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Mr. Massimo Pacetti

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● (1535)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Order. Let's get started.

Good afternoon, members. I hope everybody had a good week.

Mr. Solberg, I understand you want to address the committee.

Mr. Monte Solberg (Medicine Hat, CPC): Mr. Chairman, we will not be moving that motion. If we can leave it on the table or withdraw it, either way I'm happy.

The Chair: So we have your consent that we're asking it to be withdrawn?

Mr. Monte Solberg: Can I seek consent to have that motion withdrawn?

The Chair: Yes.

Do I have consent from the committee?

Some hon. members: Agreed.

The Chair: Thank you, Mr. Solberg.

Welcome, Minister Goodale. Despite your busy schedule and the committee's busy schedule, we've finally been able to find a mutually convenient time to provide Canadians with an update. I want to thank you for taking time out of your day so that you can provide Canadians with an economic update through our committee. It's something that traditionally has been done through our committee.

[*Translation*]

As you know, over the course of the last several weeks, the committee has consulted Canadians from coast to coast to coast , asking them what they wanted to see in the upcoming budget. The committee heard from more than 420 groups, 620 witnesses, totalling more than a 100 hours of testimony. The committee, in my opinion has worked very hard.

[*English*]

I think our committee's report on the pre-budget consultations will provide you with some great recommendations to be included in your next budget.

I understand you have an opening comment for us, and then we'll go to the members to ask some questions.

Hon. Ralph Goodale (Minister of Finance): Thank you very much, Mr. Chairman.

Yes, I do have the usual presentation, entitled “The Economic and Fiscal Update“, which is, as you know, for this purpose an extensive one. I do appreciate the opportunity to present this information to the committee and, through the committee, to all Canadians.

Eleven years ago my predecessor, the right honourable member for LaSalle—Émard, presented a bold new economic strategy for Canada. The year was 1994, and Canadians faced some truly daunting challenges. The prime interest rate was as high as 8%, unemployment stood above 10%, our debt represented nearly 70% of national income, and the federal budget had been in deficit for more than a quarter of a century, with red ink as far as the eye could see. Our country's credit rating had been downgraded. Around the world, Canada was being written off as an economic basket case.

That plan in 1994, an agenda for jobs and growth, took a clear-eyed view of the challenges facing us as a people and outlined the response that we would make as a country. It called for an end to governments spending more than they earned or promising more than they could deliver, and it provided the intellectual and economic framework that guided budgets and policy decisions for more than a decade.

[*Translation*]

Over the years, with the steady support of citizens and taxpayers, we have stayed the course that was set out in that document, pursuing the plan with patience, resolve and discipline.

And year by year, budget by budget, Canadians saw progress being made.

Annual deficits became smaller and smaller. The government was borrowing less and less. And interest rates fell, enabling more Canadians to buy their first home or start a business.

[*English*]

In 1997 the books were balanced for the first time in decades—and ahead of schedule. Canada embarked on a new era of surpluses. We started to reduce our debt, and that, combined with strong economic growth, caused our debt-to-GDP ratio to decline. With deficits eliminated, we began to cut taxes and to make targeted investments to strengthen our economy and make our society more prosperous and secure. Most importantly, Canadians in ever-increasing numbers have been, and are, working, gaining the means to build a better future for themselves and their families. Indeed, since 1997 Canada has had the best job creation record in all of the G-7 group of world-leading economies.

Along with these jobs, Canadians achieved steady improvements in their take-home pay. Real disposable income per capita—the amount left after taxes—was $2,700 higher on average in 2004 than in 1996, an increase of about 15%. Living standards have risen more in the past eight years, since we balanced the books, than they had in the previous eighteen. The road from 1994 to 2005 has been difficult at times, but the achievements remarkable. Today Canada has gone from economic laggard to leader, and we can look to the future with tremendous confidence.

That said, we also face new challenges, very different from those of 1994. So today, along with the 2005 economic and fiscal update, I am also presenting a new economic plan, one that sets our course for the years ahead.

First, let's take a look at how our economy is performing right now. Overall, there has been continued expansion in 2005 with real GDP growth of 3.2% in the first quarter, which is up from 2.1% in each of the previous two quarters. The second quarter also saw gains in both net exports and domestic demand. The pickup in net exports is particularly encouraging, because it suggests that Canadian firms and their employees are adjusting successfully to the difficult challenges of a rapidly appreciating dollar. It's not easy, but they're doing it.

On the employment front, the Canadian economy has been creating new jobs at a very impressive rate. Since January of 2002, more than one million new jobs have been created, most of them full-time. That's over a million more Canadians working, saving, and planning for the future.

● (1540)

[*Translation*]

Unemployment has continued to decline—and this despite the fact that we are experiencing new record levels of participation in the labour market. Canada's unemployment rate now stands at 6.6 per cent—its lowest level in 30 years.

Low interest rates, combined with strong overall job creation, continue to drive consumer demand, especially for durable goods such as cars and furniture.

Strong income growth and low interest rates have also been good news for those wanting to buy a home and build equity for tomorrow.

[*English*]

Canadian businesses, too, are reaping the rewards of a strong economy. Corporate profits now stand at 14% of GDP. That's the highest level in over three decades. There are some encouraging signs of increased investment in machinery and equipment, especially in information, telecommunications, and computer equipment—all essential contributors to greater innovation and productivity.

Finally, while total inflation has increased somewhat following the recent surges in energy prices, core inflation has remained low and stable. This is important for Canadians, whether they're planning their family budgets, considering a major purchase, or thinking of expanding their businesses. Accordingly, it is the government's intention to renew its inflation targeting agreement with the Bank of Canada for another five years beyond 2006.

Looking ahead, private sector forecasters expect real GDP to grow overall by 2.8% this year, 2.9% next year, and 3.1% in 2007.

What all these facts and figures tell us, Mr. Chairman, is that Canada's economy is doing very well, and it's expected to continue to do well for the foreseeable future.

That said, there are always risks and uncertainties that could throw our economy off course. We see two primary risks at the present time. First, should the cost of energy surge upward again, consumer confidence in Canada and the United States could well be affected, reducing demand for Canadian goods on both sides of the border. Second, the large and persistent budgetary and current account deficits in the U.S. could result in a further depreciation of the American dollar against all currencies, including the Canadian dollar, making things tougher for our Canadian exporters.

Manufacturing firms, Mr. Chairman, have been particularly hard-pressed. When you consider the nearly 145,000 jobs lost from this sector between January 2003 and October of this year, it is clear that the challenges faced by our manufacturers and exporters are real, and they will take some time to work through.

In light of these and other potential risks, such as natural disasters, transborder pandemics, and security threats, we must and we will remain vigilant and prudent in all of our planning. We will continue to ensure that Canada has the financial strength and the flexibility to meet unexpected shocks and manage unforeseen circumstances.

Let me now turn from the economic outlook to Canada's fiscal position. As recently confirmed, the Government of Canada posted a budgetary surplus of $1.6 billion in 2004-05. This was our eighth consecutive balanced budget. It marks the longest string of balanced federal budgets in Canadian history, and it is a record, Mr. Chairman, upon which we intend to build.

In developing our economic projections for future years, we have consulted with some sixteen private sector forecasters. Their independent professional views form the basis for the economic assumptions that underlie our five-year fiscal projections. To enhance our forecasting, we are implementing every recommendation relating to transparency from Dr. Tim O'Neill's recent external review of the government's forecasting process.

Dr. O'Neill also recommended measures on how we should deal with the surplus. In response, I had the honour of tabling legislation on October 7, Bill C-67, which clearly spells out how the government and Parliament would be able to allocate future surpluses above and beyond the annual contingency reserve of $3 billion, among incremental tax relief, priority investments, and debt reduction, in the balanced and common-sense manner consistently demanded by Canadians.

● (1545)

As a fiscal anchor, let me emphasize that we remain firmly committed to the priority of ongoing debt reduction. That is why, in Budget 2004, we set the objective of reducing the federal debt-to-GDP ratio to 25% within ten years. And we will not stop there. Today, I am pleased to announce a new goal: to bring the debt-to-GDP ratio down to 20% by 2020, a level that has not been seen since the mid-1970s.

[*Translation*]

This government knows that Canadians have worked very hard—first to get rid of deficits and then to remain free. That is why we still stand firm in our commitment to balanced budgets or better.

[*English*]

In looking to our fiscal projections for the years ahead, a number of factors have come together to put the government and the country in a better position than we or most private sector forecasters had expected nine months ago.

First, record profits from businesses, including natural gas exporters, are much stronger than projected at the time of the 2005 budget, and they are now generating greater revenues for the government. This is not unique to Canada. For example, the United States administration just recently reported that its corporate income tax revenues, too, were some 23% higher than forecasted. Second, employment growth has been very strong in Canada, and this is now generating greater revenues for the government than expected last February. And third, interest rates, both short-term and long-term, are lower than was expected at the time of the 2005 budget, resulting in lower debt servicing charges.

Based on independent forecasts, and after adjusting for the contingency reserve and the normal prudence factor, and taking into account the policy measures announced since the budget in February, the amounts available for planning purposes going forward are the following: for 2005-06, $8.2 billion; for 2006-07, $9.2 billion; for 2007-08, $9.5 billion; for 2008-09, $7.9 billion; for 2009-10, $8.4 billion; and for 2010-11, $11.3 billion.

Mr. Chairman, these are the fiscal dividends that Canadians have earned through prudence, discipline, and hard work. Such fiscal strength empowers Canadians to look to the future with increasing confidence, but not complacency. Our 1994 agenda for jobs and growth delivered a decade of economic and social progress. It served our country well, providing the plan we needed to meet the challenges and to take advantage of the opportunities of the last ten years. But today, a very different Canada faces a very different world.

● (1550)

[*Translation*]

Around the globe, fast-growing new economies are increasing their share of trade and investment.

New ways of doing business are emerging and production is becoming increasingly specialized and dispersed worldwide.

Advances in information and communications technologies, lower transportation costs and reduced trade barriers are driving increased flows of goods, services and capital back and forth across all national borders.

[*English*]

This in turn is accelerating the spread of ideas, knowledge, and products, making the competition for skilled workers more intense than the world has ever seen.

Here at home our country's demographic landscape is about to undergo profound changes, presenting significant new challenges, both in terms of the imminent retirement of that big baby boomer generation and the more effective inclusion of aboriginal people and new immigrants.

We have built a solid foundation, but we must remain vigilant, approaching the future with our eyes wide open, setting our sights on new goals, and responding effectively and intelligently to new, and sometimes turbulent, circumstances. That means squarely facing the fact that better jobs, better incomes, and a better standard of living for all Canadians can only flow from strong and sustainable economic growth, which in turn can be achieved only through greater productivity. It also means that our thinking and our planning must reach not just to the borders of our country or to the shores of our continent, but also to the vast expanse of the entire world.

It is to these exciting possibilities that our plan for growth and prosperity is directed. At its core, this plan is about people: our quality of life; the quality of our natural environment; the sustainability, creativity, safety and security of the communities in which we want to live; and the strength of our health care system, not only as a defining Canadian value but also as a distinct competitive advantage to Canada economically. It's about people living fulfilling lives. It's about the kind of retirement we can expect to enjoy. It's about the opportunities our children will have.

That's what's important, Mr. Chairman—not rates and ratios, not obscure statistics, but the realities that Canadians face, day in and day out, the hopes and dreams we have for ourselves and our families.

So in developing this plan we have asked some very basic questions. What do we have to do to ensure that Canadians really do enjoy a quality of life second to none? What are the areas of greatest opportunity for our country? What are the biggest problems? What are we doing well, and what do we need to do better? Beyond issues related to the fair distribution of wealth, how do we generate more wealth overall? This plan is focused on the answers to those questions.

[*Translation*]

It recognizes the dramatic impact of globalization, which has created a world where we are all neighbours—and all competitors.

It anticipates a profound re-ordering of the global economy as new giants such as India and China emerge.

● (1555)

[*English*]

This plan provides a road map through a new global economic landscape that is more integrated, interdependent, and competitive than ever before. It outlines the steps we need to take to make Canada a truly networked nation, connected to global markets, adding value and capturing opportunity, enabling us to perform the most complex processes here and to create the most rewarding jobs here—jobs of the future, jobs with a future.

In response to the challenge of building a successful 21st century economy, by focusing on people and their brainpower, promoting innovation, strengthening the muscle and the sinew of public infrastructure, and facilitating the freer flow of people, goods, and capital within and across our borders, this plan recognizes the escalating demand for natural resources from the world's emerging economies, and Canada's potential to capitalize on our rich abundance of these essential commodities, with our unrivaled expertise in their extraction, processing, and transportation, and our technological sophistication in environmental protection.

In particular with respect to energy resources, greater energy efficiency, conservation, and innovation, including more renewable fuels and alternative energy sources, are hallmarks of an intelligent, sustainable, and healthy society. Canadians aspire to be the smartest energy producers and consumers in the world, and this government will continue to invest in this priority.

And finally, the plan we are presenting today anticipates the consequences of our aging population. This is a truly significant challenge to our society, as the biggest ever generation of Canadians begins to retire in ever-increasing numbers over the next five to ten years. There are more than five Canadians of working age today for every one person of retirement age. Within the next fifteen years, this ratio is projected to fall to four to one, and by 2050 it will drop to less than two and a half to one.

[*Translation*]

At least two consequences are immediately obvious. First, there will be growing demand for health care services, retirement facilities and other aged-related social programs.

And second, the smaller generations which follow the “boomers” will have fewer people in the workforce to pay all the nation's bills and to maintain Canada's economic growth.

[*English*]

Our plan for growth and prosperity addresses not only the challenges of demographics but also the new realities of a globalized, knowledge-based economy. It proposes action on four fronts: creating opportunity for all Canadians; advancing an innovative economy; positioning Canada at the centre of global commerce and networks; and building the right investment environment. The goal of all four is to improve the standard of living of Canadians.

First, in terms of creating opportunity for all Canadians, in today's world the greatest point of differentiation, the real basis of competitive advantage, is brainpower. An idea can create whole new industries. Knowledge and creativity have become the true measures of economic potential. Just think how the Canadians who developed the BlackBerry have created and captured a world market.

Because the pace of change is ever-quickening, the upgrading of skills over a lifetime must be never-ending. Workplaces must become, in effect, classrooms without walls, offering ongoing opportunities for workers to improve their skills or acquire new ones. It is crucial that our people have the training and education they need to succeed and that our economy has the entrepreneurs and the employees it needs to excel.

Canada faces these challenges from a position of strength. Among OECD countries, we have the highest proportion of people with some form of post-secondary education, and our high school students are above average in reading, math, and science. But past achievement is no guarantee of future success. We need to ensure that Canadians have every advantage by investing in their potential at every age and every stage of life. Too many Canadians are not pursuing higher education because financial or other barriers are simply too great. We shortchange our children and we shortchange ourselves by foregoing the contributions they can make. Simply put, this country will only reach its full potential when each and every Canadian can reach their potential.

Second, we need to build a truly innovative economy, one driven by ideas, invention, and technologies, and one that leads the way in how it produces goods and delivers them to global markets. To this end, government-sponsored research and development is important, and we have made significant progress in this area. Canada is now first in the G-7 for research conducted in universities and public labs. We must not lose that hard-won advantage.

The achievement of world-calibre sophistication in science and technology also needs the indispensable push and pull of significant private investment too. Here our performance, while showing some recent improvement, still has a long way to go. We will need to work closely with Canadian business leaders to identify and reduce the roadblocks standing in the way of greater private investment in R and D, the successful commercialization of new ideas, and the faster adoption and adaptation of the best new technologies.

Third, our new plan is about making Canada a centre of global commerce and networks, intricately connected to the world's markets and positioned to capture the benefits of a two-way flow of ideas and information across our borders. One of the keys to that is developing world-class infrastructure, both physical and virtual, here at home. Safe and efficient transportation systems and leading-edge communication systems will be central to Canadians' ability to fully engage the world.

This is vital not only for our trade with the United States but also with promising new markets. China, for example, is expected within ten years to become one of the world's three largest economies, while India's share of the world economy is on track to surpass that of Canada within the next decade. These awakening giants hold tremendous potential for Canada, and we need to prepare—now.

● (1600)

Fourth, we need to create the best possible environment for investment here in Canada. That means a sustained dedication to balanced budgets or better, continued debt reduction, and keeping inflation in check. It also means ongoing reductions in personal income taxes, and a competitive tax system for businesses that fosters investment and job creation in Canada.

[*Translation*]

It means reducing interprovincial barriers to the movement of people, goods, services and capital.

It means creating greater efficiency in our financial markets and implementing the Smart Regulation initiative.

And it means working to create a cleaner and greener country—and world—by becoming international leaders in environmental technologies and practices, demonstrating Canadian ingenuity and expertise in providing sustainable solutions that support both economic growth and a better quality of life.

[*English*]

These four elements—creating opportunities for Canadians, building a truly innovative economy, making Canada a centre of global commerce, and creating a favourable environment for investment—together make up the broad themes of our plan for growth and prosperity. This is a plan for the next decade and beyond. In future budgets and future years, as resources permit, we will build on the framework that we are outlining today. But with this update, we are making a very solid and tangible beginning.

To put Canada at the centre of global commerce and networks, we are proposing an aggressive new trade strategy valued at more than $480 million over five years. Its purpose, in part, is to integrate our companies, especially small and medium-sized firms, in the high-end, value-added portion of global supply chains.

● (1605)

[*Translation*]

In order to encourage more of our small and medium-sized businesses to pursue overseas markets, I am announcing the creation of a Global Success Fund. It will help these smaller firms explore—and take advantage of—opportunities in new markets throughout the world.

Furthermore, we will provide Canadian firms with more support than ever in key markets such as China, India and Brazil by expanding our network of Trade Commissioners.

[*English*]

For Canada, Asia Pacific's emergence as an economic powerhouse spells real opportunity if, and only if, we are prepared. This government has already begun. As announced in October, we are ready to invest $590 million in the further development of our Pacific gateway, to ensure that our country is positioned to capitalize on these new opportunities.

To better connect rural, remote, and aboriginal communities to global networks, we are prepared to invest $100 million to expand broadband services. We will also build on our strong trading relationship with the United States through, for example, the Windsor–Detroit corridor, and improve cooperation under the security and prosperity partnership of North America.

In examining our trading relationship with the United States, it is important to remember that fully 95% of all trade crosses that border without dispute or difficulty. That said, it's not good enough for countries to honour just 95% of their obligations under international trade agreements. Those who preach the rules of free trade must practise the rules of free trade not just when it's convenient, but 100% of the time. To do otherwise is to undermine a rules-based trading system, encourage protectionism, and put the cause of freer and fairer trade in jeopardy, not just in North America, but around the globe.

Canadians want to compete on a level playing field, with rules that are clear, rulings that are respected, and commitments that are kept. We expect nothing less from ourselves, and we expect nothing more from our trading partners. When our farmers or forestry workers are hurt by foreign subsidies or by the violation of trade agreements, this government will do its very best to help.

To build a more innovative economy, we are prepared to commit more than $2.1 billion over five years to secure Canadian leadership in university-based research, to strengthen our position in international research networks, and to accelerate the commercialization of new technologies. Bolstering a national culture of innovation will help to establish Canada as a leading globally networked research hub, attracting the best researchers from abroad and providing access to cross-cutting research to Canadians here at home. To this end, we will increase annual funding for Canada's granting councils by $85 million; we will support universities with their indirect costs of research by almost doubling our current funding to reach more than $500 million per year by 2007-08; and we will continue to support new research infrastructure with a further $500 million.

[*Translation*]

Networking Canadian researchers with others across the country—and around the world—is a key element of success in the knowledge economy. The Canadian Institute for Advanced Research plays a vital role in making that happen. To pursue these efforts further, we will provide the Institute with additional resources to continue and extend their good work.

We will also move progressively toward the fulfillment of our commitment to devote 5 per cent of federal investment in R&D to the priorities of the developing world, including health and environmental technologies.

● (1610)

[*English*]

Another of the key elements of an innovative economy is connecting research activities in hospitals and universities to opportunities in the private sector. The Medical and Related Sciences Discovery District, in Toronto—or MaRS, as it is known—is an outstanding example of this kind of collaboration. To promote such teamwork more broadly, we will provide new funding so that researchers can better connect with companies and strengthen community-based clusters of innovation and entrepreneurship.

To create greater opportunity for all Canadians,

[*Translation*]

We need to give our children the best possible start in life. It's an investment that pays enormous returns, because it's in these early years, between birth and age six, when intellectual and emotional potential can best be encouraged and nurtured.

[*English*]

It is here that children in effect learn how to learn, paving the way for future success. That is why we have previously committed some $9 billion over the next five years for early childhood development, early learning, and child care programs and services across Canada. And let me be clear that our initial commitment to building an early learning and child care system is not merely a temporary, five-year effort. It must be and it will be ongoing.

Beyond child care, the Government of Canada invests today close to $10 billion annually in support of learning, especially post-secondary education. Today we are committing an additional $9.2 billion in federal funding to support higher learning, skills training, and greater inclusion in Canada's modern workforce.

Investing in people, in their education and training, requires a post-secondary system second to none, marked by excellence and leading to better jobs, higher incomes, and greater opportunities. A key issue is access. This government is going to invest a further $2.2. billion over the next five years to improve student access. Why? Because we want every Canadian to have an opportunity to experience the fulfillment, the empowerment, and the freedom that flows from higher learning.

With the provinces and territories, we will examine whether the Canada student loans program is properly assessing student needs, and we will look at such related issues as grants and debt management tools, including repayment terms, forgiveness measures, and applicable interest rates. In the meantime, we will extend our existing first-year grants to lower-income students to cover up to four years of post-secondary education, beginning in 2006 and ultimately assisting more than 75,000 students per year.

We also need to set clear goals in terms of the number and quality of graduate students we produce, especially in the sciences and management. We need more scientists with business savvy and more business people who understand science. To boost Canada's supply of graduate students with both sets of skills, we will fund advanced business training for scientists and engineers and we will increase support for grad students in all disciplines. To improve the flow of knowledge and expertise between universities and companies, we will expand the number of industry research internships for science and engineering. And to ensure that our post-secondary institutions can provide learning environments of the highest quality to attract students and faculty of the highest calibre, we will provide $1 billion over the next two years to support cutting-edge innovation in education—things like smart classrooms, networked laboratories, interactive libraries, and distance learning, to name just a few examples.

To enhance workplace skills development, the Government of Canada is anxious to negotiate labour market partnership agreements with the provinces, focused on the following key priorities: apprenticeships; literacy and essential skills; workplace skills development; increasing participation of aboriginals, the disabled, and other underrepresented groups in the workforce; and integrating new Canadians into the job market. The government is also interested in working with both labour and employers to pilot test the most creative new techniques to advance workplace skills.

● (1615)

[*Translation*]

The challenges of finding and holding a job are compounded for those with disabilities. To assist these Canadians we will enhance funding to the Multilateral Framework for Labour Market Agreements for Persons with Disabilities.

In addition, we will increase the refundable medical expense supplement and raise the maximum annual Child Disability Benefit.

[*English*]

To help ease some of the demographic pressures coming just around the corner, it is clear that we will need to increase the number of skilled immigrants we welcome to our shores. But before we can do that, we have to make our immigration system more efficient and effective than ever. We will invest in immigration policies and practices that allow newcomers to participate more fully in our workforce and our communities as quickly as possible.

We also need to get very serious about the better inclusion and fuller participation of aboriginal Canadians. This is the prime objective of the first ministers meeting scheduled with aboriginal leaders for later this month. It will focus on big issues relating to health, housing, economic development, and, perhaps most crucial of all, education. The Government of Canada will be ready to invest in these priorities.

Getting a job, Mr. Chairman, should be the beginning of hope and real economic progress. Unfortunately, in some cases, consequential reductions in government support for those who have just joined the workforce can be almost 80¢ of every dollar they now earn from their new job. This represents a very high marginal effective tax rate; it simply doesn't pay to seek work. This so-called welfare wall needs to come down before true economic opportunity can open up.

Today I am announcing our intention to work with the provinces and territories to develop a new working income tax benefit, which will help people in this situation to keep more of the money they earn, and encourage them to take those critically important steps toward employment and self-sufficiency. The Government of Canada is prepared to invest $2.2 billion in this important innovation in both social policy and tax policy.

To build the right investment environment since balancing the budget in 1997, this government has reduced personal income taxes each and every year. Indexation was fully restored, rates have been lowered, and the amount Canadians can earn tax-free has increased. These tax cuts have added up: a family with two children, earning $60,000, for example, now saves almost $3,500 compared with what it would have paid in 1997.

Today I am pleased to announce additional multi-year tax relief, aimed at helping all Canadians right now and over the coming five years.

In the budget in February, the government announced that we would increase the amount that Canadians can earn tax-free by progressively raising the basic personal amount to reach $10,000 by the year 2009. We also said at that time, Mr. Chairman, that we would do more, sooner, if the fiscal situation permitted. It does, and we are. I am pleased to announce that we will immediately increase the basic personal amount by $500, and we will go further to reduce personal income taxes across the board, beginning with the lowest rate.

Currently all Canadians pay federal tax of 16% on the first $35,595 of income. We will lower that rate to 15%, and we will do so reaching back to the beginning of 2005. For a typical two-earner family of four with a combined income of $60,000, these two measures—increasing the basic personal amount and reducing the bottom rate—will result in a tax saving of 20% immediately, rising to an annual saving of 33% by 2010. In total, our tax plan means a cumulative saving of $3,300 for this family over the next five years.

Within five years, we will also reduce the two middle personal tax rates—again by one percentage point—to further lighten the burden on middle-income Canadians.

In addition, many have argued that the top tax rate in Canada kicks in too early, at around $116,000 of income. We will raise that threshold within five years so that Canadians will not pay the top rate of tax until their income reaches $200,000. This will help retain and attract highly skilled workers, and spur economic growth.

In today's more globally integrated economy, we need a tax system that also helps our companies to compete and succeed, to invest, to grow, and to create jobs. In our last budget we announced a number of measures aimed at helping Canadian companies, especially small and medium-sized firms, to do just that.

● (1620)

Today, in order to provide greater certainty and to maintain Canada's competitive advantage, I'm confirming that we will proceed with the remaining tax measures proposed in budget 2005. In addition, to promote greater investments in new plants and technology, we will eliminate the federal capital tax as of 2006, two years earlier than originally planned.

Our goal, Mr. Chairman, is to position Canadian firms with not only a statutory tax rate advantage but also a meaningful marginal effective tax rate advantage over the United States within five years. The reason is clear: it is to promote job creation and investment in Canada. If the choice is between Montreal and New York, we want it to be in Montreal. If it's between Windsor and Detroit, we want it to be in Windsor. If it's between Winnipeg and Minneapolis, we want it to be in Winnipeg. If it's between Vancouver and Seattle, we want it to be in Vancouver.

To encourage Canadian success in international commerce, the government will continue to enhance its tax treaties with other countries, including the United States. Indeed, we hope to make good progress with the United States this winter.

With respect to the consultations launched in September on income trusts and other flow-through entities, I'm encouraged that we are receiving many thoughtful, insightful proposals, and we look forward to additional substantive input in the days and weeks immediately ahead. We will examine this important matter with great care, and will respond promptly to the consultation process with a result that fosters savings, investment, and overall economy efficiency.

The tax relief measures I've announced today will add up to more than $30 billion over five years, with the vast majority of that benefit—some 95% of it—flowing to individuals and families. In fact, close to two-thirds of the benefit will go to those earning $60,000 or less.

I'm also pleased to note the recent decision to again reduce employment insurance rates, from $1.95 down to $1.87, saving Canadian employees and employers another $800 million.

Taken together, all these various measures represent the first steps toward the implementation of our plan for growth and prosperity. Acting prudently and responsibly, we will go further, year by year.

[*Translation*]

Canada's progress since 1994 has given this nation the freedom to plan and the strength to succeed. It has placed Canadians in an enviable position, able to translate our past progress into an enduring advantage going forward.

As in 1994, we have again taken a clear-eyed view of the challenges and opportunities before us—not, as then, just to set our basic economic house in order, but to set our sights boldly on a quality of life second to none.

Our goal is a country of economic and technological excellence.

[*English*]

Our goal is a country of economic and technological excellence, an inclusive and caring country in which fairness and equality of opportunity are the measures of our progress, where diversity and tolerance are symbols of our civility and decency. Our goal is a country prepared, determined, and equipped to take its place as never before in world markets and on the global stage of diplomacy, peacemaking and peacekeeping, foreign aid, and the promotion of human rights and freedoms, a country that embraces the 21st century with confidence, not just dreaming of what might be one day, but actually building it right now.

Mr. Chairman, I thank you and the committee for your courtesy.

● (1625)

The Chair: Thank you, Mr. Goodale.

I see your department has worked very hard on this, and our committee has worked hard on the pre-budget consultations. I think you're taking some of our ideas, so if we could use your report for some of the recommendations, I think we should probably do that.

I forgot to mention that Mr. Bennett and Mr. Carney are here as well. Thank you for appearing.

We'll go straight to the members for questions. Because we have the minister here, we'll allow Ms. Wasylycia-Leis of the NDP to go third.

We'll start with Mr. Solberg, then Mr. Loubier, and then Ms. Wasylycia-Leis, for seven minutes.

Mr. Monte Solberg: Thank you very much, Mr. Chairman, and thank you, Minister.

As you know, Minister, we'd been pretty reluctant to invite you to this committee because you and your officials had been sending signals that you might be prepared to use the finance committee of the House of Commons as a prop to deliver a Liberal election platform. As you know, last night the three opposition leaders got together and agreed that they would do what they could to ensure that the government could sort of clean up its affairs over the next week in the event of a non-confidence motion. So the decision was made not to stand in the way of your appearance before this committee.

I'm sad to say, though, Minister, that I think you abused our invitation. I think you spent a lot of your presentation electioneering, laying out things the government would do, or allegedly would do, if it were re-elected. I think you are really proving what Justice Gomery said, that the Liberal Party suffers from a culture of entitlement. I just want to make the statement again that the finance committee is not a prop of the Liberal Party.

Minister, now that you've gone and laid out your election platform, I think it's fair that we are allowed to comment on it. You've laid this out as though it were something you would do if you'd been the finance minister. But you have *been* the finance minister for the last two years, and in fact have brought in two budgets in the last nine months or so. You've been all over the map when you've brought these things in. And do you know what I've noticed? None of the things in this document were in those last two budgets.

I guess what I don't understand, Minister, is what caused this deathbed conversion. We've known for years that productivity is an issue. We've known for years that middle-income Canadians are overtaxed. Then suddenly, on the eve of an election, the minister and the Liberal Party get religion on tax relief for Canadians. It seems a little convenient, I think you'd have to agree.

I mean, I understand why you wouldn't want to campaign on the first budget and the $16 tax cut. That makes sense to me. I understand why you wouldn't want to do that. But it's a little bit hard to take this seriously, given the context, given the fact that Justice Gomery has lambasted the Liberal Party in his report. It looks a lot like you're just trying to change the channel and get people's attention away from what's been going on.

Let me ask a very specific question. One of the things that you are proposing is corporate tax relief. Now, in your February budget, you had that in. In the May budget, it was taken out. In the fall, you were going to bring it back in. Then you said you couldn't bring it back in. Now it's in again. If you are elected again as the government and we end up in a minority situation, what assurance do we have that you wouldn't again bargain away those tax cuts, bargain away a higher standard of living, just to save the hide of the Liberal Party?

Hon. Ralph Goodale: Mr. Solberg, as I've indicated to the committee, what's being discussed today is not a budget. It is in fact an update, which lays out all of the relevant fiscal and economic information, and a plan for growth and prosperity, which, in a responsible way—and I have that responsibility as Minister of Finance—informs Canadians as to what the government proposes to do with the flexibility it has within the fiscal framework.

I am pursuing the normal flow of events and the normal timing for finance ministers traditionally, having this kind of statement in October or November and then returning to the House of Commons in February or March with a budget, and having in the meantime the benefit of consultation with this committee and with a variety of other Canadians.

The ideas that are advanced here are ideas that I think are pretty exciting about Canada's future. They're ideas that I've had the opportunity to consult on with business and labour and students and university presidents and a whole variety of other Canadians over the last number of months—

● (1630)

Mr. Monte Solberg: Could you answer the question, though, Minister? I'm asking, how do we know you're committed to this?

Hon. Ralph Goodale: You asked a number of things in your preamble, Mr. Solberg, and I'll get very directly to your question.

We touched on many of the topics I have raised today in the February budget: global opportunities, innovation, learning, and tax relief. They were all proposed in the budget in February, to the extent that the flexibility existed at that time. We said at that time that if more room emerged we would do our best to go further. Canada is one of the few countries in all of the world that is fortunately in that position.

With respect to the taxation of Canadian businesses, I have laid out in my statement a very strong commitment to the principles that will make our Canadian companies more competitive, more productive, and that will give them the wherewithal to succeed.

Mr. Solberg, the changes that were mentioned in the February budget were changes that were to come into effect in 2008. I said at the time that while I could see that legislation proceeding on a separate legislative track, it remained my commitment that those provisions would go forward and that they would go forward as promised and on time for 2008. We were on that track in February. We were on that track in the summer. We're on that track now. Those commitments for the tax changes that are to come into effect in 2008 will in fact occur.

Mr. Monte Solberg: This is not a budget, so that means you won't be tabling legislation?

Hon. Ralph Goodale: There are two provisions relating to calendar year 2005, Mr. Solberg, which deal with the basic personal amount and the reduction of the lower rate, that are the subject of a ways and means motion that was presented in the House this afternoon. We presented that motion because those provisions are intended to be effective as of January 1, 2005.

To the extent that the remaining provisions require legislation, whether on the tax side or otherwise, that legislation would be forthcoming at the time of our budget.

The Chair: Thank you, Mr. Solberg.

Mr. Solberg, sorry, that was seven minutes.

Mr. Monte Solberg: Mr. Chairman, the minister went on for an hour. I think we have a right to ask some questions.

The Chair: We're going to go to the second round.

Mr. Loubier and then Ms. Wasylycia-Leis.

[*Translation*]

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

It's all very well for Mr. Goodale to say that this is not a budget, but his statements nonetheless contain fairly substantial measures affecting income tax and corporate tax. I have rarely seen an economic statement with as many budgetary provisions. If this is not a budget, than I wonder what it is. This may not be called a budget as such, but all the measures in the statement, as far as I know, are being seen for the first time in 12 years.

I have a question for the Minister.

Why is it so difficult to come up with accurate surplus projections in normal times, but when you are just a few weeks away from an election, your surplus figures start to look quite a lot like ours, and a lot less like the deceptive figures you have been generating since 1998?

For this year alone—and this is quite difficult to believe—in nine months the surplus before any initiatives was $4 billion. That is what you project for this year. If we include the contingency reserve, we have a surplus almost three times higher, a figure that corresponds very well with our projections, and with those of the economists who have appeared before you.

It's easy to find surpluses when you are just a few weeks away from an election, so that you can pass out candy and sucker the voters in. This mini-budget cannot be seen as anything other than a sucker deal. You have just confirmed what I was thinking.

For 2005, the average tax reduction per individual will be about $278. That is the only certain reduction in there. As for the rest, you are telling Canadians that if they elect you, you will introduce a bill associated with this mini-budget, and they will have further tax reductions.

I think this is a sucker deal, designed to make people forget that your government and the Liberal Party of Canada are burdened by the worst scandal in the history of Canadian federalism. You think that you can buy off taxpayers by offering them a $278 tax reduction this year.

If you have been listening to Quebeckers and Canadians, you must have understood their priorities. We did listen to them. Their priority is that we deal with the tax imbalance issue in a sustainable fashion, within the framework of a federal-provincial conference that will make it possible to transfer tax points to the Quebec and other provincial governments, so that those governments can fulfil their responsibilities and provide appropriate services to their communities, with everything that service delivery requires.

You have gone through three elections by making a commitment —a commitment that even Mr. Martin made—to reform the employment insurance system. But nothing in this mini-budget contains even the hint of a proposal to reform the employment insurance system, even though all political parties came to an agreement years ago to reform the system.

Moreover, there is nothing on social housing, yet you say that we have to increase productivity so that people who are unable to work can come back into the workforce.

You talk about productivity in a document that sets out the facts very well, but contains no measures. There is no support for the sectors most vulnerable to emerging economies like China and India. The industries most threatened are furniture, clothing, textiles and even softwood, which is being very hard hit by U.S. protectionism.

There is nothing for future sectors like the aerospace industry. For how many years have we been demanding that the government implement a real policy to increase productivity and competitiveness in those sectors?

There is nothing to help farmers who are still being affecting by the BSE crisis. The amounts you have invested for farmers are insufficient to help them come out of the crisis they are going through.

As for students, during the last election Mr. Martin said that you would be investing an additional $4 billion in colleges and universities. Where is the help for institutions in the form of transfer payments, and where is your response to the demands of student associations? There is $1 billion somewhere, and we don't know how it will be spent. This is certainly not what we and the students are asking for in transfer payments, to repair the damage done by your predecessor, Mr. Martin, who made drastic cuts in transfer payments for post-secondary education, colleges and universities, who made drastic cuts in health, and who restricted the use of the employment insurance system so much that 60 per cent of the unemployed were excluded from it.

● (1635)

So an average tax reduction of $278 per taxpayer this year is really not much to repair the damage done and buy people off so that they forget the scandal you are labouring under.

Now isn't that a sucker deal, Minister?

[*English*]

Hon. Ralph Goodale: Mr. Chairman, I won't respond to Mr. Loubier's allegations with respect to the sponsorship matter, because I want to focus on the other parts of his preamble and his question. He got very much into the debate about ideas, about whether this approach for this particular policy was better or worse than that approach. Mr. Chairman, that's exactly what this presentation and the discussion in this committee are intended to do. They are intended to advance ideas and to develop a clash of ideas. Out of that very democratic process, we parliamentarians can achieve the best result for our constituents. So I'll set aside the more provocative parts of the question and focus on the substance, because I think the substance is extremely important.

On the matter of how we do our projections—

[*Translation*]

Mr. Yvan Loubier: All right.

So tell me how, in nine months, your figures for the 2005-2006 surplus have gone from $4 billion to $11.2 billion, and your figures for the 2006-2007 surplus have gone from $5 billion to $13.2 billion? There can be only one reason for this: You knew that you would have those surpluses in 2005-2006 and 2006-2007. You also knew that your government was fragile and that you have to pass out some candy to sugar-coat the pill and make people forget the scandal you have hanging over your head.

So please tell me how, in nine months, you can be this certain you will have such large surpluses, when nine months ago you were saying that a projected $4 billion-surplus was too high, that the surplus was uncertain, and that we had to be very cautious. Just before an election, how can you be certain enough of the surplus to offer taxpayers the pathetic reduction of $278, when there is under-investment everywhere and when nine months ago you didn't have the money to do it? This is an electoral strategy.

● (1640)

[*English*]

The Chair: Merci, Monsieur Loubier.

Mr. Goodale, before you answer, we're already over our time, and unfortunately it's seven minutes for questions and answers, so if you could keep your answer—

Hon. Ralph Goodale: I'll try to be very brief.

In fact, the tax example that I used in my remarks indicates that over the period covered by this fiscal projection, the tax saving for a typical Canadian family with $60,000 in income and two children would be about $3,300—a tax reduction of fully one-third, which is an important point, Mr. Chairman.

On the issue of the projections, I've gone into this in some detail with the committee before, but let me just make this point. The economic analysis upon which the projections are based is done by a group of independent economists—16 of them, the same economists this summer and fall as last February—indeed, some of whom advised this committee. All of them said three things had happened during the course of this summer that had not been anticipated in the spring: higher than expected corporate profits and therefore corporate revenues, largely driven—at least in some sectors—by the situation in energy; secondly, more people working or earning higher salaries and therefore larger personal income tax returns; and thirdly, less expense on interest charges, because interest rates had not risen to the levels predicted in the spring. Those were the three big differences in the arithmetic.

The Chair: Thank you.

Ms. Wasylycia-Leis, and then we'll go to Mr. Holland, and then back to Mr. Penson.

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

And thank you, Mr. Minister, as well as Mr. Bennett and Mr. Carney.

Let me start by trying to get some clarification on what this document is. Could you tell us—and I don't know if you actually addressed this directly with Mr. Solberg—is this an economic update, or is it a budget come early?

Hon. Ralph Goodale: Ms. Wasylycia-Leis, you have two documents before you. One is “The Economic and Fiscal Update”—

Ms. Judy Wasylycia-Leis: And the other is the—

Hon. Ralph Goodale: And the other is “A Plan for Growth and Prosperity”.

The update, of course, provides the statistical data, the hard information. The plan is an attempt to provide a policy framework for not just the next budget—which I expect in February—

Ms. Judy Wasylycia-Leis: So it's something in between? Is that what you're saying, that it's something in between an economic update and a budget? You say it's not a budget, yet you admit it's got ways and means motions attached to it—

Hon. Ralph Goodale: It's got one.

Ms. Judy Wasylycia-Leis: It requires legislation; it requires changes to the tax system. If it's not a budget, then it must be a Liberal election platform. Is that not the case?

Hon. Ralph Goodale: Well, no, it isn't, Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Okay, then let me ask you this. When did you decide to expand this document from the normal economic update to a massive document that appears to be, at best, you could say a mini-budget? It looks closer to a full-blown budget to me.

Hon. Ralph Goodale: I've been saying to everybody who cared to listen for the last number of months that I had in mind coming forward this fall with these two documents—an update and a plan focused on growth and prosperity, particularly around the issues associated with productivity.

In terms of whether or not that would go into the kind of detail that is presented today, that decision, quite frankly, was taken by me in the course of the last week or so, when it became clear that Parliament might not get to the normal fiscal timing.

Ms. Judy Wasylycia-Leis: When you lost the confidence of the House, you decided then to double the length of your economic update. We've gone now from an average of about 100 pages for an economic update to 227. That's quite a shift in approach.

Hon. Ralph Goodale: So you would argue for less information, less disclosure, less accountability, less transparency? Is that your position?

● (1645)

Ms. Judy Wasylycia-Leis: No. I think the minister will know that all of us would like to see openness and transparency, and that would mean unveiling an election platform not in the finance committee and not in the House of Commons, but on your own dime. I think that's what's so disturbing here.

So I just want to ask once more, on what day? Give us a date when you decided to expand this document to go from an ordinary economic update to give Canadians and the business community and organizations an understanding of the surplus numbers and the current GDP numbers to a full-blown budget. On what day did you decide that, and who won the contract for printing this document?

Two short answers are required here.

Hon. Ralph Goodale: The decision was made at some point in the middle to early part of this past week, and it was made, Ms. Wasylycia-Leis, when it became clear that there may not be an opportunity for me to complete this fiscal cycle.

As I said earlier, my planning was always for the fiscal update now with the plan attached to it, and then a budget in February for implementation. That is important, because as Minister of Finance I have an obligation, whatever the political turmoil might be that's going on around Parliament, to lay the facts before the country as well as I can, because the public, the markets, the analysts, the provinces, depend on this information—and not just the bare statistics, but also a clear indication of the government's planning intentions, and that's what I've tried to provide.

Ms. Judy Wasylycia-Leis: Well, if you had been giving us the bare facts and the accurate statistics over the last four years, the business community wouldn't be so anxious to hang on to every one of your words.

When, in fact, did you decide that the actual surplus was not $4 billion for this year, but $13.4 billion—an amount actually forecast by our independent folks sometime ago that you refused to acknowledge? So why now, on the eve of an election, have you sudden acknowledged that over the next six years there will actually be $96.8 billion in surplus dollars?

Hon. Ralph Goodale: Ms. Wasylycia-Leis, you can get those numbers only if you ignore contingency reserve, ignore prudence, ignore all the safety factors—

Ms. Judy Wasylycia-Leis: No, I'm reading your numbers.

Hon. Ralph Goodale: No, you're not.

Ms. Judy Wasylycia-Leis: Yes, I am. We can take away the prudence and contingency. That would mean we're talking about $10 billion this year, not $13 billion, okay? So we can deal with that by just saying it's $10 billion for this year, as opposed to your $4 billion, or I guess it's more like—if you take away prudence from that—$1 billion. So we're still looking at the same situation.

You have refused to get away from this practice of lowballing the numbers and coming clean with the actual surplus dollars so that Parliament can make a decision. Now, on the eve of an election, when you've lost the confidence of the House, suddenly you're prepared to acknowledge that these surplus dollars really do exist and you're going to spend them all. You're going to spend almost every last penny of this—

Hon. Ralph Goodale: Fundamentally, I'm not, Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Well, you're going to try to, and we're going to try to prevent you from doing that. But the problem is—

Hon. Ralph Goodale: That's not true. Of the maximum around flexibility, you mentioned in the earlier part of your question some $90 billion, which does not take into account contingency reserve or prudence or any of the other safety factors. Those safety factors account for about half of the flexibility that's available.

Ms. Judy Wasylycia-Leis: If you take out the contingency, you're still looking at about $70 billion to $80 billion in extra cash that was forecasted by independent forecasters, at least for this year, for next year, and the following year. So we've had accurate forecasts that you wouldn't accept.

I ask you, would you now not agree that the only thing left for us to do is to push for an independent budget office so that we can get accurate numbers on a timely basis, so that Canadians can know the facts, and so that they know when their votes are being bought or when they're being sold a bill of goods?

Hon. Ralph Goodale: Before you jump to that conclusion, I'd like to provide you with the full details of the analysis done and the recommendations provided by Dr. Tim O'Neill.

Dr. O'Neill, after six months of very professional work, including the information provided on international standards by the International Monetary Fund, rejected the allegation that there was any kind of manipulation of the figures. He made that very clear in his report. He also rejected your very recommendation for a congressional-like office, saying it was not appropriate to Canada and would not assist the circumstances.

● (1650)

The Chair: Thank you, Mr. Goodale.

Thank you, Ms. Wasylycia-Leis. You're one minute over.

Mr. Holland.

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Mr. Chairman.

Thank you, Minister Goodale, for your presentation.

I'm just going to start by saying that I find it particularly unusual and peculiar that in her statement Ms. Wasylycia-Leis started off by saying that the government has lost the confidence of the House when they're in fact asking the government to continue to govern until January. So they've lost the government's confidence, but they want us to keep governing. They don't want us to talk about anything other than an election.

There's something that really gets me sick about this, as a new member. When I was on the public accounts committee, I was a vice-chair of that committee. For two months, we had no meetings because of similar arguments. The government didn't have the confidence of the House, therefore it didn't make sense to go to meetings, even though we had witnesses coming from across the country. To see this repeated, where we say we shouldn't be talking about the issues of the day simply because of the fact—

Mr. Brian Pallister (Portage—Lisgar, CPC): On a point of order, Mr. Chair, we have a very short time with the finance minister today. Rather than the rhetoric of the member, I'd like it if we could have some time with the minister while he's here. It's a rarity.

The Chair: Mr. Pallister, Mr. Holland is a member of the committee. He's entitled to say—

An hon. member: They're his seven minutes.

The Chair: Thank you.

Mr. Holland.

Mr. Mark Holland: Thank you, Mr. Chair. I appreciate that.

What concerns me is that this committee—and it's important for the minister to know this—has spent the last number of months hearing from Canadians from coast to coast about issues that are of concern to them, issues that are priorities. Certainly what we've heard is that Canadians are concerned that we're going to be able to meet some of the challenges that lie in front of us.

The document that you've tabled today talks about a lot of the concerns we've heard as we've gone around. It's surprising to me that members of the opposition wouldn't want to talk about what we've been hearing reflected from members of the public.

I can tell you, Mr. Chair, that in those hearings, not a single person said to stop talking about issues like productivity, or to stop talking about issues like early childhood development, or to stop talking about education because they wanted to talk about having an election at the first opportunity. So I'm extremely appreciative of this opportunity, because the reality is that this is what Canadians want us to be doing: to actually be doing work. In that regard, I have a few different questions.

The first question I'd have for the minister is with respect to research and development. There has been a dramatic transformation in Canada over the last number of years. We've seen us essentially go from a brain drain situation, in which we were losing some of our brightest minds on a net basis, to a brain gain. Obviously, that has been fuelled in large part by the government focusing on not only post-secondary institutions and investing in them, but also on partnerships with the private sector. I can specifically mention areas like Genome Canada, the aerospace industry and some of the successful partnerships we've had there, and now also the automotive industry.

I'm wondering if you could talk a little bit about what I know the Conservatives call corporate welfare, but which we talk about as working with the private sector to help fuel research and development and innovation in our Canadian economy. If you could, talk a little bit about how this plan addresses that particular area.

Hon. Ralph Goodale: Mr. Holland, I think knowledge and innovation are the two most indispensable keys to the future. In talking to business leaders, labour leaders, university presidents, students—a broad cross-section of Canadians—over the last number of months in putting together this material, that appears to be a pretty broad consensus. I'm pleased to say that provincial governments largely agree with that proposition as well.

There are a number of dimensions to this. You will note in the plan that we are proposing between $9 billion and $10 billion in new investments in post-secondary education; in a modern, inclusive workforce; in better labour-market information; and in those things that make for a more productive and more successful economy built around brains and knowledge. The second component of it is investing in the physical assets of innovation. I think that is the main part of your question.

What we're proposing here is to increase the federal funding available for our granting councils: the engineering and science council, the social sciences council, and the health and medical council. They have an absolutely impeccable record in terms of how they support research on a peer-reviewed basis in the country. We'll be helping them to do more. We'll be investing in the infrastructure of research—and we'll be investing in those networks that you referred to—within institutions, between institutions, between the university sector and the private sector, and between Canadian researchers and their counterparts around the world.

Research doesn't stop at the Canadian border or at the shores of the continent. This is a global phenomenon, and we have to be plugged into that like never before. To develop those networks and clusters and interconnections, we've made specific provisions in our plan to make sure that Canada is connected, plugged in, and networked like never before in our history.

● (1655)

Mr. Mark Holland: Thank you.

Another issue we actually heard about from Canadians, as we were talking in these panels and spending time on issues, was new immigrants—and you touched on this—particularly those who are going to come to the country and help fuel our success in future and fill that gap we're going to have in terms of the number of people who are working relative to those who are going to be retired.

While we've have tremendous success in having the best job-creation record in the G-8 and the lowest unemployment rate in 30 years, we know that as we're bringing new Canadians here they do face significant challenges. You talked in this plan about the need to address that. I'm wondering if you could expand upon that in greater detail, because that has been an issue that has come to our attention many times.

Hon. Ralph Goodale: I would defer a lot of the detail to my colleague, Mr. Volpe, who is working day and night at this challenge.

In broad terms, I believe we are providing about $1.3 billion over the forecast period to invest in the policies and practices that will improve settlement and integration of newcomers into our society generally, into the economy, and into their local communities. It is a terrible waste when they come with skills and proficiencies and aren't able to use those to maximum advantage.

We had some measures in the budget in February to try to facilitate that faster integration, the speedier recognition of foreign credentials, and so forth. We're obviously prepared to pick up the pace with the extra flexibility we now have, working very carefully, of course, with provincial counterparts. Immigration is one of two initiatives mentioned in the Constitution that is a shared responsibility. So we'll work very carefully with the provinces on these issues.

There is a broader question and a longer-term question. That is, the need for more skilled newcomers to come to Canada to help us build our productivity for the future. It's important that we attract those people over the long term. But first of all, before we are able to dramatically increase the numbers, we have to make sure we have the system that is efficient and effective and working on the ground in a way that both recruits and processes newcomers in an efficient and humane manner.

The Chair: Thank you, Mr. Goodale. Thank you, Mr. Holland.

Mr. Penson, then Monsieur Loubier, and Ms. Minna.

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair.

Mr. Goodale, thank you for coming today.

I've been part of a number of economic updates, and it certainly has grown over the years. Here we have this year's update. The printing presses must have been running day and night the last week or so. You tell us that it's not a budget, but in fact it's going to take some legislation to implement part of it.

Quite frankly, I think it's just a campaign document, Mr. Goodale. It seems to me that the Liberal Party should have rented a hotel conference room, had a press conference, and outlined the Liberal platform. That would have been the honest thing to do here. You didn't do that. You have brought this to us, and you have identified a number of areas that you say you're cleaning up and you're making progress in.

One of the things you told us you're going to make improvements in is improving the Canadian standard of living through productivity gains and competitiveness. I see that in your document. You've said in here that there is a decade of achievement in productivity. Well, when you're starting from a gap of 20% with the United States, it leaves a lot of work to do.

We have heard a lot of recommendations to our finance committee's pre-budget hearings. You said the committee should give you recommendations in this area. We were about to do so before you brought this document forward.

Quite frankly, Mr. Goodale, I don't think you have any credibility. You and the Liberal Party and your predecessor are part of the productivity gap problem with the United States and other countries. The productivity gap with the United States has grown to about $9,000 per person; that has grown from $6,000 a couple of years ago. It's a $20,000 gap with Sweden. We are falling behind—badly.

It's not as if you haven't had any warning, Mr. Minister. I've been part of a number of studies here on the finance committee, the industry committee, the international trade committee—and I'm sure there are more—that have all identified problems with lagging productivity over a very long period of time. All of a sudden, you have discovered this as an issue. I guess it's better late than never.

It seems to me that what people want in terms of being able to clean up our productivity gap with the United States and other countries is some certainty. Investors want to be able to rely on certain solid rules of government. I don't think you can provide that, given your history. Quite frankly, in your response to Mr. Solberg, you weren't very reassuring, Mr. Goodale, when he asked you the question about the chances you'll again bargain away the corporate tax cuts if there's another minority government. There was that whole litany of last year. I think it's a big problem. I think you're part of the problem.

We had the Governor of the Bank of Canada before us the other day. You're saying there's been a decade of achievement in productivity. Quite frankly, that hasn't been happening. In 2003 we had zero productivity growth. Productivity isn't just a buzzword. That is our Canadian standard of living. That's what it translates to. We've had zero productivity growth in 2003, zero productivity growth in 2004, and only 0.7 so far this year. We are again falling behind our major trading partner.

This is the problem, Mr. Minister. You're telling us that you're going to do it. You told us that back in February. It didn't happen. We had the whole litany of on again and off again tax cuts. Now you're saying they're going to be on again. What kind of assurance do we have that this is going to actually take effect if there's another minority government?

● (1700)

Hon. Ralph Goodale: I think you must have misheard my earlier answer, Mr. Penson.

Obviously, it is my intention and the government's intention to proceed. In terms of the initiatives and the measures, we're right on track in terms of timing. The ones you particularly referred to will not take effect until 2008; they will be in effect for 2008, as promised. In the meantime, we're accelerating one, which is the capital tax elimination, and moving it forward to 2006.

In terms of the progress that we've made over the last decade compared to earlier periods, Mr. Penson, you might want to look at page 30 of the "Plan for Growth and Prosperity", which lays out some of the statistics in graphic form. I think it demonstrates the kind of improvement we've had in eliminating the deficit, reducing unemployment, improving employment, labour productivity growth, and living standard growth. It's all laid out graphically on page 30.

I would point out that—

Mr. Charlie Penson: Mr. Goodale, I will refer to that. Thank you.

We certainly heard a number of groups who came to our finance committee on pre-budget consultations and talked about all those various things. They also identified the fact that the real tax rate in Canada is too high compared with that of our major trading partner and that we need to make major moves. They also told us that they need certainty and that this sort of going back and forth is really harmful to them because they don't know whether they can make those kinds of investments and get the kind of certainty out of government action from your government that they require.

I have a question for Mr. Carney. When did you receive the request to expand this document from a sort of normal fiscal update to the 227 pages we see today before us?

The Chair: Mr. Carney.

Mr. Mark Carney (Senior Associate Deputy Minister, G-7 Deputy for Canada, Department of Finance): Thank you, Mr. Chair.

I believe the minister did answer that question earlier in response to Ms. Wasylycia-Leis. The minister said he took a decision earlier last week.

Mr. Charlie Penson: I don't think so. Maybe you could tell us.

Mr. Mark Carney: The minister's answer was that the decision to expand the document was taken earlier last week.

I would underscore the point that the document, the plan, has been under work for at least six months in terms of the broader, long-term plan that is being presented before this committee.

● (1705)

Mr. Charlie Penson: But that wasn't my question, Mr. Carney. It was about the expansion of this from the normal fiscal update. I understand that there's a normal fiscal update; we've seen it every fall. What I'm asking is, when was the request to make this more of a full-fledged budget document, if you like?

Mr. Mark Carney: Mr. Chair, there are a number of items in this update that are "expansions from a normal fiscal update". A number of them directly—and they're in the annexes—address the O'Neill report and address a number of the recommendations of the O'Neill report, particularly with respect to fiscal forecast accuracy. So there are a number of expansions in the documents that directly flow from the advice and direction of this committee.

The Chair: Thank you.

Hon. Ralph Goodale: Mr. Chairman, if I could, I'll help on that point. As I said in answer to Judy, my recollection is it was in the early to middle part of last week.

The Chair: Mr. Goodale, I'm limited in time. Sorry.

I actually gave you seven minutes, Mr. Penson.

We're on five-minute rounds.

[*Translation*]

Mr. Loubier, you have the five minutes.

Mr. Yvan Loubier: Thank you, Mr. Chairman. I will continue with the same line of questioning I began earlier.

Mr. Goodale asked us to talk about ideas, to debate ideas. Nonetheless, there are projections he was unable to do, even though I gave him a calculator as a present last year, or about a year and a half ago. In the last budget, he could have calculated figures more accurately and provided better surplus projections.

[*English*]

Hon. Ralph Goodale: It didn't work. It was broken.

[*Translation*]

Mr. Yvan Loubier: That's because you threw it on the ground. It's the first time I saw anyone refuse such a beautiful gift, especially when the gift would have helped improve that person's performance in projecting surpluses.

[*English*]

Hon. Ralph Goodale: For the information of the committee, it was a used calculator.

[*Translation*]

Mr. Yvan Loubier: Let's be a bit more serious, Mr. Goodale. You say that you consulted economists and major companies that do forecasts. I remember that, a little over 18 months ago, you consulted the Conference Board, among others. The Conference Board provided you with an assessment of federal government surpluses, as well as the deficits assessed for a number of provinces—except Alberta, of course—for the next 10 years.

The Conference Board figures have not changed much in the projections of the past three years. According to the Conference Board, the federal government will have an accumulated surplus of some $160 billion over the next 10 years.

Yet, in the six years covered by your mini-budget, if we include the contingency reserve, we already see $86 billion in surplus over six years. So, you already knew some two years ago—since you yourself commissioned the Conference Board to review the budget projections—that over the past 10 years the federal government would be able to accumulate a total surplus of $160 billion. Over half of those six years have gone by, and you continue to deny the fact that, in just nine months, your projected surplus for the year went up from $4 billion to $11.2 billion.

First of all, are you occasionally consistent in the terms of reference you provide for major outfits that do forecasting, such as the Conference Board, and are you occasionally consistent in the figures you put in your budgets?

Second, since this is a pre-election budget, what will you tell the students who are demanding that the Prime Minister fulfils his commitment to invest $4 billion a year in post-secondary education in colleges and universities, which have been chronically underfunded since 1995, in other words, since the cuts Mr. Martin made in the Canadian Social Transfer?

What will you tell the homeless, who have no idea what will happen after February, to the SCPI, for example, and who may find themselves on the street?

What will you tell the people who since 1993 have been demanding that the government invest massively in social housing? One per cent of program spending amounts to $2 billion a year. You have completely forgotten these people. There are more and more people who are spending over 50 per cent of their income on housing.

Mr. Goodale, during the election campaign, what will you say to the farmers you have abandoned, the farmers who have been unable to recoup their losses over the past three years, losses caused by the BSE crisis and unfair subsidies by the U.S. These farmers are also plagued by uncertainty about the WTO negotiations, because it seems that you are quite inclined to negotiate the supply management system away in order to open markets elsewhere.

So what will you say to all those people? What will you say to the unemployed, to whom you have promised an in-depth review of the EI system for the past three elections? You have literally thrown 60 per cent of the unemployed out on the street by excluding them from the EI system. What will you tell those people? Will you tell them that this year they will, on average, be blessed with an income tax reduction of $278, when most of them are not even on the taxpayer rolls? They do not pay tax, they are poor people who have losses but who have no taxable income.

● (1710)

[*English*]

Hon. Ralph Goodale: Mr. Chairman, with respect to students, I would point out that the Government of Canada today invests something very close to $10 billion per year in support of learning generally, specifically the system of post-secondary education. We do that through direct transfers to provinces, and we do it directly through support for scholarships and loans and grants and the research activities at universities and so forth.

What's proposed in this plan is a substantial increase in that. It's about $7 billion or $7.5 billion spread over the five-year period, and about half of that is specifically aimed at students and the issue of student access.

We have agreed with the students who came to make representations that we needed to examine the financial support system from top to bottom. We will do that in cooperation with the provinces. We're prepared to put $2.5 billion directly into improvements in student access, and we will start on that immediately by expanding our program of grants to low-income students.

[*Translation*]

Mr. Yvan Loubier: What about the commitment made by the Prime Minister in the last election campaign, when he promised to invest $4 billion a year in colleges and universities, which are crumbling under the weight of outdated equipment and infrastructure, and in which tuition—except in Quebec—has gone up considerably? There is a lot of pressure to raise tuition in Quebec. Student debt varies between $10,000 and $30,000, depending on whether the students are in Quebec or in the other provinces. What are you doing about that commitment?

The Chair: Thank you, Mr. Loubier.

[*English*]

If the members are going to ask questions for five minutes....

Mr. Goodale, quickly. If you want to answer, I'll give you 30 seconds.

Hon. Ralph Goodale: Mr. Chairman, I would just point out to Mr. Loubier that in the section of the document dealing with opportunity for Canadians, we have set aside $9.6 billion, with a very significant chunk of that going into post-secondary education, the largest portion of which is going toward student assistance. In my consultations with student organizations across this country, they have indicated that this is a measure they indeed would welcome.

The Chair: Thank you, Mr. Goodale.

[*Translation*]

Thank you, Mr. Loubier.

[*English*]

Ms. Minna.

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

Actually, Mr. Chairman, I just wanted to start out by saying something about what Mr. Penson mentioned earlier, on trying to get questions about the corporate tax cuts and what have you from the last budget. If I recall, the opposition had immediately decided to support the budget, but then changed its mind in favour of an election instead. Of course, we went through several weeks, as my colleague said earlier, of positioning and what have you in discussing elections instead of the budget. So it was obviously partly due to the change of mind and heart of his party that it went the way it did. We seem to be seeing some of the same stuff going on right now.

However, I want to get down to some substance. I appreciate the long-term planning, because it's something I've been saying for some time. I know we did it once before, but it's time to do it again. Governments have to plan on a long-term basis, just like everyone else.

Minister, I wanted to ask you to specifically focus on one area. I've been working very closely with my committee, the social policy committee of caucus, on alleviating poverty in this country. One area I've worked on for a long time, of course, is children. Because it did come up during consultations quite frequently, I was intrigued by your proposal to introduce a working income tax benefit for low-income taxpayers. Can you expand on that for me and help us to understand what you mean by it exactly?

I have some understanding of what I would like to see happen. We had some discussion during the pre-budget consultations and presentations from various people with a series of proposals. Some were similar, some were slightly different, but I'm wondering what you mean by it exactly and how you intend to proceed.

Hon. Ralph Goodale: It is a complex subject matter, Ms. Minna, but also it's an exceedingly important one. I think this is an opportunity for some real innovation in both tax policy and social policy. We deal with the issue in considerable detail on page 130 of the plan.

The problem is essentially this. There are a variety of government programs, some of them federal, some of them provincial, that are income-tested programs that are in place for very good reasons and with the very best of intentions, to help people in the lower part of the income scale. The dilemma is that when those people seek employment and gain jobs outside of government assistance programs, they suddenly don't qualify for the government programs because they're over the line in terms of income testing, and there may now be new fees and taxes that apply to them in terms of their employment income. The net result—and this is a perverse outcome —is that by getting a job, they actually end up being worse off. That is certainly not what we intend, and it's not what provinces intend.

It's similar to the problem, you may remember, that Parliament wrestled with a number of years ago around the child tax benefit. This is the same sort of issue at a different level.

What we would like to develop is a tax benefit that would flow to people as they pursue these new job opportunities to develop their own independence and self-sufficiency, that would allow them to retain more of their earned income rather than seeing it all offset or clawed back as a result of the rules of the social programs they were previously taking advantage of.

● (1715)

Hon. Maria Minna: Will there be some discussion or consultations with respect to the development of this structure?

Hon. Ralph Goodale: Yes, there will.

Obviously, many of the programs that are involved here are programs that are provincial jurisdiction, so we will need to consult with the provinces. We will want the advice of some of the expert think-tanks that have been working in this area for a long time—I think of the Caledon Institute as one example—but I most definitely would want the advice of members of Parliament, because it's very important that this be designed properly so that we hit the target and actually do assist low-income people in making that crucial transition from social assistance to gainful employment.

Hon. Maria Minna: Minister, I would like to add two points. One is if you could address the issue of the clawback with respect to the current child benefit, which is affecting, in a negative way, as you know, families who are on welfare in Ontario; never mind when they move up...they're having huge difficulties and they can never move up.

The other one is your recommendation on early education and child care. It is something that has been very close to me, and I've worked very hard on that. Would the $9 billion you are mentioning mean $4 billion over the $5 billion? I'm trying to understand how that would work. You have said we have $5 billion over five years, and now we're saying $9 billion over five years. Are we adding $4 billion to the $5 billion? On a yearly basis, what would that mean? I'm trying to get a handle on the cumulative numbers. I have to get a handle on what that means on a yearly basis that I can count on to expand the actual child care spaces.

So on the clawback, please, can we get rid of it, and then children.

Hon. Ralph Goodale: The clawback is part of the issue that a working income tax benefit would try to address. I don't want to leave the impression, Ms. Minna, that there is some magic way we can make all of this difficulty at the low end of the income scale just go away, but I think we can minimize it. That's the purpose of the discussion on page 130, showing how we can make it easier for people to scale that welfare wall and get successfully to the positive side of it. I think the working income tax benefit could be an enormous assistance to deal with those kinds of clawback issues that you've referred to.

On the broader issue of child care, the $9 billion that's referred to here is a combination of two things. It's the money that we have put into the early learning framework in the last couple of budgets, plus the specific $5 billion that was in the budget in February for the early learning and child care national system. So it's those two things together that give you $9 billion over a five-year period. That is money that is already in the fiscal framework. Those are the agreements Mr. Dryden is negotiating right now—

The Chair: Thank you, Ms. Minna.

Sorry, Mr. Goodale.

Ms. Ambrose, and then Ms. Boivin, and then we're going to wrap it up.

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

Mr. Goodale, I know we've talked a lot about tax cuts today. I know in February you announced tax cuts, and then in April you ruled out any changes to the budget, and then in April the budget was changed and the tax cuts were removed. In June you said tax cuts would be restored, and then in September you announced again that you were throwing out tax cuts, and here we are back again with tax cuts. You know, tax cuts are one thing....

I wanted to pick up on what Mr. Holland was saying about the pre-budgetary hearings. I'm a new member too, and one of the things I find very instructive as a finance committee member is the pre-budgetary hearings. For me, at least, this goes to not only political accountability, but to democratic accountability.

We've heard from social advocacy groups and also economic think tanks from coast to coast to coast about issues that matter to them. I look at your economic plan, your mini-budget, and you are doing this before the pre-budgetary consultations are over and before you've heard from the finance committee for recommendations. I look quickly through this document and I see a lot of things missing from the groups we heard from.

For instance, when you do something like this you are discounting a great number of groups that have come before us with measures like the Canadian Diabetes Association, small measures that can be implemented that make huge differences in people's lives, like a small change to the tax system to enable diabetics to write off the cost of their treatment. This is the kind of thing on which you haven't heard back from the finance committee.

So my question to you is, how can you discount the pre-budgetary hearings process? This is about democracy. This is about democratic accountability. It is your job as finance minister to work within the process and work within the regulations around the finance committee. My question to you is, how can you discount not only what we do here on the finance committee to facilitate this interaction with you and the finance department, but also discount all of the groups that have come before us for months now, and present this mini-budget without even hearing from us?

● (1720)

Hon. Ralph Goodale: There is in fact, Ms. Ambrose, no such discounting whatsoever. Indeed, I am anxious to hear what the committee will say about the—

Ms. Rona Ambrose: Are we going to have another update then, after you hear from us?

Hon. Ralph Goodale: Let me answer, if you will, ma'am.

The budget is scheduled in the normal cycle in February. If Parliament chooses to pre-empt that, then that is Parliament's prerogative, but that's the timeframe I'm working on.

Ms. Rona Ambrose: So are you going to postpone the ways and means motion you introduced this afternoon?

Hon. Ralph Goodale: No, I'm not, because that is proposed to take effect for 2005, and it's the only notice of ways and means that I have tabled, and for the reason that it applies to 2005. The other measures—

Ms. Rona Ambrose: Because it's the only thing in these documents that requires legislation, that's why.

Hon. Ralph Goodale: It's the one measure we're proposing for legislation in 2005. As I said earlier today, the other measures described here will be implemented in the normal budget cycle with the budget in February.

Ms. Rona Ambrose: So I'm understanding from you that we can tell all the groups who have presented to us that this is a transient document. It's shifting. We could get another update, and perhaps the things they've been asking us for that are important to them may be addressed in the next few weeks or perhaps in February—

Hon. Ralph Goodale: I see where you're going, and I'd rather you didn't twist and turn in the wind. The fact of the matter is, we have laid out a plan that indicates where we think we need to go—

Ms. Rona Ambrose: What about what we think?

Hon. Ralph Goodale: —to enhance productivity—

Ms. Rona Ambrose: We've been working with these groups—

Hon. Ralph Goodale: Okay, you go ahead.

Ms. Rona Ambrose: —for months. What about what the finance committee thinks, and Canadians across the country? This is about democracy. How can you just come before us after all the work we've done—

Hon. Ralph Goodale: Democracy, Mr. Chairman, is also about free speech and allowing your opponent to have a fair opportunity to answer your question—and I'm delighted to do so for such a wonderful member of Parliament. Let me just answer the question, Mr. Chairman.

This is a fiscal update. We lay out the government's plans. I invite the committee to respond to those plans. The government will implement a budget in February, and it's in the budget where all of the things Ms. Ambrose refers to and Monsieur Loubier refers to can be fully discussed in the full budget package. This is obviously not, and was never intended to be, a full budget package. That's clear. And any interpretation to the contrary is simply erroneous—and some might say malicious.

Ms. Rona Ambrose: So if there's anything in this that impacts in a negative way on Canadians, we can tell them not to worry; they can discount it because there will be updates, there will be changes... this is a transitory document. It's part of the consultation process—

Hon. Ralph Goodale: It is not a transitory document, Ms. Ambrose. And don't try to leave that impression. Quite frankly, you're being mischievous by trying to leave the wrong impression with Canadians.

What you have is a fiscal update that gives you the hard statistics. In that fiscal update is chapter five, which lays out the details of the measures we would propose, and this plan describes the way ahead, not just for one budget or two, but for the next five to ten years to make sure that this country is as productive, competitive, and successful in the next decade as it has been in the last decade.

● (1725)

The Chair: Thank you, Mr. Goodale.

We allow a little bit of debate and a little bit of conversation for the members so that they can get your point of view. I think the idea is that if you can answer the questions, and if the members can allow you to answer a question, it's fine; but they're limited in their time, so I'll allow a little bit of interruption during a question.

The last member we have is Madam Boivin.

[*Translation*]

Ms. Françoise Boivin (Gatineau, Lib.): Thank you, Mr. Chairman.

[*English*]

Only in Canada—or in this Parliament—will good news turn into this type of fighting match.

[*Translation*]

I should tell my colleague across the aisle that, if this was the budget to be presented, we would also be under pressure with respect to some things we have heard. The Minister knows us well enough. He knows full well that the women's caucus would be in his office shortly after he tabled a real budget. Even though I am a new member, I understand that this is an economic update, a plan. In any case, that is what it is called.

I was somewhat surprised by Mr. Loubier's statements. It is a pity he has left. His initial statements were about candy—he said it was candy. On the second round, he said that there was nothing in your statement. So I have some difficulty following his comments on this. In any case, talking about candy, I tend to be rather wary of this party, which supports François Legault's Year One budget. This is not something I find particularly impressive.

That said, we do see increased spending in the budget, Mr. Goodale. We also hear a lot about increased spending in the House. This may worry some Canadians. I would like to hear your comments on this. I would like to know whether the increased spending, particularly in health, equalization and education, will be sustainable. Does it in any way threaten our future budgets? We are seeing significant increases in spending in these areas.

As for the SCPI, I know that many people are listening to us today. I have received many comments on this in my riding. I am going to put this question very boldly. In your plan, will the SCPI be renewed before it expires?

I would also like you to tell us whether you have taken gender budgeting into account.

[*English*]

Hon. Ralph Goodale: On your last point, Ms. Boivin, I know about your passionate interest in the topic of gender analysis, and for the last year, very largely because of your influence and that of Ms. Minna and others, I have required my officials, when they are presenting to me a policy discussion, to include within that discussion a comment on gender implications. And I'm very pleased to say that when you look at things like the pilots we're going to be testing on workplace training, at the labour market partnership agreements, at the working-income tax benefit, at the reduction in the tax rate for the lowest rate, at the improvements in the basic personal amount, and so forth, all of those things are going to be of particular value to low-income working women. And it's an area I intend to continue to pay attention to as Minister of Finance.

In terms of the various measures we've announced, whether it be the child care measure, the money to municipalities, the increased pensions for senior citizens, the money for health care, the money for equalization, and so forth, you're right to say that it's a very significant amount of money, almost all of it in the category of transfers either to provinces or to persons to improve the quality of life—the standard of living—and enhance the disposable incomes of Canadians.

It's my job as Minister of Finance—and that's why this presentation and the material we filed with the committee today is important—to make sure that I lay before the country all the facts and all the figures and how the Government of Canada intends to respond to those facts and figures so Canadians can be fully informed and the government can be accountable.

Within the numbers I've laid before the committee today, with all our investment intentions and all our tax intentions taken into account, we leave about $18 billion for the contingency reserve to protect against unpleasant surprises that might come from international circumstances. We book in another $15 billion in extra prudence just to make sure that the shock absorbers are clear and strong. And finally, on the bottom line, as you will notice from the figures, there is about $15 billion or $16 billion that remains unallocated. You add those three things together and that's about half the overall space that the success of the economy has generated. And I leave that space deliberately to make sure that Canada remains the best fiscal performer in the world.

● (1730)

Ms. Françoise Boivin: There's still space for SCPI. That was my second element. I didn't forget it.

Hon. Ralph Goodale: There is space for that to be considered, and the diabetes representations that Ms. Ambrose referred to, and the representations with respect to farmers that Mr. Loubier referred to. There is flexibility, and that flexibility is identified on the bottom line.

Ms. Françoise Boivin: Okay. Thank you.

[*Translation*]

The Chair: Thank you, Ms. Boivin.

[*English*]

Mr. Goodale, I have just a couple of quick questions.

We've heard a lot from the groups, especially the business groups, regarding CCA. A lot of them recommended a CCA writeoff and some recommended a cut in corporate taxes. I know you addressed the corporate taxes, and I think CCA was a recommendation this committee made. Where are we going with CCA to match the useful life of the asset, especially for—

Hon. Ralph Goodale: Mr. Pacetti, I intend to live by the commitment I made in the budget last year, and it was really twofold on the issue of capital cost allowance. First, where a case can be made that the existing capital cost allowance does not accurately reflect useful life, we will review that case, and if it's legitimate, we'll fix it. I made some corrections in the budget in February. I made some corrections in the budget of 2004. And we will continue to do that budget by budget by budget to make sure that the allowance formula accurately reflects the useful life of the asset.

The second part of my commitment was that in relation to certain environmental equipment and investments, we are prepared to move on accelerated capital cost allowance. That provision has been there, and the benefit for environmental equipment was a 30% writeoff rate, as opposed to the lower rates that might apply to other assets. In the budget last February I took that rate from 30% to 50%, and that provision is what will apply to environmental assets that have the advantage not just of representing good business investment, but also of bringing an environmental benefit.

The Chair: But part of the solution to solve the productivity issue is getting manufacturers, especially, to invest in new, more efficient equipment and more technologically advanced equipment. Wouldn't it help if we allowed them to write it off quicker? It seems to be on the high end, where there are big investments needed to be made in machinery, equipment, and information technology, and they're not able to write it off.

Hon. Ralph Goodale: With some of the provisions we put in the budget last year, indeed it focused on some computer equipment and some dimensions of technology. I'd have to look at the specific asset to be sure, but it may be that point is already covered.

The other provision I would point to, Mr. Pacetti, is that in our proposals today we're talking about a variety of other ways in which we intend to reduce the burden of taxation on Canadian companies so that they can be productive, they can be competitive, and they can afford to make those kinds of investments. One technique is capital cost allowance, and we will review that in every budget.

Quite frankly, I invite this committee, if you have specific suggestions on where we're out of whack in terms of useful life, to let me know and we'll look at that between now and the time of the budget in February. In fact, here today we've specified one example in the forestry industry where we intend to make an important change. But we will also bring the corporate tax rate down from 21% to 19%, we will eliminate the capital tax, and we will eliminate the corporate surtax. All of that will not just help our corporations to have a tax rate advantage vis-à-vis the United States, but there will be an actual marginal effective tax rate advantage so we get the investment and the jobs on the Canadian side of the border.

The Chair: Just quickly, on the U.S. exchange rate, how have businesses been looking at it? What we've been seeing is some businesses have actually profited from the higher U.S. rate and some have not. There are some that are asking us for a break, whereas some others have just not used it to their advantage.

● (1735)

Hon. Ralph Goodale: It depends on the company. But you're quite right that mostly when we talk about the value of the Canadian dollar going up, it's in the context of what challenges that presents to people wishing to export, but it also means if you want to import a new machine or piece of equipment you get a price advantage by the higher dollar.

In the last number of months we've seen an improvement in the investment in machinery and equipment, in the last six or eight months or so, and that may well reflect some activity beginning to flow from this exchange rate phenomenon.

The Chair: But there's no action required from the finance department in terms of having to do anything with the exchange rates or trying to influence whether exchange rates should stay higher or lower?

Hon. Ralph Goodale: Exchange rates are a matter for the Governor of the Bank of Canada, and Governor Dodge has made it very clear that he doesn't intend to deal with fiscal policy or economic policy and he would rather that we did not deal with monetary policy, other than to say, as I said in the statement today, that we do intend to extend the agreement with the Bank of Canada about inflation targeting.

The Chair: One last question is on the demographic challenges the country faces in terms of the older workers. We heard there were a lot of impediments to some of the older workers who want to go back into the workforce and are collecting CPP, the inflexibility of the CPP. Then there's the whole factor with RSPs, and I don't necessarily want to go there, because that's a bigger discussion. But on the CPP, is there any appetite for making some changes? I know it's a big legislative headache. Is there any chance of that happening?

Hon. Ralph Goodale: It's a huge public policy issue that is largely within provincial jurisdiction.

The Chair: And we have the same problem with people who are disabled who want to go into the workforce.

Hon. Ralph Goodale: On that, you'll find in my plan today specific measures to facilitate greater inclusion with respect to under-represented groups, such as the disabled or aboriginal people or older workers. But on this scenario, on older workers, the committee may well want to do an in-depth study. It's a huge issue and it's one that I think bears some dispassionate, impartial examination on whether or not the rules that govern pensions and other factors related to retirement are skewed in such a way as to push people out of the workforce when they would rather not go. It's a big question. There are both pluses and negatives to it, but it is an area where I think Canadians have to have a serious look to see if we have the balance right in the way we treat people as they approach retirement, and how that bears upon productivity if you are losing some of your most experienced and skilful workers simply because of age, when they would rather not go.

The Chair: Mr. Goodale, thank you for taking time out of your day. I wish we'd had some of this debate while some of the other members were here, during the questions, because I think the idea was to get more of a feedback on some of what we heard during the pre-budget consultations.

The meeting is adjourned.

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