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## Standing Committee on Finance

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**Thursday, April 7, 2005**

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**Chair**

**Mr. Massimo Pacetti**

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## Standing Committee on Finance

Thursday, April 7, 2005

•(1110)

[English]

**The Vice-Chair (Mr. Charlie Penson (Peace River, CPC)):** I'd like to open the meeting this morning and welcome the Department of Finance officials here to consider the main estimates. We have with us this morning Paul-Henri Lapointe, Mark Carney, and Marilyn MacPherson.

I understand you have an opening statement. Who would like to proceed?

Mr. Carney, go ahead.

**Mr. Mark Carney (Senior Associate Deputy Minister, Department of Finance):** Thank you, Chair. It's a pleasure for us to be here.

My name is, as you said, Mark Carney. I'm the senior associate deputy minister at the Department of Finance.

Marilyn MacPherson is the acting assistant deputy minister in the corporate services branch of the department; and Paul-Henri Lapointe, who I think is known to all of you, is the assistant deputy minister, economic and fiscal policy branch.

We are joined today by other senior officials from the department, as well as representatives from the Canadian International Trade Tribunal, the Financial Transactions and Reports Analysis Centre of Canada, and the Office of the Superintendent of Financial Institutions.

Although the Office of the Auditor General is included within the finance portfolio, the estimates for that agency are reviewed by the Standing Committee on Public Accounts, and as a consequence, no officials from that office are here today.

[Translation]

The Department's responsibilities include preparing the federal budget, developing tax and tariff policy and legislation, managing federal borrowing on financial markets, administering major transfers of funds to provinces and territories, developing regulatory policy for the country's financial sector, and representing Canada in international financial institutions and fora.

[English]

The Canadian International Trade Tribunal acts essentially as an administrative court in the adjudication of trade cases, including complaints by potential suppliers concerning federal government procurement covered by international trade rules.

The Financial Transactions and Reports Analysis Centre of Canada, or FINTRAC, contributes to the national initiative to combat money laundering and to Canada's anti-terrorism efforts by collecting and analyzing information on financial transactions and disclosing the resulting financial intelligence to the appropriate law enforcement agencies.

The Office of the Superintendent of Financial Institutions is the primary regulator of all federally incorporated financial institutions and federally administered pension plans in Canada.

These estimates propose spending, both budgetary and non-budgetary, by the Department of Finance of \$70.7 billion, representing just over 37% of the total budgetary main estimates for that year. However, most of its spending, \$67.2 billion, is statutory in nature, that is, provided under enabling legislation and not subject to annual appropriation by Parliament. This includes interest on payments on the federal debt, representing \$35.9 billion; major transfers to the provinces for equalization, \$9.5 billion; the Canada health transfer, \$13 billion; the Canada social transfer, \$8.2 billion; and the health reform transfer, \$3.5 billion—amongst others.

It should be noted these amounts do not include the impact of the recently approved Bill C-24, which implemented the August 2004 new formula for equalization and territorial formula financing, and Bill C-39, which implemented the September 2004 10-year plan to strengthen health care, as parliamentary approval for these bills occurred after the tabling of the Appropriations Act for 2005-06.

In addition, these amounts do not include the proposed equalization offset payments to Newfoundland and Labrador and Nova Scotia pending passage of Bill C-43, the Budget Implementation Act.

Total spending for which appropriations are being sought in these estimates amounts to \$2.8 billion. Of this amount, \$1.8 billion is for transfers to the three territories under the territorial formula financing program and \$944 million is to meet commitments by Canada under multilateral and bilateral debt reduction and debt service reduction agreements. It should be noted that with the passage of Bill C-24, the transfers to the territories under the territorial financing formula are now classified as statutory spending.

This leaves \$84 million to cover the operating expenditures of the department. This represents an increase of \$6.2 million from the main estimates for 2004-05. This increase in requested appropriations is largely due to increased workload pressures, including the costs associated with the commitment to the northern strategy and devolution negotiations on national regulation of securities, discussions on offshore resources, and a number of tax policy issues.

The three agencies in the departmental portfolio are seeking \$41 million, down from their 2004-05 request of \$42.5 million.

[*Translation*]

As Members may know, the Department's Main Estimates and Report on Plans and Priorities are presented in accordance with the Treasury Board Secretariat's new Management, Resources and Results Structure (MRRS) policy. This provides for a more standard basis of reporting on the alignment of resources, program activities and results, thereby reinforcing the government's commitment to strengthening public sector management and accountability.

[*English*]

With that, we would be pleased to answer any questions the committee has on these estimates.

• (1115)

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Mr. Carney.

We'll open it up for questions.

Mr. Pallister, eight minutes.

**Mr. Brian Pallister (Portage—Lisgar, CPC):** Thank you, Mr. Chairman.

Thank you, Mr. Carney, for your presentation.

According to part III in the plans and priorities document, the department "ensures that the legislative and regulatory framework allows financial institutions to compete effectively at home and abroad...", etc. When is the federal government's revised policy with respect to large bank mergers expected?

**Mr. Mark Carney:** The policy on large bank mergers is subject to ongoing work within the department. I believe the minister has indicated the government's intention to release it before the end of this year.

**Mr. Brian Pallister:** When will legislation to modernize the government's provisions for financial institutions be introduced?

**Mr. Mark Carney:** That legislation should be introduced in short order.

**Mr. Brian Pallister:** What legislative and regulatory changes are needed to ensure that Canada's financial institutions can compete effectively both domestically and internationally?

**Mr. Mark Carney:** As you are no doubt aware, Mr. Chair, there are fast-moving changes in the financial services sector, both within Canada and worldwide. The department is engaged in an ongoing study of those changes or developments internationally, which give rise to a host of issues that are analyzed and proposed for potential amendment. At present, we are concentrating our work on the launch of the review of the Bank Act for the 2006 process for the financial services act, which has been launched with an initial consultation paper incorporated into the budget plan 2005 as an annex.

**Mr. Brian Pallister:** Okay.

The budget reduces taxes for individuals, but it's phased in over a period of time, and when fully implemented, the measures the government has spoken of in the budget speech will increase the amount of income that Canadians can earn without paying federal tax to \$10,000.

I am curious as to why a measure so logical and so overdue would be phased in over a period of years. I am curious about whether you have any numbers that would reflect what the revenue cost would have been had this measure been implemented immediately to the \$10,000 level, as opposed to being phased in over a period of time. If you could give me a forecast of the approximate costs over the next four or five fiscal year period, that would be helpful.

**Mr. Mark Carney:** I'll answer the first part of the question, while we search for the answer to the second part of the question.

**Mr. Brian Pallister:** Thank you.

**Mr. Mark Carney:** To some extent, the second part of the question is answered in the budget plan. Once it's fully phased in, effectively that would be the cost of implementing it in year one. So in year 2009-10, which my colleagues will devise....

In terms of the decision to phase in taxes or to phase in anything, obviously there is a wide range of initiatives that are contained in any budget and trade-offs have to be made in terms of the timing of the implementation of any of those initiatives. What budget 2005 proposes to do for all tax measures is to set out a clear path for all tax measures, and obviously those measures are incorporated into the budget implementation bill, which will be legislation if passed by the House, so people will have the certainty of ultimate tax relief that provides.

I will just check....

• (1120)

**Hon. John McKay (Scarborough—Guildwood, Lib.):** I have a point of order, Mr. Chair.

We'd like to know where we're going. I appreciate Mr. Carney's answer with respect to budget 2005 and I appreciate that Mr. Pallister wants to make inquiries with respect to budget 2005, but we are here to deal with the estimates for 2005-06, which are not related to the budget implementation bill. If it's just a wide-ranging discussion about everything, then that's one thing, but the officials are here to speak to the issues with respect to the estimates.

So I would appreciate some clarification, Mr. Chair, as to exactly what we're here for. If we're here to talk about everything, that's one thing, but I respectfully submit that those issues are not relevant and should not necessarily be answered by these officials.

**Mr. Brian Pallister:** They were in the process of answering the question, Mr. McKay.

**Hon. John McKay:** I know that, which is why I want to bring up the point of relevance right now, because we are talking not about budget 2005 but about the estimates. The estimates are not the budget, and the budget is not the estimates.

**Mr. Brian Pallister:** They're not related, in your mind?

**Hon. John McKay:** It's not in my mind; it's a fact.

**The Vice-Chair (Mr. Charlie Penson):** We'll finish this point of order and then go back.

**Hon. John McKay:** I respectfully encourage honourable members to focus their questions on what these officials are here for, which is the estimates.

**Mr. Brian Pallister:** I always appreciate Mr. McKay's fine interventions, sir, and his coaching is much appreciated.

Mr. Hubbard wants to say something, I expect.

**Mr. Charles Hubbard (Miramichi, Lib.):** I have another point just for clarification.

According to the orders of the day, we're looking at estimates for votes 1, 5, 10, L15 and 25, whatever those are, especially vote 25. The witnesses have presented a very limited look at the estimates under those votes. Are we considering the full votes or just what the witnesses are coming here about?

It's my understanding that this committee would approve and recommend to the House that the House then deal with the votes according to those particular numbers. What exactly are we doing?

Could the chair or the clerk please explain to the committee and maybe to the witnesses, too, what we are looking at? Vote 1 includes agriculture, it includes aboriginal affairs, it goes on to ACOA. Are we considering all that this morning or are we considering the very narrow approach that the witnesses have presented to us?

**The Vice-Chair (Mr. Charlie Penson):** Mr. Hubbard, maybe we can clarify, and I will ask the clerk to assist me here.

What the clerk is telling me is that those are being considered under estimates in the specific departments. Agriculture is being considered under Agriculture estimates, so we're not considering agriculture. Is that right? It is only those votes that take place under Finance.

Just to clarify it a little bit further, Mr. Hubbard, I want to make a change. The notice that was sent out also had vote 25, and that's not the case. We're not considering vote 25.

**Hon. Maria Minna (Beaches—East York, Lib.):** So which ones are we considering then? Vote 1 we're not.

**The Vice-Chair (Mr. Charlie Penson):** Because it was referred to the foreign affairs committee.

Mr. Carney, do you have something to say in this regard?

**Hon. Maria Minna:** Could you tell us which ones we are dealing with then, please, so we know?

**The Vice-Chair (Mr. Charlie Penson):** Can you help clarify that vote 25?

**Mr. Mark Carney:** I will check on vote 25. Let me start on the other ones, though.

Vote 1, which is effectively the operating expenditures of the Department of Finance, I would submit, is for consideration today. It's a core element of consideration.

**Mr. Charles Hubbard:** Could we refer to that in the estimates so we can look and see what's on our list?

**The Vice-Chair (Mr. Charlie Penson):** Mr. Hubbard, we'll get further clarification from Mr. Carney first.

**Mr. Mark Carney:** For reference, page 9-2 of the main estimates gives the votes, or at least that's the page to which I'm referring.

Vote 1 is the operating expenditures of the department.

Vote 5 are grants and contributions, effectively, for international debt relief and development assistance.

Then there is vote 10, which is transfers to the territorial governments. I apologize if I wasn't clear in my statement. That has actually been addressed by the recent passage of the bill. It wasn't addressed at the time these were prepared, obviously, but with the passage of the relevant legislation, which I will refer to in a moment, that vote, I would submit, is no longer for our consideration because the full House has considered it and passed it. It's Bill C-24.

• (1125)

**Hon. Maria Minna:** And vote L15?

**The Vice-Chair (Mr. Charlie Penson):** Go ahead, please, Mr. Carney.

**Mr. Mark Carney:** And then vote L15, which is a demand for—yes, we would submit to that.

Vote 25 is the Canadian International Trade Tribunal, and I think the chair has raised the issue there.

**Hon. Maria Minna:** So we are dealing with three, then, instead of—

**The Vice-Chair (Mr. Charlie Penson):** And that has been transferred to the appropriate body, vote 25?

**Mr. Mark Carney:** That is my understanding, yes.

**The Vice-Chair (Mr. Charlie Penson):** Mr. Carney, you were about to respond to the question to you regarding the direction in which Mr. Pallister is going. Do you have any problems responding to the question that Mr. Pallister put to you?

**Mr. Mark Carney:** For completeness, with the chair's leave, the fully loaded cost, if you will, of personal income tax reduction in 2009 was \$3.55 billion. Obviously there's a bit of inflation built in. We assumed a Bank of Canada rate of 2%. So I would argue on a back-of-the-envelope calculation that it would be \$3.279 billion if we were to do it today. But perhaps directionally, why don't you just take it from—

**A voice:** [*Inaudible*]... the additional \$10,000.

**Mr. Brian Pallister:** Just to give my colleagues a chance, I will close by asking one specific question. Under “Sound Fiscal Management”, my document talks about domestic coinage. I am curious on that issue. The current main estimates, if I can find them, are just a little more than half. It's page 36 of the document, according to my colleague. “Supply coinage at a reasonable cost to meet the needs of the economy” talks about a budgeted item last year of 39—I'm struggling to find it. Domestic coinage is table 1, “Departmental Planned Spending and Full-time Equivalents”. Forecast spending in 2004-05 was \$48 thousand. Planned spending in 2005-06 was \$82 thousand, sustained thereafter at levels approximate to that.

Could you explain to me how come domestic coinage is going to cost so much more?

**Mr. Mark Carney:** Sure. Thank you for the question.

There are two main factors behind that. There is the expected increase in demand for coins in circulation, but additional production costs are related to meeting the demand from collectors for additional series of commemorative coins that are coming out under the multi-year commemorative coin program. This program began in the middle of last year, so we would only have had effectively a half year of that, and the 2004-05 main estimates didn't take into account those costs. So even though there was only a half year of the costs, they weren't in last year's estimates. As we now have a full year, they are in these estimates.

Just to give you a bit of a sense, last year you had the poppy quarter and the lucky loonie. In 2005-06, the Royal Canadian Mint plans to issue commemorative coins, including a Terry Fox loonie, a World War II victory nickel, and commemorative centennial coins for Alberta and Saskatchewan to celebrate their centennials.

**Mr. Brian Pallister:** I have a supplementary question, just for clarification.

You've mentioned increased usage as one of the reasons, but primarily the collectors' coins. Can you give me a bit of a breakdown, or an approximation even, showing to what degree we attribute the increase from \$48 million to \$82 million, which is a pretty significant increase, to increased use and to what degree that is because of the collectibles?

**Mr. Mark Carney:** I'll ask a colleague from the financial sector policy branch, Frank Swedlove, who is the assistant deputy minister, to answer that element.

I would make one other point, just as Frank is getting ready, though. There is an offset to the costs of coinage, as I am sure you're aware, in terms of the seigniorage, which helps defray some of the costs, and certainly with commemorative coins, where effectively they're taken and in most cases put in jars. They have higher effective seigniorage than normal circulation coins.

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Mr. Carney.

Mr. Swedlove.

•(1130)

**Mr. Frank Swedlove (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance):** The vast majority of the increase in cost relates to the commemorative coin program

rather than increase in demand, but as Mr. Carney noted, it is expected that revenues will increase and more than offset those increased costs. We work with the Mint to ensure that these programs are run on a profitable basis.

**The Vice-Chair (Mr. Charlie Penson):** Thank you.

Mr. Côté, please.

[*Translation*]

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

Thank you, Mr. Carney, for your presentation. Before I go any further, I want to be certain that I understood you correctly. Did you state earlier that a new policy with respect to bank mergers was expected in 2006? Did I hear you correctly?

[*English*]

**Mr. Mark Carney:** There is not a new policy related to bank mergers contained in the main estimates—I can answer that way—and I would stand by my previous answer.

[*Translation*]

**Mr. Guy Côté:** As for the \$84 remaining to cover the operating expenditures of the Department, you mentioned earlier in your presentation that this figure represents an increase of \$6.2 million. Among the reasons given for this increase are negotiations on a national regulation of securities. To my knowledge, securities commissions come under the jurisdiction of the provinces, including Quebec. Similarly, the vast majority, if not all, securities commissions are opposed to a unified Canadian securities regulatory regime.

My question is therefore twofold. What negotiations are you referring to and what are we looking at in terms of costs?

[*English*]

**Mr. Mark Carney:** Sorry, there's a slight problem with the translation.

I have a couple of comments on the securities commission question. In part we are responding to the direction from this committee to work towards a national securities regulator; it's a direction the committee gave prior to budget 2005. The cost, if you will, of this work is principally concentrated in our financial sector branch. To give you a sense of the change in terms of the operating expenses of the financial sector branch, it is \$793,000 over the course of the year. There are other activities that help make up that as well, including increased initiatives to combat money laundering, efforts of the department separate from the efforts of FINTRAC.

In terms of securities regulation, there was discussion in the budget plan. There was direction from the finance committee, which the government took into consideration. The government included it in the budget plan. There's associated work related to that, and there is an intent to have a meeting, which all provinces have agreed to attend, with federal government representatives to look at ways to improve securities regulations in this country.

[Translation]

**Mr. Guy Côté:** Your observation is timely indeed. Among other things, you mentioned FINTRAC and the problem of money laundering, which leads me to believe, although there is no direct link, that the Department is indeed responsible for negotiating, or renegotiating dual taxation treaties.

Naturally, the first example that comes to mind is Barbados and for a number of reasons that I will refrain from listing at this time, because that would put us in the same situation as we found ourselves in yesterday during Question Period.

Having said that, is the Department currently involved in renegotiating any treaties and more specifically, the treaty with Barbados?

• (1135)

[English]

**Mr. Mark Carney:** I'll have a colleague join for more specifics, but we undertake a normal course of constant review of our tax treaties with all major jurisdictions. There are ongoing negotiations on the tax treaty with the United States, for example, that have been under way for some time and there are a variety of other potential or actual negotiations in various stages. It's something we constantly review.

In terms of the specifics of that jurisdiction, I will defer to my colleague Mr. Swedlove.

**Mr. Frank Swedlove:** I understood the question with respect to money laundering related to the discussions with the bar, with the legal bar—

[Translation]

**Mr. Guy Côté:** No, I said that it brought to mind Barbados, but that there isn't necessarily a direct connection. I was wondering if the Department was renegotiating at this point in time our tax treaties with Barbados.

[English]

**Mr. Mark Carney:** No problem. The crossover brings in Serge Dupont, who is the general director of the tax policy branch.

**The Vice-Chair (Mr. Charlie Penson):** Welcome, Monsieur Dupont.

[Translation]

**Mr. Serge Dupont (General Director, Tax Policy Branch, Department of Finance):** Mr. Chairman, I would be happy to submit to the committee a list of negotiations currently underway involving international tax treaties.

To my knowledge — and I would have to verify the facts with my colleagues on the front lines — I do not believe that the Department is actively negotiating any treaties with Barbados.

That being said, over the years, we have examined the international taxation policy from an overall perspective. Different rules have been introduced to close loopholes. At this time, the Department is reviewing various taxation issues, in particular the workings of the policy that allows persons to bring back to Canada tax-free certain income earned in countries with which we have treaties, the list of countries with which we have treaties and the provisions of these treaties.

We are looking into all of these issues right now. Outside experts are also involved in this review process.

**Mr. Guy Côté:** My colleague Pierre Paquette and I from the Bloc Québécois often have a number of questions about treaties — in this is especially true in the case of the one with Barbados — that allow companies to avoid paying any taxes whatsoever in Canada. I humbly suggest — and without a doubt you know your job much better than I do — that we should reconsider the treaty with Barbados carefully. We're not talking about money laundering, but about a form of tax evasion, if you will, which is permissible under existing laws and regulations. The treaties do, however, contain a number of loopholes which allow certain companies that do business in Barbados to avoid paying any taxes at all in Canada.

If I have a minute left, I would propose that my colleague Mr. Paquette, who knows much more about this than I do, elaborate further on the subject. He can explain it better than I can.

**Mr. Pierre Paquette (Joliette, BQ):** In any event, I think the Auditor General...

[English]

**The Vice-Chair (Mr. Charlie Penson):** A short intervention, Mr. Paquette, please.

Your time is short.

[Translation]

**Mr. Pierre Paquette:** I just want to say that the Auditor General has observed — and Statistics Canada confirmed this last week — that direct Canadian investments in Barbados and in other tax havens in general had increased at a phenomenal rate. As I see it, these loopholes need to be closed somehow so that the middle class stops shouldering so much of the tax burden.

Moreover, the link between tax evasion and money laundering is well known. At least 20 per cent of the money currently in tax havens is felt to be, in the opinion of international agencies, money that has been laundered. To my mind, the Department needs to be much more vigilant about this problem.

[English]

**The Vice-Chair (Mr. Charlie Penson):** Mr. Paquette, I want to remind the committee that we are going to be undertaking a study in that regard in the next few months, but if the departmental officials have any comments they'd like to make to wrap up this portion of it, I'd welcome that.

**Mr. Mark Carney:** Thank you, Chair.

I'd like to reiterate on behalf of the department and the government that we do take this issue extremely seriously. We are asking for more resources to be put into this effort, as I noted in my initial comment. We have proposed, and it was detailed in the budget plan, that we join the Asia-Pacific anti-money-laundering group as part of our expanding network of multilateral cooperation to address this issue. We also indicated that Canada intends to seek the presidency of the Financial Action Task Force, which is the umbrella group, and I would submit the most effective group in terms of managing these types of issues on a global basis, and given the mobility of capital, they do need to be managed on a global basis.

I want to underscore that we take these issues very seriously and we are active, and we are actually asking for additional resources to implement our plans.

• (1140)

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Mr. Carney. Maybe you'll have an opportunity to come back to this committee in the near future.

We'll move now to Mr. Bell, please, for eight minutes.

**Mr. Don Bell (North Vancouver, Lib.):** Demographic change is one of the issues facing us with an aging population and the projections for a declining workforce. What plans do you have to deal with those demographic changes, and how are they projected in the budget?

**Mr. Mark Carney:** In the budget plan for 2005, there is a detailed discussion in one of the appendices of the demographic challenge that the country faces. For a number of years, it has been a focus of work in the department and a key driver of government policy.

The core economic agenda of the country that is encapsulated in the budget is to increase productivity growth. This agenda is based on our belief that while Canada has been very successful in employment growth, with more than three million jobs created over the course of eight years, the workforce may not always be capable of continuous increases in size. For this reason, productivity growth will be essential to meet the demographic challenge and to maintain a high and rising standard of living.

Outlined in the budget are a number of measures meant to encourage productivity growth—investment, innovation, workplace skills. The tax agenda is encapsulated in budget plan 2005, and it is focused on this objective. This work does not stop and cannot stop. It requires continued research, together with policy planning proposals from virtually every part of the Department of Finance.

We are proposing to undertake a series of tax consultations, some of which were mentioned in the budget with respect to income trust and certain environmental measures. There will undoubtedly be others over the course of the year. Tax policy is absolutely central to the productivity agenda. We're requesting modest additional resources to do that work.

We need to do work across Mr. Lapointe's branch. We need to make sure our social and environmental policies are consistent with the productivity agenda. It is a central objective of the department. We determined that the government's budget had this at its centre, and we have tried to highlight the challenge and to demonstrate the steps we need to take to meet it.

**Mr. Don Bell:** Do you have any projections or estimates directed at the changing face of the labour force? I'm thinking particularly of the effect of immigration. We've been dealing with the recognition of credentials, the issue of fully engaging the immigrant workforce. Is that a factor in your projections?

**Mr. Mark Carney:** In our demographic projections, which are included in the budget plan outlining the demographic challenge, we consider the immigrant flow and have included actuarial estimates of how the population evolves. So we identify the challenge. We also consider the question from a policy point of view. The budget contains measures focused on immigrant integration, an issue that bears on two of our main objectives: productivity growth and continued growth in standard of living.

• (1145)

**Mr. Don Bell:** This is all based on current projections of the rate of immigration?

**Mr. Mark Carney:** Yes.

**Mr. Don Bell:** On the issue of taxation and taxation policy, we've heard testimony about the lack of competitiveness of the Canadian taxation system with respect to both personal taxation and corporate taxation. We've heard that we need to position ourselves to compete internationally, particularly with the United States, our closest market and nearest neighbour. Can you comment on how you plan to address this issue?

**Mr. Mark Carney:** Thank you for the question.

The tax policy is central to this issue of productivity, central to investment. We have an ongoing work program that is being supplemented, as I indicated in my previous response, by a series of consultations on some very important issues; the income trust sector is one, the environment is another. We expect a host of issues over the course of this year. So it's ongoing work.

I would submit, for the committee's consideration, that in the 2005 budget some clear principles were enunciated on the tax competitiveness side, both in terms of maintaining a statutory rate advantage, or retaking, if you will, a statutory corporate rate advantage over the United States as part of the corporate tax cut that was implemented, as well as principles around CCA depreciation rates and principles around environmental taxation. We've tried to lay out some of those medium-term principles. The agenda will work around those principles. Obviously taxation is a huge issue and it's effectively ever-vigilant work.

**Mr. Don Bell:** To that degree, because that taxation competitiveness can obviously affect the flow of capital across the border and the decisions to locate industries in Canada, for example, or to maintain industries in Canada—I guess that's the reason I asked that question.



This may not be directly related to what you're doing, but are the potential policies on Kyoto and responding to that, and the difference in attitude from the United States in any way reflected in your policies and planning in the economic issues?

**Mr. Mark Carney:** I would answer that when we look at tax competitiveness we have to look at all aspects of taxation across a range of industries, across capital, across a range of income. So we look at all relevant variables and all relevant competing markets, actual or potential.

**Mr. Don Bell:** I didn't know if, as a result of that, you were aware of any specific taxation plans that would relate to those differences and how that would compare to what the United States may be doing, or your understanding of what the U.S. markets are going to do, or what the U.S. government is going to do.

**Mr. Mark Carney:** I would say vis-à-vis the United States that, as I think the committee is aware, there are major discussions under way at present in terms of the potential tax reform in the United States. We are monitoring those closely and we'll see how those come out, and that will be one element in terms of our thinking on the future direction of tax policy.

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Mr. Carney and Mr. Bell.

Mr. Christopherson, please.

• (1150)

**Mr. David Christopherson (Hamilton Centre, NDP):** Thank you, Mr. Chair.

Thank you very much for your presentation.

There has been a lot of discussion in the House and other places about the government's forecasting and how many billions of dollars the government's been out for quite a number of years now. We know that some groups, such as the Canadian Centre for Policy Alternatives and others, have been much more accurate in predicting your budget surpluses. Can you give us, from your perspective, a reason why your department has been consistently out for so many years and why others seem to be able to do what you can't?

**Mr. Mark Carney:** I'll defer to Paul on that.

**Mr. Paul-Henri Lapointe (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance):** I think you are referring to the forecasts from the Centre for Policy Alternatives. In fact, when you look at the forecasts in the past several years, you'll see they have made what we consider to be very risky assumptions that the revenue-to-GDP ratio will remain constant despite the reduction in taxation that we have seen. In fact, if you look at the revenue-to-GDP ratio, you'll see it has come down as a result of the 2000 tax reduction plan, but not to the same extent as we had anticipated. And it is largely through good surprises on the economic side. We have had a repeated number of positive surprises in the economy.

I would note that the IMF report looked at the economic forecasts, and they found that—and it's not to blame or criticize the private sector economists here—the economic performance had consistently exceeded what was expected by the private sector economists. In fact, the Canadian economy has done surprisingly well since 1997 compared to England and its economy.

So that is certainly a good explanation for why we have always stated a surplus forecast.

Looking ahead, we have, of course, to factor in the additional tax reductions that will come into effect, but we also have to factor in the possible behaviour of the corporate profits, as you know. One of the positive and surprising elements of the revenue here in the last few years has been the corporate income tax, largely because corporate profits have risen to record levels, the highest in 30 years. That explains a good part of why we have done so well.

**The Vice-Chair (Mr. Charlie Penson):** Mr. Christopherson, I'd just like to point out that the clerk has just reminded me that we are going to be having officials from the Department of Finance before us on Tuesday next week to talk about fiscal forecasting specifically.

As you know, we are doing an ongoing study on that. I guess it would be relevant to the extent of how it would affect the estimates this year, Mr. Lapointe and Mr. Christopherson, so if you want to explore that further...

But I just want to remind you that we are having officials here to talk specifically about this next week.

**Mr. David Christopherson:** Thank you, Mr. Chair, and I appreciate that. I would draw to your attention, though, that I am following some of the notes provided by the committee's own analyst.

**The Vice-Chair (Mr. Charlie Penson):** It's certainly relevant as it pertains to this year's estimates, so go ahead.

**Mr. David Christopherson:** I take your point that you think that goes a long way to explaining it. I'm sure it does in some quarters.

I'm not totally foreign to all this. I was the parliamentary assistant to the Minister of Finance in Ontario before I went into cabinet myself, so I'm not foreign to all these things. But I have to tell you, that's still not much of an answer from a layperson's point of view, especially when others are able to get a little more accurate.

I'm interested that you sort of brushed aside what the Canadian Centre for Policy Alternatives did by characterizing it as risky, but given that they were more accurate over the years, one might suggest that your department needs to get a little more risky if it's going to produce estimates that are a little more accurate.

I'll give you a chance to comment on that.

**Mr. Mark Carney:** Yes, well, I think I could blend the last two comments that came through the chair and the question.

We take all serious work in this area seriously, and we certainly look at what the Centre for Policy Alternatives has done and does. We look at a wide range of private sector forecasts. We look at a wide range of public sector academic forecasts, such as they are—you're well familiar with the formalized process. But we take this work seriously.

It is an ongoing process. I've been an economist all my life. It is not a perfect science. There is intense work done in the department. We benefit from the work of this committee in this area. We expect to continue to benefit from that work, and we look forward to being here on Tuesday to discuss this in more detail.

• (1155)

**Mr. David Christopherson:** I'll leave any further questions to that discussion. Thank you both for that.

If I might, Mr. Chair, this is my first time to this committee, so if I'm off base on something, I do appreciate—

**The Vice-Chair (Mr. Charlie Penson):** You have three minutes, Mr. Christopherson.

**Mr. David Christopherson:** Thank you.

If I'm in order to do so, I'd like go to the ministry summary. Am I okay to ask line questions on this, Mr. Chair?

**The Vice-Chair (Mr. Charlie Penson):** Yes.

**Mr. David Christopherson:** Thank you.

The 2004-05 estimates for the Auditor General are \$63,250,000—I'm assuming that's in millions. In the 2005-06 main estimates, there is a reduction, and yet we've increased the workload. We've had a little bit of toing and froing with Treasury Board. I sit on the public accounts committee; that's why I know these things. I was curious to note that you actually show a reduction in spending in the Auditor General's department. Can you explain that to me, please?

**Mr. Mark Carney:** As I mentioned in my opening remarks, the representatives of the Auditor General's office are not here because they present their main estimates in front of your committee, the public accounts committee. I would submit that is the venue for that discussion.

**Mr. David Christopherson:** You must have some explanation for the reduction. You must have somebody...

**The Vice-Chair (Mr. Charlie Penson):** Mr. Christopherson, I think Mr. Carney has identified it correctly. There will be separate estimates, and you can use the public accounts committee to ask those questions.

**Mr. David Christopherson:** So that means I'm forbidden from asking at any other committee, because it comes up at one?

Thank you, Mr. Chair. I'll move along. I don't want to be difficult—any more difficult than my job requires.

With respect to transfer payments to the International Monetary Fund's Poverty Reduction and Growth Facility, number one, I don't know what that is, but it deals with poverty and it's one of the few times I see this government doing something about poverty. Yet the number is reduced almost in half, from \$8.2 million—I guess we're back into total numbers here—and then in 2005-06 to \$4.8 million, a massive reduction. Can you explain, first, what it is, and second, why it's being reduced?

**Mr. Mark Carney:** First, the Poverty Reduction and Growth Facility, PRGF, is a facility set up and run by the IMF, the main donor to the facility. It is a mechanism to provide a combination of debt relief and grants to the poorest countries—countries that have to meet certain criteria in terms of governments and other aspects. It

effectively provides debt relief and grants to those countries. The principal donors to it are the G-7 nations, and Canada was one of the initiators, along with the IMF, of the facility.

There is a payment schedule associated with the needs of these countries and that fluctuates with the need. Effectively, what you have here is not a reduction of Canada's commitment in any way, shape, or form, but our pro rata share has gone down—

**Mr. David Christopherson:** It's formula based.

**Mr. Mark Carney:** It's formula based.

**Mr. David Christopherson:** That's great. Thank you very much for answering my questions.

Thank you, Chair.

**The Vice-Chair (Mr. Charlie Penson):** We'll move to a second round.

Ms. Ambrose, we're going five minutes this time.

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

Thank you for your presentations this morning.

I wanted to ask a question. I deal with the area of intergovernmental fiscal transfers. I know you indicated in your presentation that we weren't necessarily dealing with that particular vote, because Bill C-39 was the enabling legislation that dealt with the health transfer payments, and as well, Bill C-24 dealt with the federal-provincial fiscal arrangements.

I wonder if you would indulge me and answer a specific question in relation to—I think it's on page 30—implementation for the early learning and child care initiative. This is something the provinces are talking about right now and there are ongoing negotiations about the \$700 million that's been placed in a trust. I know the budget indicated there would be enabling legislation to implement this transfer. I wonder if you could comment on when that legislation will be coming up, or if there's going to be enabling legislation attached to that \$700-million trust?

• (1200)

**Mr. Mark Carney:** The enabling legislation is in the implementation act. Ideally, before your five minutes is up we will give you the specific reference, but certainly before the committee finishes.

**Ms. Rona Ambrose:** Okay.

The other question I have for you is about equalization. Again, this is something you said, and I realize we're not dealing with it specifically or voting on it, but I wonder if you could quickly tell me what the role of the finance department will be in the process of the panel of experts—how you'll be interacting, and if the finance committee will be interacting. I know you recently announced the people who have been appointed to sit on the panel, and they are all very credible. I like the questions and issues that they'll be dealing with. I think they're very topical and very important. But I wonder if you could tell me how you'll be interacting with them, and if the finance committee will be also.

**Mr. Mark Carney:** Okay. The person who will be most closely interacting with them from the finance department is Barbara Anderson. She's the assistant deputy minister of federal-provincial relations.

**Mrs. Barbara Anderson (Assistant Deputy Minister, Federal-Provincial Relations and Social Policy Branch, Department of Finance):** Certainly at the initial stages we have been providing a lot of background briefings. The panel has set up a secretariat that has experts in both equalization and the northern financing arrangement, and we certainly have been working very closely on the research and—

**Ms. Rona Ambrose:** I'm sorry, but has the panel already convened? Have they started meeting?

**Mrs. Barbara Anderson:** Yes, they've had one meeting, a planning meeting. They are now moving into a stage where they are going across the country talking to provincial governments and provincial departments of finance.

**Ms. Rona Ambrose:** When will you expect a report back from them or recommendations?

**Mrs. Barbara Anderson:** Their mandate is to report back to the government by December of this year.

**Ms. Rona Ambrose:** Okay.

**Mrs. Barbara Anderson:** Now, I think there will be discussions at all levels between now and then, but that's the report date.

**Ms. Rona Ambrose:** How will they be interacting with the finance committee in terms of the discussions around the horizontal fiscal imbalance? This is an extremely important issue. I know some of the people who are on the panel have background knowledge. You're saying you're providing background knowledge from the finance department. Will they be interacting at all in some fashion with Parliament, with the House of Commons, or with the finance committee in particular?

**Mrs. Barbara Anderson:** My initial answer would be that we would certainly hope the panel had some interaction. They are an independent expert panel, so the way they manage their business up until the report stage is their responsibility. Once the report is tabled, I would certainly think we would then have a discussion at a committee like this.

**Ms. Rona Ambrose:** In regard particularly to the equalization issue, I know the panel of experts is looking at the non-renewable resource energy issue. Can you talk a little bit about that in terms of whether it's one of their top mandates that they'll be discussing with the provinces? This is an issue that the provinces have obviously been raising for a number of months.

**Mrs. Barbara Anderson:** It certainly is. The mandate for the panel has been clearly laid out. It's on both our website and theirs. But one of the very important issues in terms of how we move forward is the treatment of natural resources, and they have certainly made that a priority. It's outlined in their issue paper, and I would expect it to be one of the main issues that they focus on.

**Ms. Rona Ambrose:** Thank you.

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Ms. Ambrose.

Mr. Paquette, please.

[*Translation*]

**Mr. Pierre Paquette:** Thank you, Mr. Chairman.

Thank you also for your presentation.

I read in Part II of the Report on Plans and Priorities that one of the priorities identified by the Department and by the Minister is to secure Canada's place in the world. The various objectives associated with this priority include promoting trade liberalization, global financial stability, a stronger international trade system, enhanced security of access for Canadian exports in major foreign markets, and enhanced border efficiency and security.

With respect to the second expected result associated with the priority of securing Canada's place in the world, the only thing mentioned is Canadian exports abroad. Nothing is identified directly as a priority or as an objective in terms of Canadian imports, specifically from emerging countries like China and India and nations for which tariffs have been unilaterally lifted, that is the least developed nations, according to the UN definition.

This brings to mind questions such as rules of origins and dumping, a practice that cannot be discounted. Therefore, there does not appear to be any concerns about protecting Canadian and Quebec industries from unfair foreign competition and what's more, at a time when China, as everyone well knows, is playing an increasingly important role. The same goes for India. This is also happening at a time when hopefully, our unions will soon be able to file grievances when they believe dumping is occurring.

On looking at certain votes, and unfortunately I don't remember the exact page, but I believe it's in section 9, I see that the budget of the Canadian International Trade Tribunal has been reduced compared to 2002-2005. The budget has been reduced from \$9,815,000 to \$9,552,000. When we look at the funding allocated to inquiries, one activity that is certainly likely to increase given the current international trade situation, it has been maintained at \$103 million. In my opinion, the government does not appear to be backing down in terms of supporting our industries.

I'm thinking here, for example, about the clothing and textile sectors. The Canadian International Trade Tribunal was asked to look into the possibility of exempting clothing manufacturers from having to pay duty on textiles not manufactured in Canada. As I see it, much work remains to be done in the months ahead. Now, the budget is being cut back. I fail to see the logic in this decision which may have something to do with the fact that protecting our domestic industries is no longer viewed as important to the Canadian government.

Is my assessment of the situation correct, or is it simply that the numbers weren't added up properly? That seems to be a fairly common problem at the Department of Finance.

• (1205)

[*English*]

**The Vice-Chair (Mr. Charlie Penson):** Mr. Carney, could you respond to that?

**Mr. Mark Carney:** Maybe not the last bit.

We welcome the question; obviously trade is a two-way street. I'm going to defer the answer on the CITT to my colleague, but let me address the first component in terms of whether we do work on the impact of imports on competing sectors—on the fairness of trade, if you will. The answer is yes, absolutely.

Within the international trade and finance branch of the department, we have the trade policy component of that, which is extremely active across a range of trade issues, often trade disputes, internationally—

[*Translation*]

**Mr. Pierre Paquette:** That doesn't appear in the Department's plan. All that I managed to find which relates somewhat to your comment, is the following: "Ensure that tariff and trade remedy policies support and enhance the competitiveness of Canadian businesses". The next column reads: "Ongoing", while the column on the far right reads: "Timely and effective responses[...]"

That's not very dynamic.

[*English*]

**Mr. Mark Carney:** We are active in contributing to the effective management and resolution of trade disputes, problems, advancements of strategies that strengthen the security of markets. I would say with respect to the specifics of the textile industry that this is an example where the government has been active, and the department was active in formulating the response to the textile and apparel sectors in December of last year.

You're raising an important issue. It's an issue we do take seriously. It is the subject of considerable work within the department.

I'm conscious of the time, though, and I do want to give my colleague from CITT a chance to respond on his budget issues.

• (1210)

**The Vice-Chair (Mr. Charlie Penson):** Mr. Gosselin.

[*Translation*]

**Mr. Pierre Gosselin (As an Individual):** Thank you, Mr. Chairman.

In response to the first question regarding the number of complaints filed for unfair competition, dumping or countervailing duties, it is the responsibility of the industries affected as such to file these complaints. When a complaint is lodged, the CITT is obligated by law to carry out an inquiry.

**Mr. Pierre Paquette:** Therefore, you aren't anticipating an increase in the number of complaints filed over the next few years?

**Mr. Pierre Gosselin (As an Individual):** The number varies from one year to the next. This year, we do expect to see an increase in the number of inquiries conducted. However, it is rather difficult to predict, because the complaints come from the private sector and we do not receive any prior notice, except for getting a few months' notice at best. Therefore, it's hard to take that into account in our estimates.

**Mr. Pierre Paquette:** However, the \$103 million budgeted for inquiries...

[*English*]

**The Vice-Chair (Mr. Charlie Penson):** I'm sorry, we are running out of time on this issue, but maybe we can come back to it in the next round.

I'll ask Mr. Gosselin to just respond to the last portion, and then we'll move to Mr. McKay.

Do you have any further response, Mr. Gosselin?

**Mr. Pierre Gosselin:** Well, I was going to say,

[*Translation*]

with respect to China, for example, when that country become a member of the WTO, it agreed to a different regime in terms of safeguards. The government put in place specific safeguards for China and the bar is set much lower than it is for most countries.

[*English*]

**The Vice-Chair (Mr. Charlie Penson):** Thank you.

Mr. McKay, please.

**Hon. John McKay:** Thank you, Chair, and thank you, witnesses.

I have three questions, and the first is for Mr. Carney. It's with respect to his speech, where he said that departmental spending is \$70.7 billion, but I can't quite find where the \$70.7 billion is in any of the tables. On page 41, the total main estimates are just a touch over \$70 billion, and then there are some adjustments, and the total planned spending becomes \$73.492 billion, which is the number that seems to be carried on through the other charts.

I'll just ask Mr. Carney if he can square his speech with pages 41 and 42.

**Mr. Mark Carney:** Chair, on page 9-2 at the bottom of the 2005-06 main estimates for Finance, the figure is \$70.1 billion.

**Hon. John McKay:** Do we have the main estimates? Okay, I'll accept that as an answer. On the basis of the estimates that I have in front of me, I couldn't square the two numbers.

What's the reconciliation between the number in the main estimates and this subset of estimates that we have?

**Mrs. Marilyn MacPherson (Executive Director, Corporate Services Branch, Department of Finance):** Can you tell me what document you're looking at with respect to the subsets?

**Hon. John McKay:** I'm looking at page 41 of....

**Mr. Mark Carney:** Let me pick this up, if I could, chair.

The number I just quoted you, the \$70.1 billion, from the second column for 2005-06, in fact pulled in at \$70.053822, and that's in thousands. That's the number I just referenced from the mains from this document.

**Hon. John McKay:** Your speech says \$70.7 billion, so it really should be \$70.1—

•(1215)

**Mr. Mark Carney:** I think it's a transposition—

**Hon. John McKay:** So that's the number we should be relying on from page 41, with the total main estimates of \$70.053 billion, which they've rounded up to \$70.1 billion. Okay, that's fair. Thank you.

My subsequent question, though, is where do we square that with the main estimates? Are we using the same numbers?

**Mr. Mark Carney:** Yes is the answer.

**Hon. John McKay:** Okay, that squares up to the main estimates. Then, with the adjustments, we're up to \$73.492 billion over time.

**Mr. Mark Carney:** That's correct.

**Hon. John McKay:** Now, the second question is again directed to Mr. Carney, or as you may see fit. Expenditure review has been a very significant program and has largely been supported by the department. Does expenditure review show itself in either your planned spending for 2005-06 or your planned spending for 2006-07 or for 2007-08? If so, could you point members to that?

**Mr. Mark Carney:** The answer is that it does. The number is \$1.4 billion for 2005-06. In terms of the expenditure review savings, I would direct your attention to page 42 of the RPP at the top line.

**The Vice-Chair (Mr. Charlie Penson):** Is that the part III you're talking about?

**Mr. Mark Carney:** Yes, the part III of our priorities, yes.

**Hon. John McKay:** It's \$1.4 billion.

**Mr. Mark Carney:** Yes, \$1.4 billion, which is the relevant number for 2005-06, and then it scales up.

**Hon. John McKay:** And then it ramps up there. I see. Thank you.

The third question is this. Obviously the most significant—or half of your spending—has to do with debt management, and you've revised your assumptions as to the interest rate based upon your private sector forecast. Are there any other initiatives taken by the department with respect to debt management, which will hopefully deal with the debt in a more proactive way?

**Mr. Mark Carney:** It actually is detailed in the debt management strategy that was recently released, but there is a multi-year policy that takes the fixed rate component of our overall debt portfolio down to 60%. We're going to do it over multiple years so as not to disrupt markets.

But effectively our view—and I can ask a colleague, if the committee is interested, to get a precise estimate on this—is that

there are hundreds of millions of dollars in savings over time from having a higher floating rate component of the debt portfolio. And if you will, the yield curve, which fortunately I can talk about at this committee but many others would not be familiar with, is normally almost always upward sloping except on rare occasions, and as a result, having the floating rate component benefits from lower rates at the short end of the yield curve. And we expect, as I say, hundreds of millions of dollars of savings. We've done extensive modelling and testing on that, and some of it is being seen.

I would say that one of the aspects in terms of the upside surprises, if you will, on the forecast issue has been that low short-term rates have been lower for longer than private sector forecasters had expected.

**Hon. John McKay:** One of the criticisms of the forecasters of the department has been that you've overestimated the cost of debt over a longer period of time. I see you're effectively wiping out about \$800 million worth of cost of debt and going forward. Is that reflected in any other documents, particularly going forward? Is this the latest of the latest adjustments for debt management in terms of the historically low interests rates?

I would have thought that this would be the time to buy debt, if you will, because you're never going to see rates below 2.2% for a long time, I wouldn't think, and I would have thought you'd be going long on this.

**Mr. Mark Carney:** Chair, the Department of Finance does not give investment advice, so I won't be drawn into that.

In answer to the latest estimate of this, the budget plan—budget 2005—does give the latest estimate in terms of debt cost. It is probably almost two months in terms of the time difference when the budget plan estimate was put in place. Is that correct? Yes, between this and the estimate, which is in the report on plans and priorities. We have experienced again, although not as marked as over the past year, a period where, albeit interest rates have come up so we're not getting the full benefit, they still are probably lower than would have been expected.

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Mr. Carney.

We'll move to Mr. Christopherson, please.

**Mr. David Christopherson:** Thank you, Chair.

I had two questions remaining from the last round. They'll be a lot easier, trust me.

The one was just a curiosity, really, more than anything. The summary shows that fiscal equalization...and I've taken note of your comments in the opening remarks that this did not include the new October 2004 framework for equalization and territorial formula financing. That's not in here. But what struck me, and what raised an eyebrow, was that prior to that agreement being made, fiscal equalization payments, year over year from 2004-05 to 2005-06, were reduced. Again, it's thousands of dollars, so we're talking about \$1.3 billion.

I'm curious. Why was the original plan to decrease equalization payments?

• (1220)

**Mr. Mark Carney:** I'm going to defer to Barbara Anderson to answer that. I will note that probably five minutes is not long enough to explain the equalization formula, and one of the benefits of what is proposed is some certainty, over the next couple of years, in equalization payments. But there is a fluctuating component to equalization that is determined by a formula. I will now pass to—

**Mr. David Christopherson:** We can save some time. It's not a cut? It's a variation on the formula?

**Mrs. Barbara Anderson:** That's it exactly. It was not a policy decision.

**Mr. David Christopherson:** So if I look back over the years, I'd see it go like this.

**Mrs. Barbara Anderson:** It's a reflection of how the economy is going.

**Mr. David Christopherson:** That's fine. It just caught my eye and I thought I'd ask the question.

The last one was again a nice easy question—softball—a lob question for you. What are your working assumptions vis-à-vis the Canadian dollar?

**Mr. Mark Carney:** We'd have to ask for a substantially bigger increase in the appropriations for the policy and research branch in order to be able to confidently answer that question.

**Mr. David Christopherson:** What sorts of things are you looking at, though? What are your working assumptions?

**Mr. Mark Carney:** It's an incredibly sensitive topic and the government, certainly the department, would never venture a view on where the dollar would be or should be or could be, because it's bound for misinterpretation.

**The Vice-Chair (Mr. Charlie Penson):** Mr. Christopherson, you may have to save that question for when we have the Governor of the Bank of Canada before us. Maybe he can help us out with that.

**Mr. David Christopherson:** Okay. Thanks very much.

**The Vice-Chair (Mr. Charlie Penson):** You still have a couple of minutes, if you'd like to pursue anything.

**Mr. David Christopherson:** No, that's fine. Thank you, Mr. Chair.

**The Vice-Chair (Mr. Charlie Penson):** We'll go to Ms. Ambrose, please.

**Ms. Rona Ambrose:** Thank you, Mr. Chair.

In part III, the department indicates that you'll "continue to advise the government on ways to improve the fairness, efficiency, and competitiveness of the tax system". One of the recommendations the finance committee made, and that we discussed during finance committee, was the issue of income splitting and asking the finance department to look at, potentially, a comprehensive review of Canada's personal tax system. I know I raised, at the time, the issue of the impact of the tax system on families, on young families in particular, and Mr. McKay raised the same issue along the lines of fairness for seniors.

One of the issues was income splitting. Can you address that or let me know if there are any ongoing discussions of a review or a consideration of that issue?

**Mr. Mark Carney:** We take all recommendations of the finance committee very seriously. We do. And we analyze them all. Tax policy analysis, I would say, is a multi-year process. We do not have plans for a public consultation on that issue, but there is a very high integer multiple on the ratio of public consultation—it's complicated. We look at a lot of issues. We look at them in the department, and certainly anything that has been raised by the finance committee is analyzed by the department.

**Ms. Rona Ambrose:** I'm glad to hear that you take our recommendations very seriously.

I have a question, and I think Barbara Anderson will probably have to come back to the table for this. It's in particular about the new equalization formula and follows up on what my colleague Mr. Christopherson was saying about the fixed floor. I've asked this before. I haven't had a chance to ask the finance officials this.

I know that in the new formula we have stability and we have some certainty, which is very much welcomed by the provinces, but there is a concern that some economists have raised about the fixed floor and how it may impact on Ontario in particular. If the Ontario economy starts to decline, and some people think that it may, or has started to, Ontario might be paying out more in equalization payments than it can or could afford.

I wonder if you could just comment on that or if that's something the panel will be dealing with as well, or if you're dealing with this with the Ontario government.

**Mrs. Barbara Anderson:** Under the new framework for equalization, the annual payments are set starting at \$10 billion and then grow with an escalator each and every year. So the Ontario economy will no longer have an impact on the total size of the program.

• (1225)

**Ms. Rona Ambrose:** I don't know if you've looked at... Finn Poschmann from the Fraser Institute, for instance, and people who have looked at this formula feel very strongly that while there's stability and certainty in this new formula, there's a great deal less flexibility. With the fixed floor, that's particularly what they've been suggesting, that this could have an impact on the fiscal framework of Canada, particularly on how it may impact Ontario. You're suggesting that that's not the case?

**Mrs. Barbara Anderson:** I'm suggesting that the annual size of the program has been decided. In the past, the total amount fluctuated with changes in the economy. The Ontario economy in particular had a huge impact on the size of the program. The size of the program is now determined in legislation. The panel will be providing advice to the government on how this determined amount was divided among the provinces.

**Ms. Rona Ambrose:** So there won't be any revisiting of that particular issue?

**Mrs. Barbara Anderson:** No.

**Mr. Mark Carney:** In response to the member's question from before, the early learning reference in the budget implementation bill is proposed section 24.71.

**Hon. Maria Minna:** I wanted to go back to the section on demographics in the plans and priorities document. It looks at the aging population and brings to mind the changes we're all expecting.

Before I come to the business in hand, I want to take you back to the budget of 1996. At that time, because of the expectation of stress on the pension system, a major reform was put forward but never actually implemented. There was never an implementation bill put through. Looking at the current demographics, and their relation to productivity and sustainability of finances, is the department now considering pension reform or restructuring?

**Mr. Mark Carney:** It's an excellent question. I'd like to take a moment to describe what we have been doing—what the government has done. This is an issue that we are spending a great deal of time on.

There are three pillars to our policy for the retirement system in Canada. It starts with the CPP, Canada Pension Plan, and reforms taken in the mid-1990s—that's the safest thing to say—that effectively carve out and allow, as I think the finance committee is aware, the CPP to invest some of its assets in the markets and provide a new governance framework for the institution. It is extremely successful.

Canada is unique among major nations in terms of the soundness of our public pension plan, as I'm sure you are aware—actuarially sound for the next 75 years. We continue to work on and with the CPP to ensure its continued progress. In fact, this year we launched the triennial review. It's the year of the triennial review of the CPP.

So we start with an actuarially sound public pension, which has been achieved and we hope will continue to be improved. We supplement that by support for the poorest of seniors to provide a greater level of certainty, and as I am sure the committee is aware, in the budget plan 2005 there were significant additional measures to increase the guaranteed income supplement to seniors in two stages, starting this year and fulfilled next year—a \$2.5 billion commitment that is a component of Bill C-43.

The third element is to encourage private sector savings for people of a different cohort, if you will, to also prepare for their retirement. In budget 2005 there were also measures, helped by the work of this committee in terms of investigating the issue, to increase the RSP limit.

The comment I would make—I think you mentioned the productivity aspect in your remarks as well—is that there are two important elements to this. One is providing safety and security to our seniors and future seniors, but secondly, it's to provide a level of confidence to Canadians that they will be secure in retirement and that steps are being taken. That can have a large impact in terms of confidence in the way consumers act. We are seeing the converse, I would submit, in some other major European nations where there are

increasing doubts about the security of retirement, and this is having a feedback effect, arguably, in terms of current consumption.

So it's a multilevel strategy. The one other aspect I should highlight is that we are looking at evolving dynamics in the Canadian pension industry, particularly with respect to defined benefit plans, the implications of the recent Monsanto decision of the Supreme Court, and a variety of other factors, to see what role we can play to shore those up.

•(1230)

**The Vice-Chair (Mr. Charlie Penson):** You may have a short question.

**Hon. Maria Minna:** Very quickly, I have two questions. One has to do with the RSPs, which don't really meet the needs of the average Canadian. We all know that in terms of actual savings the people who can actually save are a small percentage in our society, who can actually take advantage of the full space of the RSP. There has been talk for some time about reviewing our pensions and looking at new schemes to assist the average Canadian who has a lower income. My question is whether any of that work is being done.

My other question is in terms of effectiveness of our tax dollars. That's the tax expenditures that we never discuss very much. There is a lot of money spent on social issues and/or private sector money also under tax expenditures. Are they analyzed at any time thoroughly by the department to see whether in fact they are meeting the objectives they were meant to achieve?

**Mr. Mark Carney:** With respect to the RSPs, I would note the importance with a couple of comments. One, it is not just a question of using the entire limit. It's a question of having a savings vehicle available that can accumulate tax-free for retirement and that is available to all Canadians, which was highlighted in budget plan 2005. There is also the important interplay with a well-functioning RSP mechanism and the small business sector. It is actually quite important for small business people in order to save for their retirement. The entrepreneurs of this country need a mechanism, and it plays an important role there.

In terms of analysis of tax expenditures, yes, we consistently analyze tax expenditures. As I am sure you're aware, the largest is the child tax benefit, which will grow to nearly \$10 billion over the course of this budget plan. We believe it is an effective program. But it is important to continue to look at all of those, and we do. We looked at it also as part of the expenditure review process.

**The Vice-Chair (Mr. Charlie Penson):** Thank you, Mr. Carney.

We had the director of the Congressional Budget Office appear before us as a witness. He talked about modelling and things like retirement, where they're doing modelling 40 to 50 years out. Would a similar type of modelling be done in your department on things like retirement?

**Mr. Paul-Henri Lapointe:** Yes, we have models to address the issues they were referring to vis-à-vis the burden or the fiscal impact of the aging population. We do that kind of modelling now.

• (1235)

**The Vice-Chair (Mr. Charlie Penson):** Thank you.

We have two more questioners. Mr. Côté is next, and then Mr. Bell.

[Translation]

**Mr. Guy Côté:** Thank you, Mr. Chairman.

As you no doubt know, the Subcommittee on Fiscal Imbalance is currently travelling around the country. Whether or not one recognizes the existence of this phenomenon, what we have observed during the subcommittee's travels is that the provinces, including Quebec, are having serious problems from a fiscal standpoint.

I noted in Part III of your report an increase in spending on social programs. Mention is made of health, communities, education and social security. Spending in this area would increase from \$37 billion to \$42 billion by 2007-2008. Of course, these are areas that come under provincial and Quebec jurisdiction.

A little further on, in the section on securing Canada's role in the world, an area that clearly is a federal responsibility, we note that spending is being reduced from \$1.4 billion in 2005-2006 to \$553 million in 2007-2008. Let me repeat that this is clearly a matter of federal responsibility. Plans call for cutting spending in this area by two-thirds over the next few years.

What justification is there for this decision? I understand that the federal government is flush with surplus funds at this time and that it is looking to increase its visibility, but would the taxpayer not be better served if the government focussed its attention more on those areas under its responsibility, rather than on areas under provincial or Quebec jurisdiction? What about transparency and accountability in the budget process, so that it's clear to citizens to whom they should be directing their questions?

That was the first comment I wanted to make. I'll give you an opportunity to respond.

Continuing on in a similar vein, we saw in the budget how a certain amount would be set aside over the next few years for the contingency reserve, as a matter of economic prudence.

My question is relatively simple. Are these reserves justified, given that according to our forecasters, the surpluses stand to be even larger than what the Department of Finance is currently projecting? Because revenues will go quite simply to debt servicing, for the sake of greater accountability and greater transparency in the budgetary process, shouldn't these amounts be posted quite simply under the budget heading of "Debt Servicing"?

Would you care to make any comments or observations?

**Mr. Pierre Paquette:** Particularly since reserves were invented

[English]

**The Vice-Chair (Mr. Charlie Penson):** Mr. Côté, it might be better to address this to the minister when we have him before us, but if Mr. Carney would like to comment, I invite him to.

[Translation]

**Mr. Guy Côté:** I invite you to comment on the first part.

[English]

**Mr. Mark Carney:** On the planned expenditures in terms of the government's international obligations, within budget plan 2005, over \$12 billion has been dedicated to our international obligations. Considerable investment is entailed within that budget.

[Translation]

**Mr. Guy Côté:** I was in fact referring to the briefing notes prepared by the Library of Parliament in which mention is made of securing Canada's place in the world. The notes mention that direct spending by the department in this area would decline from \$1.4 billion to \$533 million. Mention is also made of the department's involvement in a number of organizations such as the G-7 and G-20, the OECD, the IMF, the World Bank and the European Bank.

In light of spending in this area being reduced by two-thirds, how can the Department continue, up to a point, to play its role? This role appears to be important, but the Department may not have the resources its needs to properly carry out its mission.

[English]

**Mr. Mark Carney:** We appreciate the concern that we have the necessary resources to fulfill our role, particularly on the international side. Within the submission, I reference the \$6.2-million net increase in operating resources that we are looking for from the department. About \$882,000 of that is for the work of the international trade and finance branch of the department. That would address both the international issues you've raised and the trade issues that were raised earlier in this discussion.

• (1240)

**The Vice-Chair (Mr. Charlie Penson):** Mr. Bell, please.

**Mr. Don Bell:** On page 23 of the estimates, there are two areas. I'm talking about capital markets: "Monitoring, both domestically and internationally, the work of other governments, regulators, and the private sector and take action when necessary to ensure investor confidence in the integrity of Canadian capital markets"; and then farther down, you've put "The government is working with the provinces and territories to improve the system of securities regulation in Canada".

I'm just curious about the concept of having a single securities regulator. Would you comment on that, and what plans...? You say in both cases—up top, in both references I made—that the timeframe is ongoing, and performance indicators you've indicated there are to improve the efficiency of securities regulation.



Would you comment on that?

**Mr. Mark Carney:** The department views this as a very important issue. As I think this committee is aware, a lot of work has been done over the past several years. There's a concentration of work through the Wise Persons' Committee, which reported about 15 months ago, I believe, to the government on this issue. The government has been working with our provincial counterparts to see potential approaches to improve the efficiency of securities regulation in Canada, and the dynamism, if you will, of securities regulation in Canada—the ability of the securities regulatory system to respond to evolving events in the capital markets while protecting investors, which is an essential element, along with enforcement.

Some processes are under way at the provincial level. There are ongoing discussions by a group of provinces about the development of a passport system; we are closely monitoring those. We are in ongoing discussions with those provinces in terms of how well this process is proceeding, the end objectives of this process, and whether they will meet the requirements of securities regulation in Canada and internationally.

A separate process is also under way in Ontario. We are very actively engaged in this issue. As I said earlier, we take the recommendations of the finance committee seriously, and there was very clear direction from this committee to be focused on this issue, to work towards an enhanced regulatory system for Canada—specifically, a single regulator—and we're actively engaged.

There is a meeting over the course of the next several weeks with our provincial counterparts to gauge progress on that, and we look forward to reporting our activities as appropriate.

**Mr. Don Bell:** Could you clarify the reference to the term “passport” that you used?

**Mr. Mark Carney:** The reference to a passport means there would be mutual recognition by provinces of each other's securities regulatory framework, so if I were a company—or a broker, for that matter—registered in one provincial jurisdiction, I would be able to operate in all other provincial jurisdictions.

There are issues. What they're working through—and this is part of our ongoing work—is understanding exactly how far this process will go and seeing whether they're willing to mutually recognize each other's jurisdictions. Currently, if you're registered, you have to be registered everywhere.

**Mr. Don Bell:** Thank you.

**The Vice-Chair (Mr. Charlie Penson):** I think Ms. Ambrose has another question.

Let's just find out from members who else has questions.

[*Translation*]

**Mr. Guy Côté:** With your permission, Mr. Chairman, I have a short question, something I'd like clarified.

You mentioned on several occasions that the committee gave you clear instructions with respect to securities commissions. I'm a new MP, and therefore those instructions may have been issued during the previous legislature. I really don't know. Could you refresh my memory quickly?

**Mr. Pierre Paquette:** To be very clear, we're opposed to any move in this direction.

[*English*]

**Mr. Mark Carney:** It is contained in the finance committee's pre-budget report of February.

**Mr. Guy Côté:** Okay. It did pass in the pre-budget consultation.

Merci.

**The Vice-Chair (Mr. Charlie Penson):** Thank you.

Next is Ms. Ambrose. Failing to see any others, I think we'll wrap up after that.

• (1245)

**Ms. Rona Ambrose:** It's another question on equalization, actually. As you know, we have a Subcommittee on Fiscal Imbalance and we're hearing from experts, economists. We've been travelling, hearing from provincial finance ministers and deputy ministers on this issue. We've been discussing, obviously, the vertical fiscal imbalance. In particular, it's the mandate of our subcommittee. There may be some discrepancy on the part of the government as to whether there is an admission on whether there is an actual structural fiscal imbalance or a political fiscal imbalance.

We have been hearing time and time again from the people who have been appearing in front of our committee about the issue of horizontal fiscal imbalance among the provinces, particularly on the issue of equalization. Provincial finance ministers were worried about this. Economists were telling us that this is “the” issue over the next five to ten years and into the future that the government will have to grapple with.

My concern—and I preface this by saying that my former job was a constitutional and fiscal policy analyst for intergovernmental affairs—is about this issue in light of the recent Atlantic deal. I know our party supported it and it's good for Newfoundland and Nova Scotia, but what I want to know is this. It was used, in effect, as an equalization payment. Some people view it that way. I think that's a danger, to a certain extent, to the fiscal framework of this country and to equalization as a program.

I want to know if the finance department is going to continue to make these kinds of agreements with provinces that are outside of the fiscal framework of equalization and if you see that as a problem or as an asset. I would like your opinion on that.

**Mr. Mark Carney:** There are a wide variety of issues in federal-provincial relations, and as part of this submission we're asking for some additional resources to address those issues. They're extremely complex. It will be a busy year with respect to just some of the issues you've raised, and we expect to be extremely busy on these issues—again, Barbara's branch and the department as a whole.

**Ms. Rona Ambrose:** Thank you.

**The Vice-Chair (Mr. Charlie Penson):** Thank you, members.

I have one further question that arose out of some earlier comments, I think, from Mr. Carney.

I think you said, Mr. Carney, that your department is doing work on how the tax system or particular taxes might impede the competitiveness or productivity of Canadian industries. I was wondering if there was anything you could provide to the committee from those studies that would be helpful. I know there has certainly been an issue here many times. So I wonder if there is anything you could provide in terms of studies that have been completed that we would benefit from.

**Mr. Mark Carney:** To clarify my remarks, I would say that for any tax issue, and quite frankly for any issue, we look at the impact on the competitiveness and the impact on productivity within the Canadian economy. So that is always a component of any of the work we've done.

I am going to defer to Serge in terms of what's coming out naturally in terms of departmental papers, because that would be the most.... I don't want to over-promise in terms of what specifically is going to be released.

**Mr. Serge Dupont:** I would simply point out to you, Mr. Chair, that in the last issue of the tax expenditures and evaluations report, which is a publication the department issues annually, there was a presentation of an economic analysis of various taxes and how they might affect the economy, productivity growth, and so forth, across the different taxes—and that we include not only federal taxes, by the way, but also provincial taxes. That would be one source.

Certainly there are other issues we are working on in terms of trying to address tax rates and how they actively affect not just the statutory rate but also the actual rate that affects business investment. That work is ongoing. In due course we expect to publish something called marginal effective tax rates, in technical terms. It can actually be quite significant in terms of analyzing the impact to the tax system on activity.

**Mr. Mark Carney:** On this specific issue, I just want to confirm that this is likely to come out this year, and it is something that I think would be of interest to the committee.

**The Vice-Chair (Mr. Charlie Penson):** Thank you very much.

Thank you to the department officials for being here today.

That concludes our meeting.

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