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Chair

Mr. Massimo Pacetti

Standing Committee on Finance

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● (1545)

[*English*]

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

We're here pursuant to Standing Order 83.1 on the pre-budget consultation for 2005.

I'll allow you a seven- to eight-minute timeframe to present your briefs for your opening remarks. I'd like you to respect that, because we're up to seven groups, I think, if not more. Then the members are going to want to ask questions and I don't want to go over on the time. I know we're starting a little bit later, but I can't go on, and I think some of you will have things to do as well.

The first group I have here is the Canadian Printing Industries Association, Mr. Elliott.

Mr. Bob Elliott (President, Canadian Printing Industries Association): Thank you, Mr. Chairman.

Indeed my name is Bob Elliott. I'm president of the Canadian Printing Industries Association. With me here today is Bob Kadis, chair of our government affairs committee. I will begin by providing you with an overview of our industry, and then Mr. Kadis will discuss with you our major pre-budget issues.

The Canadian printing and allied industries provide stable career employment to some 98,000 Canadians. This year, total shipments are estimated to be in the $11 billion range, and some 16% of these shipments are exported, primarily to the U.S. Our industry is comprised of 5,500 establishments, making it Canada's largest manufacturing industry when measured in terms of numbers of plants. As a result, the economic impact of the industry is distributed broadly across Canada.

Most firms are locally owned, and three-quarters of them have 20 or fewer employees. Fewer than 3% of all establishments have 100 or more employees. CPIA is a national association representing 600 member companies located across Canada and representing establishments of all sizes.

From 1993 to 2002, the printing industry experienced healthy growth rates annually. However, 2003 saw the value of shipments drop by 0.7% at a time when Canada's real GDP expanded by 1.7%, while 2004 saw industry shipments grow by a slight 1.5%, well below the 2.7% by which real GDP expanded last year. Please bear in mind that continued high levels of economic activity in Canada's printing and allied industries cannot just be taken for granted, but rather should be nurtured.

Now I'd like to call on Mr. Kadis to discuss with you some of the positive measures contained in our pre-budget submission that will help our industry to flourish and to continue providing economic benefits across Canada.

Mr. Bob Kadis (Chair, Government Affairs Committee, Canadian Printing Industries Association): Thank you, Bob, and good afternoon, ladies and gentlemen.

The standing committee has identified three types of capital, entrepreneurial, human, and physical, and asked how investments in each of them should be prioritized. Central to our brief is a thesis that living standards are indeed strongly linked to productivity and that in attempting to improve living standards the federal government should focus on measures to encourage increased productivity.

My remarks today will concentrate on four such issues. They are capital cost allowance for computerized equipment; the special needs of Canada's book manufacturing sector; international trade; and, finally, occupational training.

Turning first to the capital cost allowance system, the CPIA is of the opinion that appropriate CCA rules can most certainly help drive investment in entrepreneurial capital. I can report to you that the provisions in the March 2004 budget to increase the CCA rate on computer equipment to 45% were particularly well received within the printing and allied industries. At the same time, it caused some dismay that the CCA rate increase did not apply to similar computer-based equipment with similar useful lifespans.

We are pleased that the standing committee has recommended in the past that Canada's CCA rates be revised to ensure similar assets are treated similarly, that rates be similar to those in the U.S. and elsewhere for comparable asset classes, and that Canadian rates reflect the useful life of assets. However, the government has not gone far enough nor fast enough in ensuring that this is in fact implemented.

Being able to afford the sophisticated machinery and equipment needed to defend and expand markets is a matter that affects virtually every Canadian printing company, whether large or small. To spur on productivity and innovation the printing industry requires sophisticated equipment, and this generally means computer-driven technologies. Modern printing machinery is heavily dependent on computer controls. Unfortunately, the 45% CCA rate has not been extended to such controls. Just as computers become rapidly obsolete, so does computer-like equipment in the printing industry. Our competitors in other countries are benefiting from far more favourable terms on which printing machinery can be acquired.

We recommend, therefore, that the 45% accelerated rate apply to computer-like equipment. In addition, given the special challenges that equipment acquisitions pose for smaller businesses, our brief proposes that such businesses be permitted to expense in the year of acquisition investments of at least $40,000 to purchase data processing equipment and peripherals.

Our submission states clearly that accelerated depreciation deductions, which would otherwise be claimed in later years, are essentially neutral with respect to their impact on the public purse.

A specific issue facing Canadian book manufacturers is the second major subject addressed in our submission.

Under the federal book publishing industry development program significant subsidies have been paid to Canadian publishing companies, some of which have their books printed abroad. In effect, the Government of Canada's publishing subsidies are being used to support the printing and allied industries of other countries, to the detriment of our domestic book manufacturers, many of which already lack sufficient market opportunities to remain viable. These non-domestic manufacturers do not pay Canadian income tax, do not employ Canadians who would pay income tax, and, to the extent that Canadians may be put out of work as a result of this offshoring of print, the federal government may also be paying out EI and other supports.

Clearly, funding of print outside of Canada has indirect costs well beyond the direct amount of such subsidies. We recommend, therefore, that subsidies be provided only to publishing companies that undertake to have their books manufactured in Canada.

This leads me to the third major theme of our submission, and that is international trade. Our submission documents the degree to which the Canadian printing industry has benefited in the past from the trade opportunities that can be linked directly to NAFTA. The U.S. market has become extremely important to the health of the Canadian printing industry. In fact, 97% of our print exports are purchased by American customers. However, since September 11, 2001, many of these U.S. organizations have mandated that their printing requirements must be met by U.S. manufacturers. Within this environment Canada's strong presence in the U.S. print and other markets has been challenged from a protectionist perspective.

In addition, a Canadian dollar that has climbed from 63¢ in the first quarter in 2002 to its present 84¢ to 85¢ range has challenged our print exporters.

Our submission endorses the government's commitment contained in Budget 2005 to set new trade and investment priorities with the United States. An efficient cross-border system and implementation of trade measures to enhance our commercial relationship with the U.S. are vital to the success of the printing industry in this important export market.

● (1550)

We applaud the government for standing firm on our NAFTA rights, and with respect to softwood lumber, etc, but we would like to see these issues resolved quickly, in order to avoid unnecessary and unwelcome border difficulties.

CPIA believes that the most significant step forward in investment in the human capital that can be made in the upcoming budget is to regard occupational training as a priority. This is the fourth of the major issues contained in our brief that we wish to discuss briefly with you this afternoon.

The lack of federal support for skills-based education and training means that our industry must provide a significant amount of such training on an in-house basis. A stronger federal commitment to education and training is essential to ensuring a qualified workforce in Canada. We see sector councils as having critical roles in addressing the recruitment, training, and innovation needs of industry in Canada and urge that the work of these councils continue to be vigorously supported by the federal government. Incidentally, page 7 of our submission stated that CPIA is in the process of applying for the establishment of a sector council for the printing industry. It is our true pleasure to be able to report to you today that our application was in fact approved in September 2005.

Our brief also advocates that the federal government assume a leading role in recognizing foreign-obtained skills, certifications, and education for immigrants, to maximize the contributions that they can make to our economy and standard of life. Recent announcements that have been made in this direction are welcomed by CPIA. We regard them as a useful template to be considered within the context of our recommendations on the subject.

In total, CPIA has advanced 17 specific pre-budget recommendations, all of which are found on the final two pages of our brief. Our time and allotment today precludes me from discussing these with you in detail. However, I draw your attention to those designed to enhance the competitiveness of the Canadian economy. Specifically, we urge the government to implement the following five recommendations:

One, amend the EI rules so that no employer premiums will be required for employees hired to replace individuals on extended parental or compassionate leave.

Two, amend the EI legislation so that when employees change employers in the course of a year, employers will be eligible for a rebate, corresponding to the refund offered to such employees for their over-contributions.

Three, institute further personal income tax reductions applicable to all tax brackets and raise the income levels at which the highest rates apply.

Four, repeal the 1995 increase in the federal excise tax on gasoline, introduced as a temporary deficit elimination measure at the time, and require that the GST/HST be applied at the pre- federal excise tax and provincial sales tax level, to eliminate an undesirable element of double taxation.

And finally, point five, increase RRSP contribution limits to $27,000 immediately.

Mr. Chairman, this concludes our presentations today. On behalf of the CPIA, Mr. Elliott and I wish to acknowledge our appreciation for the committee's attention to our remarks. We look forward to further discussion.

● (1555)

The Chair: Thank you, Mr. Elliott, Mr. Kanis.

From the Canadian Retail Building Supply Council, Mr. Prouse. Are you going to make the presentation?

Mr. David Campbell (President, Lumber and Building Materials Association of Ontario, Canadian Retail Building Supply Council): Mr. Campbell here.

The Chair: Mr. Campbell.

Mr. David Campbell: Mr. Chairman, committee members, my name is Dave Campbell. I'm here today in my capacity as the chair of the government relations committee of the Canadian Retail Building Supply Council.

The CRBSC is a national umbrella organization representing the five regional and provincial retail building supply associations across Canada. They are the Atlantic Building Supply Dealers Association, headquartered in Moncton; the Quebec association, based in Longueuil; the Lumber and Building Materials Association of Ontario, where I serve as president and which is located in Mississauga; the Western Retail Lumber Association, based in Winnipeg; and the Building Supply Dealers Association of B.C., in Surrey.

These five associations collectively represent over 2,000 member companies. Last year, total industry sales were an estimated $40 billion, and total employment was provided to some 50,000 Canadians in communities of all sizes, in all parts of Canada.

I'm also speaking today on behalf of the Canadian Hardware & Housewares Manufacturers Association. The CHHMA participated actively in the development of our position paper and fully endorses its content. It is a national association, with 250 member companies engaged in the manufacture and distribution of hardware and housewares products. Industry sales in 2004 were about $40 billion, and the industry provided employment to a further 25,000 Canadians.

Taken together, our two sponsoring associations represent almost 2300 companies in all major aspects of the building materials, hardware, housewares, and lawn and garden product industries. The two associations include manufacturers, wholesalers, and retailers, and their memberships. In 2004, they employed some 75,000 Canadians, resulting in widespread economic benefit across this country.

I am confident in assuring you that our submission fully represents the views of the CRBSC members. They were obtained in a pre-budget survey carried out during the summer months. While I will be referring to several aspects of that survey during the balance of my remarks, I think you'll be interested to hear that 37% of the responding companies came from urban communities, 56% from rural communities, and a further 7% from remote communities, all of which underscores my previous statements about the positive economic impact that our member companies exert on communities of all sizes in Canada.

CRSBC members were asked to assess the growth prospects for Canada, their own province or territory, their industry, and finally their own companies. The consensus position was for a medium level of growth both this year and next year. That probably shows retail building supply dealers to be slightly more optimistic than the Bank of Canada, which last month predicted real GDP growth of 2.8% for the balance of 2005, and 2.9% in 2006.

The housing market is particularly important to most member companies in our coalition. You will note that our brief was filed with the standing committee in early September. At that time, we were reporting August predictions from Canada Mortgage and Housing Corporation to the effect that, from a 2004 baseline, total housing starts would fall in 2005 and decline still further in 2006.

The trend is for all of single-family starts, multiple units starts, and MLS sales reported by CMHC to be down. In its most recent forecast, released on October 24, CMHC showed itself to be slightly less pessimistic about 2006 than it had been in August. Now it is saying total starts will be down just more than 28,000 in 2006 over 2004, compared to the drop of 33,000 they predicted in August. Looking at the prospects for 2006 on a province-by-province basis, CMHC says starts will be down in all jurisdictions except Nova Scotia, Saskatchewan, and Alberta.

Canada's economic performance over the past six years has been enhanced by a buoyant housing market, measured both in terms of starts and MLS activity. If the industry had stagnated during this period, performance by the economy as a whole would have been negatively affected. If the industry falters in the foreseeable future, as CMHC has suggested, a decidedly negative impact in the economy is predictable.

Factors that could lead to a downward trend in housing starts would include a restriction in disposal income and higher mortgage interest rates. It seems likely to our coalition that when the Minister of Finance delivers his economic and fiscal update, he will have to concede that the escalating consumer price index is hurting disposable income and that mortgage interest rates have started to climb.

Again this year, we are advocating that Canadians be permitted to borrow from their RRSP savings to finance residential retrofits to meet the needs of senior citizens and to undertake residential repairs and renovations. I would just mention that I sat in on the submissions of the previous group, and I was interested in the comments of Dr. Conn, from Smartrisk, about the challenges for seniors today, and this would certainly help to address part of that problem.

● (1600)

The model for this initiative already exists through the first-time home buyers plan. Therefore, its extension to other uses would be at a low cost to the public purse, while providing an important stimulus to the housing market. Truly, this is an idea whose time has come; it deserves the serious consideration and strong support of the standing committee.

The first-time home buyers program was introduced in 1994, and provided for a maximum temporary withdrawal of $20,000 from RRSP savings. That amount has not been adjusted upward in the intervening years and, as a result, it has become an increasingly less valuable incentive for first-time home ownership. Accordingly, our brief also recommends that the maximum amount that first-time home buyers can withdraw be increased to $40,000 in the next budget.

Just as the first-time home buyers program has become progressively less financially beneficial over the years, so has the GST/HST new housing rebate on the price of new or substantially renovated homes purchased from a builder. The rebate applies to maximum selling prices. These maximums have not been adjusted upward for many years, despite rapidly escalating purchase prices. To get away from the ongoing problem of keeping programs of this nature financially relevant over time, our coalition urges the standing committee to recommend that the GST/HST new housing rebate apply to the full value of a home purchased from builders.

I would be remiss if I did not acknowledge the initiatives the government has undertaken this year to improve the energy efficiencies of dwellings. In particular, the Energy Star program, which introduced new high-efficiency levels for windows, doors, and skylights, is to be applauded. The EnerGuide for low-income households provided for in Bill C-66 is also worthy of support. Whether these measures result in direct economic opportunity for our member companies remains to be seen. Regardless of that, steps to encourage reductions in the levels of greenhouse gas emissions and to conserve energy are in the best interests of all of us.

The standing committee posed a series of questions that essentially asked us to make choices between investments in entrepreneurial, human, and physical capital. We have opted strongly for entrepreneurial capital, and believe that the two most important investments that could be made are personal and corporate tax reductions. Another important investment in entrepreneurial capital would be to reduce the absolute amount of the national debt annually, the corollary of which would be a strong commitment to an annual surplus.

Increased spending on national programs and services is not seen by us as a sound investment in entrepreneurial capital.

In addition to personal and corporate income tax relief, our coalition is concerned about the impact of rapidly rising gasoline and diesel fuel prices on the profitability of our members. When surveyed on this point, 37% of our CRBSC members reported a major negative impact on their profitability, while a further 59% of them said there was a negative impact, but it was less severe. Not surprisingly within this context, 80% of respondents to our pre-budget survey called for a reduction in the GST/HST on gasoline and diesel fuels.

Mindful of the fact that setting out special exceptions to the universality of the federal sales tax regime should not be embarked upon lightly, we urge the standing committee to identify a better, alternative means of lessening the impact of high gasoline and diesel fuel prices on Canadian consumers and businesses. If it is not possible to identify any such alternative, then GST/HST relief would be warranted.

Thank you for your attention to our presentation, and I look forward to discussing the points we have raised.

The Chair: Thank you, Mr. Campbell.

From the Insurance Bureau of Canada, Mr. Griffin.

Mr. Stanley Griffin (President and Chief Executive Officer, Insurance Bureau of Canada): Thank you, Mr. Chairman and committee members.

On behalf of the Insurance Bureau of Canada, I'd like to thank you for inviting us to present our views on the 2006 federal budget.

My name is Stan Griffin. I'm the president and CEO of the Insurance Bureau of Canada. Seated with me today is Dennis Prouse, our director of federal government relations in Ottawa.

For those of you who are not familiar with our association, we represent Canada's private home, car, and business insurers. Our members currently sell over 90% of the property and casualty insurance sold in Canada and play a vital role in helping Canada's economy run smoothly.

Put very simply, insurance helps Canadian consumers replace the unknown, their risk, with the known, which is an insurance premium. Without that risk assumption provided by our industry, it would be very difficult for our modern economy to run and to prosper.

Some committee members may have heard of us over the last few years, when premiums were going up and many consumers were angry. We like to think of ourselves sometimes as the officials at sporting events, who are not noticed until things go wrong and people are unhappy with the sporting officials. But the good news is that this difficult period is behind us. The industry has returned to financial health in the last two years, and consumers in many parts of Canada have enjoyed premium reductions.

We'd be happy to address any questions from the committee on the nature of the industry or any specifics on how our industry affects the broader economy. But in the short time that we have, in the next few minutes, I'd like to focus on three areas that were highlighted in our submission: first of all, strengthening disaster mitigation; secondly, relying on injury prevention to reduce the strain on the Canadian health care system; and thirdly, tax relief.

Sitting through the last panel, I found it interesting that the first two areas I want to talk about are related to some of the discussion that I think you just had.

In previous pre-budget submissions, IBC has consistently emphasized the importance of disaster mitigation. We're pleased that Public Safety and Emergency Preparedness Canada is developing a national disaster mitigation strategy.

It was also gratifying to see that the Honourable Anne McLellan, Minister of Public Safety and Emergency Preparedness, has recently noted the need for more aggressive disaster mitigation activities.

I think that we only need to look at the recent tragic events in the gulf coast region of the United States to see the importance of mitigation. Despite the recognition that the city of New Orleans was vulnerable to major hurricanes, steps were not taken to prepare that city for a hurricane beyond category three. The financial impact of Hurricane Katrina has been enormous. Risk Management Solutions, a U.S. risk assessment company, has estimated that private insured losses from Hurricane Katrina will be in the range of $40 billion to $60 billion U.S. The total economic losses are now expected to exceed $125 billion U.S.

Budget 2005 committed $5 billion over five years to preserve Canada's natural environment and to address climate change. Climate change is another reason to focus more attention and resources on long-term mitigation. There has been an increase in the frequency and severity of extreme weather events, including wildfires, landslides, and floods. Budget 2005 committed the government to spend $56 million over five years for emergency management initiatives, including responding to natural disasters.

IBC believes that governments in Canada should invest a much larger amount of $100 million to $150 million per year in a natural disaster protection fund. This includes $33 million to $50 million of new spending by the federal government, matched equally by the provincial and municipal governments. An equivalent one-time allocation that provided for community strengthening investments on a sustainable basis would also achieve the desired protection objectives.

I would note that a similar program was recently set up in Australia to provide funds to assist communities in withstanding the effects of natural disasters in that country. The Australian government contributes up to a third of approved project costs. State and territory governments are required to match this funding but may contribute more, with local government and, in some cases, private sector contributions making up the balance. The Australian government's most recent budget allocated $33.3 million Australian to its disaster mitigation program for the 2005-06 fiscal year.

By investing today in projects that help local communities reduce the effects of natural disasters, we can substantially lower the costs that governments, especially the federal government, will have to bear in the future.

● (1605)

Through its disaster financial assistance arrangements, the federal government has paid out more than $1.6 billion in post-disaster assistance to help provinces and territories offset the costs of response and of returning infrastructure and personal property to pre-disaster condition. This is only part of the costs of previous disasters to the federal government as it does not include the federal government's own direct costs related to disaster assistance.

The U.S. has in place a hazard mitigation grant program. This program provides a state with up to 7.5% of the total disaster grants awarded by FEMA. Some states that meet certain mitigation planning criteria may qualify for as high as 20%.

IBC recommends that our DFAA include a provision that allows an extra 15% of disaster recovery cost to be made available for mitigation. The time of recovery is one of the best for making mitigation investments to improve communities' ability to weather future disasters. That's the time when weaknesses tend to be unveiled, but those weaknesses also tend to be quickly forgotten afterwards.

We also wanted to talk today about a pan-Canadian injury prevention strategy. The insurance industry has worked closely with Smartrisk, which appeared on the previous panel, a national organization focused on the prevention and control of preventable injuries, to talk with hundreds of groups across the country involved in safety issues. This process has produced a broad consensus on the need for a coordinated federal-provincial approach supported by a minimal annual investment of $50 million dedicated to funding in six key areas.

In the interest of time I'm going skip over those six areas, because you heard them from Dr. Conn, I believe, and they are contained in our submission. The details of the plan are also set out in the report “Ending Canada's Invisible Epidemic: A Strategy for Injury Prevention”, which was released just last week by Smartrisk and IBC.

I think it's particularly appropriate that we're talking today about injury prevention as just this week Canada's home, car, and business insurers are sponsoring “Be Smart. Be Safe.” week in Truro, Nova Scotia. It is a week's worth of safety and injury prevention awareness expositions that are taking place in the town of Truro on the heels of the national launch of the “Be Smart. Be Safe.” campaign. In conjunction with Smartrisk, we're hoping to jump-start a national program of injury prevention, and we encourage governments to get on board.

P and C insurers are major stakeholders in Canada's health care system, and hence our interest. Our members spend more than $4 billion a year on health care and related support for individuals injured in motor vehicle collisions. The overwhelming majority of these are preventable injuries, but with injuries costing Canadians $14.7 billion annually in health care costs and lost productivity, we see a major national issue that needs attention.

Injury prevention is integral to the federal government's achieving its health care objectives for Canadians on a cost-efficient and sustainable basis. It's an alternative to the never-ending cycle of more and more public money being spent on the same injuries and treatments. An innovative approach to health care is vitally needed, and we believe that a relatively small financial commitment to injury prevention accompanied by a strong commitment to a culture of injury prevention can help revitalize our Canadian health care system. It's really that an ounce of prevention is worth a pound of cure.

Our final point in our submission addresses the issue of corporate tax relief, and we join the rest of the business community in expressing our disappointment in the fact that corporate tax relief is not being pursued by the government. This is particularly disappointing to our members as property and casualty insurers are taxed more heavily in Canada than in any other of the G-7 nations. Because our industry is global in nature, our members have noted our taxation structure is making Canada a less attractive jurisdiction to invest capital. Capital is integral to ensuring a stable and healthy P and C insurance industry and in turn affordable and available insurance for Canadian consumers.

We urge the federal government to reinstate the previously announced corporate tax cuts and consider even greater reductions in the corporate income tax rate to help improve the operating environment for Canadian businesses.

Our industry periodically draws public criticism over the cost of insurance. What many people don't know, however, is that Canadian consumers are subject to a broad array of sales and premium taxes when they purchase P and C insurance. GST and provincial tax on claims payments also add to the tax cost of insurance policies. We estimate that our industry's transaction taxes amounted to $4.1 billion, which was over double what the industry paid in income taxes. For every dollar P and C consumers paid in premiums, over 11¢ went to transaction taxes.

● (1610)

IBC encourages greater federal-provincial collaboration in reviewing the mix, fairness, and efficiency of transaction taxes for our industry under the current tax regimes, which result in a much higher overall burden compared to other financial services.

Mr. Chairman, we thank the committee for its time, and we are pleased to address any questions you may have.

● (1615)

The Chair: Thank you, Mr. Griffin.

From the Investment Dealers Association of Canada, Mr. Oliver.

Mr. Joseph Oliver (President and Chief Executive Officer, Investment Dealers Association of Canada): Thank you, Mr. Chairman.

My name is Joe Oliver, and I'm president and CEO of the Investment Dealers Association of Canada, itself a regulatory organization and representative of the Canadian securities industry.

The IDA oversees 208 investment dealers and about 27,000 registrants. Our member firms employ more than 38,000 people throughout Canada and across the globe.

The IDA's mandate is to protect investors and enhance the efficiency and competitiveness of Canadian capital markets. Fair and efficient capital markets are crucial for growth, capital formation, job creation, and the achievement of a standard of living that makes Canada one of the most desirable places in the world in which to live and do business, among the top five places in the world to live in for over a decade, according to the United Nations rankings.

The Standing Committee on Finance asked witnesses to share their views on policy changes that would enhance Canada's productivity performance. Accordingly, I have tabled a report entitled "Improving Competitiveness", which provides our recommendations in detail.

Pressures to improve productivity remain intense. The Canadian dollar has continued its seemingly relentless climb and today has appreciated 36% against the U.S. dollar from a low point at the beginning of 2002. This has not only raised the price of our exports, but also has squeezed bottom lines of Canadian corporations as foreign currencies are converted back into fewer Canadian dollars. At the same time, U.S. companies have benefited from tax cuts enacted in 2001 and 2003, leaving Canadian companies further behind competitively.

We share the committee's concern over Canada's productivity performance. Canada's productivity growth stagnated in the first half of this decade and fell seriously behind U.S. performance over this period. On a wider comparison, Canada ranks a disappointing 14th in the 30-member OECD group. Work by the C.D. Howe Institute suggests that part of this poor showing is linked to inadequate business capital spending. Mirroring productivity trends, Canadian business capital investment is significantly lower than that of the United States and is below the OECD average.

The result is not completely surprising when we view Canadian corporate taxes in relation to corporate taxation elsewhere in the world. Using a measure of effective tax costs that includes consideration of differences in depreciation allowances, inventory cost accounting, capital and sales taxes and other factors, the C.D. Howe Institute estimates that Canada's 31.3% effective tax rate is third highest among 20 countries it analyzed. Moreover, countries with the lowest effective tax rates, such as Ireland and Singapore, with rates in the 11% range, were among the highest recipients of foreign investment, which helped sustain growth in those countries.

In the absence of a competitive tax regime that would help stimulate new spending on structures and machinery and equipment, it will be difficult for Canada to strengthen productivity growth and compete globally, particularly with its major trading partners.

Alternatively, there are major gains in lowering corporate taxes in Canada. A competitive tax regime would improve earnings and corporate valuations. In turn, a higher share of prices would lead to lower costs of capital, which would stimulate activity and mergers and acquisitions and corporate financing. As it stands currently, Canada's uncompetitive tax regime leaves us vulnerable to capital outflows, as investors move their funds to regions where returns are higher.

In view of the intense global competition we face in attracting capital investment, I urge the government to set as a priority of the upcoming budget the achievement of lower, more internationally competitive taxes on the corporate sector.

● (1620)

My first and key recommendation is to restore the elimination of the 1.12% corporate surtax and the schedule to reduce the general corporate income tax rate by 2 percentage points, from 21% to 19%. Significant economic and employment benefits were forgone when these measures were not included in the passing of the current year's budget. These adjustments would have resulted in a significant improvement in our effective tax rate and enhanced Canada's attractiveness as a place to invest and conduct business.

Second, we recommend that the government reduce the tax rate on dividends by raising the dividend tax credit from its current level of 13% to 18%. This would lower the top personal tax on dividends from 32% to approximately 23%. Lower taxes and dividends will reduce the cost of capital for dividend-paying companies and narrow the gap with U.S. rates.

The lower rate will encourage reinvestment by existing shareholders and improve neutrality and efficiency of investments. A more integrated personal and corporate tax system will go some way in removing tax incentives for the growth of the income trust sector, a phenomenon the government is clearly concerned about.

Third, we recommend the federal government lower the effective capital gains tax rate for investments in small public companies with assets of $50 million or less. This measure will remove an impediment to capital formation by small and medium-sized enterprises, the engines of innovation and employment growth in our economy. The lower rate will increase the after-tax return for investors in these shares, enhance share demand, and thereby broaden small companies' access to risk capital.

Another version of this idea would be an exemption from capital gains tax up to $100,000 for investments in small public companies. I'd be delighted to further discuss these measures for enhancing capital formation and competitiveness in Canada, including an assessment of costs of these initiatives.

Thank you for your attention.

The Chair: Good job. Seven minutes and 30 seconds. I couldn't have done a better job myself. That's what I like.

RESP Dealers Association of Canada, Mr. Renaud.

Mr. Paul Renaud (Vice-President, Corporate Affairs, USC Education Savings Plan Inc., RESP Dealers Association of Canada): Chairman, thank you.

On behalf of Mr. Lewis and myself, thank you for inviting us to be here with you today to talk about the RESP Dealers Association of Canada.

The RESP Dealers Association of Canada is the voice for leading group RESP providers in Canada. Our association was established in 2000, and today our member companies represent individuals who hold 1.3 million RESP accounts for over one million of the almost two million Canadian children with RESPs. And on a personal note, between Mr. Lewis and myself, we have ten of those children.

Close to $5 billion in assets on deposit are held by RESP dealer member companies. Our goal is to increase post-secondary education savings by Canadians, especially lower- to middle-income Canadian families, resulting in increased participation in post-secondary education, reduced student debt load and accompanying default rates, and reduced student drop-out rate from post-secondary institutions due to financial reasons.

We believe there are three pillars of post-secondary education funding, and all three of them are equally important. The first is generous funding of post-secondary institutions. The second is comprehensive student loan programs. The third, of course, is creating incentives for parents to save for the cost of post-secondary education.

The history of RESPs in Canada has stretched from 1974, when registered education savings plans were first introduced, retroactive to 1972, through to and including the establishment of the Canada education savings grant in 1998 and more recently the federal initiatives around the Canada learning bond and the enhancements to the Canada education savings grant.

As a result, assets have grown from $2.4 billion in 1998 to over $15 billion in 2005, including $2.3 billion set aside for Canada education savings grants. The introduction of an incentive to save through 1998's Canada education savings grant over the last seven years has caused assets held in RESPs to grow by over 518%. Today, the children for whom RESPs are held in this country, as I say, reaches almost two million children. As you can see, these initiatives have significantly increased the rate of savings by families for post-secondary education costs.

With that, I'll turn it over to Mr. Lewis.

● (1625)

Mr. Peter Lewis (Chair, Government Relations, Vice-President, Plan Administration, C.S.T. Consultants Inc., RESP Dealers Association of Canada): I have six children out of our combined total of ten. My oldest daughter at the age of 14 is rapidly hurtling towards university, and I can see the tuition bill on the horizon. Fortunately, I have an RESP for my daughter and for all my kids, so there's a financial benefit to that. But I believe the benefit of RESPs and of education savings goes far beyond just the financial benefit. There's the value of allowing me to use it as a tool to create an expectation in my children that they're going to go on to higher education, to align their vision, to make them believe that they can in fact go on to university or college or trade school.

The sad reality, however, is that two-thirds of Canadian children do not have registered education savings plans today. And the even sadder reality is that the majority of those children are from families whose incomes fall within the lower and moderate tax brackets. We believe this is something that needs to change. We've been speaking about it for several years.

We applaud the government for the implementation of the Canada Education Savings Act, which created incentives for those specific families to encourage them to save for higher education, but we believe there still needs to be more done to ensure that this demographic is in fact saving for the future post-secondary education costs of their children so that those children can have every opportunity to achieve their full potential.

There are five specific things we have proposed. First of all, we believe the government needs to invest more in creating awareness of the importance of saving for higher education and of the importance of utilizing the incentives that the government has created, specifically awareness amongst the lower- and moderate-income families in our country.

Secondly, we believe there needs to be some flexibility added to the contribution limits into registered education savings plans. The limits have not changed since 1997. The costs of education have continued to go up. We believe the limit should either be increased or an opportunity should be created for families to have some carry-forward room so that they can catch up if they've missed contributions in previous years.

We also believe it's important that RESP assets receive protection in the case of bankruptcy. We were very disappointed that Bill C-55 did not in fact provide that form of protection. We believe this is an important piece of that legislation, which is missing.

Fourth, we also believe the government needs to take steps to integrate the process of getting a social insurance number with the provincial governments. There is a multi-step process to get it now. It's an administrative headache for families. We believe you need to remove the barriers that would prevent families from starting new savings programs.

Finally, we believe the federal government should do more to encourage provinces such as Alberta to join in the partnership with parents in encouraging families to save for higher education.

Thank you very much for your attention, and we look forward to responding to any questions you may have.

The Chair: Good job. This is getting better. You're under the seven minutes, so thank you. I appreciate that.

From the Toronto Financial Services Alliance, Mr. Ashton and Ms. Ecker.

Mr. Brian Ashton (Councillor, City of Toronto; Co-Chair, Toronto Financial Services Alliance): Thank you, Mr. Chairman.

My name is Brian Ashton. I'm here representing the TFSA as well as the City of Toronto in my role as city councillor. It's a great pleasure to have you in Toronto, so welcome.

Let me say at the outset that Ms. Ecker, who's accompanying me, is the executive director of the TFSA and one of Ontario's great treasures, if I may say so. We're so happy to have her here, as I'm sure you are.

The TFSA is a rather unique organization in Toronto. It came together several years ago in recognition of how important the financial community and sector is to Toronto and the greater Toronto area, and indeed to Ontario and Canada. It's unique in the sense that it represents a variety of interests—banks, insurance companies, securities, mutual funds, capital markets, related trade associations, affiliated businesses, and academia.

The Financial Services Alliance took its example from London, England. Back in the nineties, the City of London realized that it was under stress. It realized that, as a community, it needed to come together both publicly and privately to promote London as a financial core, as an international financial community. The leaders of that city went out and made that happen. They also recognized how important it was for issues around regulatory matters.... They knew how important it was to have the federal government behind them internationally and domestically. They recognized how important London was, how critical it was to the robustness of England's economy, not as a manufacturing centre but as a centre of ideas, a centre of commerce, a centre of financial means, and they reached out to the broader international community. These are no different from the types of challenges the City of Toronto and the GTA now face.

Just to put a few facts out there to impress you, the sector itself employs over 750,000 Canadians directly, representing about 4% of total employment. And what's really important about this is we know through our own research that many of those jobs, an abnormally large percentage, are post-secondary education. So it's bringing wages and salaries and opportunities that are really of added value to the economy and to our society.

We realize that Toronto is the home to seven of the top ten companies in Canada and eight of the top fifteen. We know that we are one of the top financial centres in North America, and it is a struggle to remain at that calibre and at that level. And we realize that because of the number of people Toronto employs, we have to get it right. We have to start to realize that, with globalization, we can no longer be secure in the belief that our borders will protect us from the industry that is outside. We need to be much more nimble. We need to have the type of changes in a host of areas, which you've heard about today and over the last months when you've reviewed this subject, that are important to maintain the critical mass of the city of Toronto.

So on that particular note, I'd like to turn it over to Janet.

● (1630)

Ms. Janet Ecker (Executive Director, Toronto Financial Services Alliance): Thank you very much.

As a whole, we think this sector presents a unique economic advantage as a primary financial sector cluster for the country and our region. We point to key recommendations from the Ontario Institute for Competitiveness and Prosperity regarding strengthening industry clusters like financial services. We believe that national policy-makers have an interest in creating a framework that will allow our financial institutions and markets to compete in an increasingly globalized world and to export our expertise.

Included in such a framework should be a regulatory approach that is a source of competitive strength for our industries, not a barrier to greater efficiency. At the same time, it should ensure that the sector is a secure place to invest. To enhance the competitiveness of our institutions, regulations should include greater use of a risk-based approach; only be used when a systematic problem, market failure for example, has been identified; be applied only when it can be shown to correct the problem, and only when the benefits of doing so clearly exceed the costs.

One major initiative that can help our sector and make our capital markets truly efficient in Canada is the creation of a single securities regulator. We thank the committee for your comments on this, and we urge you to continue to push strongly in support of this issue.

Another helpful initiative would be to finish the review of the financial sector legislation. This five-year review constitutes a major competitive advantage for us. It's an opportunity to keep the legislative environment in tune with market developments. We encourage you to move this process forward in an expeditious manner with a white paper, and we encourage the committee to give it high priority. Many of our members have made some very detailed and helpful recommendations in this regard.

The Government of Canada has achieved a remarkable turnaround in its own fiscal position during the last decade. Nevertheless, we are concerned by the increase in program spending over the past five years; it represents an unprecedented 47% increase. There are a number of reasons why this trend is of concern: it minimizes the federal government's room to manoeuvre in the event of an economic downturn; this growth in program spending can limit the government's ability to deal with an aging population; it has effectively taken any significant tax reduction off the table by boxing itself in financially; and, as well, it's not allowing new program spending initiatives in areas that actually promote productivity growth.

As has been mentioned here, STATS Canada has recently identified that 80% of the increase in Canadian's standard of living over the past four decades has come from labour productivity growth. There is a meaningful and persistent gap in standards of living in Canada and the United States. One of the most important factors regarding labour productivity and economic growth is the amount of capital available per worker. Our annual private investment expenditure per worker lags behind OECD countries and the U.S. by $1,000 and $2,000 respectively. Much of this is because of the tax system.

We're not making detailed recommendations on taxes; many of our members have already done that for you. But there are a few basic principles that we think need to be reinforced.

On the corporate side, industries should face basically the same tax rates. While depreciation allowances should reflect economic reality and be increased where appropriate, the tax system should not favour one type of expenditure over another. We also need to be internationally competitive.

On the personal side, tax reductions should be driven by both lower rates, through PIT, and the clawbacks associated with social programs.

Competitiveness and productivity can also be enhanced by appropriate policies on the spending side. A wide variety of economic studies have shown that the best indicator of future income is educational attainment. We under-invest and under-perform when compared to the United States. Ontario spends about one half of what the U.S. does. This shows up in output. Ontario graduates 25% fewer PhDs per capita and 50% fewer MAs. This is crucial to the financial services sector, where 73% of our employees have post-secondary designations.

The recent report on post-secondary institutions by former Ontario premier Bob Rae has many useful recommendations, which we would encourage the federal government to work with all provinces to put forward and implement.

At the same time, we do not make full use of the skills of our immigrants, and we don't do enough to integrate them quickly into our community. For example, Toronto receives about one half of Canada's immigrants—more, in absolute numbers, than Los Angeles. The immigrants with the professional skills and experiences are an important part of our sector's ability to compete. We encourage the government to work with Ontario to make sure that we're taking maximum advantage of this diversity.

● (1635)

Mr. Brian Ashton: Mr. Chairman, I would like to conclude by saying to you and the committee that the city of Toronto needs the federal government. The city of Toronto needs Canada to reinvest in our future. We have come to a point in time when we can no longer depend on the attitude that Toronto will take care of itself, that Toronto and the GTA can continue to prosper. We need investment. We need investment in infrastructure. We need investment in regulatory regimes. We need investment in the philosophy of what makes cities important to Canada, wherever they happen to be.

You have a unique opportunity to make change. You have a unique opportunity to see this country differently and to find a new role for Canada and its federal government in how it presents federalism. Cities will be a core part of that new future. You can depend upon it. You may not like it. I'm a politician, and power and money is something we don't like to give up easily, but we have to learn, to get ahead in the future, to begin to share in those particular areas. We have to begin to recognize how important cities are and we have to begin to recognize where our comparative advantages are.

With respect to the financial community, Toronto indeed has a comparative advantage domestically and internationally. Help us make that grow, because it will help the rest of Canada.

Thank you very much.

The Chair: Thank you.

From the Escarpment Biosphere Conservancy, Mr. Barnett.

Mr. Robert Barnett (Ontario Land Trust Alliance): Good, thank you very much, Mr. Chairman and members.

I'm representing the Ontario Land Trust Alliance. The Ontario Land Trust Alliance is 32 Ontario land trusts. Land trusts are now conserving more private land in Ontario than all levels of government—the federal government, the provincial government, and even our conservation authorities whose mission is to conserve land. The charitable sector is much more of a factor than all the governments put together. Our own charity, the Escarpment Conservancy, has board members from Ancaster to Gore Bay, and we've now conserved about 4,600 acres, and with the five more projects we plan to complete before the new year, that will push us over 5,000 acres. That's 50 reserves, and if you put them all together, that's a kilometre wide and 20 kilometres long. So that's a lot of land that we're getting conserved, one property at a time.

We're looking after rare, threatened, endangered species and ecosystems as well—things called alvars and bur oak savannas, which most of us haven't heard of. We're looking after those so they're still here for the future. We've ensured that ten kilometres of the Great Lakes shoreline will never be cottaged. We've bought it, we own it, we're looking after it. We're going to keep it available for future generations and for the nature that's there.

We appreciate the opportunity to partner with governments to achieve their objective of protecting 12% of the important ecosystems of Canada. That's an international agreement that Canada signed on to, so we're not pushing the government to do something new; that's something the government has already agreed to do. We're still far short of that 12%. We're running 7% or 8% right now. The Ontario government has come up with a number of funding programs to help organizations like ours, by providing some leveraged funding. So they provide some; we find the rest.

The federal government has come up with a good framework for conservation that's called the ecogift program, run by the Minister of the Environment, but no funding really—a very tiny amount of funding. They help pay for some costs of surveys and things. The ecogift program is seriously hampered by—the big reason I'm here today—capital gains taxes on land that's donated by nice folks who want to leave their land to improve our own standard of living, so to help us all. They want to donate their land. They have to pay taxes when they donate their land. So trying to keep this fairly simple, it's been on the agenda year after year and it's our first item of concern as the Land Trust Alliance.

There was a page in the *Globe and Mail* on October 21—the whole page signed by a whole bunch of coalitions—asking that capital gains tax be eliminated on stocks. They were talking about stocks, but stocks and ecological gifts are generally mentioned in the same breath.

Similarly, I bring along another prop here. This is the report of the Standing Senate Committee on Banking, Trade, and Commerce on “The Public Good and Private Funds: The Federal Tax Treatment of Charitable Giving by Individuals and Corporations”. Of course, this document recommends that capital gains tax be eliminated on donations of ecologically sensitive land. Good idea.

This committee has recommended the same thing, I think twice now, I'm reading. So you guys are right on track. Let's all push together.

We think it doesn't make sense to tax income that's never been put in somebody's pocket. It's given away. People are giving a gift to Canada and we're taxing them for it. To me that doesn't exactly compute. We think folks shouldn't be.... In fact, the way I look at it is it's like taxing a tax receipt. We give you a tax receipt for a donation and then we tax that tax receipt. I'm not sure that's exactly the way the system works.

Folks who donate shouldn't be faced with clawbacks of old age security and other federal benefits because their income went up. I don't think that's what it's all about.

We hope you'll recommend an end again this year of deeming such donations as income. That means eliminating the tax on generosity.

● (1640)

Second, we hope the species-at-risk initiative, a very important initiative, will be given some real teeth this year. We think it's not enough just to ask Canadians to leave habitat undisturbed to protect these icons of our civilization—these animals, the burrowing owl and the Vancouver Island marmot. These are important to our civilization, and we strongly recommend that some funding be put into that program to help conserve this land, to help the landowners so that they aren't stuck with the whole burden of trying to do this on their own.

Similarly, there's a good program of national parks. We're working to build buffers around those parks. There's no funding for anything like that. The parks program is a great one, but there should be a buffer around them. Every time a wolf walks out of Algonquin Park, we shoot it.

Third, we hope that the ecogift program can be extended to protect agricultural land and culturally significant land. It's not included right now. Canadians need things like hiking trails. Hiking is good for us—it feels good—but it's not included in the program. The only thing that's included is that sort of extremely ecologically significant land. So it's a good program but it has to have the tethers loosened up a little.

Fourth, we hope the ecogift program can be extended to help corporations donate land. The tax thing's a little complicated to explain, but right now there is zero benefit for corporations to donate —I'll just make it simple. So they're not helping. They own this inventory of land. They're certainly not giving it away.

Fifth and finally, we hope the ecogift program can be streamlined a bit. Real estate transactions, which I'm doing every week, take a few weeks, sometimes months, but not very long—a couple of months, maybe—while the ecogift program sometimes takes six to eight months to get these things through, with all the paperwork and peer reviews. We'd like to see that streamlined and working properly, not weighed down with paperwork.

There's a level of scrutiny in that program—the Department of the Environment is the screener—and it's a very adversarial sort of system. It's like the sort of thing you find in the courts: everything's challenged. We'd like to see a more harmonious working system here.

We appreciate the efforts of the Government of Canada and this committee to balance the needs of Canadians. Protection of our environment is way up there on most people's priority list. Unfortunately, the Goliaths in the budget are things that provide direct personal benefits, such as health care—our relatives are dying, and we want them to be saved in the hospital—education: our kids have to get a good education, and that's pretty personal. The environment is off there somewhere else. It's not really direct.

The impact of the environment on our health is dramatic. Like preventative medicine, discussed in the previous session, it has a great benefit for the very modest costs that are involved here. Like preventative medicine, it really can't compete with life-saving drugs or surgery or trauma medicine—it doesn't capture the public's real attention—but it's just as important, I can assure you.

We hope you'll help to right this balance a little bit. I'll just conclude by saying that more of Canada's natural heritage is being destroyed in our one generation than in all of the thousand preceding generations put together. there are pretty serious conflicts happening right now, and we need your help to sort it out a bit.

Thank you very much.

● (1645)

The Chair: Thank you.

Mr. Barnett, a quick question: is your organization also the Ontario Land Trust Alliance?

Mr. Robert Barnett: I'm the executive director of the Escarpment Biosphere Conservancy and also I'm representing the association of land trusts, the coalition or alliance of Ontario land trusts. So I have a two-barrelled....

The Chair: Thank you. Okay.

I'm going to allow the members five or six minutes for their questions and answers. I want to remind the witnesses to keep their answers to a brief intervention so the members can ask more than one question. Thank you.

Mr. Solberg.

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

Mr. Barnett, I noted that when you were arguing for these ecogifts, all of a sudden the birds in the tree out here started to chirp very loudly. Obviously, you brought friends with you.

But I want you to know that I think it's crazy that we don't go ahead and remove the capital gains on those types of gifts.

Time is very short. I want to ask a question of Mr. Griffin.

You obviously raise a very important issue when you talk about the need to put in place measures to prevent catastrophes. You talked about the need for $100 million to $150 million a year in a natural disaster prevention fund. If I recall in the past, at one time you asked for a $50 billion fund in total, if I recall correctly. Anyway, someone has asked for that before this committee.

I want to ask you this. Have you catalogued the likely places where we could have a major disaster?

The reason I ask that is because I know that the lower mainland of B.C. is very susceptible, for instance. If the Fraser River ever floods, you've basically got a lake bottom that cities like Chilliwack sit on. The cost would be tens of billions of dollars. Do you have that kind of list? Can you provide it to us so that we can really see the scale and scope of the problem?

Mr. Stanley Griffin: Yes. The insurance industry has also founded an organization called the Institute for Catastrophic Loss Reduction, which is financed by the insurance industry. I would call upon that organization to provide that information.

But without a doubt, the number-one area of concern in this country is earthquake exposure on the west coast. There is also a possibility of an earthquake under the St. Lawrence River. But the outstanding area of concern not only for the insurance industry in Canada but for re-insurers internationally is the possible exposure of a major earthquake on the west coast of Canada.

● (1650)

Mr. Monte Solberg: Again, time is very short.

Mr. Oliver, you've proposed a capital gains exemption for investment in Canadian small-cap companies. You've proposed this in the past. Can you tell us what you think the impact of this would be?

I know that some people will say this is just another tax break for the rich. But can you explain what the impact of this would be, how it would help Canadians and create jobs, and that kind of thing?

Mr. Joseph Oliver: Yes. Thank you for the question, Mr. Solberg.

This particular measure is very focused because it goes directly to that sector, which is so important for generating employment and economic growth in this country. It's a sector that has a particular need for capital and in which the earlier years are more fragile than those of more mature companies.

By providing a tax break to companies at the early stages, for small and medium-size enterprises, the government is generally, not in a sectoral way, encouraging entrepreneurship and enhancing economic growth and employment. It just makes sense for that kind of focus to be a real concern for the government, particularly when it isn't a very major cost item.

For example, based on a realistic assumption of the volume of IPOs and the percentage of investors able to take advantage of a capital gains inclusion rate, we estimate that the maximum cost to the government in any single year would be $20 million. This is a highly leveraged idea.

Mr. Monte Solberg: You were also talking about increasing the dividend tax credit. In this document, you talk about bringing this into line with the capital gains rate, so that there's no distortion. If I recall correctly, I think that's what you were arguing.

But you don't mention trusts anywhere. Would that help to equalize the difference between trusts and dividend-paying corporations? Maybe you might want to say a little more about the trust issue.

Mr. Joseph Oliver: Thank you.

Yes, indeed it would. The tax arbitrage that exists in the corporate tax structure today is resulting in inefficiencies, by influencing decisions regarding corporate structure.

We are going to be preparing a submission to the government in respect to their white paper on flow-through entities. It seems to us that the policy strategy that the Department of Finance should consider is to eliminate the discrepancies in returns to taxable shareholders and trust unit holders, and thereby achieve neutrality between the two structures. The direction, in our view, is clear: corporate taxes need to be reduced, and there needs to be a reduction in dividend taxation. The effective tax rate on dividend distributions by corporations to top marginal tax rate persons is currently 55%, and the effective tax rate on trust distributions to top marginal tax rate persons is currently approximately 46%—so 55 versus 46.

If the dividend tax credit is increased in order to make the treatment of the two alternative investments more equal, then some of the issues that we're currently concerned about would disappear, and it would encourage greater individual investment in risk capital of dividend-paying corporations, and move to a better integration of the corporate and personal tax rate.

● (1655)

Mr. Monte Solberg: Mr. Oliver, I'm sorry to interrupt you, but I probably have no time left.

Ms. Ecker, what is the one thing that we could do, the most important thing, to encourage the growth of the financial services sector? I understand how important it is to the country. I think it should be more important. What can we do to encourage the growth of this sector, so that it's even more important than it is today?

Ms. Janet Ecker: I don't think I could say there is one.

First, I think there needs to be a competitively based economic development strategy for this sector within Canada and the Toronto region. So I think the sector should be treated and regarded as a strategic cluster. Part of that includes a better tax structure, as has been mentioned. If I were to pick one, I think the capital tax sticks up like a sore thumb.

The other thing I would mention, both for its impact on the sector and I think also for its symbolic significance, is getting one securities regulator or national securities regulation in this country. It would have an impact, but I think it would also be seen to be a sign that we can indeed move forward in an efficient and effective way with our financial services sector.

The Chair: Thank you, Ms. Ecker.

Thank you, Mr. Solberg.

Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Chairperson.

Thanks to all of you for your presentations.

I want to start with Mr. Lewis and Mr. Renaud on RESPs. I think you were here at the finance committee last year, when I probably asked some questions. I still have the same concerns about the usefulness of this program. It seems to me that if you do a cost-effective analysis of it, it should be thrown out the window, because it seems to advantage the wealthy; the more money you make, the better off you are in terms of accessing this program. The stats still show that less than 19% of eligible families earn less than $30,000 and that the biggest benefit goes to those families with incomes over $80,000.

We're spending about $1.15 billion every year on tax credits and RESPs for education that largely benefit the wealthy in this country. At the same time, we've seen huge cutbacks on the education side, which have never been restored. So isn't this just socialism for the rich? And would it not make sense to actually put in place a program that benefited the less fortunate, the less wealthy, as opposed to simply seeing this as an incentive program for the children of the wealthy to explore things they could otherwise afford to explore?

Mr. Peter Lewis: Certainly one of the major criticisms levied toward the RESP program is, and it is true, that the highest percentage of families saving are families who are in the higher income ranges. I would argue that this doesn't suggest we should throw out the RESP program. I think it means we need to look at how we can make the RESP program more effective, and I would suggest that the Canada Education Savings Act was a move to do precisely that.

We don't stand up and argue that an RESP is the only solution to financing post-secondary education. As Mr. Renaud has indicated, we believe there are various approaches. But we believe that encouraging families to save is an important piece of the equation, and finding ways to create greater incentives for low and moderate income families to begin to save for that future cost is important.

Our view is that while traditionally the statistics have shown that higher-income families are the ones who take advantage of it, you're going to see that dynamic shift with the implementation of the Canada Education Savings Act, which only took effect on July 1 of this year.

Ms. Judy Wasylycia-Leis: I hear what you're saying, but to this point, all of the evidence suggests that this is a program that uses taxpayers' money, this is a cost to the taxpayer, that benefits a group at the top end of the income scale. It seems that would be contrary to everything else people around this table are saying today.

I haven't heard a single person say we should expend in the area of education to ensure better access. I have heard people complain. Most of you complain about the fact that you lost some money for a corporate tax cut and that money instead went to education and will actually create some access opportunities.

I find that I'm getting a pretty one-sided view from all of you, and I'd like to know how you justify complaining about losing another corporate tax cut when there's no correlation at all between tax cuts for corporations and the wealthy and investing in workers and retooling our economy. There's absolutely no correlation. In fact as taxes have been reduced, profits have gone up and investment has gone down in this country. So on what basis should we give another tax cut, after the $100 billion over the last five years? On what rational economic basis should we do that?

Anybody can answer.

● (1700)

Ms. Janet Ecker: Mr. Chair, if I may, I have two points.

First, certainly from the alliances perspective, from the financial services perspective, investment in making sure that we are using our immigrant population well and that we are increasing access to post-secondary and improving the quality of post-secondary is a major initiative. I think it must be part of any development and economic development strategy. So I think that's one thing to reinforce. We're not all here just to talk about taxes.

But secondly, in a competitive world, if we do not have a tax structure that is competitive, the jobs go elsewhere. And the only way we have the income revenue for you as a government to invest in helping more people access post-secondary education is if we have the profitable businesses here. It's not tax cuts for the sake of tax cuts. It's competitive taxation that allows us to attract and keep investment here, so we can have the investments for our quality of life.

Ms. Judy Wasylycia-Leis: I appreciate that, and maybe Mr. Oliver could answer this as well.

Surely there's more, though, than tax cuts. Surely we're also looking at technology, at local market situation, at resource availability, at our health care system. What about the cost savings to businesses because of our medicare system? Why doesn't anybody ever mention that, and why do we keep talking about—and I don't mean you per se, I mean generally as a group. I hear this message. I'd like to hear maybe Mr. Oliver tell me why he and others aren't talking about a more balanced approach and investing some of this money into education and health care and social services, so that we can actually create the right climate, as well, for being competitive.

Mr. Joseph Oliver: Well, your earlier comment I guess really goes to the heart of the issue of economic principles. With respect, I have to say I profoundly disagree with what you said, and quite frankly, the results are in and they disprove what you said.

The starkest example of the advantages of a lower tax rate—lower in absolute terms and competitively lower—is that of Ireland, which used to be a basket case and has emerged as an extraordinarily successful economy, where everybody in the country has benefited, from the most wealthy to the least wealthy. This is as stark an example as you can find anywhere of how far-sighted fiscal policy can benefit the entire population.

On the other side, we see many examples of the failure of economies that have, in a short-sighted way, tried to rely on tax increases to provide services, in the desire—which one can understand—to pay attention to social needs. But at the end of the day, people in countries with a more competitive tax environment are doing better, and we've seen that over the last 50 years.

Ms. Judy Wasylycia-Leis: I wonder if I could add two things. One is, it seems to me, if we talk about productivity, most of the data shows that those countries that do much better than Canada in terms of productivity are those countries that invest significantly in their public sector and have a more balanced approach to taxation. As well, some of the right-wing institutions themselves.... The TD Bank has said Canadian corporations are rolling in cash and yet not investing it in Canada. Others.... The Economist Intelligence Unit has said that the second-best place in the world after Canada to invest and do business is Denmark. They say that because they know there are returns to the business world when you have a good, trained, skilled workforce; when you have a healthy workforce; when you have families able to juggle work and family responsibilities; when you have a balanced approach by government.

So I'm not so sure that referring to Ireland answers all of these other comparative analyses done not by me, but by many of the institutions that you would—

● (1705)

The Chair: Thank you, Ms. Wasylycia-Leis.

Ms. Minna.

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

I'm going to start with the Toronto Financial Services Alliance, not quite on the same lines as Ms. Wasylycia-Leis, but similar.

I agree with you in respect to the single security regulation. We've been trying to get that for some time, and I think at some point there needs to be a push in that direction.

In finishing the review of the financial sector, there are pieces that have to be done and pieces that are highly.... But Ms. Ecker, you said you were concerned about increased program spending, because it will limit our ability to deal with our aging population, or economic downturn, or what have you, and is affecting our productivity growth as well. But we had huge cuts in this country, both by us in 1995 and then certainly by your own government during a period, and I think reinvesting in people is fundamentally important.

At the same time, though, I think it was you and Mr. Ashton—I'm not sure—

Mr. Brian Ashton: Was it clever?

Hon. Maria Minna: Well, Brian, if I may call you that—he and I go back to.... Shall I tell them?

Mr. Brian Ashton: No.

Hon. Maria Minna: No, okay. He doesn't want to let you know how old he is. Never mind.

You said we do not graduate enough people from post-secondary education. We are lower than the U.S., I think you said, Ms. Ecker.

Then, of course, Mr. Ashton, you spoke about investing in cities and said the cities need assistance, need more money, and what have you. This is all investments. You can't on the one hand say we're spending too much and that it's going to affect our productivity and everything else, but at the same time that we need to spend.

Or are you saying that you would consider some of the spending we have been doing, such as on early education and care, an investment? And would that affect productivity?

Would the child tax credit and child benefits that address child poverty again be an investment in productivity, an investment in...? The spending, quite frankly, I don't think has been too high. In fact, I think we are barely getting back to where we were before we did all these cuts. I just wanted to....

Ms. Janet Ecker: I'll just respond quickly, and Councillor Ashton may have some comments.

I think things like national child benefits.... As the co-chair of the federal-provincial task force with Pierre Pettigrew, when we were able to get all of the different government players on the same page at the same time, I think it was a rather unique accomplishment in this country. It shows that we can actually do things together federally and provincially and with all political parties, so I would consider that a good investment.

First of all, no one is here saying it's either-or, that either all you do is tax cuts or all you do is spend. It has to be the right mix and the right balance, and I agree with the comment that there has to be the right balance. No one's arguing that there shouldn't be a balanced approach.

But the reason that federally there needed to be the reductions, the reason that provincially there needed to be such drastic and very significant reductions at many levels, is because governments at both levels previously lost the flexibility. The spending went too far, too fast for what you could afford, and when a downturn hit, you ended up with dramatic cutbacks and reductions nobody wanted to do but we had to do for the economic sustainability both federally and provincially.

So it's that it's balanced, that you make sure spending increases are within what you can afford, and that you're doing things to increase productivity and competitiveness so you're continuing to grow jobs and therefore grow revenue.

● (1710)

Hon. Maria Minna: Well, what I was saying to start with was if I were to be asked to choose which items in the last budget we would not spend on, would it be the environment? Would it be the education program? Would it be the health care program? Would it be the housing program? Would it be the GIS for seniors? And I could go down the line of all of the disability programs. I'm not entirely sure.

I guess what bothers me is hearing broad comments expressing a concern about the increase in spending as if somehow we've been spending irresponsibly and on things that do not go to productivity or to the kinds of things you just mentioned. I think all of the things I've just listed in fact do go to Canada's productivity and do strengthen productivity as well as our human capital and our environment.

I want to go for a minute, if I may—because I'm going to get cut off pretty soon, which happens a lot around here—to the Canadian Retail Building Supply Council. One of the things you are suggesting is using the RRSP for retrofitting homes for seniors, but I have to tell you, I have a problem with using the RRSP for all kinds of different things. The RRSP was intended as savings for a pension for people. If we start drawing down—unless the seniors have a fairly large RRSP—that cuts back on their potential income.

When we already have a national program to allow seniors who cannot afford it to apply to have their homes retrofitted, especially under the EnerGuide program and now with additional programs, I have difficulty with that recommendation for a lot of reasons.

Mr. David Campbell: Well, we certainly recognize that the RRSPs are there for the purpose of retirement, but we also recognize that there's a lot of pressure on the government to provide services to seniors in the health care system. We recognize that during a downturn in the economy this is a way to stimulate the economy as well as provide services for the senior citizens and for the caregivers for those senior citizens. We think it's a very valid and a very low-cost way for the government to provide this type of service during a downturn in the economy.

Hon. Maria Minna: All the more reason why I think people need to hold on to some of their savings. Anyway, I'm not sure that I'm 100% sold on that one.

In the other recommendation you have on page 3 of your brief you're talking about the contingency reserve of $3 billion going to debt reduction, but then you say any additional surplus should also go to debt reduction automatically. Given the fact that we have traditionally low-balled, if you like, our projections—

Ms. Judy Wasylycia-Leis: Hear, hear!

Hon. Maria Minna: Well, I've said that before, Judy.

That means that if we automatically use surpluses only for debt, we cannot invest in other areas we should be investing in. I'm not sure that I agree with it, but my question to you is, what is your take, then, on Bill C-67, which does a third and a third and a third in terms of surpluses?

Mr. David Campbell: I'm sorry, I didn't hear the last part of that.

Hon. Maria Minna: What would be your position on Bill C-67, if you're familiar with it at all, which basically says that if there are surpluses, the surplus would be divided into a third to debt, a third to spending, and a third to tax cuts?

Mr. David Campbell: I can't really comment on that. I'm not that familiar with the bill, so I really wouldn't be prepared to make a statement on that.

But I would certainly say that our suggestion on being able to use the surplus to reduce the debt is an opportunity to be on the course for debt reduction, which we feel is long-term. As you've heard from the other groups, long-term is the best way for this country to get back to providing the services for health care and the other demands on the government as well.

Hon. Maria Minna: Am I out of time?

The Chair: Seeing how Judy does whatever she wants, I figured you would.

Hon. Maria Minna: I have another question.

The Chair: You're more than welcome to do whatever you want. We have nothing to do. Go ahead.

● (1715)

Hon. Maria Minna: Am I done? May I have one more?

The Chair: You can have one, if you'd like.

The witnesses are scheduled to be here until five, and I'd like to ask a couple questions.

Hon. Maria Minna: I'll ask after you. Go ahead.

The Chair: Thank you.

I have a couple of quick questions, so I'll make everybody feel welcome.

To the printing association, you've got 17 recommendations. Could you pick one that is a priority?

Mr. Bob Elliott: To be fair, I think it's always difficult to pick one. We'd narrow it down to four.

The Chair: Let me make it easier. Is your priority the CCA or the corporate tax cuts? That's the dilemma we've been having. It's not actually a dilemma, but it's some of the questions we've been asking some of the corporations.

Mr. Bob Kadis: Maybe I'll speak to that. The CCA versus corporate tax cuts or...?

The Chair: I think that should do. I'm trying to help you guys here.

Mr. Bob Kadis: I appreciate that.

I don't think these are necessarily mutually exclusive. On the recommendation that the corporate tax rates have to be reduced, I believe there's a multifold payback in all the areas you were showing concern for.

I believe that if you're more competitive, you have the opportunity to invest. We take a look at things such as institutes of technology, making major investments in education.

We think that taxes have to be looked at in their entirety, but in terms of that, it's a big project and it's not going to happen now.

What we need now is the CCA reduction. If the CCA is reflective of the usefulness of the technology in question that will show some productivity enhancements today, it competes with what they're doing in the U.S. and elsewhere in other countries where printing equipment is now, with reduced tariffs in India, etc.

The Chair: I understand.

Thank you.

Mr. Campbell, on your recommendation number five regarding the GST-HST housing rebate, do you want it to be applied on the full value of the home?

Mr. David Campbell: Yes.

The Chair: Would you have any idea what that could cost?

Mr. David Campbell: I believe that the plateau is currently $450,000 to $470,000, in that range. But no, I don't have an exact figure.

The Chair: Would there be any way you could get us the figure?

Mr. David Campbell: We should be able to extract those figures from the construction industry. Yes, I can certainly do that.

The Chair: I think that the industry also suggested the same thing. I forgot to ask for some numbers.

If you can send it through the clerk as soon as possible, that would help.

If it wouldn't be removing the ceiling, how about indexing the $450,000? How would that be?

Mr. David Campbell: That would certainly be worth consideration, as would any way to increase that amount, because housing values have certainly gone up.

The Chair: Mr. Griffin, is your organization or industry at all involved with the government in developing the national disaster mitigation strategy, or is the government going ahead with it on its own?

Mr. Stanley Griffin: I think we have been involved through the Institute for Catastrophic Loss Reduction. As I mentioned earlier, it is an organization funded by our industry to look at measures to reduce losses from catastrophes in Canada.

The Chair: But your association is not working with the ministry.

Mr. Stanley Griffin: Not that I'm aware of. I believe that it's directly through the ICLR.

The Chair: Okay.

Mr. Oliver, you're suggesting an increase in the dividend tax credit and the gross-up rate. Would that be for both public and private companies?

I think that they're being treated the same way for tax purposes right now, but there's an inequality when you're getting dividends from a public versus a private corporation.

Mr. Joseph Oliver: We're talking about it across the board, both for public and private.

The Chair: But what I need your help on is the trusts. If we were to recommend the trusts be taxed in the same way as corporations and we left the trusts as is, what will we recommend the dividend be reduced to? Either the dividend tax credit or...? I think you almost had it when you were talking to Mr. Solberg, but I didn't catch it.

I don't need an answer right now, but it's because I asked—

Mr. Monte Solberg: Were you asking tax difference?

The Chair: No, I'd like to know what the dividend.... I even asked the—

Mr. Joseph Oliver: I can answer it.

We estimate by lowering the effective dividend rate from the current 31%, which is the maximum in Ontario, to 15%, that would neutralize after-tax returns between shareholders and trust unitholders.

The Chair: Fifteen percent, but how do we get that? We have to either increase the dividend tax credit or increase the gross-up.

Mr. Joseph Oliver: Right.

The Chair: So that's what I need to know.

Don't worry about it; the CAs didn't know either.

Mr. Joseph Oliver: You want to know what the gross-up has to be to...?

The Chair: I want to have the same tax effect for the trust income as the dividend has, to put it in a simplified way.

Toronto Financial Services.... I'm a Montrealer; I hate you guys. We lost all our businesses to Toronto. I don't want to discuss the Toronto aspect, but I know financial services are very competitive on the international scale. What can we do to help on the international scale? Is there anything that can be done there?

● (1720)

Ms. Janet Ecker: I think one of the things we need to do is to determine what our unique financial services international niche will be, and our key strengths, and then market the heck out of it.

For example, London's financial services, which Councillor Ashton mentioned, one of their niches is public-private financing. They're almost like a consulting group now, in that they go round and provide advice and assistance and services in that area. Access Australia, which has a similar kind of group—their market niche is we're the big investment here in the Asian time zones where you come, etc.

I think what we need is to boil down to our two or three unique key strengths in Canada's financial services sector. Many people have different views. The quality of our people would be one—

The Chair: That's your job to tell us, and then we have to help you. We're not going to tell you what your strengths are.

Ms. Janet Ecker: No, and that's some of the work that we are indeed doing to do that, Mr. Chair, because—

The Chair: And I'll tell you the reason I'm asking. Because I was in China, and there's a problem with the financial sector when you don't have a bank in the top 50 in the world and you're trying to show you have some type of credibility on the international scale. And then you have a problem where we're looking at treaties with Barbados, whether it is competitive to have that or not. Those are the kinds of things we're looking at. We're going to be looking at the act, the Bank Act. But we need to hear from you. If you leave it to us, don't worry, we can handle it, but I'm not sure it's the result you're going to want.

Mr. Brian Ashton: I would say to you, Mr. President, that you need to come to terms with bank mergers, and you need to do that expeditiously. It's been let slide. It's been buried. It has not come to the surface. I know it's frightening and scary, but you have to do that.

I think we need to bring together the major centres in Canada: Vancouver, Montreal, and Toronto. Unlike you, I love Montreal. I think we need to search in those financial communities for a comparative advantage. I think we have those comparative advantages, and there are more similarities and common interests than there are conflicts between those centres.

The Chair: I'll relay that message to the Board of Trade in Toronto, because they have many issues in common with the Montreal Board of Trade, and we heard the same thing in Vancouver. So that's definitely a good....

Mr. Brian Ashton: I think in your position you could help facilitate that particular coming together. I know my own mayor is quite happy to facilitate those discussions. Mayor Tremblay in Montreal is quite friendly and looking for these types of opportunities where we can compete together internationally as cities and as a country.

The Chair: Yes, I agree.

Mr. Lewis, there is no question, because my twenty kids all have RESPs.

Mr. Barnett, we had a real dilemma last year, even in our caucus. Well, I'll ask you the first question. It wasn't really a dilemma, but now I think would be a question. How do you determine what an ecological gift is?

Mr. Robert Barnett: There's quite a strong definition that's being used right now, and we're happy with the categories in there. We think agricultural land is important to Canada's well-being, the tender fruit lands, etc. So we think those categories could be reviewed to —-

The Chair: Where is it defined? My backyard is going to be an ecological—

Mr. Robert Barnett: Oh, sorry.

There is a list published by the ecogift program through Environment Canada. There's the A-list. The A-list is automatic, and the B-list needs judgment applied to it. Neither of those two lists has agricultural land, which many of us think is important to Canada's health and well-being. It's not quite as ecological as a nice swamp or a bunch of a trees, but we do think that it's important to Canada's health and well-being.

The Chair: The question we had problems with was.... Maria's in charge of the social caucus, but we also have sustainability of environment. There was a problem because we didn't know how to value it. Once we decide that we're for it, how do we value that piece of land and give credit? That's what we're working on—evaluation.

Mr. Robert Barnett: I think the evaluation is quite well codified. We do have appraisers, and they've done, I believe, a very good job in evaluating what that land is worth—in particular, the beginning value of the land, and then what it's worth after it has been conserved. It still has its agricultural underlying value, but there is the issue of what you are giving up in the way of development potential, let's call it, to keep it agricultural.

So there are very good examples that have been worked out. I can bring in many appraisal reports, but I think that science is quite well tested and satisfactory.

● (1725)

The Chair: Thank you.

Hon. Maria Minna: Mr. Chairman, I just need a clarification on a recommendation. There's a recommendation written twice by CPIA, but it says, to me, two different things. I want to get a clarification on which one they favour.

It's on tax cuts. In their brief they say that the federal government “should institute further personal income tax reductions, geared especially to low and moderate income Canadians”, but then in their short presentation today they only have five points, one of which says “Institute further personal income tax reductions applicable to all tax brackets, and raise the income levels at which the highest rates apply.”

So I'm not quite sure. Is it across the board, or is it geared to low and moderate income?

Mr. Bob Kadis: The intention was—

Hon. Maria Minna: It says two different things.

Mr. Bob Kadis: Sorry.

In the income tax reductions, in point 6 of our 17 points we refer to “geared especially to low and moderate incomes”, but that was not to exclude the high income as well.

Hon. Maria Minna: Your presentation said one thing and then your brief said something slightly different. That was my problem. I didn't know which one you were recommending.

Mr. Robert Kadis: The recommendation is for across the board.

The Chair: Thank you.

Very interesting. I guess we saved the best for last, but we're still here tomorrow, so we'll see.

Thank you very much.

The meeting is adjourned.

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