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Chair

Mr. Massimo Pacetti

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• (0940)

[English]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Can we commence, please?

Mr. Goodale, thank you for attending and for taking some time in your day to enlighten us.

There are going to be some questions from both sides of the table, so because we are relatively new, we are going to have seven-minute rounds of questions.

I think you have a statement to make.

Hon. Ralph Goodale (Minister of Finance): Yes, I do, Mr. Chair.

First of all, let me congratulate you upon your election as chairman of the committee. Congratulations to all the members of the committee for their roles. Some of them are returning to the finance committee and some are brand new.

I want to tell you that from my point of view—and I think this has been reflected by my predecessors as well—the finance committee is a very important part not only of the functioning of the House of Commons but of the financial work and the financial strategy of the Government of Canada.

I am very pleased to have this opportunity to appear before members of the committee. Of course, a few weeks down the road I expect to be back again for the official fall update and economic forecast, which typically comes in November.

Thinking of this committee's work historically, nowhere has your impact been more important or profound than as the champions you have been consistently over the years of fiscal responsibility and prudence in government operations. That really has been the foundation of the national economic success that our government and the country have enjoyed over the last number of years.

This committee has encouraged the tough, balanced action that was needed to bring an end to 27 years of deficits, which had pushed taxes and interest rates up and pulled growth and job creation down. As you know, we have now just recorded our seventh consecutive budgetary surplus. It's the first time since Confederation that has happened. It should make us the only G-7 country to enjoy a total government surplus this year for the third year running and the country with the lowest total government debt burden. I think that's pretty strong performance for Canada.

Beyond the fiscal turnaround that all of you have helped deliver, as proven by the numbers, this committee has also contributed to a fundamental and I think permanent change in national attitude about budgeting. This was made clear and concrete in very practical terms during the election in the summer, when all of the major political parties based their policy proposals on concrete commitments to keep the federal books in the black. I know we all went about it in different ways, but the bottom line was the same: no one was advocating a return to deficit financing.

That means when it comes to support for fiscal discipline and prudent planning there is no minority position in this Parliament or on this committee. We all share the same objective to balance the books, and we are all part of a massive Canadian majority that I think simply will not tolerate a return to unsustainable spending practices that lead to deficit financing and increases in the debt burden once again.

But delivering on this commitment means responding to new, evolving challenges. That is where this committee can certainly provide vital insight and advice as we go forward. We need to build on economic success, but we cannot be complacent about it. That means keeping caution as the governing principle in our fiscal and economic forecasting of available resources for future investment.

Right now, as you know, my department is working with a broad panel of private sector economists and forecasting firms on their projections for the fiscal framework for the coming five-year period. I will be sharing those results with you when I present the economic and fiscal forecast for this year in a few weeks.

While the process is not yet complete, I can tell you that we are indeed more optimistic about our future resources than we could have been at the time of the last federal budget or at the time of the election in June. There are two points in particular that are worth noting.

First, as we reported earlier this month when we released the annual financial report of the Government of Canada for fiscal year 2003-04, the better than expected results last year came primarily—not exclusively—from higher than anticipated revenues from a stronger than expected economy.

Second, private sector economists now also expect somewhat stronger growth this year than they estimated at the time of the last budget. That too should translate into stronger revenues for governments, both federal and provincial, across the country.

• (0945)

But this positive outlook carries an obvious corollary challenge, and that is a surge in competing opportunities—or some might say demands—for increased government investment in a broad variety of ways. These include health care, obviously; equalization, obviously; funding for the territories, obviously; but also early childhood development and learning; the needs of our cities and communities; the needs of aboriginal Canadians; the pressing issues associated with the environment, foreign affairs, and national defence; as well as, of course, continuing to reduce taxes, where possible, and bringing down the national debt burden. Each of those things has a very important and legitimate role to play in improving the lives of Canadians. The challenge for us is getting the balance right between all of those competing priorities.

But there are economic facts of life that we have to remember. More dollars—which we're all grateful to see—do not necessarily mean unlimited dollars. While our economy has proven highly resilient in the face of unexpected shocks like SARS and BSE, we dare not ignore uncertainties that will still be coming at us in the future, like rising oil prices and sustained high energy costs over the long term; current account balances in Asia and in the United States; the huge budget deficit in the U.S.; and ongoing geopolitical tensions, as we see on our television screens every day, including as recently as this morning.

To me, the bottom line for this committee and for the government is pretty clear. We have some choices to make, and we need to make them the best possible choices about where and when to act, with what investments, and to what extent. These must be choices governed by the need to sustain economic growth and positive fiscal performance.

Early this month the Speech from the Throne addressed the direction and priorities that our government sees as our best choices going forward on health care; equalization; aboriginals; early learning and child care; seniors, the disabled and their caregivers; cities and communities; the environment; and national defence and security. We have, as you know, already begun to act on this agenda.

Under the September agreement with the provinces and the territories, the federal contribution to health care will be increasing by \$41 billion over the next 10 years. Just a couple of days ago, the Prime Minister and the provincial and territorial premiers agreed on new frameworks for equalization and territorial financing that will see these transfers increased by some \$33 billion over the coming 10 years. The new framework will provide the provinces and territories with greater clarity, stability, and predictability in the payments they have sought so they can better plan and manage their own budgets within their respective fields of jurisdiction.

The throne speech also provided a five-point strategy for an even more competitive and sustainable economy in the future. This is a topic upon which I would very much like to have this committee's input and advice. How do we go about achieving that more competitive, more sustainable future economy?

The throne speech focused on five areas. First was investing in people, such as helping workers enhance their skills for a constantly

evolving workplace, and doing a better job of integrating new Canadians with professional credentials into the workforce.

Second was strengthening our ability to generate and apply new ideas, because it is innovation in and commercialization of emerging technologies that will be the driving engines of prosperity in the 21st century.

Third is providing smart government, using new technology and a more transparent and predictable regulatory system to make it easier for businesses to do business in Canada and succeed economically, while also making sure that things like health, safety, and environmental standards are properly respected and enforced.

Fourth was a commitment to regional and sectoral development, because the real measure of a country is not just what happens at the affluent cutting edge, but how well we assist all citizens in every region to participate in new opportunities.

Fifth, the Speech from the Throne committed to further promoting trade and investment, such as actions to foster the supply of the risk capital needed to bring new products to market that mean new jobs for our workers.

• (0950)

Mr. Chairman, this is obviously only a general blueprint. There is much room to refine and improve upon the architecture of our action agenda. That is why I welcome ideas that are proposed by this committee, including members of the opposition. I note that some of those ideas have already been forthcoming in areas like tax reduction and better fiscal forecasting, for example. I certainly will be looking to the work of this committee for further guidance on these and other issues.

On tax reduction, our government's record, I believe, is a strong one. From the start, even before our books were fully balanced, we targeted tax relief for those who needed it most, particularly low-income families with children. Later, with the deficit largely out of the way, we were able to extend tax relief to Canadians at all income levels. I'm pleased to say that we have in fact found ways to reduce taxes in every budget since 1996. For example, in 2000 we launched the \$100 billion five-year tax reduction plan, which is in the process of implementing the largest tax cuts in Canadian history. As a result of tax relief measures introduced by the government, one million low-income Canadians have been freed altogether from paying taxes.

We've also reduced the federal tax burden on companies, small businesses, and entrepreneurs. And the result? One example is that Canada now enjoys a corporate income tax advantage, including capital tax, over comparable firms in the United States. This has been a fundamental element in spurring our winning performance in job creation.

In all our action on reducing taxes, we have never lost sight of the critical importance of working within the finite fiscal resources available to us. That takes me to an equally vital arena for your advice. Economic and fiscal forecasting is certainly, as we all know, not an exact science. Occasionally projections are absolutely spot on, but sometimes they can be way off. For example, a small error of just 2% in estimating federal revenue coming in or federal expenditures going out could either eliminate or double the annual \$3 billion contingency reserve. This is complicated by the challenge that very often the data we need to make the most accurate projections is available to us only after the close of the fiscal year.

This dilemma was reflected in our most recent annual financial report. For the fiscal year just ended, 2003-04, as you know, we recorded a final surplus of \$9.1 billion rather than the \$1.9 billion that was forecast in the budget. This was primarily, as I said before, due to surprisingly higher revenues because of a stronger economy.

But it's important to recognize that we in Canada were not the only government to do much better than expected economically last year. Of nine major industrialized countries that were surveyed, seven have provided final or preliminary results that point to stronger budgetary outcomes than they had originally forecast.

That especially includes the United States' forecast by the Office of Management and Budget, where the deficit in the U.S. came in at \$108 billion lower than they had estimated in February. Even though this performance was lower than the previous deficit that was expected, overall the U.S. annual deficit is roughly equal to the entire Canadian federal debt. So relatively speaking, we're in a much stronger position.

As well, six Canadian provinces have ended up last year better off than their budgets had predicted.

While we may be in rather admirable company in terms of how we have done our forecasting, good management and public accountability absolutely require that we continue to equip ourselves with the very best possible projections, as uncertain as they may be.

The time has come to test our assumptions and make sure we're still using the best practices, benchmarking ourselves against the best in the world. Such a review was last done 10 years ago in 1994. A lot has changed since then, including the shift to full accrual accounting, which happened in the last number of years, and the fact that we are now dealing with consistent surpluses rather than consistent deficits.

• (0955)

That's why we have asked Dr. Tim O'Neill, who is the chief economist for the BMO Financial Group, to conduct a comprehensive independent review of our forecasting methodology. As part of that exercise we have asked the International Monetary Fund to compare our forecasting practices and experiences with that of other countries. So we'll get the best national advice and we'll get the best international advice.

That is also why my department and I welcome the mandate that Parliament has given to this committee to make its recommendations regarding independent fiscal forecasting advice. If you can indeed find ways to help ensure more effective data and planning while sticking with the balanced budget imperative embraced by all parties

and indeed by the Canadian public, you will have made a major contribution to Canada's future success.

Mr. Chairman and colleagues around the table, I look forward to returning to this committee shortly to share with you our fall economic and fiscal update, but clearly the process of pre-budget consultations that you undertake is already well launched. Because of the nature of a minority, the fact that we are often more tied to our Ottawa environment than we otherwise might be, the work of this committee in gathering input and hearing witnesses in anticipation of the budget and in the pre-budget consultation process will be particularly important this year. I certainly encourage you to conduct a vigorous process that allows Canadians the opportunity to be heard. I will be anxious to have not only that input, but also your considered advice about that input once you've had a chance to hear all your witnesses.

Thank you for giving me this opportunity today.

The Chair: Thank you, Minister Goodale.

I have a quick question. When do you think the economic update will be?

Hon. Ralph Goodale: I expect it will be after the break week in November. We're adjourned, as you know, for the week that includes Remembrance Day. I have not yet been able to nail down a precise date. Of course that would be done in consultation with you, Mr. Chairman, because the presentation is typically made before this committee. I would like to do it as quickly as I can after we return from the November break.

The Chair: We've started our pre-budget consultations, so it would be good to have it as well during the pre-budget consultation.

Mr. Solberg, Mr. Côté, then Ms. Wasylycia-Leis. Could I get an indication of who is going on the first round on the Liberal side?

Mr. Solberg.

Mr. Monte Solberg (Medicine Hat, CPC): Thank you very much, Mr. Chairman.

Minister, welcome to the finance committee, your first time here. It's good to have you here. Obviously, we have some questions for you today, in fact probably a lot more than we have time to go through.

Hon. Ralph Goodale: Keep smiling, Monte, keep smiling.

Mr. Monte Solberg: The first question I have to ask you has to do with the surplus. Can you tell us when it was you first realized the surplus was going to be larger than \$1.9 billion?

Hon. Ralph Goodale: Mr. Solberg, the first indications that there could potentially be significant good news on the way came in the official release of the public statistics in the latter part of August. That's when the national accounts data began to be reported. The national accounts report for the second quarter was released on August 31, and not only did it show the numbers in the second quarter as being significantly stronger than expected, but they actually revised the numbers they had issued earlier for the first quarter. With that flow of information it became apparent that the good news that was beginning to emerge in more and more positive statistics for 2004-05 would also have had some of its genesis in 2003-04.

Mr. Monte Solberg: You're saying that at the end of the year—I think it takes roughly six weeks to get the first information in on the national accounts, typically—with what we knew about the growth of the economy up to that point—having the benefit of Statistics Canada data—and knowing that typically revenue comes in at about the same pace as nominal growth, even with all of that and with 135 economists in the Department of Finance, you didn't have any idea that we were going to exceed \$1.9 billion by the beginning of July?

• (1000)

Hon. Ralph Goodale: No, sir, I did not.

Monte, I don't mean to put this in a political context, but you and I are both engaged in political activity. I just ask you this question as a matter of basic logic. If I had any convincing evidence that the news was going to be ultimately so positive, I would dearly have loved to talk about it during the month of June. That would have been a very positive thing to discuss with Canadians in the context of an election campaign.

Mr. Monte Solberg: But then it would have been obvious, of course, that you had lowballed the numbers—

Hon. Ralph Goodale: No.

Mr. Monte Solberg: — so I could see a very good political reason for not wanting to do that. Suffice it to say, Canadians are concerned about this, when year after year after year the forecast of the surplus is far lower than it actually turns out to be. The net effect is Canadians are cut out of the debate on how to spend this money.

If you look, Minister, over the last number of years going back to 1999-2000, the year-end spending sprees this allows the government to go on, without having to bother to go to the public to find out how that money should be spent, are huge—sometimes well over \$5 billion at the end of the year—because the forecast is so completely inaccurate.

I hope you understand how frustrating that is for Canadians, who feel that this is their money and would like to have a say in how it's spent.

Hon. Ralph Goodale: Mr. Solberg, let me say that I share very much and very sincerely that point of view. We have a contingency reserve and debt reduction policy that's longstanding, and I'm sure you know it very well. In my view, that policy should be applied in a conscious and deliberate manner and not by default at the end of the year, in terms of either how big it is or how small it is, simply because data arrives late or the forecasting is not as precise as it can be.

I share your anxiety to have more data available earlier, so that you and I as parliamentarians can make that decision and it doesn't just happen by default.

Mr. Monte Solberg: But Minister, how is it then, if the data doesn't come in until late, that the government knew in 1999-2000 it had \$5.9 billion extra dollars to spend before the end of the year, and the next year \$1.8 billion, the next year \$2.7 billion, and the next year \$5.2 billion? It just goes on and on. How did the government know it had all that money to spend if there was no data?

Hon. Ralph Goodale: The issue here, Mr. Solberg, is not so much how much information was available at the time of the budget. Obviously, in relation to those budgets, the decisions were made on the basis of the data available at the time of the budget. After the budget, after the books were closed, there was also a variation that went to debt.

It's that latter part that is the troubling part, not the former part, where there actually is an opportunity to debate the budget decisions and the budget bills and have some input into the process. The crucial problem here is the late-breaking news, whether it's good news or bad news, that comes in, effectively, after the books have been closed.

This year, to the extent we knew we had some flexibility at March 23, we made some investment decisions. We put some extra money into SARS, into BSE, into municipalities, and into health care. It would have been interesting to see the kind of interrogation I went through with my officials—me interrogating them: is this the scope we have? I quite frankly wanted to move on some additional things with respect to BSE. We didn't have the room to move at that time.

The data that indicated there was more flexibility arrived five and six months later. It's that issue that I hope this committee can help me deal with: how can we get that year-end arithmetic into the budget cycle in a way that lets us all make conscious decisions about it?

• (1005)

Mr. Monte Solberg: Minister, we have all kinds of economists—

The Chair: I'm sorry, Mr. Solberg, you're way over time. We're going to try to have a second round.

Mr. Côté.

[Translation]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much, Mr. Chairman.

Thank you, Minister, for being here today. Just like you this is my first time here at the Standing Committee on Finance. I'm very happy to be here today and to have this opportunity to ask you a certain number of questions.

A little earlier you referred to changes in attitude and to the fact that you were inviting the opposition to submit its point of view to you, as well as its ideas for using the surplus. However, we wonder how we can provide you with wise advice when we don't have in hand accurate evaluations of what the surpluses will be. I agree with you that economic forecasts are not an exact science. However, we seem to see a certain pattern here: there were seven consecutive budgets wherein surpluses were much higher than expected. Moreover, the projections of a certain number of groups, naturally the Bloc Québécois, the Canadian Centre for Policy Alternatives and the Conference Board were much closer to reality than those of the Department of Finance. Recently I was saying, jokingly, that although the government had managed to eliminate budget deficits, it seems unfortunately to have created a new democratic deficit in that regard. We can hold a debate because we don't know the real figures.

In this regard you referred to Mr. Tim O'Neill's mandate which will be to help make some more accurate forecasts. Could you give us some further details on Mr. O'Neill's specific mandate?

[English]

Hon. Ralph Goodale: His mandate is very broad. I'll see if we can actually get the wording of it, but we have asked him the same general question members of Parliament have asked: take a look at the way we presently do our economic forecasting and our fiscal projections, examine it from top to bottom, and tell us how we can improve that process so that before any given fiscal year closes off, and while there is still time for the government and parliamentarians to make deliberate decisions about the use of public resources, we can have in that timeframe the very best and most accurate information.

His reputation, as I think you know, is a very strong one. He's probably the dean of economic forecasters in Canada. He has been at it for a long time and has a very positive public reputation. He will no doubt consult with other experts as well. Quite frankly, I would encourage him to consult with members of this committee to get your advice about what you need as parliamentarians to be able to discharge your parliamentary responsibilities.

Another dimension we've added to this is an international dimension. All countries struggle with the same set of issues. If you look at the results for the last fiscal year, not only did Canada overshoot in terms of the strength of its economy and therefore the strength of government revenues—both federally and provincially; in fact, six provinces have reported their financial returns for last year, and every one of them is in a better-than-expected position, too—but internationally the same applied to the United States, the United Kingdom, Italy, Japan, Sweden, New Zealand, and Australia. In every case they experienced a similar phenomenon to the one we did.

So we have asked the International Monetary Fund to work with Mr. O'Neill to make sure we're not only benchmarking ourselves against the best Canadian standards and experience but against the best international standards and experience.

This problem is not a unique Canadian problem; it's an international phenomenon. I'm sure legislators in every jurisdiction don't want the year-end results determined by accident. They want the year-end results to be determined by conscious decision-making

by people in the legislature. You can only do that if you have the best information available to you in a timely manner.

That's my objective.

• (1010)

[Translation]

Mr. Guy Côté: I can appreciate that there may not be a simple answer to my question. Nevertheless, how can the minister explain that? We aren't talking about an accident where for a year or two estimates go awry period. We are really talking about a fairly long period of time, seven years. I could understand if forecast were off by one or two billion dollars during one or two years: that would be acceptable. But during seven consecutive years surpluses were much higher than forecast. This year it is incomprehensible. We saw the figures go from 1.9 billion to \$9.1 billion. That is just the absolute limit, as we say back home.

[English]

Hon. Ralph Goodale: My sole comment about the magnitude of that gap is that it certainly is a heck of a lot better than the other way around, and for 27 years prior to 1997 it was the other way around. Governments were pretty consistently erring on the too optimistic side of the equation, and the results came in and deficits increased to the point where they were approaching \$600 billion.

The interesting thing is that all of the economic forecasters, not just those in the Department of Finance but virtually all of them in the private sector, with one or two exceptions, were all in the same boat. Those working for the federal government, those working for the provincial governments, those working for the six or seven countries that I mentioned, indeed those working for different political parties were all caught by surprise by the strength of the Canadian economy.

If you go back six or eight months to the period, for example, that I inherited when I became Minister of Finance in December of last year, and what was on the public agenda at that time, people were desperately concerned about the impact in Ontario of SARS and of the fact that there had been a massive power blackout that dampened the Ontario economy. People were very concerned about one outbreak of BSE disease in Alberta, and then there was a second one discovered in December in Washington state. That raised very high the anxiety level about the impact of BSE. We had had a hurricane across Atlantic Canada. We had had massive forest fires in British Columbia. We had an appreciation of the value of the Canadian dollar by 21%, which all the forecasters were saying was going to bring down our ability to penetrate markets around the world, especially in the United States. The United States was getting into what Chairman Greenspan, the chairman of the board of the Federal Reserve System in the United States, called its sticky patch. The American economy was beginning to experience some difficulty. That's where 85% of our exports go, so that presents us with a significant concern about trade.

All of those were the downside risks that were top-of-the-mind worries in peoples' minds through last winter, and the forecast was that this was going to take some toll on the Canadian economy. We would lose output and it would slow us down; incomes would be lower and therefore government revenue would be lower. In fact the Canadian economy managed to sail through that sea of adversity in remarkably strong condition, and as frustrated as we are about the arithmetic because it caught us by surprise, and I share that frustration, the fact of the matter is that it says this economy is remarkably stronger than any of us had dared to expect six or eight months ago.

The Chair: Thank you, Mr. Goodale.

Ms. Wasylycia-Leis, and then Mrs. Minna.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chair, and thank you, Mr. Goodale, for appearing before our committee. I'm glad you're welcoming opposition. I will certainly give you that today.

• (1015)

Hon. Ralph Goodale: That was an adjective, not a noun.

Ms. Judy Wasylycia-Leis: I'll try to be as constructive as possible, but I have to say that your answers on this question of forecasting vis-à-vis the surplus just defy any kind of credibility. As you've said in your answers over and over again, you've had 19 economists from big financial institutions over the years giving you the best advice possible. Yet for seven years you've been wrong. Those economists have been wrong. Yet there are economists out there who have been right. You know that the Canadian Centre for Policy Alternatives and the alternative federal budget folks have been right for every one of those years. Why don't you just hire the CCPA or invite those economists to give you advice?

Hon. Ralph Goodale: Ms. Wasylycia-Leis, I intend, certainly, to consult with Mr. Stanford and with the others who are involved in the alternative budget office.

I was, though, intrigued by an interview given by Mr. Stanford around about the time that the annual financial report was released. When the interviewers were questioning him about his methodology compared to the official forecasters—and I don't mean to do a disservice to that methodology—he indicated in that interview—and I don't know whether he was being facetious or not—that he just guessed.

Ms. Judy Wasylycia-Leis: I think that's a misinterpretation, because in fact the process around the alternative federal budget has been rigorous, with many economists involved.

Hon. Ralph Goodale: I think he was making a joke, but in any event I think he was also making the point that there are vagaries and uncertainties here that no one, despite their methodology, can be precise about. But please be assured that we will seek their input, as we will seek the input of a broad cross-section of others in the public sector and the private sector.

Ms. Judy Wasylycia-Leis: Fair enough.

I thought when you mentioned Jim Stanford's name you were going to reference his statement as reported in *The Globe and Mail* that "Ottawa's official budgets now bear no more relationship to the country's fiscal reality than did the last Soviet five-year plan to that

tractor factory's true productive potential". Probably that's a fairly accurate statement of what's been happening over the last seven years.

Hon. Ralph Goodale: The difference is we have the best economy in the G-8. We're at the top and the country he referenced is at the bottom.

Ms. Judy Wasylycia-Leis: Let me go on to a few other areas. I want to know, are you considering corporate tax cuts for the upcoming budget?

Hon. Ralph Goodale: As Minister of Finance I always look for ways in which I can reduce the tax burden on Canadians, but that has to be in the context of all the other fiscal demands and requirements that are facing the Government of Canada.

We have laid out an agenda in the throne speech that begins with health care and continues with equalization—

Ms. Judy Wasylycia-Leis: Could I interrupt? I don't have much time.

It was a fairly straightforward question—whether or not you consider contemplating corporate tax cuts. Yes, no, or maybe.

Hon. Ralph Goodale: Judy, look, please allow me to answer the question in context, because it is important to get it in context, and that is, there is a large public agenda we have to address—all those things that are mentioned in the throne speech that speak to the quality of life of Canadians and the human condition of Canadians.

I've also indicated that if it's possible in that context to reduce the tax burden on Canadians, I would be interested in examining the alternatives for doing that, and I've indicated where my priorities would be if there's room after all of those other social and economic objectives have been met. My priorities would be lower- and modest-income Canadians, in terms of their tax burden, as well as selective tax measures that could have an impact on improving the competitiveness of the Canadian economy. But understand the order of priority. It's after those other social and human objectives have been met.

Ms. Judy Wasylycia-Leis: Okay. Certainly, from what you've said, you're not ruling out corporate tax cuts. That's all I can read into that kind of vague answer.

Let me go on to—

Hon. Ralph Goodale: But don't run with the distortion here, Judy. It's the order of priority that's important. The human and the social needs come first.

Ms. Judy Wasylycia-Leis: Let me ask you about an issue that's in the news today vis-à-vis the Ontario government attempting to bring in fines against polluters but being up against the fact that the federal government won't close the loophole in terms of corporations being able to deduct those fines from taxes owing. When are you going to close the tax loophole?

Hon. Ralph Goodale: That loophole was closed on March 23. I announced the intention of the government to move on that. Legislation is in the draft stages now. It should be out for this committee to consider in just a matter of a very few weeks, as soon as it can be introduced in the House of Commons. It's been in the public domain for consultation now for several weeks. The effective date, though, is March 23.

•(1020)

Ms. Judy Wasylycia-Leis: Could you give us a date when you're bringing in the legislation then, please?

Hon. Ralph Goodale: We sent it out in... The principles are in draft form for public consultation... September 15—

Ms. Judy Wasylycia-Leis: Something is out in draft form right now, so the committee can start to look at that—

Hon. Ralph Goodale: The principles are there. Quite frankly, I will be sending to each of the party critics that consultation document to seek your advice in advance of tabling it, because if there are some drafting issues that need to be addressed, I'd rather address it in advance and get those things fixed going in.

Ms. Judy Wasylycia-Leis: Fair enough. I think the concern is that this has been before you for quite some time, and I think a more expeditious response to such a glaring loophole was in order.

My last question—

The Chair: Time is up. Thank you.

Ms. Minna.

Hon. Maria Minna (Beaches—East York, Lib.): Thank you, Mr. Chairman.

Minister, thank you for coming today.

We had an interesting discussion yesterday, as you may know. We had with us a fair number of groups. We had the Canadian Centre for Policy Alternatives, the C.D. Howe Institute, the Fraser Institute, and a few others. We were discussing basically forecasting, spending versus tax cuts or investment, a whole host of things, how to use surpluses, and what our priorities would be in the future—that kind of thing. It was interesting to be in this room.

I would like to come back to the whole issue of forecasting. You have a Mr. O'Neill—I believe you said Tim O'Neill—and you also have a private sector analyst looking at... Do you have any public sector ones, for instance, the Canadian Centre for Policy Alternatives, which in fact has been pretty well on the mark for the last seven years? I tend to trust the numbers, since they've been accurate.

Hon. Ralph Goodale: They will certainly be involved in the consultations I do for the next fiscal forecast.

Hon. Maria Minna: Are they part of the private sector analysts who are looking at this to give you advice?

Hon. Ralph Goodale: Dr. O'Neil will determine who he will consult. I would be very surprised if he doesn't consult the Canadian Centre for Policy Alternatives. In fact, if the committee wants this, I would be more than happy to draw that to his attention and ask him to make sure he does consult them.

Hon. Maria Minna: I'd appreciate that.

Hon. Ralph Goodale: It's not a problem.

Hon. Maria Minna: As I say, given the fact that they've been pretty accurate, they obviously have something they do that works.

I have another question. We've discussed surpluses. Forget the forecasting now; we have this surplus. Then we say it has to go to debt reduction, because that's all we can do with it. My understanding is that this is not true, at least from things I've read from the

Auditor General. So why do we choose to put in a tax reduction and not look at other investments, other deficits that we have, which are pretty severe?

Hon. Ralph Goodale: The issue, Ms. Minna, is when the information becomes available and whether that is before or after the end of the fiscal year. It is perfectly open to Parliament to pass legislation that will make these decisions before the end of the fiscal year. But if the end of the fiscal year has come and gone, and then you're dealing with late data coming in after April 1, a combination of the workings of the Financial Administration Act and generally accepted accounting principles mean your choices have effectively been foreclosed. You need an economic event in the fiscal year that triggers your authority to make those decisions.

If you recall, in past years we have done that. That's why, for example, we set up the trust accounts to hold money for the provinces for the health care transfers. That's why, in some years in the past, we have established foundations that have allowed that flexibility at the end of the fiscal year. So various techniques have been tried in the past—some successfully, some less successfully—but it has to happen, the legal trigger has to occur, before March 31.

Hon. Maria Minna: I have one final question, and that is on the issue of tax cuts, debt reduction, versus investment. There was quite a discussion around that issue yesterday. Obviously the Fraser Institute and some of the others were talking about tax cuts. Broad tax cuts is what they want, not targeted, which obviously is a problem for me. I have a problem with that. The other thing they kept talking about was mediocre productivity. There seems to be a feeling that tax cuts will give us better productivity.

My position to them was that human capital and a deficit on the social side is just as important in affecting productivity. And that's my question to you. Eight million people have a literacy problem in our country. We have hardly any training or apprenticeship when it comes from the private sector. We've never had it and we still don't have it. Early education—I won't go through the whole list.

From your perspective, I'd like to understand at what point—I know you mentioned it earlier—you are going to look at tax cuts. I don't think from my perspective that's a priority. The other deficits have to be addressed.

•(1025)

Hon. Ralph Goodale: I think the government's agenda is clearly articulated in the Speech from the Throne. We talked about health. We talked about equalization. We talked about early childhood development. We talked about cities and communities, aboriginal people, the environment, the needs at National Defence and of national security, restoring Canada's position of prominence in global affairs, and so forth. Those are obviously the priorities the government has set for itself. I think it's important those objectives be met, first and foremost.

As I said before, as Minister of Finance I'm always interested in ways that I can find to reduce the tax burden, but it has to be in the context of our other priorities. It has to also be sustainable and affordable. The last thing you want with a tax reduction is that it's on again, off again. We've seen that happen in some other jurisdictions. It's a disruptive sort of thing.

I've also indicated that if there is room to be able to move on some tax reductions, I have certain specific priorities—low-income Canadians, for example. We've tried to address that in the past through the child tax benefit, which has become, through the tax system, a rather important social program in the country.

I've also indicated that I'm interested in ways to try to enhance Canadian competitiveness and productivity.

But the agenda for the government is set out in the throne speech; its priorities are the ones given there.

The Chair: You have 30 seconds.

Hon. Maria Minna: On the tax cuts, even if it's low- to modest-income Canadians... You can have people making a lot of money, have deductions, and still come out with \$20,000 a year and get the benefit. I would sooner look at things like increasing the child tax credit, because it goes directly into the hands of people at the low end. That's using the tax measures in a positive way, if I may suggest that.

Hon. Ralph Goodale: By the way, Mr. Chairman, I will point out that on tax expenditures, the government publishes a report every year. The one that will be coming out shortly is essentially at the printers now. It may be useful input for this committee. It will be available in the next few weeks, and the committee will certainly get it.

Hon. Maria Minna: Thank you.

The Chair: Thank you, Mr. Goodale.

I'll just remind the members that we're going to go to five-minute rounds.

Mrs. Ambrose.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chairman.

I'd like to welcome the finance minister to the committee.

My question is about equalization and the recent first ministers meeting on October 26 on equalization. I want to refer to the formal proposal that I understand you made to Newfoundland and Labrador. In that proposal you promised Newfoundland and Labrador additional offshore revenue subject to the provision that no such additional payments result in the fiscal capacity of the province exceeding that of the province of Ontario in any given year.

I'm sure you know that in simple terms this means it caps any benefits under the deal, tying them to an Ontario economic indicator. From what I understand, according to the St. John's *Telegram* on Tuesday, the Prime Minister denied there was a cap. He said that Newfoundland and Labrador would benefit from the current 30% share it receives of its oil revenues even if that figure does exceed the Ontario threshold. The natural resource minister said in the Commons on Tuesday that Newfoundland and Labrador would benefit from 100% of revenues and 100% of equalization.

Your government has made these pronouncements despite the clear fact, from what I understand, that your formal proposal indicated there is a cap. I wonder if you could just clear up this contradiction. Are you, and is the government, committed to a cap

on offshore oil revenues for the province of Newfoundland and Labrador?

• (1030)

Hon. Ralph Goodale: First, welcome to this committee and to Parliament. Congratulations on your successful election.

In the case of two provinces in this country, Newfoundland and Nova Scotia, there are very special provisions that apply exclusively to their offshore resources regimes. By law, as determined by the courts, those offshore resources belong to Canada, but by agreement, the decision was taken many years ago to treat those resources as if they belonged to the province for which they are offshore. That was the situation created by the accords.

Ms. Rona Ambrose: I understand the jurisdictional aspect of this issue. My question, though, is whether you could clear up the contradiction between yourself, the Prime Minister, and the natural resource minister as to what the actual formal proposal is on the table pertaining to Labrador.

Hon. Ralph Goodale: I'm coming to that. I beg your patience. This is a complicated subject, and if you only deal with it in snippets, then you don't get an accurate picture.

Ms. Rona Ambrose: No, I do understand the deal. I know it's complex.

The Chair: One second.

The member only has five minutes and we're down to two minutes.

Ms. Rona Ambrose: It's just a specific question about what your formal proposal is.

Hon. Ralph Goodale: What we said to both Newfoundland and Nova Scotia is that for a period of eight years we were proposing that in addition to their own source revenue, in addition to equalization, in addition to the 30% bonus on top of equalization that they receive under the accords, we would, by a new revenue stream, a fourth revenue stream, take those benefit levels up to 200% of the original amount, subject only to the Ontario threshold, meaning that the revenue would continue to rise through all of those four categories—own-source revenue, equalization, the 30% under the accords, and the 70% additional increment, subject only to the fact that when all of that added up to be equivalent to the second most wealthy province—

Ms. Rona Ambrose: So there is a cap then?

Hon. Ralph Goodale: — in the country, the payments would not go higher. They wouldn't be reduced; they would not go higher.

Ms. Rona Ambrose: So you are committed to a cap then in your formal proposal?

Hon. Ralph Goodale: We indicated that that threshold was, in our judgment, a reasonable threshold that had in the previous discussions been on the table and been discussed in the various dialogues between the Government of Canada and the two provinces.

Ms. Rona Ambrose: Do I have any time left?

The Chair: You have 30 seconds.

Ms. Rona Ambrose: I have another question then. Moving forward, hopefully this kind of disregard for the needs of the provinces... Hopefully there will be some more goodwill in terms of negotiation and cooperation on inclusiveness in these kinds of negotiations.

As to your striking a panel of experts, I wanted to know if you could assure us, the provinces and Canadians, that the way this panel will be structured will be more inclusive and open to this kind of important policy review in the future. And when will we learn who the experts are going to be who will be sitting on the panel?

Hon. Ralph Goodale: The agreement that was reached between the Prime Minister and the premiers was that the technical panel to deal with these equalization details in the future would consist of two representatives identified by the provinces, three identified by the Government of Canada, with the chair to be chosen by the Government of Canada after ample consultation with the premiers.

• (1035)

The Chair: Thank you, Mr. Goodale.

Mr. Hubbard.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair, and welcome, Mr. Minister, to the meeting.

Yesterday I mentioned, and I'll put it on the record again today, that I'm rather perplexed at the fact that we're spending so much time worrying about a surplus. If we had sat here 10 years ago, we would have been talking about a deficit of over \$40 billion a year. I'm not sure how members of Parliament approached it that time—I was not on the committee—but today we seem to be worried about the fact that our revenues have exceeded our expenditures, and we're dealing with probably more than 5%, if we look at the major sources of revenue of our federal government.

I have three questions. I'd like to put them together, because I know, Mr. Minister, you like to reply at length, but I would like to see a bit of attention to three important things.

We've not heard any great proposals on how we might deal with a future surplus. Perhaps for the two major components of revenue our government has, corporate and personal income tax, it might be considered in a future budget that a dividend could be paid back to those taxpayers; in other words, if somebody paid \$10,000 in tax in the past year, perhaps a 5% dividend could be paid back. I know it would mean an amendment to the Financial Administration Act, but Canadians might look more favourably on getting back some of their so-called taxes through a nice little cheque that could come probably around Christmas to help people out who felt they had put too much into the system. That would be after, of course, you allocate certain moneys towards the overall debt.

Secondly, I think it would be good for this committee to get some information on what you referred to as regional situations. We have at least four regional programs that get money through our annual budget. We might have to look at those in terms not only of the direct involvement by government in regional programs, but also of certain tax measures that might encourage development in regional areas. This could be considered by your department in terms of offering special incentives for investment, whether it be in Atlantic Canada,

in western Canada, in the northern areas of Ontario, or in certain regions of Quebec.

Finally, Mr. Minister, I have great concerns about low-income Canadians, and particularly those under 65 years of age—probably between the ages of 45 and 65—who may be earning an annual income of less than \$10,000 and who in effect have to pay income tax. We've had great difficulties with those, for example, on Canada Pension disability. Under the disability provisions of the income tax forms we complete each year, even though you may be disabled in terms of Canada Pension Plan standards, that fact doesn't necessarily mean you have the tax credit or the deduction of about \$4,200 of income under the program it calls "Disabilities".

We have a number of Canadians trying to develop households who have very low incomes. I would hope people in your department would look at that group of people and try to provide some measure of tax relief to very low-income people who are having great difficulties providing for themselves.

Thank you, Mr. Minister.

Hon. Ralph Goodale: Mr. Hubbard, thank you very much for your comments and suggestions.

I sincerely hope in this process of pre-budget consultation the committee will look at various ideas for uses of future surpluses. I certainly agree with your observation that if you have to have a fiscal forecasting problem, this is the kind of problem you want to have, rather than the other way around—which we had for 27 years, accumulating nearly \$600 billion worth of debt.

You are suggesting a kind of automatic tax reduction by way of dividend, some kind of automatic system. You were careful also to say that would be after other priorities had been met, including some paydown of debt, but also the other human needs you referred to in your question. Let's have a discussion on that in the process. I'd be interested to hear what other members of the committee think. I'd be interested to hear what Canadians think and what taxation experts think about that idea. I'm sure there will be many other ideas as well.

On regional development, it is an important priority. It got specific reference in the throne speech. One of the techniques we can use to better target our regional resources is an example in Atlantic Canada of the Atlantic Innovation Fund, which attempts to provide regional support in a way that is aligned with the new high-technology economy of the future, thereby bringing about an economic transformation—not just support, but support that achieves a broader and better future purpose. Regional development has to remain very strongly positioned on the government's agenda.

In your comment about older low-income people, you referred in particular to those who may be disabled. The government will very soon be receiving a detailed report from a committee on disabilities that we appointed 18 months ago. We expect the report very shortly. The indication I have had in an informal way is that we will receive a large number of suggestions from this committee of experts from the private sector and from social organizations about how the tax system as well as the other policies of the Government of Canada can better support people in exactly the position you've described. Again, when that report becomes available, to the extent I can I intend to act on it in the next budget, if that's possible, and I would certainly be interested in the input of this committee about the relative merits of the various recommendations we'll receive from these external experts on disability policies.

• (1040)

The Chair: Thank you, Mr. Goodale.

Mr. Penson.

Mr. Charlie Penson (Peace River, CPC): Mr. Chair, I'd just like to add my welcome to the minister and his officials.

I hate to break up the little love-in that's been going on with this good news story—the surplus being out so much is a good news story, so we shouldn't really worry about it. I would just remind you, Mr. Goodale, that it was your predecessor, the current Prime Minister, who when he was finance minister, I recall, lectured the private sector, the corporate sector, a few years ago about the inaccuracy of the way it did its business and about corporate malfeasance.

I believe this is an issue of trust. I think you know that, and I think your officials know that, and that's one reason we have O'Neill doing the study. It defies logic, to be quite frank, Mr. Minister, that you and your team, six weeks after the books close—they had the benefit of the national accounts in the middle of May—did not have a better idea of whether we were erring on the side of \$1.9 billion surplus or \$9.1 billion. You were telling us you didn't know until near the end of August. I don't believe that should have been the case, and if it is the case, I think you have a serious problem within the department.

I want you to address that. The United States is involved with problems, as we've seen, in the corporate sector, and I think, quite frankly, this is not that much different. It denies Canadians a debate about how they want to spend that money, and by lowballing surpluses in the first place, it ends up being a massive overtaxation. It could be that Canadians want to spend that money on debt reduction, but it denies them that debate.

I invite you to respond.

Hon. Ralph Goodale: On your point about the desirability of having a fully informed debate early enough in the process that it can actually influence budget decisions, that is a principle with which I entirely agree, and quite frankly, every effort that I've made within the department in this portfolio has been aimed in that direction.

There are, unfortunately, in the flow of events some circumstances that occur that don't get caught in the statistics until well into the summer. Let me just give you one example: the national accounts data that came out on August 31 revised upward the economic growth statistics for the first quarter of that calendar year, which was

also the last quarter of the previous fiscal year. That made a big difference in the arithmetic that was—

• (1045)

Mr. Charlie Penson: How much difference did it make, Mr. Minister?

Hon. Ralph Goodale: The growth rate moved from, I think, 2.4 to 3, if I remember correctly, and then it was an even bigger surge in the second quarter.

Mr. Charlie Penson: Which is just beyond the end of March, fiscal year.

Hon. Ralph Goodale: The second quarter is beyond; the first quarter is within.

All through that period, through the latter part of the winter and the early part of the spring, the statistics that were available and published—and we could assemble those for you—the figures on trade, the figures on economic growth and so forth, coming out from various sources, both public and private, were a real mixed bag.

It was only when we were consistently into the summer that the numbers became consistently positive. Those national account numbers on August 31 were particularly impressive.

Mr. Charlie Penson: Mr. Minister, I ask you the question, wouldn't it be true that the national accounts that were available to you the middle of May, in that timeframe, would have shown that the surplus projection would have been a lot closer to the \$9.1 billion rather than the \$1.9 billion that had been forecast earlier?

Hon. Ralph Goodale: I will check the record on that, Mr. Penson. But let me say this very clearly: there was no information that was brought to my attention or that I found by any other means that indicated to me that our projections in the budget were substantially low. That information emerged toward the end of August when the national accounts became available.

I would say that is true not only of me and of the government's economic analysts, but it's true of virtually every forecaster in the private sector. It's true of the forecasters who work for all of the provinces. It's true of the forecasters who work for seven or eight other governments around the world. The same phenomenon was happening simultaneously—provincial jurisdictions, federal jurisdictions, and internationally.

Let me just show you one of the remarkable things. Corporate profits last year increased by 10%. So you would logically assume, well, we'll have a corresponding 10% increase in our corporate tax revenue, maybe a little bit less, because corporate tax rates came down by two points. But what happened? Corporate tax revenue went up by 24%. Now, if I had forecast that in my budget last March, saying profit is up 10% but revenue is going to be up 24%, even though we cut the tax rate by two points, people would have raised some very serious questions about the logic of that projection. But that's in fact what happened.

Mr. Charlie Penson: I'm sure that's true, Mr. Minister, but it didn't all happen in the last month.

The Chair: Thank you, Mr. Penson.

Hon. Ralph Goodale: But the data became available after the end of the fiscal year.

The Chair: Mr. Bell, then Mr. Côté, then Mr. Pallister.

Mr. Don Bell (North Vancouver, Lib.): Mr. Goodale, I have an issue that I know is near and dear to the hearts of municipal politicians across Canada: the gas tax. The planned phase-in that's been proposed is over a five-year period to increase the contribution to municipalities, and its intention is to rear-end-load that, to have 2¢ in the last of the five years. One of the challenges has been what to do in those earlier years, how to spread the 3¢, in effect, over four years, recognizing the needs of municipalities for assistance—cities and communities, I'll call them. I guess “municipalities” is a term I use in British Columbia.

Hon. Ralph Goodale: Old habits die hard, Don.

Mr. Don Bell: That's correct—30 years in that area.

Why not accelerate the moneys if we have this surplus and if the intention is to recognize the needs of cities and communities, both urban and rural communities across Canada, in acknowledgement that they have these severe infrastructure problems? Why not accelerate those moneys if we have the ability to do so now? The number of dollars we're talking about would be relatively small as an amount compared with what we're projecting in terms of the surplus.

It would put us in a situation where we could provide assistance, recognizing that those kinds of contributions in fact assist the economy and would ultimately assist federal revenues to grow even more.

• (1050)

Hon. Ralph Goodale: I certainly agree with your thesis, Mr. Bell. The issue for us is purely one of pacing, of being able to fit the commitment to municipalities within the fiscal framework in a way that is precisely consistent with what the Prime Minister has talked about. If means can be found to do it faster over a shorter timeline, I am certainly prepared to look at that.

We have taken some steps in the meantime to try to be of further assistance to municipalities. The full rebate of the GST was one of those steps. The municipalities identified that themselves; they said they realized it would take some time to get the negotiation done on the gas tax, so in the meantime they asked if we could increase the rebate of the GST to a full 100%. We did that, effective February of last year, and over a 10-year period that will be worth \$7 billion to municipalities.

They also asked us if we could accelerate some of our existing infrastructure money that was originally profiled over 10 years. We accepted that recommendation and reprofiled it down to 5 years rather than 10, to move the money out faster. So that has been done.

They've asked us to improve our commitment to housing and to the homelessness initiatives. We have done that.

We have also made the largest commitment ever to the cleanup of contaminated sites, some of which are in rural areas and some of which are in urban areas across the country, and that work is now getting under way. In total that's a \$4 billion commitment over 10 years.

But the anchor commitment that the municipalities are of course interested in is the sharing of the fuel tax and how quickly that can be accomplished. Obviously, from our point of view, I want it done

as rapidly as is fiscally feasible. It's purely a matter of pacing in the fiscal framework, from my point of view.

Mr. Don Bell: There are two aspects to that. First of all, the pacing or the discussion was based, I would presume, by the Prime Minister on the fiscal forecasts, as he understood them, which were not as positive as we've now come to see them. So I would hope that you would review that pacing in light of the strong economy and the projections that were going forward.

Secondly, the infrastructure programs that exist and have been there all along for cities and communities across Canada will be carried on to the same extent, and perhaps be accelerated or increased. But this gas tax is in fact going to be the additional amount that recognizes the needs that were identified, and it could be accelerated more quickly, because the fiscal framework, as you said, was based on the information you had. We now have new information, and I would hope that you would reconsider it in that light.

Hon. Ralph Goodale: I think we constantly have to review the fiscal framework, and if the buoyancy of the economy, on the one hand, or the government's prudence, on the other hand, generates more flexibility than we originally thought we had, then that would allow us to move faster on some of the priorities that Canadians have identified. So I think we will constantly keep that under surveillance as we move from fiscal year to fiscal year, to be able to make the kind of progress that people want more quickly.

On infrastructure, we have indicated clearly that we do not intend that our gas tax commitment be instead of infrastructure programming by the Government of Canada; it is intended to be in addition to it.

Let me make one other point, Mr. Bell.

The Chair: Quickly.

Hon. Ralph Goodale: We have big commitments we've just entered into, on health care and equalization. We have other commitments to honour in child care and cities—you've just mentioned that—and we have others on aboriginals, the environment, defence, foreign affairs, and so forth. While we're all encouraged about the government's fiscal position and the strength of the economy, we cannot get careless or let down our guard in terms of prudence. At the bottom line, Canadians want the assurance that the books are balanced now and are going to stay balanced year after year.

The Chair: Thank you, Mr. Goodale.

I have Mr. Loubier, Mr. Pallister, and Ms. Wasylycia-Leis.

[*Translation*]

Mr. Loubier, the turns are now five minutes each.

• (1055)

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): That's fine, Mr. Chairman. Thank you.

Minister, you invited us earlier to submit our ideas to you. You even said that you were willing to accept ideas from the opposition. An idea is an idea: wherever it's originate, if it is a good one, you have to keep it. But in order to submit ideas or analysis to you we need to know the real state of public finances. The population also has to be informed of the real leeway the federal government has to manoeuvre.

And yet, for seven years, we have only heard fairy tales from you. When I say from you, I mean your government, since you were not Minister of Finance from the beginning of that period. When the Prime Minister was Minister of Finance he put out forecasts that had nothing to do with reality. Mr. Manley took over where he left off. You have now inherited the job and are providing exactly the same thing, that is to say underestimating the surpluses. Indeed, your last estimation error was on the order of close to 500%.

The population must feel that you are laughing at them. I feel deeply that you are laughing at everyone also when you present your projections. Indeed, you are tarnishing the reputation of the economists of the Department of Finance. Those economists must be very good: I know some of them. They were trained just like I was and they know how to produce forecasts. They could be producing accurate figures with a 3 or 4% margin of error.

Every year, you are making these huge mistakes. The credibility of the figures presented by the Canadian Department of Finance is at its lowest level ever. I want to ask you one thing, Mr. Minister. Right now you have an opportunity to tell us what the surpluses will be at the end of the current fiscal year. I would like you to give me a figure, approximate though it may be. You surely have a pretty good idea especially since seven months have elapsed since the beginning of fiscal year 2004-2005.

[*English*]

Hon. Ralph Goodale: Mr. Loubier, my opportunity to do that in a more precise way, with the full backup of the best available economic projections, will be in the fiscal forecast that will be available in the month of November. I think that is the time when I'll have the opportunity to lay the information before the committee, and I'll be happy to do that, as well as describing in perhaps more detail than has happened in the past the process that leads up to the establishment of the fiscal forecast. It will be a more transparent exercise, so members of the committee have more access to the various views and opinions that come in to me. Some of them vary across a wide spectrum, and I think it would be useful for members of the committee to see some of the different facts I have to reconcile.

[*Translation*]

Mr. Yvan Loubier: Minister, when the Prime Minister was Minister of Finance he used to say exactly the same kind of thing. He said that he consulted a dozen or so eminent economists from Canadian banks and private companies to advise him when he made his forecasts. However, he seemed to retain only what he wanted to retain from what these top-notch experts told him.

Are you trying to make us believe that among the economist who prepare the forecasts for the Department of Finance and the government as a whole no one has managed to make forecasts that are accurate to a 3% margin of error either way in the past few years?

You say that with the figures and tendencies from the first two quarters you are incapable of coming up with better forecasts than those you have put out over the past seven years, while we manage to do so with a small team and a small calculator that costs \$2.50 at the supermarket.

Currently, although you are familiar with the revenue and expenditures structure, as well as with monthly and annual revenue and expenditures, you are incapable of having some idea of the scope of surpluses and you are 500% off. No one believes that. Even you have hired Tim O'Neill, you will take what you will from what he will give you.

We should not be taking any chances in this regard. We want to see an independent forecasting bureau, at arm's length from the government, that will provide credible forecasts and not fairy tales like those we have been graced with for a number of years. This does a disservice to democracy. People can't evaluate you on your performance because you are not presenting them with the real margin for manoeuvre that is at your disposal. People can't say whether the federal government is doing good work or not because you are not revealing to the population the potential the federal government has to implement what it considers its priorities. This is unhealthy in a democracy.

You are continuing in that same vein and you say that you want greater transparency. That is not the issue. The issue is that you need to be more credible, Mr. Minister. Where forecasting surpluses is concerned, you are no longer credible.

● (1100)

[*English*]

Hon. Ralph Goodale: Well, Mr. Loubier, with the greatest respect, I disagree with your last assertion. In terms of your argument for greater information and greater transparency, obviously I agree with that and have been working in that direction very strongly, but to draw the conclusion you draw about deliberate deception is simply not true.

I am happy to work with the committee in every way possible to improve the precision of what we do and to do so in the spirit of collegiality and goodwill. I hope the advice of the committee will be useful and constructive. I also hope you will get good advice from Dr. O'Neill.

[*Translation*]

Mr. Yvan Loubier: I'm going to make a bet with you. On March 31, 2005, if the expenditure structure stays the same, there will be a surplus of approximately \$11 billion. I am making that prediction today. We can discuss it at the time.

I used a simple calculator to work that figure out, Mr. Minister.

[*English*]

Hon. Ralph Goodale: Well, we'll see what it is, and I'll have an opportunity to make my comments at the time of the fiscal update.

[*Translation*]

Mr. Yvan Loubier: We shall see.

[*English*]

The Chair: Thank you.

Mr. Pallister.

Mr. Brian Pallister (Portage—Lisgar, CPC): Thanks, Mr. Chairman.

Good morning, sir.

In these heady days of unanticipated dollars in so-called surplus, I know it's perhaps not in vogue to discuss revenue leakage and revenue loss, but that's what I'd like to talk about and ask you about.

We continue to have rules in place here that allow for the creation of losses in Canada, the transfer out of leverage dollars to offshore domains and the creation of wealth there to be taxed minimally, if taxed at all. So we create wealth offshore that is subsequently allowed to come back in here. We have different sets of rules that allow people to defer or negate the tax obligations they should be sharing with the rest of Canadians and instead create wealth someplace else. Those rules continue to exist.

The policies of the government over the last number of years have been sharply criticized in a series of Auditor General's reports, as you know. They've been described as policies of benign neglect.

Given the fact that we know many Canadian companies are created offshore or are creating subsidiaries offshore in various mechanisms, using these loopholes to create this opportunity for themselves and their shareholders, such as the Prime Minister's own family's companies, I'm curious as to what action you plan to address this issue. I'm curious as to when you plan to take action to close these loopholes.

Hon. Ralph Goodale: Mr. Pallister, as I think you know, this is an issue of interest not only to the Government of Canada but to many governments around the world, because in the shrinking global context within which national economies function, international activity is becoming steadily more important with every passing year. It is commonplace—indeed, it's essential—for successful economies to have not only successfully functioning companies domestically, but also enterprises that are truly global in scope, and that global success is of national and international importance. But what this raises is the issue of the coordination and the consistency of tax policies on an international basis.

There are some countries in the world that have identified that as a way in which they intend to try to create for themselves a competitive advantage, by establishing tax regimes that are particularly favourable and are available to international enterprises where they are not available to their own national citizens. That is the kind of tax haven situation that I think all serious governments need to focus on.

It's one thing if a company is operating in a country that has a certain tax rate applicable not only to international enterprises but also to local domestic enterprises, but if it's a particular advantage that's reserved for offshore activity and not available to local entrepreneurs, then it is deliberately discriminatory and intended for a tax distortion purpose. There may well be other examples of techniques of unfair or inappropriate international taxation.

I think as an international community we have to go after that. I've raised it in my discussions at the G-7. I've raised it with the International Monetary Fund. I've discussed it, obviously, with my

own officials domestically, and I've raised it with the domestic business community. We need to act in concert with our international partners to be able to make sure taxation is fair and appropriate on a global basis and does not lead to these kinds of distortions and discrepancies that I think both you and I would consider to be inappropriate.

• (1105)

Mr. Brian Pallister: Other jurisdictions—the United States, for example—have taken clear steps to close these loopholes. We have not. Your words, although I do not dispute your belief in the words, are very similar to the words spoken by the Prime Minister when he was finance minister, when he said he would address all these issues and did not.

Certainly the concern that all of us should share, I hope, is that Canadians need to have faith in a tax system as one that applies to all Canadians. But what we have with these loopholes is a situation where the rich get richer and the poor don't have a shot. We're asking Canadians to pay taxes, beginning at very low levels of income, while at the same time we are allowing phony loss creation through the transfer of assets, the leveraging of Canadian assets, and the funnelling of cash offshore. According to the Auditor General's report, hundreds and thousands of companies are now doing this.

It strikes me that what you said, despite its good and noble intent, sir, doesn't outline any specific plan of action. It outlines no specific targeted activities or timelines. It is buzzwords and fuzzy phrases, but it is not a commitment to address this important issue.

I ask you specifically, has your department recently done any analysis as to the degree of leakage occurring in the Canadian revenue stream as a result of the loopholes I refer to?

Hon. Ralph Goodale: Mr. Pallister, I have a couple of comments.

First, I appreciate your acknowledgement of the sincerity, because it is sincere.

Secondly, when the Prime Minister, formerly the Minister of Finance, began to tackle these issues in the mid-1990s, he in fact did shut down a number of loopholes that had previously existed. There is other work yet to be done, but we made some progress in those early days.

Six or eight months ago I asked my department to further the analytical work here in terms of how much revenue may be at risk, on the one side, the status of how we try to control these situations compared to how other countries do it, and how it would be possible for Canada to work in concert obviously with the United States, the United Kingdom, and other partners in the G-7 or G-8, and perhaps other international fora, like the International Monetary Fund, to make progress together. That really is the critical thing here.

As we've learned from previous experience, if you close one, given the mobility of international companies, they move around. It's important to have a consistent international regime so that you don't get into the situation of jurisdiction shopping. So we need not only national action here but international cooperation in order to make this effective.

The Chair: Thank you, Mr. Goodale.

Ms. Wasylycia-Leis.

Ms. Judy Wasylcia-Leis: Thank you.

I want to make a comment on the surplus issue, just to say to you that I don't think any of us are questioning your sincerity, but we're questioning a practice that has been put in place over the years, that began with the present Prime Minister, who was finance minister at the time this whole trend line started.

We always try to teach our kids—and I'm sure you do the same—that we should learn from our mistakes. I don't expect you, or your department, or the minister, or whoever it was before, to necessarily be able to respond immediately when a mistake is identified, but surely after seven years we begin to recognize that there is something wrong.

I guess I would share Yvan Loubier's comment that this almost seems like deliberate lowballing. It is certainly consistent with some advice that we know you are getting from some business and corporate leaders to do this, because in fact it allows for that money to go against the debt without public debate or parliamentary input. So it's an easy way to accomplish an agenda that might otherwise provoke some discussion.

My question, though, is about bank mergers. That hasn't been touched on this morning. Given the fact that we haven't heard a definitive statement from you about the future direction on this issue, I would like to know what your plans are.

The chair of this committee might not know everything about the government, but he has said publicly to Reuters that mergers between Canada's biggest banks and top insurers are going to happen.

I want to know what your plan is. What is your plan on cross-pillar mergers? Why are you focusing on bank mergers when we're already dealing with the consequences of lack of competition among banks in communities like my own, where the banks have totally abandoned whole neighbourhoods, whole pieces of a city? Why aren't you instead focusing on ways to make the banks provide community-based services? What are you doing about putting a lid on credit card interest rates to perhaps 5% or 10%, or 5 points ahead of prime lending instead of the 10 points or 20 points it is now?

Those are my questions. Thank you.

•(1110)

Hon. Ralph Goodale: Judy, there was a lot there. Let me just see if I can answer it briefly.

In the case of our forecasting, let me assure you that neither the government nor the private sector economists that we consult lowball economic growth. That is the critical point about the numbers released a couple of weeks ago. It was virtually all—not 100% but the vast majority of it—driven by unpredicted economic growth. That's the good news side of the equation.

In terms of learning from past experience, obviously we're trying to improve the process with the review we now have underway. But I would caution against a result such as that in the United States, for example. Their forecasting systems have led to repeated government deficits of enormous proportions. They have a different system than we do, and I think our parliamentary system provides an inherent check against that sort of thing. But I would point out that their

annual deficit is running at about the same rate as our entire public debt. So even if our system has some problems, it does end up with a better result.

On bank mergers, Parliament of course has dealt with Bill C-8. The piece of unfinished business that came out of that was the requirement for a further paper on guidelines and procedures that is expected now from the government. The original schedules have that available in June. Unfortunately, because of various events, not the least of which was an election, the June deadline for the publication of that paper could not be met, but the work is ongoing on it. I hope to be able to produce it in a thoughtful way in due course.

Let me say that I think from previous deliberations, many Canadians, including many members of Parliament, share the concerns you raise about competition among financial institutions, the provision of services, and so forth. I'm happy to say that because of competitive forces there are now in the marketplace credit card systems, for example, that do provide the no-frills, low fee type of service you have described, so I think there is some progress to report there. But I take your point as an important one, that as we consider the architecture of our system of financial institutions, an important consideration always needs to be the public interest, and that is reflected in Bill C-8.

Ms. Judy Wasylcia-Leis: I have one question on a point of order.

The Chair: We have four speakers left and there's—

Ms. Judy Wasylcia-Leis: On a point of order, I didn't get a specific answer with respect to government actually regulating credit card interest rates—

The Chair: I don't think that's a point of order.

Ms. Judy Wasylcia-Leis: — because that's a critical issue.

•(1115)

The Chair: No, sorry, we're going to go to Mr. Hubbard.

Mr. Charles Hubbard: I thought Maria was ahead of me.

Ms. Judy Wasylcia-Leis: I have more questions. Can I get on the list again, please?

Mr. Charles Hubbard: Thank you, Mr. Chair, if I am next.

You referred, Mr. Minister, to the GST and cities and municipalities having benefited. This morning I met with a group of university people and I think they too would say they're under some very difficult circumstances in many cases. Is there any discussion on advancing the rebate system to other places besides municipalities?

Hon. Ralph Goodale: Mr. Hubbard, I think you're referring to what they describe by way of acronym as the MUSH sector—municipalities, universities, schools, and hospitals—all of which receive some form of GST rebate, but as you point out, most recently we've increased that rebate for the M part, the municipalities, to 100%, whereas others have a rebate of a lesser amount.

The decision to do this for municipalities is obviously the conscious need to move forward on the “New Deal for Communities” agenda, which the government has worked on with the Canadian Federation of Municipalities. But that is not to say we're oblivious to the needs of universities and research hospitals and that sort of thing. While we don't propose to accelerate the GST rebate for those other sectors, we are providing assistance to them in a variety of other ways, including, for example, the innovation agenda, which has invested literally billions of dollars in universities and research hospitals across the country to improve both the capital base and the operating base upon which they function. If I remember correctly, in the last seven or eight years that contribution has been an incremental \$12 billion to \$13 billion.

So we're certainly trying to be of assistance to those other sectors you refer to, but doing so by means of a different vehicle.

Mr. Charles Hubbard: Mr. Chair, might we ask his officials to perhaps give this committee a brief costing in terms of a lack of revenue if we were to make that suggestion from this committee?

Second, Mr. Chair, I was certainly heartened by the fact this morning that disability is being considered, because in terms of workmen's compensation benefits, of course, as you know, they're not taxable, but Canada Pension disability payments are a taxable part of one's income. Also, Mr. Minister, perhaps your officials could give us a brief diagnosis of how this might affect a future budget in terms of providing a lack of taxable approach to disability from the Canada Pension Plan.

The other area, Mr. Chair, I would like to see some information on is in terms of low-income Canadians. We have a rough idea of what it would cost to increase the threshold from roughly \$7,900 to a higher figure if it applied to all 15 million or 16 million taxpayers. But in terms of low-income Canadians, in terms of offering a credit or some system to absolve those with incomes of less than \$10,000 from paying a federal tax—in other words, it would not apply to all Canadians, but specifically to those with low incomes of less than \$10,000 a year—how much would that cost in terms of lost revenues?

To your officials, am I clear in what I'm asking in terms of—

Hon. Ralph Goodale: Mr. Hubbard, I think you are. We'll review the transcript of the committee to make sure we have exactly your questions and if we need further clarification we'll call you. We'll certainly try to provide the analysis you've asked for. I think that's an important set of questions about the cost benefit of doing different things. We need to know that.

The Chair: Perhaps we can have them within a month, if that's possible. When we're doing the pre-budget consultations, I think it will help us.

Hon. Ralph Goodale: Shall I provide them to the chair so they're available to all members?

The Chair: To the chair through the clerk.

Hon. Ralph Goodale: Okay, we'll do that, Mr. Hubbard.

The Chair: Thank you.

Can we just move along?

Ms. Judy Wasylycia-Leis: I have a point of order, Mr. Chairperson.

The Chair: Yes.

• (1120)

Ms. Judy Wasylycia-Leis: I'd like us to return to some sort of rotation among the parties. We've just heard from the Liberals.

The Chair: We're on the second round.

Ms. Judy Wasylycia-Leis: May I make a point then, a constructive suggestion?

The Chair: Yes.

Ms. Judy Wasylycia-Leis: We have about 12 minutes left. There are four of us, three on the opposition and Maria on the Liberal side, who would like to ask questions. Could we have three minutes each and ask the minister to stay a couple of minutes over?

The Chair: I did that with 15 minutes left. I asked for interventions of three minutes. We have one, two, three, four, five, six. Okay?

Ms. Minna.

Hon. Maria Minna: Thank you, Mr. Chairman.

We talked earlier about the tax expenditures and the benefits of investing through tax expenditures targeting low-income Canadians, as opposed to broad tax cuts. Even within the tax expenditure portfolio, within its own piece, has there been any analysis done more recently to see what the impact of the different tax expenditures we have is on their effectiveness or lack of effectiveness with respect to specific social and economic performances where we did them for a particular policy objective? Are they meeting those objectives or are they possibly not?

I know we also have tax expenditures for business and I know sometimes we... I'll give you an example. The RESP I don't think particularly helps in terms of investing, or even the education bond. While it's great that we have them to help families save, I'm not sure that sometimes a tax credit system is the best way to help children or families who need assistance in education. Sometimes it's a direct subsidy.

Hon. Ralph Goodale: That is an important consideration, Ms. Minna.

From time to time, when the annual report on tax expenditures overall is released, that report will include a specific area that we will delve into in more detail to ask the very kind of question you've asked. In the report due to come out in the next several weeks, the focus has been on the policy objectives of the disability tax credit, for example. Is it achieving the objectives that were set for it when it was originally devised?

That kind of analysis could probably not be done, just as a practical matter, on every tax expenditure every year, but we do try to do it on a rotational basis to provide the public and parliamentarians with the most recent information. If there are specific suggestions from the committee about an area you would like analysed, say in the next report, we'd be happy to have those suggestions.

Hon. Maria Minna: I wouldn't mind seeing some analysis done on the educational side with respect to RESP and the education bond. That's a program that's relatively new, but to see the impact of that versus investing directly in education, the impact that really would have.... Unfortunately, the bond is new, so that might be a problem because we haven't had a long enough time with it, but the RESP has been around for a bit.

Hon. Ralph Goodale: Mr. Hamilton tells me we haven't yet done the examination you've suggested. There is some external academic analysis you could see if we could assemble it for the use of the committee, but I take your point that this is an area that does need some future inquiry, and we will try to include that.

Hon. Maria Minna: Thank you.

The Chair: Thank you.

Mr. Côté, please, for three minutes.

[Translation]

Mr. Guy Côté: Thank you very much.

[English]

The Chair: We may go five minutes over, Mr. Goodale, if that's okay. We started about five minutes late.

[Translation]

Mr. Guy Côté: A bit earlier you talked about the tendency governments have had over the past 20 years to make very optimistic projections, which gave rise to many deficits.

In the same vein, allow me to point out that for seven years now the government has been doing exactly the opposite. I know that Mr. Hubbard is very happy about this surplus and that we should be happy to. However, I am anxious to meet my former economics professors and tell them that a \$7 billion error, if it is a surplus, deserves a better mark than a \$7 billion error that puts you in the red.

We talked about tax havens earlier. It must be a little special, of course, to work with a Prime Minister whose family business benefits from tax measures in these tax havens.

Does the Department of Finance have any plans to change anything in that regard and to make changes with regard to tax havens?

• (1125)

[English]

Hon. Ralph Goodale: As I answered earlier, Mr. Côté, in response to Mr. Pallister, this is an area we have under examination at the present time. I have raised the issue with international colleagues at the G-7 and the International Monetary Fund as well as with Secretary Snow in the United States and Chancellor Brown in the United Kingdom. We are examining our options, bearing in mind that moving in this field requires not just action by one country acting alone but a concerted international effort so you're dealing with this on a coherent basis worldwide.

[Translation]

Mr. Guy Côté: There are bilateral agreements between Canada and other countries. Could we not act immediately because of those bilateral agreements?

[English]

Hon. Ralph Goodale: In fact, we have limited the use of international tax locations to only those where Canada has an existing tax agreement. We have tried to confine the circumstance in the very way you have defined so we can have rules around what the appropriate tax regime is, as between those two countries. That is a framework within which future action can be considered. But I think it is important in moving forward in these areas to take carefully into account not just the factors—and the important factors—you and Mr. Pallister have referred to, but also the views and the arguments we need to hear from some of the countries, for example, in the Caribbean, that are Canadian friends and allies, how they look at this situation, as well as from the Canadian business community.

You focus on one particular high-profile company—and I understand the political reason for doing that—but I think you need to hear more broadly from Canadian enterprise generally to understand exactly the issues and the impact of those issues that would form the context for all of us making an intelligent decision.

But I assure you, this is a matter that is of concern to me, as it is to you and Mr. Pallister and others. I just hope we can put together a sensible plan that leads to the right kind of both legal and economic results.

The Chair: Thank you, Mr. Goodale.

Mr. Bell for three minutes, please.

Mr. Don Bell: Very quickly, let's go back to the MUSH—the municipalities, universities, schools, and hospitals—and the GST. I know that during the recent election campaign the issue came up again about moneys for health care, the needs of hospitals in particular, and the needs of the education system. It seems to me the GST is one of the ways in which the federal government could directly, without stepping into the area of provincial jurisdiction, assist these bodies. Having served on a school board and on a hospital board in the past, and knowing the problems they face, I would just urge you, Mr. Goodale, to take a look at the issue again.

I know you said you have no plans at this point, but all of these bodies, just as municipalities, have their crunch and are facing funding shortfalls and problems. It's a way in which, as I said, we could assist without getting into the area of provincial jurisdiction. The GST is an area where we have federal jurisdiction and could provide that relief, and we have the example of municipalities.

Hon. Ralph Goodale: Well, let me take that as representation, Mr. Bell, in terms of a useful idea for the future. I would repeat that in the case of the innovation agenda, which directs money toward universities, research hospitals, the granting agencies, and so forth, we've increased that funding over the last number of years by \$13 billion. This has been widely approved of and applauded by the Association of Universities and Colleges of Canada.

We have also, as of a month ago, put an incremental \$41 billion into health care. We, the Government of Canada, invest about \$36 billion a year in one way or another in support of the health of Canadians, a large portion of that in transfers to the provinces. We will now be adding \$41 billion over the next 10 years, which will bring it to all-time record high levels.

We have also, as of two days ago, made another commitment of \$33.4 billion on equalization, which is intended to help provinces deliver the kinds of services that fall within their jurisdiction, like education and social services.

There are various ways to do this, and I take your point as a legitimate representation, but I would say that we have already put, just in the last month, \$74 billion more in terms of federal commitments into these sectors over the next 10 years.

• (1130)

The Chair: Thank you, Mr. Goodale.

Ms. Wasylycia-Leis, please, for three minutes.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chair, for your indulgence.

I have two quick questions, and it will take about a minute, leaving two minutes for an answer.

First of all, I don't believe there's any legislation that gives you a mandate to proceed with cross-pillar mergers. What I'm asking is, if you have any intention of proceeding down this path, will you permit this committee to thoroughly review the issue before a decision is made?

Second, this has to do with currency trading. As far as I understand it, financial institutions in Canada trade about \$72 million in currencies each day. That works out to just more than \$18.1 billion in currency trading annually in a country where the GDP is worth about \$1.3 trillion a year.

So my questions to you on that are, can you tell us where the financial institutions get all this money, and second, in the interests of being constructive and positive, would you consider some form of charge or royalty for the use of the Canadian dollar at a rate that would enable the government to fulfill the commitment made in 1999 to eliminate child poverty?

Hon. Ralph Goodale: On cross-pillar, Ms. Wasylycia-Leis, it's my understanding that if we chose to go in that direction—and I'm making no comment about that at the present time—the legal

authority presently exists. Let me ask Mr. Swedlove, who's the assistant deputy minister in that particular field, to explain the legal regime that applies here—without implying that we're going in that direction.

Mr. Frank Swedlove (Assistant Deputy Minister, Financial Sector Policy, Department of Finance): That's correct, Minister. The present legislation allows for what we call the widely held rule, which applies to the two demutualized insurance companies, to be waived at the discretion of the Minister of Finance. The Minister of Finance does have the discretion in legislation to permit cross-pillar mergers.

Hon. Ralph Goodale: Your other question refers, I think, to a variation on the so-called Tobin tax—and my former colleague, Brian, would want me to point out that he is a different Tobin, as is my chief of staff, who shares that same name but has no family relationship; he's an entirely different Tobin.

The practical reality is that if Canada were to decide that was the right policy choice to make, we could only do it in concert with other countries or else we would have no international commerce, period. This is not something you can do in isolation. If we were to decide it's a good idea...and I know Parliament had a vote on this in the last session or the one before that. A great many other countries in the world hold profoundly different views. To impose this kind of surcharge unilaterally would simply mean you've priced yourself out of the international community. It's not something that lends itself to unilateral action.

The Chair: Thank you, Mr. Goodale.

I want to thank the members for being indulgent. I want to thank the minister for taking the time out of his day and guiding the committee towards its pre-budget consultations and thank everybody for attending.

Have a good day.

Hon. Ralph Goodale: Thank you, Mr. Chair.

The Chair: The meeting is adjourned.

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