the diversion is going to be from road, air and other trains, and what the new traffic will be that's created from major city to major city by having decreased time to travel.

On balance, I'm going to say that we'll come back as soon as we can with considerations. I could answer your question more quickly.

Philip Lawrence: I'll make one last comment before the chair cuts me off.

The government actually doesn't think it's realistic, based on its own projections. That $9-billion interest fee really undermines the argument that this capital budget will somehow produce results. It'll just be more cost for the tax dollars.

● (1625)

The Chair: Do you want to offer a quick response?

Annette Ryan: I would say that our best estimate is more in the range of $75 billion to $113 billion. I haven't done the interest calculation that you've spoken about, but we're glad to see these questions being asked. We had a good discussion at Senate finance—I know I was supposed to be quick—and we'd be happy to have discussions with any parliamentarians who would like to help us structure that second study.

The Chair: Thank you very much.

Mr. Gasparro, go ahead.

Vince Gasparro: Thank you.

I'm going to continue on the theme of investing versus spending.

Recently, at the Prime Minister's investment summit in Toronto, Canada's government announced the productivity mega deduction, which you note in your report. The deduction reduces Canada's marginal effective tax rate on new investment to 6.4%, sitting a full 10.5% below that of the United States. Combined with regulatory fast-tracking and capital de-risking, TD Bank is estimating that it may provide a projected 0.3% to 0.8% lift to real GDP.

We've discussed how our economy has to transition toward capital investment and increase productivity. Isn't this $36-billion permanent reduction in the corporate tax rate precisely the structural stimulus that Canada needs to ensure that global capital chooses our critical industries over the U.S.'s, expanding again our long-term tax base and ultimately helping our economy outgrow the external shocks that I referenced in my statement previously?

Annette Ryan: That's certainly the government's position. I think other voices have spoken to some of the additional questions that might be asked around this measure. Jack Mintz, for example, has been a proponent of broad-based tax reductions, rather than focusing so much on one input to business.

There are additional questions that committee members might want to think about, for this mega deduction, of whether the full $6 billion will generate incremental economic activity, or whether it will, essentially, go to enterprises that were already planning to make these investments.

I think the government's press release spoke to the need for administrative measures to make sure that the same asset doesn't change hands multiple times and attract inappropriate tax treatments. Those aspects of complexity, fairness and the potential for abuse are part of the mix as well.

Really, the role of the parliamentary budget office isn't to recommend different tax measures, but rather to put other considerations in play beyond the provisions that the government is highlighting. That's absolutely the role of the government, and those would be the top-level types of considerations that I would flag as also being worth consideration.

Vince Gasparro: Abuse, generally, is always something that is prevalent in any fiscal policy measure. That is a constant.

I can tell you, from a project finance perspective, which is where I'm going to move into next, that it, again, helps productivity, helps create employment and is exactly where I think many of us have talked about the Government of Canada focusing its investment.

The mega deduction operates alongside that targeted capital project commitment more broadly, some from the Prime Minister's summit. Streamlined project assessments and regulations through both Bill C-5 and Bill C-39 help with certainty and help capital providers with the confidence that there is a clear mandate and structure in place for them to make these investments.

When evaluating large-scale nation-building infrastructure, doesn't combining upfront regulatory speed with a 100% first-year depreciation writeoff significantly compress project payback periods, making critical Canadian projects financially viable, even in an era of elevated global interest rates, which I raised and I think one of my other colleagues raised as well?

● (1630)

The Chair: I'm afraid we're past our time. You can offer a quick response if possible now and, if not, perhaps in the next segment.

Annette Ryan: The earlier point about broad-based tax reductions versus focusing on a specific input goes to a different margin, respectfully, which is the sense of what is the return on the investment that's made.

I think your points all carry, but these are discussions that you and other committees will have. I think that there are tensions to those choices, but I'll hold back from saying that I endorse the path forward that you've said in the point you made very compellingly.

I said I'd be short, Chair, so I apologize.

The Chair: Madame Gaudreau.

[*Translation*]

Marie-Hélène Gaudreau: My colleague is far away, but it feels like he rolled out the red carpet for me to address a subject that I didn't want to address.

However, I really have no other choice because several of my party colleagues are currently hearing from a number of witnesses who are sounding the alarm. It is true that, when a crisis arises, we must choose either to watch or to take action. That's fair enough, but we have to consider the cost. That is exactly what we are trying to determine.

I feel that the information and transparency we need as legislators are lacking right now. I think we need to consider the impact of an omnibus bill like Bill C-39. It will indeed reduce red tape and shorten timelines. We did that during the pandemic. I was there; I took part in it. However, it will be done at the expense of the safeguards we have in place. This will have major consequences.

I wish everyone would take the time to listen to what is being said at the special committee. A committee is deemed special for one of two reasons: either it truly is special and warrants our time, or it is being sidelined. I have a strong sense that people are being lulled into complacency with assurances that everything will be fine, that they just have to trust, that this is normal, that things will go down, then back up again and that we've seen all this before. Frankly, I don't like it.

I hear some of my colleagues saying that they're concerned as well. At some point, we'll have to say it out in the open.

We could revisit Bill C-5, but at least it had an expiry date. Bill C-39 does not. I'm not an economist, but it really does scare me, to be honest.

If a bunch of rules are bypassed, particularly those relating to the environment and consultation with indigenous communities, and if things continue at this rate, we have to think about where this will lead. Quebec's unemployment rate was about 6.5% in September. Imagine that kind of increase combined with an economic slowdown.

They tell us not to worry. They tell us that investments will be made.

Witnesses, you can't answer that question. I just needed to get that off my chest. However, am I wrong in saying that, when people talk about investment, they really mean spending?

Annette Ryan: Whether spending becomes investment depends on how it's implemented.

Marie-Hélène Gaudreau: Thank you.

[*English*]

The Chair: Thanks.

Mrs. Cobena, go ahead.

Sandra Cobena: Thank you, Chair.

Ms. Ryan, as you know, the IMF has called for independent mechanisms to validate the classifications and to further reinforce accountability because of the change in the definitions that are being used to calculate this operating budget. Your office, in a prior report, also called for an independent expert body to review the numbers, to police the numbers, because of the expanded definition beyond the Public Accounts of Canada. Do you believe or do you continue to believe in an independent mechanism that is needed, given the inconsistency with classifications and how it cannot be independently reconciled with public information?

● (1635)

Annette Ryan: We called for greater transparency, on the part of the government, to publish their accounting of how they calculate the operating budgets. When I appeared at committee this spring and was asked about the operating budgets, I was not in a position to provide an opinion on them, because the high-level information that was available at the time essentially didn't let us do the math independently.

Based on information requests to Finance Canada, we were able to reconstitute their definitions of what was, essentially, the math that created this day-to-day operating budget they are putting forward as their means of constraining spending. Our call was really simple, to say, “If you want it to be a disciplining force that can be more credible, it would be more useful if you would show your detailed homework, with numbers, on an add-up basis, and communicate that to Canadians.”

It took us a lot of legwork to pull information, from tax expenditure reports and departmental plans, to match up with those definitions. I think that, if the government sees that day-to-day operating budget as its hallmark of how it wants to put forward its agenda, there's certainly a lot of merit to doing so in a way so that people can check their homework.

Sandra Cobena: I'm sorry, but perhaps you could give just a very short answer. Would you still recommend an independent expert body, yes or no?

Annette Ryan: I think the transparency of showing the work is the important thing.

I also would say that we do not see that operating budget anchor as providing fiscal discipline. I think focusing on debt-to-GDP and total borrowing is a better place to look.

Sandra Cobena: Okay, but that was not a yes-or-no answer.

Annette Ryan: It was not.

Sandra Cobena: Is it fair to say that, yes, it would be helpful to have the independent expert body? I just want to get a clear answer on that.

Annette Ryan: Yes.

Sandra Cobena: Thank you.

If Canadians cannot independently verify these classifications, how can they have confidence that a balanced operating budget reflects genuine fiscal restraint?

Annette Ryan: I would direct that question to the government.

Sandra Cobena: Okay.

Your report confirms that the government announced new measures...to the likes of $52.6 billion. About 80% of that—$44 billion—falls outside of the operating budget target. The government can announce tens of billions in new measures but borrow more money to pay for them and still claim that it's meeting its operating budget target. Is that correct?

Annette Ryan: That is correct.

Sandra Cobena: Thank you.

Your latest report also says that the government's two financial rules have done very little to control spending and borrowing. Borrowing is, in fact, as you mentioned, growing twice as fast as the deficit. Your office projects that the federal debt will grow, in fact, faster than the economy. I have a very simple question. If the rules don't stop the government from borrowing more and piling on more debt, what financial discipline are they actually providing?

The Chair: Again, as with others, give a quick answer.

Annette Ryan: Very little fiscal discipline....

Sandra Cobena: Thank you.

The Chair: That was a very short answer. Thanks very much.

Ms. Sudds, please go ahead for five minutes.

Hon. Jenna Sudds (Kanata, Lib.): It's my turn already.

Thank you very much, Chair.

Thank you to all of you for being here with us today.

I apologize. I missed the first round, so I hope I'm not duplicating anything.

As I reviewed the various recent reports, I wanted to hone in on the defence one in particular. Of course, recently, our government introduced Bill C-40, the strengthening Canada's defence sector act. I think it's becoming more pertinent than ever, as we move forward and look to strengthening our defence capacity within this country, that we give thought to how we are building that industrial capacity in the sector.

I'm wondering, can you speak to the impact on the Canadian economy as we are making these expenditures in defence? I would expect that there is some multiplier effect as government is making these investments and that industrial base is strengthening. I'm wondering whether you can speak to that.

● (1640)

Annette Ryan: Thank you very much. I think that is a question that we are trying hard to inform.

The aspect of the government's standing up the new agency to meet targets, I think, is a question of timing and, hopefully, effectiveness. I think that the government has put forward a commitment, under the defence industrial strategy—I'll let Albert correct me if I get this wrong—that, through time, 70% of the government's investments will be to and through Canadian firms. That will be important for Canada's industrial base.

Also, we highlight in our defence primer that, when the government makes large procurements internationally, typically the approach is that it strikes industrial technology benefit agreements with these firms, which then make commitments to invest back in Canadian businesses. It's that mixture of direct investments in Canadian firms as well as these agreements that then bring additional activity into Canada. There really is a lot of potential there for that type of economic activity that will replace the challenges of jobs lost through trade and so on. The logic is there. Again, it's the ability for the government to execute and make its plans realized.

I think we'll be trying to deepen our ability to follow those expenditures and report back to committees, as well as our modelling, which will let us see how those expenditures are or are not turning into economic activity across the country.

Hon. Jenna Sudds: That's amazing. Thank you for that.

I realize it's a bit of a hard question, because we're fairly early in this process. However, I think that, to your point, figuring out how to model and capture that in order to measure it will be really informative. I hope you accept the challenge and that we will see that in the future.

To touch on one point you made there as well, I represent the riding of Kanata, and there are a number of technology as well as defence companies in my riding. It has been fascinating not only to see the momentum but to also now start to see the actual growth within these companies as they move forward, whether that's through the defence drone initiative or through other procurements and programs.

Similarly, as we think about the impact of this on the Canadian economy, I think it's important that we also, in the same vein, think about the employment impacts. As you've noted, obviously, there have been some job losses in some sectors. I think this is a sector that's poised to grow. I don't know whether any work has been done on that to date that would help to quantify what we're seeing as a result of these investments and this growth.

The Chair: Give a brief answer.

Colleagues, please keep an eye on your clocks if you want a better or more fulsome answer.

Go ahead, Ms. Ryan.

● (1645)

Annette Ryan: Work is under way. We included an economic section in our primer to give a baseline of what employment levels are now by region and by industry, as related to defence. We will follow it going forward.

Hon. Jenna Sudds: Thank you, Mr. Chair.

The Chair: Thanks.

Mr. Mazier, go ahead.

Dan Mazier: Thank you, Mr. Chair.

Ms. Ryan, I'm going to switch to a different subject, the interim federal health program. Ms. Ryan, according to your report on the interim federal health program, there were nearly 74,000 failed refugee claimants listed in the government's removal inventory. Under the government's interim federal health program, were those 74,000 rejected asylum claimants eligible for supplemental health benefits, including counselling, physiotherapy and home care?

Louis Perrault (Director General, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer): That's correct, depending on where they were in the processes. Yes.

Dan Mazier: Mr. Perrault, your report also states that there were over 27,000 rejected asylum claimants listed on the government's "wanted inventory". Can you explain what being listed in the government's "wanted inventory" means?

Louis Perrault: It's been a few months. For exact details regarding that exact categorization, perhaps you would allow me to respond later with an exchange.

Dan Mazier: "Wanted" means they're wanted.

Louis Perrault: Yes, but it's....

Dan Mazier: Okay.

Were those 27,000 rejected asylum claimants who were listed as wanted by the government eligible for supplemental health benefits under the interim federal health program?

Louis Perrault: On that exact detail, again, I'll respond later, but my understanding is that if they're in Canada, they are.

Dan Mazier: They are.

To answer your other question, on page 2 it says, "Failed refugee claimants may remain eligible for IFHP coverage", so they do, in fact, remain—

Louis Perrault: Yes. That's my understanding. That's correct.

Dan Mazier: If a rejected asylum claimant fails to appear for deportation and the Canada Border Services Agency is actively searching for them, can that individual still receive taxpayer-funded supplementary health benefits, such as physiotherapy, counselling and home care, while evading deportation?

Louis Perrault: Again, my understanding is that if they're in Canada, they would be, but that's probably a question for the ministry.

Annette Ryan: Perhaps I could add to that, Louis.

The report says, "Failed refugee claimants may remain eligible for IFHP coverage while their cases are being assessed", so that's a yes.

Dan Mazier: That's a yes. Rejected asylum claimants should be deported, and they're still eligible for health benefits.

Mr. Perrault, if a rejected asylum claimant is listed as wanted by the Canada Border Services Agency and is subject to an enforceable removal order, when do they lose access to supplementary health benefits under the interim federal health program?

Louis Perrault: My understanding is that if they're outside of Canada, they don't receive it. As long as they're in Canada, they're entitled to it.

Dan Mazier: These guys have been rejected. They're on the wanted list. They're not showing up to be removed and are still in Canada. It's your understanding that they can walk into any health care facility—they still have their card—and away they go. They can still get the luxury coverage and benefits. Meanwhile, six million Canadians don't have a family doctor and can't get access to health care in general.

Louis Perrault: Again, the exact minutia of how this is applied is something that the model we use does not get into. It's a good question for the department. Again, my understanding is that if they're in Canada, they could have access to it.

Dan Mazier: According to Health Canada, "Failed claimants in the removals in progress and wanted inventory may continue to be eligible for IFHP coverage until their departure from Canada."

Louis Perrault: That's my understanding.

Dan Mazier: What if they never leave the country?

Louis Perrault: Again, I don't want to speculate on exactly how this would work. That's a good question for the department in question.

● (1650)

Dan Mazier: Do they still remain eligible for these benefits if they never leave?

Louis Perrault: Again, it's a good question for the department. If they use that service, then now their location is known. They can be found out.

I don't know. It's a very good question for the department. It's not something that we get into in great detail.

Dan Mazier: According to their websites and everything else, if they don't leave Canada, they're still eligible for those benefits.

Louis Perrault: They would be eligible, yes.

Dan Mazier: That's pretty well it.

Louis Perrault: I don't know if they would be using the service, but they would be eligible if they were in Canada. That's correct.

Dan Mazier: Okay. Thank you.

The Chair: Thanks.

We'll go to Mr. Danko, please, and then Madame Gaudreau.

John-Paul Danko: Thank you, Chair.

We've been having a really good discussion about the fiscal anchors within Canada, Canada's financial position, being strategic with government investments and evaluating how those investments are performing. I wanted to ask you about the comparators with the G7 and other countries around the world.

For example, we were talking about the debt-to-GDP ratio. If we're comparing to our G7 comparators, Canada has the lowest. It is 10 times lower than the United States in comparison. It's the same thing with the deficit-to-GDP ratio. I believe we're fairly low. We talked about exposure to rising bond yields. I think we're somewhere in the middle.

Can you give us a picture of where Canada fits in comparison with our G7 comparators?

Annette Ryan: You're right. The big difference between Canada and the U.S., for example, is the fact that Canada has prefunded its pension responsibilities. To the extent that we have solvent CPP and QPP in Canada, that's not the case in the U.S., which faces a financing cliff in roughly six years in terms of the financing for social services.

These types of differences across countries are important. They do show up in these cross-country comparisons.

John-Paul Danko: Earlier, we had a bit of a discussion on the return on investment of public investment. I think that's a really interesting subject, because how do you quantify what the return on investment on public tax dollars is? It's not as simple as, we invested a dollar, so we expect to get $2 in revenue in return. It's a very broad and complex way of calculating what the value of that project is.

We were talking about the Alto high-speed rail project. I'm also thinking about local light-rail transit investments that the federal government is making in Hamilton, the $13 billion for Build Canada Homes, the $51 billion for build Canada strong infrastructure or the $9 billion in support of the steel industry, with auto and critical minerals, that was announced yesterday.

When we're using that public tax money to develop and grow businesses by leveraging those projects and growing jobs for workers, who pay taxes and spend their money in the economy, how do you make sure in your evaluation that you're accurate on the cost side, which is important, and also on the return side?

Annette Ryan: It is a complex challenge. We are working hard to build models, benchmarks and so on, so that when the government brings forth its evidence that it's achieving rates of return on these projects, we're well placed to give an independent assessment of those calculations.

That said, we've started on that road. Rolande, in particular, has already done work on multipliers of different types of investment that the government has announced. In budget 2025, the government announced $41.3 billion in new capital investments. Given the categories of investment the government set forth for that $41.3 billion—as you say, in defence, housing, business supports and subsidies—we've published work about what the past experience in Canada has been of translating those types of dollars into actual GDP.

We've published that initial multiplier analysis. We're working to deepen that now and bring that forward as well. These types of analyses can become much more sophisticated as you go along, in terms of impacts on the overall economy.

Speaking of Alto or specific projects, we're looking at different types of costs and considerations we would want to put before parliamentarians, given that the government is pursuing this agenda in such a significant way.

● (1655)

John-Paul Danko: Thank you.

The Chair: Thanks.

Ms. Gaudreau, go ahead.

[*Translation*]

Marie-Hélène Gaudreau: Thank you very much, Mr. Chair.

Ms. Ryan, I'm going to end with this. You said that you were concerned and that Canada needed more fiscal discipline, anchors and the like.

I talked about what I'm afraid of a few minutes ago: What is going to happen? Will Bill C-39 give the government wide-open legislative authority? Is it possible that parliamentarians will no longer be able to do their job? Is it even possible that you will no longer be able to do yours? Does that worry you?

Annette Ryan: I see two questions there. The first is whether the fiscal anchor worries me, because it doesn't impose discipline. I would put it differently: The government is not exercising discipline. We are trying to point out that it is not possible to have such a restrictive spending program while calling it a restrained fiscal plan. Our point is just that this is not an anchor that imposes discipline. It's up to you to decide whether it's appropriate or not.

In response to the second question about the government's transparency, speed and ambition, as well as the complexity of its agenda, I would say all of that will make our work much more difficult.

Marie-Hélène Gaudreau: If I had two seconds, I would want us to be useful. At this point, do you feel that your role is useful to us and to taxpayers?

Annette Ryan: I think we focus on highlighting aspects of the government's budget that the government is downplaying because it wants to focus on the positive. It is up to us to identify all the repercussions or risks associated with such a commitment.

Marie-Hélène Gaudreau: Thank you very much, Mr. Chair.

[*English*]

The Chair: Thank you, Madame.

We'll go to Mr. Bragdon, please.

Richard Bragdon: Thank you, Mr. Chair.

Ms. Ryan, your report estimates that the effective U.S. tariff rate on Canadian imports has risen to 7.7%, while Canada's rate on American imports has reached 3%. How do Canada's retaliatory tariffs add cost for Canadian businesses and consumers, and are those costs justified by the economic benefits?

Annette Ryan: I will say that our analysis attempted to put figures around the extent of the tariff measures that were taken by both the U.S. and Canada by June, as well as in the September round of tariffs. I think we did our best to put figures and impacts into play, and I think parliamentarians are well placed to assess whether the wider strategy has merit. I think that goes beyond our mandate.

● (1700)

Richard Bragdon: It seems there is no doubt that it's going to hamper our competitiveness and our ability to compete and create some obstacles, especially facing our exporters and importers into Canada. Based on these things, there seems to be no doubt that it's going to cause rising input costs for a lot of our producers out there.

Your report identifies significant economic costs from the current trade measures. If Canada cannot immediately secure the removal of American tariffs, would reducing or removing some Canadian countertariffs help lower domestic costs, improve competitiveness and support economic growth and competitiveness in your estimation? What would be the principal trade-offs?

Annette Ryan: I think you captured many of the trade-offs in your question. The analysis we do can't capture the counterfactuals of what happens in a negotiation and how the other country would respond or not. That's the limit of the analysis. Clearly, if the government were to reduce countermeasures, that would lower costs for Canadian businesses and consumers by up to 3% of those total imports.

Richard Bragdon: This is my final question before sharing my time with my colleague here. Obviously, we do know, according to a recent report, that we're ranked 38 out of 38 nations in projected GDP per capita growth over the long term—a very low ranking in the OECD nations.

Right now, with the expanding and exploding of our debt, and more and more of what is called investment—but borrowing is taking place—do you see that we're going to be put in more of a competitively disadvantaged state? As a result of that, the consequences could be pretty real. Is that what you're seeing as well? Our competitiveness is being hampered greatly on multiple fronts, at least in what's being projected into the future.

Annette Ryan: It is clear that Canada's productivity has been flat for the past 10 years grosso modo, as have business investment, innovation, R and D, entrepreneurship.... A range of business metrics have basically been flat for 10 years.

In terms of moving forward, I guess one thing that I would put in play is the interaction of population constraint for those productivity figures. I think it's important to keep in mind that, just mechanically, with having fewer people in Canada with an ongoing growth in the economy, the baseline productivity is set to be more in the range of 1.6% of output per capita. I think that's just important to put in play, because should productivity start to rise in the next couple of years, it may be more reflecting that mechanical aspect of having fewer capita—fewer people—as that output per capita calculation goes forward. I hope that's helpful.

The Chair: Mr. Mazier, you can have a very short question.

Dan Mazier: Ms. Ryan, your report identifies over $141 billion in government loans and advances to Crown corporations. The government is recording these loans as assets, because the government expects to recover the money. Is that correct?

Annette Ryan: That is correct.

Dan Mazier: Canada Post received over $2 billion in so-called repayable loans but lost a record $1.5 billion last year. In fact, it hasn't turned a profit since 2017.

If the $141.5 billion in loans to Crown corporations cannot be repaid, is there not a risk that these would have to be written off as an expense and could be added to the deficit?

Annette Ryan: There is very much that risk, and we wanted to put light on that as a consideration.

Dan Mazier: Why?

Annette Ryan: These figures are significant: $733 billion in borrowing versus $333 billion in accumulated debt is a big delta.

If that's going into Crowns' or agencies' funds to do loans and other commercial-type business, as you've just described, there's loan loss risk, there's transparency risk and there's stewardship risk. It will need the eyes of Parliament on it.

● (1705)

Dan Mazier: Thank you.

The Chair: Thanks very much.

We'll go to Ms. Petitpas Taylor. Welcome to OGGO. I don't know if we've had you with us before.

[*Translation*]

Hon. Ginette Petitpas Taylor (Moncton—Dieppe, Lib.): This is my first time here, Mr. Chair.

[*English*]

The Chair: This is wonderful. Welcome.

[*Translation*]

Hon. Ginette Petitpas Taylor: Thank you very much, Mr. Chair.

Ms. Ryan, I'd like to thank you and all your colleagues for being with us today.

As you know, I'm a guest today, if I may put it that way. I find the comments you've made so far very interesting.

First, for the benefit of Canadians watching at home, can you explain Canada's debt and how it compares to other G7 countries? In other words, can you give them a brief overview of Canada's economic situation compared with that of other G7 countries?

Annette Ryan: Absolutely. Compared to other countries, Canada is clearly doing very well in terms of net debt. It ranks first in the G7 on this measure. Based on gross debt calculations, however, Canada ranks fifth among G7 countries.

Hon. Ginette Petitpas Taylor: Most advanced economies have much more debt than Canada. In this context, how does Canada's low debt-to-GDP ratio impact its ability to manage slowing growth and global trade pressures?

Annette Ryan: With all due respect, I think it's important to keep in mind that the other G7 countries are facing increasingly difficult challenges because of their fiscal situations. For example, France, the United States, the United Kingdom and Japan all face borrowing cost pressures and currency issues. Just because a country can borrow doesn't mean it's a good idea to borrow. There is some room to manoeuvre, but it remains to be seen whether that room is used effectively, safely and strategically. That said, I think it's important for Canadians, and it is possible to borrow more.

Hon. Ginette Petitpas Taylor: My question may be similar to my colleague's, but I would ask you to elaborate on your point.

Could you comment on the distinction between capital expenditures and operating expenditures, as well as on the assumption that the latter, be it investments in housing, infrastructure, innovation, defence or otherwise, can have a positive impact on growth and productivity and, consequently, on long-term fiscal health?

Annette Ryan: There is no doubt that measures that succeed in creating productive capital contribute to higher incomes for Canadian workers. It is well established that, if workers have access to modern, technology-based tools, their earnings go up, and so do business revenues. In terms of useful and effective investments, the mechanism you just described is exactly how that works, and the logic is sound.

Hon. Ginette Petitpas Taylor: I have one last question.

[*English*]

My friend and colleague MP Hirtle asked a question at the end, but you didn't really have a chance to answer it. It's with respect to the legislation that has been brought forward to transform the Defence Investment Agency into a Crown corporation with the Department of National Defence. The Crown corporation will allow for greater flexibility, expertise and authorities to move faster and make strategic investments.

How important is it to accelerate the procurement process to meet the NATO targets in defence spending?

Annette Ryan: I would say not as much as Canadians might think, and I'll tell you why. The NATO target to meet 5% of total defence spending versus GDP really bites only in 2035. The Prime Minister has made a commitment to reach 4% of GDP by 2030. That's on a cash basis.

On the aspect of whether Canada meets that target on a fast rush or maybe more of a slow curve, there's not actually an external requirement to get there fast. Really, it's that target of where we are in 2030. It's a secondary commitment that the Prime Minister has made vis-à-vis these targets, with the other target being 2035.

In many ways, fast is good, but the target is based on spending, and it bites in 2030 and then in 2035.

● (1710)

The Chair: Thank you very much.

We're going to do our final interventions, and then I will need a couple of minutes for the budget and to update the calendar.

Go ahead, Ms. Cobena.

Sandra Cobena: Thank you, Chair.

Ms. Ryan, you confirmed that there's about $141 billion in government loans that has been advanced to Crown corporations. The loans are recorded as an asset in the books of the government, but if these loans are not repaid—if these Crown corporations don't repay the loans—that writeoff has to be recorded as an expense, and obviously that would impact the deficit. This is a big deal, of course, because the loans are growing substantially, but that is not captured right now in the fiscal picture. Is that fair to say?

Annette Ryan: I think that's fair to say.

Sandra Cobena: The Prime Minister has created or proposed three new Crown corporations, Build Canada Homes, the Canada strong fund, and the Canadian corporation for defence investment.

I'm sure you can understand why that is concerning, because, again, if the loans are given to these Crown corporations, even the day-to-day expenses are not going to be captured in the fiscal picture that the Prime Minister presents when the budget is tabled. Is that fair to say?

Annette Ryan: It is fair. The books will be reviewed by the Auditor General for these entities, but the risk is real and should be understood by parliamentarians.

I'll give you an example. CMHC has a number of products and projects and so on that essentially support Canada's housing market. To the extent that the housing markets were to suffer a serious setback, that would transfer to the books in the way that you are describing. I offer that as something that's a bit more tangible for people. If the government is doing commercial things, commercial investments can go south.

Sandra Cobena: Right. Could the government then claim that it's bringing the operating budget into balance, even though the actual cost to taxpayers has not, in fact, gone down?

Annette Ryan: Yes, and it's, in fact, growing.

Sandra Cobena: Okay. Could you provide to this committee a dollar-for-dollar comparison showing how these three Crown corporations' operating costs would be counted if the same work was done inside of the government departments instead?

Annette Ryan: I'm not sure.

Kristina.

Kristina Grinshpoon (Director, Fiscal Analysis, Office of the Parliamentary Budget Officer): We don't have anything on hand to show how money is going to be moving around or whatnot.

Sandra Cobena: Could you provide it to the committee after the fact?

The Chair: Is that something you could get back to us with?

Kristina Grinshpoon: Yes.

Sandra Cobena: Thank you.

I'd like to share my time with my colleague here.

The Chair: You have two minutes.

Dan Mazier: Ms. Ryan, by 2030, you project annual debt charges of $83 billion. In the same year, you project Canada health transfers to be $67 billion. That means the federal government is projected to spend billions of dollars more servicing its debt than in transfers to provinces for health care. Is that correct?

Annette Ryan: That is correct.

Dan Mazier: Of course, when you start saying that, when we start getting into that scenario.... We have had a good discussion here for the last couple of hours. How much, as MPs, and how much, as Canadians, should we be concerned about that? When you start talking about.... It has to be cut from somewhere, right, but there are things that are happening here.... We mentioned the bond markets. We mentioned Crown corporations. How important is it to be transparent with all of what's going on, so we make sure we don't lose important services, like the Canada health transfer?

Annette Ryan: We think it's very important. We're trying to shed light on exactly those comparisons.

If I can move back to this year, 2026-27, the Canada health and social transfer is set to be $57.4 billion. Debt service charges are set to be $59.3 billion, so they're exceeding health transfers.

In terms of the amount that's being spent on meeting the NATO commitment this year, on an accrual basis it's $50 billion, but on a cash basis it's $75 billion.

These choices are a question for parliamentarians. They may make sense, from an economic perspective, if they work, but do they actually match the preferences of Canadians? That is something we're trying to help you get to the right level on.

● (1715)

Dan Mazier: Thank you.

The Chair: Thanks so much.

We'll finish with Mr. Danko.

John-Paul Danko: Thank you, Chair.

Earlier in this discussion, I was astounded to hear the members opposite arguing against retaliatory tariffs. Unfortunately, it's not the first time we've heard the opposition suggest that Canada should capitulate to American interests and to Donald Trump.

I would add that Canada already has a trade agreement with the United States—CUSMA—and the current tariffs that are being placed on Canadian industry, Canadian steel, Canadian autos and Canadian aluminum are illegal and unnecessary.

Right now, in Hamilton, we're dealing with a situation with Stelco, which is owned by Cleveland-Cliffs, an American multinational corporation, which is in the process of deliberately sabotaging its Canadian operations. They've ceased selling to Canadian customers. They are using their Nanticoke operations to export steel slabs to the United States, where they're doing the finishing and the galvanizing, and then they're reimporting the value-added finished product back into Canada. This is being sold to Canadian customers, benefiting their U.S. mills, which just recently had very significant profits.

When we talk about retaliatory tariffs, we've heard from industry leaders, we've heard from union leaders, and we've certainly heard from individual Canadians that Canada should stand up for itself, should stand up for its industry and should never capitulate to Donald Trump or American interests.

When we talk about the cost of retaliatory tariffs, there's also the cost of tariff rate quotas. There are other constraints that we put on imports into Canada that do have a cost impact on the Canadian market, but I would ask the members opposite, and maybe you as well, what would be the cost of dismantling the entire Canadian steel industry or allowing the Americans to take over Canadian auto manufacturing, or abandoning Canadian advanced manufacturing to American interests?

I wonder if you would comment on the cost of doing nothing and not standing up for ourselves.

Annette Ryan: We haven't done those types of studies. I'll defer to the opposition to answer your questions to them.

John-Paul Danko: Thank you. I'll leave it at that.

The Chair: Great. PBO Ryan and team, thanks for being with us today. It's always appreciated. We should have the supplementary estimates (B) relatively soon, so perhaps we'll see you for them.

That segues into my budget request to see if I have approval. The budget has been submitted. It'll cover today's expense but probably also the PBO's next appearance when we have the supplementary estimates (B) out.

Can we have approval for that, please?

Some hon. members: Agreed.

The Chair: That's wonderful.

In the last meeting, I mentioned that next week would be the CER review, but we have done the line by line already, so we just have the recommendations to get through. Our wonderful clerk has suggested that on Thursday we invite Mr. Jeglic, the procurement ombudsman, for the first hour. If we can get through the report in our two-hour period on Tuesday, we have him lined up. If we need more time, we have him lined up and we have the second hour available to finish off the CER report. That's just so everyone's aware.

We are almost done.

If we can finish in two hours, we have Mr. Jeglic. If not, we have the extra time.

With that, we are adjourned.

PBO Ryan and team, again, thanks for being with us.

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