House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 079 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Wednesday, September 28, 2005

Chair

Mr. Massimo Pacetti

Standing Committee on Finance

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● (1540)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good afternoon, everybody.

[*Translation*]

I would like to welcome everyone back after the summer break.

[*English*]

I hope everybody had a good summer holiday and is ready to work. We have a big agenda coming forward in the next couple of weeks, so I just hope everybody had a good rest and that we're ready for some work.

Just before we begin, I understand you have a motion, Mr. Goodyear.

Mr. Gary Goodyear (Cambridge, CPC): Thank you, Mr. Chair, and thank you, committee members, for allowing me to take a few minutes—

The Chair: Two minutes.

Mr. Gary Goodyear: Of course. What I would like to do, Mr. Chairman, is read to the committee two motions that I would like the committee to vote on following the 48-hour period of notification.

Ladies and gentlemen, following an unprecedented act by the Government of Canada whereby they made a change to a law retroactively that severely impaired the funding of school boards across Ontario and Quebec and indeed may have implications for school boards across Canada, I would like to propose that the following two motions be adopted by this committee and then voted on, as I stated earlier.

One is that the committee call on the Minister of National Revenue to repeal the notice of assessments refusing to reimburse the GST claims of the Quebec and Ontario school boards, and that the Minister of National Revenue issue the total amount of GST reimbursements to the school boards that have been granted, by final judgment, from the Canadian taxation courts and consented to by the Crown, representing approximately $8 million in one case and $10 million in the other.

Second, Mr. Chairman, is that the committee call on the federal Minister of Finance to repeal the retroactive amendment to the Excise Tax Act that permits the Minister of National Revenue to reassess school boards and claim reimbursements of any money paid in conformity with any judgment that may have been rendered after December 21, 2001, such as the final judgments rendered by the Tax Court of Canada on January 29, 2003.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Goodyear.

I think we also have another motion by Ms. Wasylycia-Leis. I'm not sure when we'll be looking at them. We have to find the schedule, so it will probably be early in the morning or something like that.

If we could go to the orders of the day, we're here to begin our pre-budget—

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): On a point or order, the motion I submitted on Monday is to ensure that our committee deals as early as possible with the item before us on fiscal forecasting. I don't want to take time now from the presentations, but I simply suggest that this is an important matter for us. I would ask that we schedule a steering committee meeting as soon as possible to deal with all the outstanding matters before this committee. I would suggest we meet, in fact, by tomorrow, if at all possible.

● (1545)

The Chair: As for the motion, I received it only half an hour or an hour ago. The clerk only got the motion this morning. For the agenda, we don't have much flexibility. We already discussed this at our last meeting in the last session regarding the timeframe for the pre-budget consultations. Once we have a chance, Richard is going to send you basically what's on the agenda or what's coming up. I think everybody has already received all the notices for the pre-budget, because we had to set up the groups. I think there are only five weeks between now and mid-November, and during two of those five weeks we're travelling, and one of those weeks is this week. That leaves us with two weeks.

Ms. Judy Wasylycia-Leis: That's why I'm asking for a steering committee meeting, so we can resolve the outstanding issues on a timely basis.

The Chair: We'll probably do it early one morning. Okay?

If we can begin, this is the first session of the pre-budget consultations for 2005.

[*Translation*]

Pursuant to Standing Order 83.1, we will begin by hearing the witnesses. You have a maximum of five to ten minutes to give your presentation. Committee members will then ask you questions.

[*English*]

We'll have to try to be out of here by 5:30, or maybe even 5:15, because of the votes. And I apologize for being late, but I went to the wrong room, so we're off to a good start.

I have here, in listed order, the Canadian Council on Social Development, Mr. Bleyer.

Mr. Peter Bleyer (President, Canadian Council on Social Development): Thank you.

Thank you to the committee for the opportunity to participate in this important annual process. I was about to say “ritual”, but I corrected myself.

The Canadian Council on Social Development is Canada's oldest non-profit national research organization, and the social and economic security of Canadians is at the heart of our mandate. We work with partners across the country and across sectors on many issues—child and family well-being, economic security, employment, poverty, a whole range of social policy issues. That means that we actually work with the people who are on the front lines of social policy and social programming in the communities. The people we work with are also looking for that link that will make their cities and their towns the vibrant, sustainable, and productive places all Canadians wish to see.

The federal budget is to a great extent the road map for public policy at the federal level. Those of us in the social policy field have learned that, sometimes for better, sometimes for worse. That puts great responsibility in the finance minister's hands, and obviously in your hands. Your ability to advise and hold to account the finance minister is critical.

I have a couple of comments today to link the concerns of our members and our research to the theme of productivity.

Productivity is essentially the relationship between inputs and outputs. Productivity goes up when inputs are used more efficiently. While productivity is important, it is also—and it's important to be clear about this—a contested concept. In this case, a rising tide does not lift all boats. Increasing productivity does not guarantee greater social and economic security or well-being.

Our country faces today a rather substantial social deficit: one quarter of a million Canadians, I think, don't have a place to live, and three million Canadians at some point in the next year will have concerns about how to feed themselves. Our upcoming report on urban poverty paints a stark picture of how these factors are affecting our population. We have a research team currently compiling data on the progress of Canada's children and youth, its seventh edition. Some of the numbers there don't reflect healthy and productive families: 1.2 million children living in poverty in a patchwork of income security programs failing to meet the need. Those are just a few important elements of the social deficit.

A single-minded approach to increasing productivity will not fix the social deficit. In fact, it could make it worse. Productivity might very well be part of the solution, but only if we take into account some very important conditions. Productivity growth has to be understood as a means to an end and not an end in itself. It's actually social and political choices that determine the ends to which progress on productivity can be applied, but it's also important to note that how we define productivity in the first place will predetermine what objectives and goals can be met.

It was nice to hear the finance minister, about a month ago, I think, express his position that productivity should not be about a race to the bottom. Productivity has to be linked to broader concepts like the standard of living and quality of life. In that context, it's actually possible that we could imagine a twofold productivity dividend that could be applied to tackling the social deficit.

Here are a couple of policy priorities that would fit the bill.

One is to raise the salaries of our lowest-paid workers. It seems small, but setting a federal minimum wage of $10 an hour would have a direct positive impact on a small sector but set a precedent for other jurisdictions. Other countries have raised their minimum wage. Recently the U.K. raised their minimum wage to the equivalent of over $11, and the U.K. Low Pay Commission found evidence of a positive one-off effect on productivity.

Another is to reduce work time—a similar positive impact on output per hour worked, as well as a whole series of other social benefits, some of which we appear to have forgotten about for the last number of years.

Of course, returning the EI program to its previous role, as providing the most support for the largest number of unemployed workers rather than as something of a cash cow for general revenue, would help. Aiming for full employment would be a step in the right direction. So when it comes to enhancing productivity, we really do have to consider that all tools are not created equal.

Just to contrast, with a couple of other tools that aren't equal to these positive labour market measures, we would argue that corporate tax cuts are at best unproven as a means of growing productivity, and at worst, terribly destructive.

● (1550)

Simply put, there is no automatic relationship between corporate tax expenditures or breaks and investment in jobs. That's probably one of the themes we'll get some uptake on here today. I won't go any further on that one for now.

Actually, to make just one more point on it, another round of unconditional, untargeted corporate tax breaks would be very costly because they would compromise our ability to tackle the social deficit I started to describe and to invest in the social infrastructure and human capital that actually can be the backbone of a progressive approach to productivity.

What we need is a budget that looks like a budget of a country that's willing to invest—to invest in education from the beginning, from early childhood right through post-secondary. We have to look at the poor literacy skills of millions of Canadians: 15% of adults functionally illiterate, more than three million with limited literacy skills. A productivity agenda that doesn't deal with that issue is impossible to imagine. Early learning and child care investments, following up on the good work that's been done so far, will pay dividends now and in the future.

Our voluntary sector can be found in almost every community in this country—in every community in this country, frankly. It's an important pillar of our social infrastructure. We've done research that shows it is sadly neglected and needs direct and indirect support for its critical work.

We have to tackle social exclusion. That means child poverty, the racialization of poverty, aboriginal poverty, growing inequality. The numbers are clear. We have growing inequality in this country between haves and have-nots. These are all barriers to labour force entry that compromise any aspiration to have an agenda for a productive society. Worse yet, they taint our collective quality of life and clash with our core values.

It's a long list, and it requires strategic long-term thinking.

I have just one last point. Where would you start?

I might suggest that part of a concerted Government of Canada horizontal strategy to erase the social deficit and rebuild our human capital would be to look at the Canada social transfer. Return it to its indexed 1995 levels, look at predictable funding for the future, develop common principles and a vision, and work with all partners to do so.

Thank you.

The Chair: Thank you.

From the Conference Board of Canada, we have Mr. Hodgson.

Mr. Glen Hodgson (Vice-President and Chief Economist, Conference Board of Canada): Thank you, Mr. Chairman.

I basically come today to make one point, and that is that productivity should be the reference point for effectively every future budget action in the next budget and for many budgets to come. I say that for two reasons.

I think there are two really fundamental forces right now driving Canada's place in the world. The first is the fact that we're getting older. Our labour force is going to be affected by the aging of our population. If we extend that out to 2025, we do a long-term forecast for the Canadian economy, and we expect that Canada's potential growth rate 20 years out will be as low as 2.2% or 2.3%, from just below 3% today. Of course, slower growth means slower revenues for government and a shrinking capacity to provide the social goods, the education system, the health care system that we all want, and ultimately the quality of life. So that's a reality; that's the reason why we have to now think about how to boost the productivity agenda.

The second factor is that Canada's place in the world is changing very rapidly. We're producing our annual report on Canada called *Performance and Potential*. It will be out on October 19. What that report shows is that Canada's place in the world has already slipped badly. We are now the eleventh ranked economy in the world in terms of GDP. We're not seven, we're not eight; we're number eleven, behind China, behind India, behind Brazil, and behind Russia. If we want to have influence in the world and status in the world, and ultimately have some force within the global economy, we need to affect that.

There is general agreement, I would argue, amongst economists that productivity is the way to actually deal with both those factors, both the aging of the population and the fundamental shift in economic gravity that is happening on a global basis.

So I've come to talk about what a national productivity agenda would look like within this budget and across the country. I think there are basically three elements to that.

First, and this is what's most often talked about, is to deal with the core factors in business productivity, the real core variables: skills, levels of investment, and innovation. That can all boost productivity performance for individual firms and for the economy. We've obviously done extensive research in all these fields—our website is littered with it—and we'll be able to talk about that in greater detail.

Second, and this is often forgotten, is a commitment to enhance international trade and investment. More free trade, more openness to investment, can be a very important boost to productivity by allowing our firms to face more international competition but also by creating new opportunities for us in foreign markets. To a great degree, Canada has forgotten the trade agenda in the last five years. We've now had nearly five years of zero or slightly positive economic growth, and we're again coping with the rising dollar now. It's hitting our manufacturing sector very hard and throughout our economy. So that's an important element of the strategy as well.

Third, I think the national operating environment is also critical to the productivity agenda, the fact that we have myriad regulations, inconsistencies between provinces, multiple regulators in some cases. All of that is a drag on our national productivity performance.

Now, the federal budget can address some of these things; it can't address all of them. Just quickly, here are a few things the budget can't do. It can't reduce the barriers to competition within our economy, but it can certainly create a forum for reviewing those. It's not the tool for opening up our economy to international trade and investment. It alone will not make our economy more attractive to foreign investors, and our place in the world has slipped very badly there, from about 8% of global FDI to about 3% today. It probably can't help educate Canadians about the importance of outward investment as a new market entry tool, something I've written a lot about, and again it will be in our P and P report, nor can it address the mix of goods and services we produce. But I think the budget can address those three core variables. We can address them very frontally. I have a few thoughts on that.

First of all, on skills, skill investment is needed across the spectrum. It is not sufficient to invest in academic chairs and in transfers to the provinces. Those are necessary conditions. But I agree with Peter that we have to be mindful of the 15% of the population who didn't finish high school, the 40%, we believe, who don't have the reading and writing skills to actually function in a modern marketplace. So as we invest in skills, we have to do it in all parts of the labour force. We have to make a national commitment to this on an ongoing basis: skill development, retraining, lifting up those who need greater skills, but also investing in the high end so that we are doing original research and applied research around commercialization, taking good ideas on campus and turning them into commercial products.

Secondly, in capital investment, I think there is a very easy fix there. It's to get rid of some of the impediments to investment that exist right now, like the capital tax the federal government has had and provincial governments have, like dealing with corporate income tax, but doing it in a very rifle-shot way, not as a mass tax cut but really thinking about tax reform and getting the balance right between investment and taxes in other parts of our economy.

Thirdly, around innovation, we've done a lot of work recently. We've created a leaders round table on commercialization within the Conference Board. They put a report out in April of this year, where they set out a number of so-called quick hits in terms of boosts to productivity and innovation. I'll mention three right now.

● (1555)

First is a tax credit for angel investors for small business. It would fill in that niche within the spectrum of financing for small businesses that are trying to innovate. Second would be to develop a pilot program to get more horsepower out of R and D credits. It's described in our report, but again, it's a more focused way of using the fiscal room that we have to try to incent innovation. Third, we need to find a way to make even greater use of the seed capital that's managed by BDC and other parts of government, again to try to mobilize private capital with capital from the public sector to really incent innovation in Canada.

A last thought, Mr. Chairman, is just about cities. We at the board have done a lot of work on cities. We're well aware nationally of the infrastructure gap that exists for our cities, and in fact, I think we need to get beyond the mere transfer of tax points for cities or 2¢ a litre from the gas tax, and think about a more structural way of addressing the fiscal capacity of our cities, because ultimately they will have to deal with the infrastructure issues they're facing. Cities are the source of innovation. It's very clear in the economic literature right now that innovative cities, cities that attract knowledge workers, are going to be the cornerstone of innovation in our economy.

I'll stop there, Mr. Chairman. Thank you.

● (1600)

The Chair: Thank you.

The Canadian Centre for Policy Alternatives, Ms. Russell.

Ms. Ellen Russell (Economist, Canadian Centre for Policy Alternatives): Thank you.

Good afternoon. Truly, I do enjoy the opportunity to speak with the committee and I enjoy interacting with every member of this committee, so I won't make the following criticism lightly. I was really shocked to see the questions you're asking in this year's pre-budget consultation.

Why? First, these questions were only about productivity. I understood that these consultations were an exercise in democratic participation. But the democratic character of this consultation is compromised if we are invited to talk about one topic only. Productivity is not, after all, the only economic issue facing Canadians and it should not be the only economic issue addressed in the forthcoming budget.

But secondly, I was disturbed by what these questions imply about the focus of the government's concerns. I presumed that the economic objectives of our government were something like promoting the well-being of all Canadians. But these questions you have asked proceed as though increasing productivity is synonymous with, is necessarily equated with, promoting the well-being of all Canadians. In reality, there is no ironclad guarantee that productivity growth necessarily translates into benefits for all. Depending on how it's done, increased productivity may translate into benefits that are widely spread, or it could just concentrate those benefits in fewer and fewer hands.

In economists' lingo, the issue I am talking about is distribution. Your questions to us don't ask who benefits from increasing productivity. Any discussion about productivity that fails to address the question of how the gains from productivity are likely to be shared is at best, in my opinion, engaging in magic thinking. It pretends that all we need to do is beef up productivity growth and presto, everybody is better off.

The Chair: Excuse me, Ms. Russell, just so I can help you a little bit. It's the committee that decided to go via the productivity theme; it wasn't the government. The government can do whatever it wishes regarding the budget. We're going to try to help the government decide what's going to be in the budget. The committee decided the theme was going to be productivity. It's up to you if you want to address it or not, and then the members will decide what they want to do with your presentation.

So it was up to us to decide that we wanted to go via productivity. I'm not going to prevent you from speaking, but that was the basis. If you want to address that particular subject matter, it's fine. If you're don't, you're still more than welcome, but we asked for productivity because we wanted to concentrate on that particular aspect.

So that was just to help you out a little bit on your presentation. You can continue, but it's just....

Ms. Ellen Russell: I'll continue.

On my point about the lack of necessary ironclad linkage between productivity and the debt that's being shared by all, between the years 1990 and 2000 productivity growth was something around 14%, judging from the Canadian Centre for the Study of Living Standards. However, this did not translate into benefits for low-income Canadians. A report by Statistics Canada reveals that only the more affluent Canadians benefited over that decade. The richest 20% of families saw their real incomes grow by about 20%. The bottom 20% of families saw their real incomes stagnate. So we can't widely assume that productivity growth is, by definition, necessarily helpful to everyone.

What we at CCPA want is what we call a progressive productivity agenda, increasing productivity combined with widespread distribution of the benefits of that productivity, especially so that historically marginalized sectors of our population, such as aboriginal peoples and others who have not joined in some of the largesse of the last decade or so, share in the fruits of this productivity growth. But these considerations are typically swept to the side if the public debate about productivity is silent on the question of distribution.

The productivity debate, as it's currently carried out.... The factors that promote productivity are immensely complex. Not only that, the way that all of these ingredients interact together is complex. There are many controversies in the literature, so even specialists in this area will debate what combination of factors will best promote productivity growth, both in each specific national context and in regional contexts.

To understand productivity growth you have to go through a whole list of things: the competitive conditions in national and international markets; demand conditions nationally and internationally; labour supply conditions, including the human capital concerns that we have been talking about; physical capital conditions, as well, of course, as the policy environment in many jurisdictions—and I've just started a very long list of concerns.

Stimulating productivity is immensely complicated, so beware of deceptively simple solutions that claim to provide one magic bullet that will take care of everything. At the moment, my fear is that tax cuts are being offered as the magic bullet that will solve our productivity problems. But if you believe that tax cuts are this magic bullet, you must account for the following: look at corporate taxes, for example. Since 2000 we have had a huge federal corporate package of income tax cuts. KPMG concludes that corporate income tax rates were more than five percentage points below the U.S. level as of 2004. Yet, as you will see in my brief, in graphs that were generated by Jim Stanford, declining effective corporate tax rates have coincided with decreasing business investment, measured as a percentage of GDP.

That is not all. We have been experiencing a period of terrific corporate profitability. So despite the previous corporate tax breaks and despite this period of high corporate profitability, corporations have the means at their disposal to invest, but they're not doing so at anywhere near the rate we'd like to see. Businesses are not engaging in the kind of business investments that would be conducive to productivity growth. So why would we wish to put more money toward tax cuts when it has failed to produce the results we'd like so far?

So what should be done? As I've said, it is a complex question, so you can't simply pull one lever and expect it to work. I have also said I'm not interested in boosting productivity without an accompanying strategy to share the benefits of that productivity growth widely. There are a number of things that CCPA has suggested in our brief to you that both stimulate productivity growth and encourage a reasonable distribution of the proceeds of that productivity growth.

First, please pay attention to macroeconomic conditions. We need to promote lower levels of unemployment so that we are not running with such slack in the system, which encourages economies of scale and learning by doing. This means, among other things, a more accommodative monetary policy.

The object of this exercise is to promote a virtuous circle, where high unemployment leads to higher aggregate demand, which stimulates sales so that businesses will be more likely to want to use their cash for new investment. You can give corporate tax breaks until the cows come home, but no business will invest if they don't have customers who are willing to buy their output.

A nice thing about this approach is that it is consistent with better income distribution and rising real wages. We have a number of points in the brief that address this.

● (1605)

Next, as Peter and others will likely state, we need to pay attention to human capital. This means greater investment in people, from post-secondary education and various forms of training, all the way to early learning and child care. We need to invest in physical capital so that we have the infrastructures to support productivity growth.

In terms of incentives to business, we oppose untargeted tax cuts as immensely wasteful of our resources, with little insurance that they will achieve their intended goal. Worse still, untargeted tax cuts are very expensive. We have to give them to all businesses whether or not it makes any difference to their investment decision. Every dollar we put into a tax cut is a dollar that isn't spent on the many investments that government could make, from building roads to financing training, that we know affect productivity.

My fear is that the many components that we need to be thinking about carefully if we are going to really enhance productivity in a progressive way and address redistribution concerns will be eclipsed if the government is persuaded that tax cuts are the magic bullet, and we will have squandered the opportunity that present circumstances afford to invest in a productivity agenda that really helps all Canadians.

Thanks.

● (1610)

The Chair: Thank you.

From the Fraser Institute, Mr. Veldhuis.

Mr. Niels Veldhuis (Senior Research Economist, The Fraser Institute): Let me start by thanking the members of the committee for having me here today. I am here as a representative of the Fraser Institute, but the opinions I express today are my own.

I also want to applaud the committee for holding this special panel on productivity. We know that productivity is one of the most important determinants of standards of living. If we are to improve our standard of living, then obviously our productivity problems need to be addressed.

I think most economists would agree with me that productivity growth, which means an increased efficiency in the way our economy transforms its inputs into outputs, is one of the most essential aspects of increasing living standards. A more productive economy is able to produce more goods and services with a given amount of resources. Workers who are able to produce more per hour that they work are able to demand higher wages. Increased productivity makes Canadian companies more profitable and more competitive. With a more productive workforce and a more competitive industry, it creates an environment that is conducive to new business investment. As businesses invest in machines and equipment and technology, workers' productivity further rises. What we have here is a virtuous circle.

Finally, let me also note that productivity growth increases the size of our economic pie. If anyone is concerned about having the resources to dedicate to certain things that I've heard here today, then productivity growth should be number one on their minds. Highly productive economies are able to generate more revenues at lower tax rates than unproductive economies can at very high tax rates.

Perhaps the most commonly used and most widely understood measure of productivity is labour productivity. Labour productivity is calculated by adding up all of the goods and services, or the value of all the goods and services, produced in an economy, and divided by the total hours worked by workers and self-employed individuals. If you look at Canada's labour productivity relative to the United States, you can see that in the last 20 years we have decreased from 90% of that in the U.S. in 1985 to 82% of the U.S. in the year 2004. More worrying, however, is our performance in the last four years. In the last four years we have gone from 88% of the U.S. to 82%. We've decreased six percentage points relative to the U.S.

Let's broaden the scope and talk about how Canada does relative to other international countries. If you look at a broad section of 24 industrialized countries over the years 1995 to 2004, Canada ranks eighteenth of 24 countries. Our average year-by-year productivity growth was 1.6% over those ten years. If you look at first-place Ireland, their average productivity growth was 5.1%. If you want to relate that back to what employees and workers can produce, in Ireland, at its current pace, it can double the amount workers produce in 14 years. It would take Canada 45 years to do the same thing.

As I mentioned before, productivity growth translates into increased living standards. How does Canada fare on living standards? If you take the most common measure—GDP per capita—from 1995 we've gone from 88% of that in the U.S. to 84% in the year 2000. If you look at a more narrow definition of income, personal disposable income, that's even more troubling. In 1985 our personal disposable income stood at 80% of that in the U.S. Today it stands at 67%.

All of these numbers and graphs are in my presentation, which you will have access to.

One of the key determinants of labour productivity is the amount of capital that each worker has to work with. Higher rates of business investment increase the amount of capital in our economy and make our workers more productive. One of the most important determinants for the jurisdiction's ability to attract business investment is the level and the structure of taxation. Jurisdictions with high levels of taxation on business investment reduce the after-tax rate of return on business investment and reduce the incentives for companies to invest. Business taxes reduce the amount of money firms have to reinvest in new machinery, new equipment, and new technology, all of which make workers more productive. The economic research has consistently shown, as has the Government of Canada's own finance department, that business taxes impose significantly higher economic costs than other types of taxes, including sales taxes, payroll taxes, and personal income taxes. Let me give you an example.

It costs the economy $1.55 in lost output to raise an additional dollar of revenue from corporate income taxes. It costs the economy only 17¢ to raise an additional dollar from sales taxes. Unfortunately, Canada relies heavily on the most costly types of taxes, when you compare it to other nations. A numerical breakdown of industrialized countries shows this to be true.

● (1615)

Specifically, Canadian governments collect 46.2% of total revenue from profit and income taxes, which are the most damaging types of taxes. As a result, we have one of the highest effective marginal rates on capital investment in the world. It is not simply enough to look at corporate income taxes. You must include all types of corporate taxes, such as capital taxes, income taxes, depreciation rates, and sales taxes on business inputs. If you add up all these taxes, you get an effective rate. Our effective rate is 39%. Only China has a higher effective rate than Canada.

If governments want to increase living standards, the lack of productivity growth must then be addressed. It can be addressed if we decrease the tax burden on capital investment and if we shift the taxation away from capital and towards consumption. This is something that our organization has been pushing for, this is something that the Conference Board is obviously pushing for, and this is something that Mrs. Russell's organization has also pushed for.

I have a few recommendations on how we can reduce the effective tax rate on capital.

First, immediately eliminate the corporate capital tax. It is one of the most damaging taxes. If you wanted to create a tax that had a significant negative impact on investment, then the corporate capital tax would be a good place to start.

We should also reduce corporate income tax rates and increase the small-business tax threshold. Corporate tax rates must be reduced to stimulate capital investment. In addition, there are negative consequences for firm growth. We have a preferential tax treatment for small business that limits the amount to which they grow. This penalty creates a disincentive, and it must be addressed. Our recommendation is to reduce the general corporate capital tax to 12%.

Next, we should immediately eliminate the corporate income surtax, which currently stands at 4%.

We should adjust capital cost allowances to better reflect the true cost of replacing assets.

We should encourage the provinces to harmonize the sales tax with the GST, thus avoiding sales tax on business inputs.

We should reduce the middle and upper personal income taxes and increase the thresholds at which they apply. Decreasing these rates will make Canada more productive, will help us retain skilled workers, and will enhance the incentives for entrepreneurial activity, savings, and investment.

I thank the committee for allowing me to present, and I look forward to questions that you may have.

The Chair: Thank you.

[*Translation*]

Mr. Taillon, from the Conseil du patronat du Québec.

Mr. Gilles Taillon (President, Conseil du patronat du Québec): Thank you very much, Mr. Chairman. I would like to thank the committee members for giving me this opportunity of expressing the views of the Conseil du patronat regarding productivity. Productivity is the cornerstone of the work that we have been doing over the past few years. When our brief on budget choices is provided to the Standing Committee on Finance, you will see that it is what our presentation is all about.

The Conseil du patronat du Québec is a not-for-profit association representing most sectoral employer associations in Quebec. As such, it represents the employers of the vast majority of Quebec workers, that is, over 70%.

Here is a brief overview, from our point of view, of the situation with respect to productivity in Canada today. Canada's productivity performance has deteriorated over the past five years compared with that of our main trading partner, the United States.

Between the years 2000 and 2004, the annual average for productivity gains in the business sector was .92%, whereas our American neighbours achieved productivity gains of 3.7% for the same period.

According to the experts at the Centre for the Study of Living Standards, all provinces, except for Manitoba and Saskatchewan, have seen a drop in productivity growth in recent years. Productivity per hour being an important determinant in the living standards of Canadians, this situation is very worrisome, especially given that what was considered an advantage for many years is now becoming an additional risk factor, that is, the demographic trend toward a declining working-age population beginning around 2012, which is even more of a problem in Quebec than elsewhere in Canada.

Because of this situation, the CPQ feels that there is an urgent need for businesses to improve their productivity performance. For their part, governments must create an environment and the required conditions to help businesses achieve that goal. After all, even though productivity gains in Canada will stem primarily from the private sector, governments can make it easier to invest as needed in growth by stimulating an economic climate that is geared to competitiveness.

Here is what we suggest the government should do to create this kind of positive environment. There are two types of measures that would be appropriate. First of all, the government can invest in physical capital. Second, we will talk about investing in human capital.

Investing in physical capital means investing in machinery and equipment as well as information and communications technologies, which can go a long way to improving business productivity. Investment by companies already set up in Canada, as well as by foreign businesses, is driven by performance. Corporate taxes play a significant role in determining investment yield. A heavier tax burden in Canada compared with other countries drives away foreign investment and encourages Canadian companies to invest elsewhere. Moreover, the tax structure also plays a role by providing incentives and disincentives, depending on the context.

Our proposals for investment in physical capital are as follows: immediately abolish the tax on capital; reduce taxes on corporate profits to 17%, rather than 19%, in 2008; harmonize the patent protection policy with the best practices of the most highly performing countries in this regard, which are the United Kingdom, the United States and the European Union; strengthen the accelerated depreciation tax measures, in other words, targeted tax measures, for new investment, particularly investment in information and communications technologies.

In addition to addressing the level of taxation, the government needs to examine and review the structure of our tax system. In his presentation earlier, Niels pointed out that the affected tax rate placed a heavy burden on businesses. We rank just ahead of China, which is in last place. Countries that perform well in this area, such as Sweden, have chosen to have high personal taxes, but the tax structure is very different from what we find in Canada and the United States, and their system is business-friendly and encourages investment. Sweden's productivity now outstrips Canada's.

Along with lowering taxes and revising the tax structure, the government should review regulations to eliminate overlap, simplify processes and incorporate technology to make the system more accessible to businesses and individual Canadians.

● (1620)

So we are calling for smart regulation. I know that the Privy Council has a committee that is doing consultations right now on the issue. We feel that it is vitally important to simplify regulations and harmonize them.

Our last proposal concerning physical capital is to continue with investment strategies to renew and modernize the country's infrastructure. This includes roads, of course, but also telecommunications infrastructure.

Another area where the government should take action is with respect to human capital. The CPQ views education, training and skills development as essential conditions for the development of new technologies, innovation and increased productivity.

Where training is concerned, we are very much aware that action taken by the federal government often creates jurisdictional problems, particularly in Quebec. Without violating provincial jurisdiction, we think that the federal government can effectively support skills development in the workforce if it adopts two key priorities. The first will be to invest in the recognition of competencies. There is a serious problem in that people have been talking for years about the need to recognize credentials and experience, but nothing has been done. The federal government could invest in this area and thus facilitate labour mobility among the provinces and help new arrivals integrate into the workforce.

The sectoral labour committees, which are made up of labour and employer representatives, could be valuable partners in this effort, and the federal government could also mandate the new organization created to promote apprenticeship to coordinate and harmonize the work of the committees on skills accreditation.

The second measure, dealing with competencies, would be to amend to Employment Insurance Act, since there are surpluses, to recognize skills and the right to training of those paying into the fund, and not only those who lose their jobs, as is done in a number of countries. That change will mean that Employment Insurance would be available not only to those who are out of work, but also to people who have jobs and need to upgrade their skills or take retraining.

In conclusion, we believe that if the Standing Committee on Finance recommends a number of these measures, Canada's productivity could get back on the road to health.

● (1625)

The Chair: Thank, you, Mr. Taillon.

It is interesting to see, after all these presentations, that there is a consensus. So I think that there will not be a lot of questions.

[*English*]

Mr. Penson, you're ready.

We'll have the first round—seven minutes, for people who can't remember. Mr. Penson, and then M. Loubier.

Mr. Charlie Penson (Peace River, CPC): Thank you, ladies and gentlemen, for coming to kick off the pre-budget consultations this year with a very important topic, I think.

One thing we seem to be very productive in doing is writing reports about the need for productivity gains in Canada. I recall being on three different industry committees where we produced the same report, year after year, calling for increased productivity gains. Two finance committees struck the same chord, and I'm sure there are lots more.

I do want to ask Mr. Hodgson, Mr. Veldhuis, and Mr. Taillon, who seem to be making the case, why gains in productivity are needed in Canada to close the gap with a lot of our major trading partners. I want to ask about the urgency of making those kinds of gains in order to close that gap. Specifically, I want you to address the issue that this is not some sort of academic process, that productivity gains must relate to something very solid to Canadians.

I heard you say that it would increase our standard of living, but Mr. Veldhuis, some people seem to be questioning whether economists agree or Canadians agree that productivity gains really do lead to standard of living gains. Is it true when you say most economists accept that theory? Is that a worldwide phenomenon and not just something here in Ottawa?

The Chair: Before you answer, I want to help the witnesses for three seconds.

The members have only seven minutes for questions and answers, so please keep the length of your replies to a minimum.

I'm going to have the members ask questions to more than one witness. He or she can decide who they want to ask questions to, but do it through the chair—or through the member; I don't mind. Even if there's some interaction, I'll tolerate it, but I do want to respect the time that's allocated to each member.

Mr. Charlie Penson: Mr. Veldhuis, the definition is widely accepted, and the question is the urgency of moving here.

Mr. Niels Veldhuis: Let me change my statement to “most economists”. Any economist worthy of the name would agree with me that productivity is essential.

There is definitely more than one way to increase your living standards. You can increase your population ratio—the percentage of your population that's working—or you can work much longer, which is something I don't think many Canadians want to do. Given that those two things are probably at a maximum right now in terms of the hours we already work and our employment ratio, because our demographics are changing, one of the only ways we can increase our standard of living is through productivity.

As for the urgency, I would argue that it's very urgent. You've had productivity slipping relative to the United States and other countries, our standard of living is slipping relative to the United States and other countries, and we're losing revenues that we could be gaining if we had increased productivity. So it's absolutely urgent.

Mr. Charlie Penson: Mr. Hodgson, do you want to take a go at it?

Mr. Glen Hodgson: Mr. Penson, I'd say that the urgency is driven by a number of things. First of all, we're suffering from death by a thousand cuts right now, and that is what our research shows us. We will have a number of pieces coming out showing how barriers to competition, both external and internal, at our external boundary but also within the country, are really dragging down our potential. The fact that the dollar is at 84¢ or 85¢ is clearly hurting the export sector very badly right now. So they have a desperate need to become more productive just to stay in the game, to maintain market share in the United States and actually be able to compete in other markets.

From a purely fiscal side, the urgency is not that great, frankly, because we've gone through the virtuous cycle now, and we're now in a position where both the federal and provincial governments are in balance or slightly in surplus. But with the aging coming and with the clear pressures that are coming on the health care system and for other social goods, we will be back in deficit probably within the next five years. Certainly the further out we go, the deeper the hole is going to become. So whenever you have a hole, stop digging and start filling it in. Start dealing with the issue right now.

I would argue that it's death by a thousand cuts. It's things like not having one national regulator for securities, for example, which is impairing our capacity to raise capital right now. So don't wait until 2011 to fix that; fix it right now.

● (1630)

Mr. Charlie Penson: Mr. Taillon.

[*Translation*]

Mr. Gilles Taillon: I am not an economist, so I do not have any trouble with my colleagues. My view is that it is extremely important to understand that we need to catch up if we want to maintain our standard of living. I think productivity is a major factor in the standard of living equation, along with employment, of course, in the labour force. So it is extremely important to do this, and I think that if we want to redistribute wealth better, we first have to create it. Productivity is essential in that regard.

[*English*]

The Chair: Ms. Russell, quickly.

Ms. Ellen Russell: Put all economists...well, all economists minus one, because I'm outside this consensus.

For an economist, standard of living has been traditionally defined as GDP per capita, so if you increase productivity and produce economic growth, then it's a mathematical truism that your standard of living goes up. But if you ask all Canadians what they think standard of living means, they think of other things, like quality of life and other sorts of measures, rather than this number.

Mr. Charlie Penson: Ms. Russell, I agree with you that terms and titles can be sort of deceptive. I would argue that even productivity, when we talk about it.... When we say that Canadians aren't as productive as the Americans, we get automatic push-backs. People say they're working harder than they've ever worked. And so there's a lot of misunderstanding. I wish we could come up with a better term to describe the problem here.

From all the studies we've done, the last numbers I saw said that a Canadian family of four was making about $24,000 Canadian less per year than an average family of four in the United States. That means you could be making $2,000 more per month on your mortgage here if we had the same kind of productivity. Now, we may not get back to that, as we once were, but we have slipped pretty badly.

I'd like to ask Mr. Taillon my last question.

I see that you really raised the alarm. Since 2004 our rate of productivity growth versus that of our major trading partner has slipped quite badly. Does that alarm you?

[*Translation*]

Mr. Gilles Taillon: I think that what is even more worrisome is that the situation was the opposite before 2000. Our productivity was rising faster than that of our competitors, but we have dropped behind. So it is important to move quickly to correct the situation, because the gap in productivity will create a gap in the standard of living. The situation will deteriorate for all Canadians.

The Chair: Thank you.

Mr. Loubier.

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman. I would like to thank you all for your excellent presentations. I have three questions to ask; the first is for Mr. Taillon.

The suggestion that you made in your brief is not a call for the federal government to interfere in areas of provincial jurisdiction. The idea is not to get involved in education, training, given that the part of the training budget that was in the employment insurance fund was transferred several years ago already.

My first question is as follows. To eliminate the many ambiguities surrounding interference in the jurisdiction of Quebec and the provinces, would it not be better for the sectoral committees to work, for example, on the basis of a regionalized, independent employment insurance fund, so that they can take into account training needs that may vary from region to region across Canada, given the different realities from one province to another where the workforce and industrial structures are concerned? Would it not be better to work at a more microeconomic level so that we can increase productivity and, as a result, our standard of living?

Mr. Gilles Taillon: To begin with, we feel that an independent employment insurance fund managed with equal representation is an excellent idea. How we organize the work after that would depend on the fund.

If there were to be investment along the lines of our second proposal so that more training resources were available to people working in Quebec, given the decentralization of resources, the investment would be managed in Quebec. However, that would not prevent the rest of Canada from working with a more centralized system.

● (1635)

Mr. Yvan Loubier: Absolutely. I have a second question regarding what Ms. Russell mentioned earlier. Over the past few years, corporate taxes have declined steadily. But businesses have been slow to respond in a positive way to this with capital investment to increase productivity.

Productivity can be measured by work and capital or a combination of the two. If you have human capital that is not using leading-edge high technology equipment to compete, labour productivity will certainly go down, since capitalization is inadequate or insufficiently modern.

Is it possible to explain this decrease in productivity growth? Corporate tax rates have gone down, and businesses would have been expected to react by investing more in capital.

Mr. Gilles Taillon: I will try to answer your question. It is quite clear that corporate taxes have decreased in Canada. However, countries that are currently economic tigers have moved ahead and reduced corporate taxes much more radically. So they have been the ones to attract investment.

So that ties in with what we said about effective taxation meaning more than just lowering the tax rate on profits; there is a need to lower capital taxes, etc., and move into the vanguard. That is how to attract maximum investment. The opposite approach is to do nothing and fall back to second-to-last place out of the 42 most industrialized countries. That is not a good sign. It explains why we are having problems.

The Chair: Mr. Loubier, Mr. Veldhuis would like to make a comment.

[*English*]

Mr. Niels Veldhuis: Yes, my comments were along the same lines.

If you look at the corporate tax cuts both at the federal level and provincial level in the 1990s and in the year 2000, they were quite small. Other countries have reduced taxes to a much greater extent than Canada and other countries are set to do so. Germany is set to reduce corporate taxes; the United States has a major panel looking at tax reform, which could have serious implications, further implications, for our already low productivity.

The Chair: Quickly, Mr. Hodgson.

Go ahead.

Mr. Glen Hodgson: I have one further thought, Mr. Chairman, for Mr. Loubier.

It's very true that I obviously spoke in favour of elimination of the capital tax and the rebalancing of corporate taxes. But it's also true that when we do surveys of CEOs of foreign corporations operating in Canada that might invest more in Canada, they don't automatically point to tax as the key limitation on their investment in Canada. Often they point to the quality of our workforce and the integration of our economy, the barriers that they experience between provinces.

That's part of the reason why we advocate a very balanced approach, not simply an approach emphasizing merely tax cuts, but also investing in human capital, raising the skills of workers at the lower end and also trying to seek out new forms of innovation and advancement in technology, so really, taking the balanced package.

The Chair: Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier: No one has alluded to the problem created by the value of the Canadian dollar, in their presentations on productivity. A few years ago, the Canadian dollar was worth less than 70¢ US. However, today it is worth 85¢ or 87¢. Consequently, the volatility of this exchange rate can have an impact on productivity. I would like you to comment on this matter, please.

[*English*]

The Chair: Mr. Veldhuis.

Mr. Niels Veldhuis: If you look at the research that has been done on the impact of exchange rates on productivity...you have to take into account that there are factors that balance each other out. You have exporting firms that obviously see a decrease in sales, and they're unable to increase their capital as much as they otherwise would. You also have to remember that Canada imports a lot of its technology, and with a stronger dollar we can import a lot more of the things, the types of machinery, that are going to make our workers more productive. At least from the research I've seen, the two seem to balance each other out.

Mr. Glen Hodgson: I'm going to give you a different sort of answer. There's been some work done within Industry Canada and also at Statistics Canada, so it's from federal sources. There's a very good economist at Stats Can named John Baldwin, and he has examined productivity behaviour through the cycle of our currency.

It's fairly clear from his work that a strong dollar is a boost of productivity because businesses have to run that much faster to maintain their competitive position and because, as my colleague says, they're able to import technology more cheaply. What's also clear, however, is that when we go through a period where the dollar is weak, because of downturns in the global economy, that actually has a retarding impact, a slowing impact, on productivity growth in Canada.

There's an unfortunate name; economists call it the lazy exporter hypothesis, where you're able to generate revenue by not doing a whole lot, and therefore you use whatever additional revenue you're gaining to pay your bills, to pay down your debt, but you're not necessarily advancing technology within your firm, you're not becoming more efficient.

In many respects, I think a strong dollar is a necessary condition to boost productivity in Canada, even though it's obviously extremely painful for industry right now. We're seeing that by the failure to grow exports in manufacturing and by the loss of 100,000 manufacturing jobs in Canada in the last two years. So we're going through a painful but arguably necessary condition with a stronger dollar, which in its own way will be a boost to productivity.

● (1640)

[*Translation*]

The Chair: Be brief, Mr. Loubier.

Mr. Yvan Loubier: I'm not referring simply to the exchange rate, but to the volatility of the Canadian dollar. Given that this is a secondary currency on exchange markets, does this not constitute a problem which, if not resolved in the long run, will mean that all of our efforts to improve productivity, even the offensive action we take with respect to our exports, will to some extent be wiped out by this volatility?

[*English*]

Mr. Glen Hodgson: If I could respond, volatility certainly is a factor, but I come from the same school, I guess, as the central bank governor, believing that a floating exchange rate acts as a shock absorber for our economy. It's a pretty necessary condition for an open economy. I would much rather deal with the volatility factor through other means than think about an alternative policy like a fixed exchange rate.

[*Translation*]

The Chair: Mr. Taillon, please be brief.

Mr. Gilles Taillon: I would like to give two very practical answers. Indeed, with the exception of some very particular sectors, the stronger dollar has been an opportunity to improve productivity. Companies have taken charge of their destinies and have decided to wake up and produce more. So there was some wavering, but I believe that it is positive now. That is what the polls are telling us.

We have also done some polling to find out if it was preferable for us to have a set dollar or a fluctuating dollar. I can tell you that the vast majority of companies want a fluctuating dollar.

[*English*]

The Chair: Merci.

Ms. Minna.

[*Translation*]

Mr. Yvan Loubier: Do I have any time left, Mr. Chairman?

The Chair: No.

[*English*]

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

It seems that the presentation varies, from broad cuts to a more comprehensive approach with Mr. Taillon, and then to the other two. I'm looking at couple of things.

First, I guess from my bias I've always looked at both labour and capital, but also looked primarily at the society. Recently I was reading some articles saying in Ontario there was, I think, a 40% or 45% drop-out rate in some schools. I would think that kind of situation—and there are many other social deficit situations—alone would certainly go towards the issue of productivity, not to mention that of literacy. And as was mentioned earlier, we have a large number of immigrants who don't work at their preferred work or at what they're trained for. We talk about brain drain, but we have brain waste in this country.

There's a whole area I would consider to be social deficits in our communities. I would imagine that increasing the minimum wage, and some other things that were discussed earlier and were mentioned by Mr. Bleyer, I would support. But I want to ask some specific questions about additional matters. The social increases and investments to me are obvious. That's where personally I have spent a good deal of time: early education or child care and early learning. It pays dividends, but also it's the right thing to do. And so on.

I also want to look at.... We have cut taxes considerably in this country for corporations. Mr. Veldhuis is shaking his head, but I think so.

At this point, are broad tax cuts the way to go, or a more comprehensive approach, as is being suggested by others? I hear two voices saying broad tax cuts: cutting taxes is going to solve everything and resolve everything. I'm not there, but I'd like someone to convince me why the tax cuts are the way to go.

Mr. Niels Veldhuis: I'll start. I certainly wasn't advocating for broad tax cuts. We obviously have a limited amount of funds to work with. I would argue for very specific tax cuts; that is, moving taxes away from capital and towards consumption. Even if you want to keep revenue constant, you can shift the tax burden away from penalizing capital—

● (1645)

Hon. Maria Minna: You would increase the GST, then?

Mr. Niels Veldhuis: That would be one avenue, absolutely. GST is one of the most efficient taxes, the least damaging. Political things aside, it's one of the least damaging taxes to the Canadian—

Hon. Maria Minna: I'm not thinking politically; I'm thinking of the individual. It hurts and is regressive in many ways.

Mr. Niels Veldhuis: Income tax is. If you look at who actually pays and who are actually penalized by taxes on capital, it's the workers. It's the family driving home at the end of the day in their minivan that gets penalized by not having enough capital to work with to increase their income. So actually it is a very regressive tax. In fact, by having these high rates on capital you're not letting those workers increase their productivity and increase their income.

Hon. Maria Minna: Mr. Bleyer.

Mr. Peter Bleyer: I'm just trying to imagine that minivan.

You're saying that's a more direct effect than the GST, than consumption, than the incredible negative impact on the tax system of the GST and the consumption taxes? We're talking about the effect on the average Canadian. Increasing taxes on consumption is the absolute worse thing we could possibly do in terms of progressivity.

I'm still stunned at the notion that we could talk about tens of billions of dollars in corporate tax cuts as being relatively negligible. It seems to me, whether you think it's enough or not, they aren't in any way negligible.

I think that going with broad-based tax cuts—anything beyond extremely targeted tax expenditures that are focused on particular objectives—is unconscionable. Not only should it not be the preferred policy approach, but it would be unconscionable in the current context.

Hon. Maria Minna: Here's an additional question. You can piggyback on this, Mr. Taillon.

In Ontario under Harris there were huge cuts. The province is still trying to cope with their financial problems because of the cuts. Has anybody done a study as to what benefit on productivity those cuts have had in Ontario?

Mr. Niels Veldhuis: They had tremendous benefits in Ontario. If you look at Ontario's growth from 1996 to 2001, it was the highest in the country. If you look at the decreases—

Hon. Maria Minna: Why is it that people are saying now that productivity has gone down?

Mr. Niels Veldhuis: Ontario has gone backwards on its taxes. It has actually increased capital taxes and made its economy less competitive.

If you look at what's happening in B.C., it has gone the other way. B.C. has reduced its taxes on capital, and they've seen tremendous improvements in both capital investments, headquarter activities, and increased productivity for workers.

Hon. Maria Minna: Mr. Veldhuis, the tax cuts in Ontario were huge for about 10 years. You can't keep cutting taxes and services and meanwhile the kids are dropping out at 40% in Ontario. It's embarrassing, 40% to 45% of kids dropping out of high school. It's a shame, actually. That goes to the other problem of productivity.

Mr. Taillon, maybe you had something else?

[*Translation*]

Mr. Gilles Taillon: I will use the example of the federal government and the significant tax cuts granted by the Minister of Finance and Paul Martin. They reduced taxes overall, and that became a catalyst to increase the government's tax revenues. Despite the significant tax cuts, tax revenues grew by 20%.

So if we want to improve certain programs, such as education, if we want to take better care of children, lowering taxes is not necessarily a poor strategy, provided that it is well targeted, well done and provided that we are consistent, by ensuring that the increased tax revenues are spent on productive sectors. This is what is important.

I think that we have a wonderful example of the effect that lower taxes would produce if the government were to spend more on useful programming. You have this example sitting right in front of you, here.

[*English*]

Hon. Maria Minna: Thank you.

Do I still have some time?

The Chair: Thank you. You've got 30 seconds.

Hon. Maria Minna: Actually, in 30 seconds it is next to impossible. I'll go to the next turn as well. There's no point in asking a question if I can't get an answer.

The Chair: Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you.

Let me carry on from Maria's questioning, because I think this is really the nub of the issue before us: what is productivity, and how in fact do we ensure that we address, as a committee, this topic, to give advice around the next budget that will enhance the economy and ensure that we are able to meet the many objectives that Canadians have—a full employment society with access to vital services, and with people able to contribute to their fullest? It seems to me that the corporate sector has really taken hold of this agenda and portrayed it as only one that involves tax cuts. This is a theme in the newspapers. An ordinary Canadian reading the newspapers would think that productivity is only about tax cuts and that the only way to get any kind of productivity going in this country is giving a break to corporations as opposed to, as I understand it, getting at the root causes of productivity. This is not to dispel the notion, deny the notion, that productivity is important, and it's not to say that taxes have no role, but to say that somehow we have to reclaim the agenda so that in fact we can put forward some reasonable solutions in this process, get investment in those areas that will actually produce, create, productive workers.

So my questions is twofold. Number one, again to the Fraser Institute and anyone else who takes this view, how can we in fact continue to advance the notion of more corporate tax cuts when we know from the TD Bank and a whole lot of other places that corporations have record profits, they're sitting on an unprecedented pile of cash, and they're not reinvesting this back into activities that would enhance economic life in this country as it is? So how are more tax breaks going to deal with this fundamental issue?

Second, from what I've heard Ellen, Peter, and Glen say, we need a more balanced approach. And I think what they're saying is that if you don't look at education and training and a full employment strategy as a fundamental of this whole issue, you get nowhere. And secondly, something we haven't talked about at all today is those who are now in the workforce, trying to do their best, who are prevented from being totally productive because they might be worrying about how to juggle child care, because we don't have a universal child care system; they might be under mental health stress because they can't figure out how to manage and keep all these balls in the air without any support from government; they might be worrying about health care because of the waiting lists; they might be worrying about how their kids are going to go to schools; they might be worried that they're not safe on the job or free from sexual harassment. It seems to me there are a whole pile of issues that deal with productivity that we've got to face up to as a committee. So I throw that out to the panel as well.

Anybody can jump in. I think the debate here is how do we get more balance into this? Otherwise we're going to let the corporate sector run roughshod over the rest of us in terms of understanding the full dimensions of this debate.

● (1650)

The Chair: Let me help out on this.

Mr. Taillon, Mr. Veldhuis, and then Mr. Hodgson, and then we might have enough time to go to—

[*Translation*]

Mr. Gilles Taillon: You are right in saying that there is more than just the investment component in equipment and goods to improve productivity.

When we challenge the tax system, it is to, in a nutshell, give corporations more capacity to invest in goods and equipment, in new technologies, so that they become more productive. However, there are two other components, namely manpower training, which is just as important as investment — we discussed this matter —, and the whole issue of demographic growth, namely achieving a healthy demography and workforce.

We did not discuss this issue because we did not think that this was amongst the concerns of the Standing Committee on Finance. Nevertheless, we feel that the first two components are extremely important, namely training and investment in this area, as well as freeing up resources for corporations so that they can improve their equipment, goods, etc.

[*English*]

Ms. Judy Wasylycia-Leis: Ellen? Do you want to just keep going down?

The Chair: Mr. Veldhuis, Mr. Hodgson, and then Ms. Russell, if you want to go.

Mr. Niels Veldhuis: Thank you.

I certainly wouldn't say that decreasing capital taxes is the only way to increase productivity, but I have confined my analysis to the pre-budget consultations and not to a broader scope, so forgive me. Education certainly plays a strong role in productivity, and there are serious problems with our education system, both in K to 12 and at the university level, that have absolutely nothing to do with how much we spend. Canada is one of the highest spenders on post-secondary education in the world. We have one of the highest percentages of working-age population with post-secondary education. So it's not a matter of resources; it's a matter of how education is structured. But that's another topic.

On the matter of capital taxes, leaving more money in the hands of the entrepreneurs allows them to invest in their employees. If you want to talk about skills investment, the businesses—the entrepreneurs—need money to invest in people, and one of the ways you do that is to stop penalizing them for wanting to do that.

● (1655)

The Chair: How much could we possibly reduce corporate taxes, by 1% or 2%? How do we expect the owners to take that 1% or 2% and reinvest it? I think that would be the ultimate question.

Mr. Niels Veldhuis: My recommendation is to reduce the general corporate income tax to 12%; in other words, equalize it with the small business rates so you're not creating a disincentive to grow your business. But I think one of the key things is that we become a world leader and have one of the lowest capital taxes in the world. If you want to look at a country like Sweden, which has one of the lowest—it has the fifth lowest in the world—let's emulate ourselves after Sweden and make our country a place that people want to invest in.

The Chair: Mr. Hodgson.

Mr. Glen Hodgson: Part of the complexity of the issue is that there isn't a quick fix. There isn't one fix. I was actually working at the Department of Finance back in the 1980s when they were put in place. They were put in place to deal with a very serious fiscal problem. We're no longer there, and that's kind of a no-brainer for me.

When it comes to general corporate taxation, I think you have to be mindful of the international level playing field and where you fit with your major trading partner and other players. But as you heard in my opening statement, there are many other factors at play. It's the comprehensive education, skills for workers, and it's innovation. We spent a lot of time and energy bringing leaders from the public and private sectors together to try to figure out how to get more value-added out of the great ideas at universities and commercialize them. It gets into the field of trade and also the death by a thousand cuts in terms of a regulatory environment.

So you're right, we don't think there is a quick fix. Tax is one piece, but it's only one piece.

[*Translation*]

The Chair: Mr. Taillon.

Mr. Gilles Taillon: If we were to establish priorities with respect to means, we should first of all abolish capital taxes as quickly and as early as possible. If we want to promote investment, we should target capital taxes which have the most direct impact on such investment. Then, we would have to deal with other types of taxation, profits, etc.

[*English*]

The Chair: Just quickly, Mr. Bleyer. And then, Ms. Russell, did you want to go?

Mr. Peter Bleyer: I have just a quick point.

It seems to me that sometimes—and I like to see some of my colleagues here being dragged kicking and screaming onto the social side of things—we just can't externalize all of these social questions in a conversation around productivity. That's clearly what happens with the opening salvo from the true economist: “Well, we don't even notice that stuff”. And they are brought kicking and screaming back to the table. Luckily this is happening on the first day of your sessions, and hopefully it will only progress to a point where we have a full spectrum of opinions.

Part of that full spectrum of opinions is a focus on what my colleague Ms. Russell mentioned, which is distribution. It's so critical that when we look at productivity we not think just about productivity leading to standard of living increase and think that most Canadians are benefiting. We know that for the last ten years the vast majority of Canadians not only have not benefited, they've lost out. They've lost out to any minimal productivity gain. Are you telling me that when the productivity gain is larger, that dynamic somehow changes? It would just be exponentially larger. The distribution problem is not affected in any way by a simple focus on productivity if you don't understand that you have to shape it. You have to shape it to affect productivity—fairness, equality, the sorts of values that Canadians look to, and that they look to their elected representatives to protect and enhance.

The Chair: Thank you.

Just quickly, Ms. Russell, because time is up.

Ms. Ellen Russell: One of the points that haven't been made very strongly is that a lot of the things that relate to human capital and physical capital are really things only the government can do. Regardless of the kind of break you give to individual enterprises on their taxes, they are not going to be able to set up a university. So we have to understand that the role of government is in part to provide the preconditions for productivity growth that really can only be provided by government, and to the extent that we use corporate taxes to deplete the resources of government, we preclude ever being able to do that.

The Chair: Thank you, Ms. Russell.

Mr. Solberg, we're going to five minutes, and then Mr. Bouchard.

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

It strikes me that what we're talking about here really is to give people the tools they need to be as productive as they can possibly be. I've used the word I was trying to define, but basically it's about giving people tools to do the job, and that takes many forms. In some cases they need education. Almost always what undergirds this is access to capital in some way to make these things possible. Ultimately the goal is to ensure that people have these tools that are necessary for them to do whatever the job is. This requires involvement from all sectors, private and public. It strikes me as well that one of the goals has to be to grow the pie larger so that you can redistribute the wealth, but only once you produce it.

I see this roughly the same way as people sitting on this panel. What that suggests to me, if I've roughly got this right, is that there are many things that need to be done. There is no one answer to all of this. Certainly we do have to reduce taxes if they are inhibiting our ability to attract capital, which allows us, for instance, to provide education to people, or whatever it is. Obviously that's part of it. And if we are falling behind, then we have to take steps in those areas.

But it's also equally true that if Mr. Veldhuis is right, or if Maria Minna is correct, education is a problem—for instance, in Ontario, if you have a 45% dropout rate, and I didn't know that, I don't know if you could say it's necessarily all caused by money. That's something that has to be addressed as well.

I guess I'm saying in a very roundabout way that this is a very complex problem. It has many different causes. I suppose at the end of the day what's necessary for our group to do is to really prioritize where Canada is furthest behind and then propose some ideas, some solutions, to address those areas where we're furthest behind so that we can start to catch this up. And this does not address, by the way, Ms. Russell's point, which is that maybe we define standard of living in a different way, but I'll set that aside for a moment. Please jump in if you want. Let's assume for a moment that we're talking about raising output per capita, which in a way gets people the options to pursue the type of life they want to live, and it may not be the same for everybody.

Anyway, those are my opening comments. I would welcome any comment on what I've just said.

● (1700)

The Chair: Ms. Russell.

Ms. Ellen Russell: I agree with your earlier comment that if you grow the pie larger, then you could redistribute. That's true if you've got a plan to redistribute. It's not necessarily automatic that better distribution will come. So if you were to say to me that we have this great plan to increase productivity and that's going to create economic growth, and we have this great plan to redistribute it, then I would be more persuaded that the ultimate goal is to have good distribution. But if all I see is an agenda that looks like it's about enhancing productivity and it suggests to me that it's going to be badly distributed in terms of the benefits, and I see no remedy to that, then I start being suspicious that that's really what your ultimate goal is.

Mr. Niels Veldhuis: Ms. Russell clearly hasn't examined what's happened to federal spending since the government balanced its books in 1997. Federal program spending has increased 52% since 1997-98. So clearly a more productive economy leads to more revenues, and in fact it does lead to more program spending.

The Chair: Mr. Bleyer.

Mr. Peter Bleyer: I too like your point on complexity and taking a tools approach. But again, the policy mix that you choose for how you produce the wealth predetermines whether you actually can go about redistributing that wealth. It's even worse than knowing whether you're going to try to do it or not. The mix that you choose to advance productivity will tell us whether or not there's even any chance of achieving redistribution.

The other point is on looking at where Canada is furthest behind. I'm pulling out some numbers from the UNDP 2005 figures for the proportion of population living in low-income poverty from 1990 to 2000. The UNDP ranks Canada 24th. So I'll put that on the table as where Canada is possibly furthest behind.

Mr. Monte Solberg: That's fair enough.

The Chair: Thank you, Mr. Solberg. You're way over your time.

Mr. Monte Solberg: But I'm so fascinating, I feel that I should go on.

[*Translation*]

The Chair: I would like to give everyone the chance to speak.

Mr. Bouchard.

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): My question is for Mr. Hodgson of the Conference Board of Canada.

You said that productivity must be supported by government. As well, in your brief you proposed investing in post-secondary education, eliminating the tax on investments, and measures to help small businesses, innovation and cities.

Does the federal government have the means to implement your proposals?

● (1705)

Mr. Glen Hodgson: That is a very good question. Indeed, we have the privilege of making fiscal forecasts.

I can answer in French. My French is not perfect, but I have the advantage of having worked as a federal public servant for many years.

Mr. Yvan Loubier: Very well. Your French is very good, Mr. Hodgson.

Mr. Glen Hodgson: Thank you.

We are in the process of making our forecasts for this year, and, generally speaking, we believe that there will be a surplus of approximately $10 billion. However, that will of course depend on the other changes.

Mr. Yvan Loubier: Your forecasts are the same as ours.

Mr. Glen Hodgson: Yes.

It's not the final figure, because my colleague Matthew Stewart is still working on the subject. Nevertheless, there will be some fiscal room available to introduce measures to support productivity or any other priority established by government. So there will be some flexibility.

Mr. Gilles Taillon: There certainly is enough money to begin doing something, perhaps not everything, but the federal surplus will certainly allow us to go ahead with some initiatives.

By the way, I would like to say in jest to Mr. Peter Bleyer that Canada ranks about the same in terms of poverty as it does in terms of productivity. So there is a certain correlation between the two.

The Chair: Thank you, Mr. Bouchard.

Mr. Hubbard.

[*English*]

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair.

I guess we have heard a lot, and we'll eventually try to put most of this together. But it is shocking to think that our lower-income people are becoming a bigger percentage of our overall population year after year. We have to acknowledge that, and as a government and as a society we somehow have to address it.

Secondly, in terms of presentations, Mr. Chair, we were talking about education and training. I think maybe it hasn't been put on the table, but in terms of training by companies and by employers, Canada has one of the lower levels in that area compared to most countries that are successful.

Mr. Chair, there are some other topics here that we haven't heard much about. For example, the topics of infrastructure in terms of productivity, transportation in terms of productivity, and the fact that Canada has one of the highest rates of unionized workforces when we compare ourselves to the Americans and to some other countries haven't been brought to our attention. Maybe some of the presenters would like to comment on some of those other factors that are so important when considering productivity. I know about training and education but not these other ones.

Niels, are you all set to go on that one?

Mr. Niels Veldhuis: Again, my apologies for not including unionization in my discussion. I limited my discussion to different matters. But you're absolutely right, study after study shows that unionized firms do worse on productivity measures than non-unionized firms.

In terms of what the federal government can do, only about 9% of the workforce is under federal labour legislation laws, but the federal government can set an example for the provinces. Unfortunately, the labour minister of the day has gone the other way and has promoted more biased and more rigid labour relation laws. We would certainly say that you have to move towards more flexible labour relation laws.

Mr. Charles Hubbard: Who wants to speak on transportation? Does anyone want to comment on it and what a big factor it is in terms of our trade with the United States, and the problems we have moving not only people but, more importantly, our products, and whether or not that should be a government priority with productivity?

Mr. Peter Bleyer: I just have a quick comment on what it means at the community level and the importance of public transit as part of the social infrastructure, frankly. It's physical, but it's also part of the ability of people to enter the labour force, to be effective members of the labour force. I know there are broader questions around transportation, but clearly it's extremely important on the physical infrastructure side that there continues.... There has been reinvestment in transportation, which has been important. It needs to continue.

The Chair: Yes, Mr. Hodgson.

Mr. Glen Hodgson: We've done extensive work looking at the infrastructure gap that exists for cities. It clearly applies to the transportation of goods to the border to be exported.

I wanted to just talk briefly about productivity in another area, which is health care. It's quite remarkable how little analysis there has been of efficiency and productivity in health care delivery. We just started working in that area. In fact, we're working up a proposal right now to try to come up with some metrics to actually better understand productivity in health care, because ultimately it's the aging population that will put pressure on our health care system, which is the real reason for productivity ultimately: to pay for those public goods. We'd better have a good sense of how to render our health care system a lot more efficient and innovative, and ultimately more productive, but the literature is remarkably thin. There is very little analytical literature on the concept of productivity and health care, and it's something that we want to take on seriously.

● (1710)

The Chair: Monsieur Taillon.

[*Translation*]

Mr. Gilles Taillon: I have two responses. First, as far as training is concerned, what in English is called “training on the job”, we don't think that it is really developed in Canada. You are right.

As well, the infrastructure issue is extremely important. Indeed, if we want to increase our productivity, we will need to have high-quality infrastructure, not only physical infrastructure, but also communications infrastructure, given globalization.

[*English*]

The Chair: Thank you, Mr. Hubbard.

I have Mr. Goodyear and then Mr. McKay.

Mr. Gary Goodyear: Thank you, Mr. Chairman.

I wonder if I could ask the panel a question regarding productivity and the multi-faceted definition that Ms. Russell has come up with. Given that Canadians tend to complain about taxes and the weather, and given the common adage that the only things we have for sure are death and taxes, and if I can add to that, being from Ontario, the broken promises by government, the repeated broken promises—whether they have to do with using taxes like the new health tax in Ontario for general revenues and infrastructure, etc.—and the demoralizing of the population with an increasing lack of trust in government officials, I wonder if the panel would comment on the effect on a population that feels, I would suggest, it is overtaxed. I think the evidence suggests that Canadians are overtaxed and under-serviced by their government. What effect would that type of demoralizing, that type of growing apathy by the population, have on productivity?

The Chair: Mr. Veldhuis.

Mr. Niels Veldhuis: I'll let someone else have a run at it if they want.

In terms of demoralizing, I like to look at it on the incentive side. We have study after study after study coming out saying that these taxes have a significant impact on people's behaviour. If people are going to be overtaxed, they're not going to work as hard, they're not going to take as many risks, they're not going to save as much, they're not going to be entrepreneurial. So in terms of demoralizing, I would look at it that way, as an impact on the incentive to work hard, to invest, to take risks.

The Chair: Ms. Russell.

Ms. Ellen Russell: The income of the person in question matters. If you're a low-income person, the tax structure is maybe not the first consideration that comes to your mind when you're considering your labour leader trade-off, as economists would say. You need to work in order to eat, so it doesn't seem to me that this is perhaps the greatest cause of the alienation your example person might be experiencing.

Secondly, about being overtaxed, I just don't understand the term, because you're taxed and you get certain things back for it, like health care, for example. For a low-income person, it may be highly significant that health care is provided by the state in Canada, much more significant than the very small difference, one way or the other, some of the proposals we're hearing might make in their taxes.

Mr. Gary Goodyear: Would you not agree, though, that Canadians do not feel they're getting a good bang for their buck, especially when you refer to something like health care?

Clearly, health care's been the number one problem in this country for a decade. How would you assume that any taxpayer, at any level of income, would believe that for a buck they pay in taxes they're getting a buck in return? I disagree with that. I think they're thinking they get 30¢ in return.

Ms. Ellen Russell: I am not saying that what's going on currently is perfect, but I think a solution that says people are complaining about what they're getting and therefore cut their taxes and they will get even less in those public services is the wrong way to go.

Plus, you have to put it in context. In the deficit-fighting 1990s, we were underfunding so many things that are now really showing the signs of strain of all that neglect. They're just being built up again. I think it would be better to repair the thing than to cut taxes and undercut our possibility of even repairing it.

● (1715)

Mr. Gary Goodyear: Can I just get a clarification, and then I have one other question if I have time, Mr. Chairman.

Would you agree that a population who feels that they're overtaxed, they're burdened, and that one person out of every two in a family has to work simply to pay the taxes for that family would in itself decrease productivity?

Ms. Ellen Russell: I think the question is a bit of a set-up. People that—

Mr. Gary Goodyear: I think the answer's obvious. I'm just trying to get you to answer it.

Ms. Ellen Russell: People are concerned about their income. If you could raise their real wages, I don't think the tax issue would loom so large. But after 15 years of pretty stagnant real wages, people are desperate. Then they're asked, oh, aren't you angry about your taxes? Well, yes, they're angry about something, but if you raised their real wages, I don't think the taxes would be their major issue.

Mr. Niels Veldhuis: Who's going to increase the real wages?

Mr. Gary Goodyear: I find it interesting that for somebody who's pushing the multi-faceted definition of productivity, you're not willing to admit that taxation has a negative effect on one's productivity

Do I have time for one more question, please?

I've read your paper and I find it very interesting. At the end of the article, on page 11, you're suggesting that some of the changes in the coming federal budget might augment the role of Technology Partnerships Canada. I certainly don't profess to be an expert on the TPC program, but my understanding is that the present program is under some scrutiny for mismanagement and has a possibility of as low as a 5% return. So here we're seeing that the taxpayer is putting in $1 and getting 5¢ back.

Can I just ask if you are aware of the problems with Technology Partnerships Canada? If you are aware of them, do you still support augmenting that program?

Ms. Ellen Russell: I get where you're coming from. Where I'm coming from is that there is the possibility of using the state to do these things. I'm not saying we should ignore the problems that exist in the vehicles that are currently out there, but if we could fix those problems, we could use the vehicles to good advantage.

The Chair: Thank you.

I have Mr. McKay, then Ms. Wasylycia-Leis, and then we're hopefully going to—

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Mr. Chair.

I have two questions. The first has to do with the United States' performance. Currently, the United States seems to defy economic gravity. They're running triple deficits: fiscal deficit, balance of payments deficit, and pension deficit. Yet they continue to motor on, with pretty significant growth, and they seem, by a lot of standards, to be doing quite well.

When President Clinton first became President, he embraced two concepts: financial services reform and productivity. With the change of administration to President Bush, I'm wondering whether embracing those two ideas has in fact allowed the United States to defy economic gravity? We address it in macroeconomy.

Mr. Glen Hodgson: I don't think anybody defies gravity forever. In fact, I've done a couple of articles this year, one in *Canadian Business* magazine back in August, talking about the twin deficits.

I like your third deficit, by the way, because you're absolutely right, there's a massive pension deficit looming in the United States that will become an even bigger contingent liability for the U.S. government at some point.

But I don't think anybody defies gravity. The strong U.S. productivity performance is a function of many, many things—the fact that they have a domestic market of 280 million consumers; the fact that they have an extremely flexible economy, with losers as well as winners; the fact that you can generate capital easily in the United States—but you don't defy gravity forever. Yes, they're showing spectacular productivity gains, and they may even show that through some resolution of the deficits. My fear is that it will eventually back up on the United States and you will see a decline in the value of the U.S. dollar and an upward pressure on U.S. interest rates, which frankly is quite separate from productivity performance in individual firms.

It's one of the ironies that sometimes you can have a poor macroeconomy and a very strong microeconomy. Canada has the good fortune of having a very strong macroeconomy right now, so we have the foundation upon which to build a real national productivity agenda.

● (1720)

The Chair: Mr. Veldhuis, and then Mr. Taillon.

Mr. Niels Veldhuis: I'm a little more optimistic on the U.S. than my partner here, primarily because of productivity. Productivity isn't going to allow the U.S. to grow out of its deficit, and that's one of the things you have to keep in mind. Increase your economic pie and you can get more revenue. Obviously that way you eliminate deficit. Part of the reason they have been so productive is because of the focus on productivity of the previous government, but also because of the focus on productivity because of George Bush. He had two major rounds of tax reductions, and now they're looking at even more, and a serious round of actually shifting taxes away from the most damaging to the most economically friendly taxes.

[*Translation*]

The Chair: Mr. Taillon.

Mr. Gilles Taillon: In fact, beyond the economic parameters which are favourable to the United States, several researchers believe that the extraordinary ability of Americans to land on their feet, in terms of productivity, is due to their ability to question the way they go about things. In fact, companies are flexible and can reorganize themselves quickly, which Canadian companies are not as able to do. So, beyond economic factors, this may be an explanation.

[*English*]

Hon. John McKay: I just want to see whether there's some agreement at the table here among those who are economists and those who pretend to be economists. As I understand it, the capital depreciation rate, the capital allowances, are probably the best bang for the buck in terms of improving your productivity. The numbers I have are that if you do a dollar in reduction of capital cost allowance, there's about $1.40 in economic benefit. On sales tax on capital goods, the economic benefit, the same dollar gets $1.30; personal capital income tax, $1.30; and capital tax, 90¢.

I wonder whether there is some consensus among all of you that this would be kind of an ordering of priorities, given that the government can't do everything here, and given that ultimately productivity gains are functions of business in Canada but that the government can give some nudges in the right directions. Are those four—and I could go on—more in the category of the top focus for productivity gains in the field of capital cost allowance and tax reductions?

Mr. Niels Veldhuis: Talking about it from the federal Department of Finance on economic welfare increases, if you look across numerous studies, they show it's capital taxes first, corporate income taxes second, and personal income taxes third. Some studies don't include depreciation rates, but certainly I include those. So it would be depreciation, capital, and income; those are the corporate taxes we need to deal with first. I would agree with your assessment.

Hon. John McKay: Is there a consensus?

Mr. Peter Bleyer: I guess if you're asking me to choose the lesser evil, I would flip it over to say that I'm looking forward to the numbers from the committee through your forecasters. Then what we'll be talking about in the brass tacks is that you have $10 billion, you have the social deficits I enumerated, and you have a productivity challenge to be defined; do any of these factor into the solution? Hopefully at the end of this process you'll come up with an answer that the people I work with will feel reflects the reality they're living.

The Chair: Mr. Hodgson, did you want to respond?

Mr. Glen Hodgson: We have not done an independent analysis, and I don't have the benefit of the numbers, but I would say that our whole methodology is to take positions based upon hard analysis. If those are the kinds of numbers the department is producing, I think those are credible numbers. I would also say, however, that even though I've mentioned a $10-billion figure—and we haven't finished the numbers yet—I'm a strong believer that it's too early to declare victory on the debt. Until we get a debt-GDP ratio to around 25%, we have to build enough prudence into our fiscal forecasting to ensure that we don't slip back into deficit. I know that Tim O'Neill has done some very good work around that.

Numerically, as economists, we know that you can actually have falling debt burdens and deficits, but I don't think we're anywhere near to the point where we should build that sort of latitude into our fiscal forecasting.

● (1725)

The Chair: Thank you.

I just want to allow Ms. Wasylycia-Leis a last chance before we adjourn.

Ms. Judy Wasylycia-Leis: Thank you.

I'd like to get right down to the nitty-gritty of what you would recommend to the government as we begin this process vis-à-vis a budget that, if our independent forecasters are correct, is expected to include a surplus of about $8 billion. So we're not dealing with a bottomless pit. As Ellen said, we do have to make some hard choices.

That's why I'm curious, Mr. Hodgson, about your recommendation that for sure we address the capital corporate tax issue. I see that as not necessarily a top priority in terms of this broad scheme of things.

So that's what I'd like to know. What is your top priority, given what the estimates are for a surplus? What would you advise the government to spend its surplus on in order to deal with the productivity issue being faced today?

Perhaps we could start with Peter.

Mr. Peter Bleyer: If we had to choose one area, then clearly, as the Canadian Council on Social Development, we would point to reinvesting on the social side. Specifically, let's remember what we're talking about in terms of the social transfer coming out of the split of the CHST, where we had quite substantial reinvestment in health care—there are debates around that—but where we have yet to have the necessary corrective and reinvestment on the social side. So there has to be cash put back into the social side.

Above and beyond that, I think there has to be a process. There has to be a process that engages Canadians, that engages provincial governments—all levels of government—in figuring out how we're going to arrive at clear objectives that can be met with that cash. It's not simply about moving money around; it's about making sure we have outcomes that are targeted, and that we have clear objectives, that we have mechanisms, that we invest in mechanisms.

For example, what could be done with the ELCC dollars already projected for next year to establish the kind of transparency and accountability mechanisms that would serve everybody's best interests—the federal government, provincial governments, and Canadians who need those services? I think the priority has to be in that area.

Mr. Glen Hodgson: I hate to give you a dodgy answer, but as I said at the outset, it's a complex issue and it really requires a comprehensive approach. Unfortunately, if there is one thing, it's not to choose education or tax cuts or innovation; it's to commit to a comprehensive approach where fiscal action is just one piece and openness to trade and investment is another piece.

Dealing with the death-by-a-thousand-cuts issue, which we've really inflicted upon ourselves over 50 years, would be the third piece. It really has to be that comprehensive to have an impact on national productivity, remembering the cities and all the other factors that are out there.

So I don't think there is a single quick fix.

Mr. Niels Veldhuis: Given that we're talking about the budget, I presume, we do have to pick the area, as I believe Mr. Solberg said, in which we are the furthest behind. Clearly, on capital taxes we are the furthest behind. We need an aggressive five-year plan to get us at least in the top 10, or the lowest top 10 of capital tax users. One way to do that would be to keep federal spending constant per capita. Allow it to grow by inflation in population, and then use the money you save in that regard to reduce capital taxes.

Ms. Ellen Russell: I think it's going to be a challenge for you to pick from among a lot of good ideas and a lot of crying needs. I would say that we still owe it to a lot of sectors of the Canadian population to rebuild things that were cut in the 1990s. I think that has a lot of long-term productivity implications as well as a kind of imperative, given that this was sort of promised, that the suffering done in the 1990s would be addressed once we had the means. We have the means now.

We can do that as well as simultaneously invest in a lot of the infrastructure things, the social programs that, if cleverly designed, can work together to produce a productive workforce for the future.

● (1730)

The Chair: Monsieur Taillon.

[*Translation*]

Mr. Gilles Taillon: I will risk giving you a very simple answer. As far as how the surplus should be spent, 50 per cent should go towards tax reduction—I gave you my priorities a little earlier as to the type of tax reductions I would like to see—25 per cent towards debt reduction and 25 per cent to investment in education and infrastructure.

[*English*]

The Chair: Thank you.

We're going to go off and vote, so I'm going to call it a day. I just want to thank all the witnesses for appearing. It's a lot of food for thought, as they say. Thank you for your time.

I hope the members will remember this by the time the pre-budget consultations are over. Thank you very much.

This meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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