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## Standing Committee on Finance

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EVIDENCE

**Tuesday, December 4, 2007**

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**Chair**

**Mr. Rob Merrifield**

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Tuesday, December 4, 2007

• (1305)

[English]

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

Good afternoon. I hope everyone is doing well.

Thank you for appearing before the committee. We're here for our pre-budget consultations pursuant to Standing Order 83.1.

For anybody who hasn't appeared before, the way it works is that you will have five minutes to present your statement or brief. The members will then have a question and answer period to ask you questions.

I would appreciate it if you could keep your interventions to five minutes. I'll try to put my hand up to signal you at one minute. I sometimes get too involved in your presentation, so I might not do it, but please try to stick to the five minutes.

Your testimony is also going to be recorded. It's on the record. So anything you say will be and can be held against you by other members. If you notice, we don't have a good representation of members, but that's because we've had a little bit of a mix-up. The Conservatives messed up a little bit on introducing a budget bill in the House, so we're stuck with some members not being able to make it out here because of a snowstorm in the east and others because of parliamentary procedure. But as I said, the transcripts will be made available to all members, and they have access to the meetings, just as you will have as well, on the website.

Without further ado, we can start with Mr. Derwyn Davies as an individual.

Go ahead for five minutes, please.

**Mr. Derwyn Davies (As an Individual):** Thank you for this opportunity to speak to you about the important matter of the budget, albeit from a rather philosophic perspective.

I come here—as I've indicated in my paper, which I hope you'll read for yourselves—as a concerned citizen, but one who is something of a lifelong student of public affairs.

I would like to elaborate briefly on some of the ideas put forth in my paper. The background of my life experience is that I've spent 39 years in teaching, managing to avoid the danger that people encounter of spending one year actually doing something and then 38 years repeating it. I practised in secondary and elementary schools, and in administration at the school and district level in Britain and in Manitoba. I was also active in professional

organizations in what Tom Lehrer calls the “ed biz”. The only claim I make about my paid employment was that I endeavoured to be a thoughtful practitioner.

I mention this background because in so many ways the public schools are a microcosm of society. Both our schools and society suffer from severe problems, many of which are driven by statistics, statistics that purport to have some meaning, but about which no one wants to be the one who cries out that they're actually not clothing our nakedness.

Our society and our schools, it has been said, are characterized as highly competitive, knowledge-intensive, and based on global technology. We could equally well describe them as being characterized by extreme wealth and poverty and fragmented families and communities; obsessed with self-gratification; experiencing increasing homelessness, hunger and hurt; and battered by depersonalized, counterproductive programs and policies.

Schools claim to be preparing young people for the 21st century, but they are designed by experts of over a century ago. As Jean Piaget said in addressing an international conference on the teaching of science, it's not science that children have difficulty understanding, it's the science lessons.

With all due respect, I think our political leaders are in somewhat the same dark age as our leading educational authorities. I would like to suggest, by way of amplifying the arguments in my paper, some areas that I think merit greater attention, thought, and action. These are my four “C”s.

The first one is crime. Cracking down on gun and drug crime is one of the top priorities for Canada's new government, according to the website in March of this year. Leaving aside the question of cracking down, the quotation defines the limits to be addressed. It's no secret that crime constitutes one of the biggest spheres of global business activity, amounting, according to the International Monetary Fund, to some \$1.5 trillion a year in 2007, presumably tax-free.

This brings me to the second area, currency. Our currency has value because we as a society guarantee it. It belongs to us as much as Alberta oil or B.C. lumber, although perhaps I shouldn't mention things like that. Currency exists as a tool for the exchange of goods and services among citizens, but it is out of control. It is treated like a commodity. Currency trading affects employment and business; decisions made by currency traders for their own benefit can mean success or failure for individual Canadians regardless of their own efforts. It's estimated that \$3 trillion in currency is traded daily, but only some 5% to 15% of that is actually applied to international trade, which was the original purpose of currency exchanges.

Just as currency began its life as a simple, useful device, so did the third of my Cs, corporations. They exist, they're protected by legislation, but they have managed to obfuscate their activities to the extent that they now are more of a burden to society than a benefit. Corporations have in fact taken over the world.

Consumers are my final C, and I mean us. We are partly to blame, because we will go chasing after goods in order to gratify our own desires.

• (1310)

Parliaments began their evolution to full democracy by controlling the national budget, defeating divinely appointed kings and feudal forces. Can Parliament today take the initiative and lead us out of the corporate feudal system that prevails? I know it will require courage to stand up against dominant powers, but I urge you to have the courage of your democratic convictions, look realistically at the problems society faces, and be prepared to fashion a budget that will work to the public good.

Thank you.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

From the Fédération canadienne des services de garde à l'enfance, Monsieur Giesbrecht, go ahead for five minutes, please.

**Mr. Don Giesbrecht (President, Canadian Child Care Federation):** Thank you, Mr. Chairman and honourable members of the committee. Thank you for the opportunity to appear here today.

I'm pleased to be here representing the Canadian Child Care Federation, Canada's largest early learning and child care organization. We are comprised of over 20 provincial and territorial organizations and over 11,000 members working in child care centres and family child care settings across Canada.

As I prepared for this hearing, I read the background documents provided for the consultation. It's obvious that ensuring prosperity and productivity of individual citizens and businesses is the key concern of the current federal government.

We've seen that the tax policy can benefit both businesses and individuals, as in the case of tax credits for early childhood and care services. However, while tax credits are welcome, they don't replace sound federal policy and investment in programs and services.

The finance committee's background documents also address Canada's competitiveness with other countries. It's also important to look at our competitiveness in terms of investment in early learning

and childhood education and care. In the recent *Starting Strong II* report of the OECD, Canada rates the lowest of the 14 countries in early childhood education investment. This gives our potential competitors a significant edge in both current and future workforce productivity.

Every day in my job as an executive director of an early learning and child care centre in Winnipeg, I see the difference that high-quality child care can make for young children and their working families. But I'd like to discuss with you today how high-quality early learning and child care can also make a difference in Canada's productivity today and in the long term.

Let's look at the research. We know that having access to quality child care is a key factor in encouraging women to return to the workforce. It also alleviates work-life conflict for families when parents know their children are in quality care and they can contribute more effectively to their jobs. We also know that quality early learning and child care supports the development of Canada's future workforce. Children's experiences in the first six years of life set the stage for the extent to which they will succeed in school and successfully integrate into the labour force.

Quality child care is, in fact, an integral part of the infrastructure that allows Canadians to work. It is as important as highways and transit systems; you can't get to work without them. Yet across the country, Canadians face barriers to accessing quality early learning and child care services. These barriers are caused primarily by a lack of infrastructure support to the industry and serious recruitment and retention problems in the sector, due to a lack of training standards, poor wages, and working conditions. These are national issues that will take national leadership to resolve.

So how does the federal government play a leadership role in an area that is clearly a provincial and territorial responsibility? Fortunately, the federal government already has some answers.

I recently had the opportunity to participate in a ministerial advisory committee on child care spaces initiative. They made some recommendations that I urge the government to consider.

First, increase awareness and understanding of child care needs. It's amazing how much we don't know about child care in this country. A public education strategy could inform employers on how they can support child care for their employees. It could also inform parents on how they can access existing child care tax deductions and how to find quality care for their children.

A comprehensive research strategy could give us information about families' needs, priorities, and preferences. Unfortunately, much of the public dialogue around child care is based on anecdotal information and preconceived ideas. Solid data would help the federal government shape future child care policies.

The second recommendation is to develop a national framework for federal child care. Despite regional differences, there are fundamental similarities and common issues that need to be addressed on a national level.

All families in Canada should be able to expect a standard level of child care, regardless of where they live, in the same way that all Canadians expect a standard level of health care and education. "No strings attached" funding isn't good enough. Taxpayers deserve clear accountability from the provinces and territories that federal child care funds are indeed being used to provide more and improved quality care for families in Canada.

Number three is to introduce and encourage initiatives to deal with the child care sector's human resources challenges. The federal government could develop a concerted national strategy in collaboration with various stakeholders to address these challenges in order to ensure that we have enough skilled child care workers to meet the growing demand.

Number four, create a mechanism to support ongoing federal-provincial-territorial collaboration. This mechanism could provide leadership to resolve the many shared child care issues, such as the human resource challenges, creating spaces that meet the flexible needs of families, and encouraging family-friendly policies in the workplace.

The fifth recommendation deals with the bigger picture of family policy. Debate around child care initiatives in recent years shows that it is an issue that inspires passion. Canadians care deeply about their families, whatever their employment situation.

The federal government could lead a national discussion to develop a broad vision of family policy in Canada, with quality child care as a cornerstone, along with extended maternity and paternal leave and employer incentives to adopt family-friendly policies.

• (1315)

Finally, we would ask that the federal government continue to invest and work in partnership with the voluntary sector organizations concerned with healthy child development. Most community non-profit organizations serving children and their families depend to some degree on federal grants and contributions. Many of these organizations currently face grave financial instability.

We urge the federal government to act on the recommendations made by the independent blue ribbon panel to advise on grants and contributions programs. It's important that the partnership between government and community organizations be strong so that together they can better meet the needs of children and the families they serve.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

The Manitoba Museum is next, with Mr. Forbes.

**Mr. Blake Forbes (Director, Finance and Operations, Manitoba Museum):** Good afternoon.

My name is Blake Forbes, and I'm the director of finance and operations of the Manitoba Museum. Thank you for this opportunity to speak with you today.

Located in Winnipeg, the Manitoba Museum encompasses three distinct program areas—a museum, science centre, and planetarium—all within the one facility. This combination of disciplines provides us with a tremendous opportunity to contribute to the richness of our community and quality of life through our multi-dimensional interpretation of human and natural history themes, science and astronomy education, and programs.

Museums are an essential part of the quality of life in Canada and are accessed by millions of visitors annually. They provide a source of inspiration and knowledge creation that develops strong, vibrant, and sustainable cities and communities and expands our awareness of the world. Museums preserve our collective memory through protection of collections, and in so doing have an obligation to create and share knowledge, furthering lifelong learning and appreciation for our heritage and for our diverse and multicultural society.

Science centres, we feel, are also essential to Canadians in providing hands-on discovery experiences and in engaging Canadians in science and technology. These experiences will exist to create a climate of innovation and discovery that is essential in supporting Canadians to become the critical thinkers needed to be able to tackle the challenges of today and foresee the challenges of tomorrow.

The Manitoba Museum is a member of both the Canadian Museums Association and the Canadian Association of Science Centres, and respectfully recommends to the committee that it consider six recommendations to both enhance the ability of museums and science centres to participate in existing tax and private giving incentives, and to introduce new programs and incentives.

We urge the federal government to develop and launch a new museums policy to establish museums as community centres of learning and connection with predictable multi-year funding commitments for the development and implementation of new programs. A new museums policy would help refocus and rebuild the capacity of Canada's museums, providing access to the tools necessary to engage Canadians, properly preserve our national heritage, and ensure access for future generations.

The museums assistance program, the central project funding program for museums across Canada, has been greatly reduced and now provides only short-term project funding limiting, or at least placing at risk, the commencement of any long-term projects like the development of new national travelling exhibits, which normally require multi-year development. The museums assistance program needs to be revitalized through increased funding beyond the 1972 funding level it currently operates at to expand the interpretation of and access to our collections by Canadians both now and for the future.

The Canadian Association of Science Centres has a membership of over 40 organizations spanning Canada, which have the expertise and experience in getting Canadians excited about science and technology. However, there remains no national program to support the network of science centres in Canada. We support the association's call for an investment of \$40 million annually over the next five years to ensure that Canada's communities have the resources to celebrate our successes in science, to inspire Canadians to think differently, and to enable Canada to meet the complex changes facing our world.

In addition, we recommend the introduction of a new science and technology learning tax credit, similar to the fitness tax credit, as an incentive for Canadians to access innovative learning opportunities through science centre memberships and/or enrolment in science and technology programs.

Private sector partnerships with existing science centres are evidenced by the development of "named" science centres. Additional tax incentives should be created to expand private sector partnerships involving individual interactive learning projects in support of Canada's science and technology strategy. We believe this will increase the number of people pursuing education and meaningful careers in science and technology in Canada.

Finally, to benefit both science centres and museums, incentives to create endowments and foundations should be established to attract donations, as has already been established for performing arts organizations. These donations provide funding and support the acquisition of artifacts, research and development of exhibits and interactive tools, and allow us to acquire technologies to permit and expand access by Canadians to their past, present, and future. A program to provide matching federal funding for specified donations will enhance and improve the effective program offering and promote access to museums and science centres, demonstrating the government's commitment to and valuing of these centres of learning.

Thank you.

• (1320)

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

From the Social Planning Council of Winnipeg, Mr. Frankel.

**Dr. Sid Frankel (Member, Board of Directors, Social Planning Council of Winnipeg):** Thank you, Mr. Chairperson, members of the committee. We wish to thank you for this opportunity.

We are partners in the national Campaign 2000 to end child poverty, and we've reflected this concern in our brief.

We argue that five principles should be considered in designing Canada's taxation systems.

First is the maintenance of a vibrant and competitive economy to support the achievement of our national goals. Second is alignment with our collective societal values, building a just, caring, inclusive, and responsible society. Third is that revenue generation should be based on fundamental Canadian values of fairness and equity. The taxation system should play a central role in enhancing vertical equity through revenue generation based on ability to pay, and allocation of benefits based on economic need. Fourth is consistency with international commitments such as the UN's International Covenant on Economic, Social and Cultural Rights. Fifth is the capacity to adequately finance essential public goods and services.

Taxation, we think, should be looked at comprehensively, not only as a cost to household and corporate economies, but also as financing for essential public services that deliver real benefits. Central to this essential package of public goods and services are those required to implement an ambitious poverty reduction strategy. For example, the child poverty rate in Canada, using the post-tax low-income cut-off's indicator, was 11.7% in 2005, the latest year for which we have data. The trend has been stable for almost 30 years, and the rate was exactly the same in 1989 as in 2005.

Based on these principles we make a number of recommendations. I'll highlight just a couple of them in the time allotted.

First, we think there should be an immediate review of the progressivity of the federal personal income taxation system. We believe there should be an intention to restore productivity in order to improve the system as an instrument of redistribution and poverty reduction. The system has become less progressive over time. For example, in 1988 there were ten brackets, and these were reduced to three broad intervals. The overall weakening of taxation systems has led some analysts to describe our system as proportional rather than progressive, with low-, medium-, and high-income earners paying between 30% and 35% of their incomes in taxes of various kinds.

Broadly based personal income tax reductions have further diluted progressivity. A 2004 analysis by Mitchell and Shillington shows that half of the benefits of reductions have gone to the 10% of families with incomes over \$100,000. A 2006 analysis by the Canadian Centre for Policy Alternatives demonstrates that this pattern continues.

Second, we think fiscal capacity should be restored by putting a moratorium on across-the-board corporate and personal tax cuts and increasing progressive tax rates where necessary. The evidence is that corporate rates in Canada are competitive, and further reductions are not necessary. For example, a 2007 analysis by KPMG found that among G-7 countries, Canada's rate was third lowest, below that of the U.S. and below the G-7 average. The evidence from Scandinavian countries demonstrates that progressive and relatively high personal taxation rates can be consistent with strong global competitiveness and low levels of poverty. The key is to invest in human capital through income supports, social services, and skills development.

In the area of income support, we recommend that an integrated child benefit be increased to a maximum of \$5,100 in 2007. This very year we will see the last of the planned increases to the Canada child tax benefit and the national children's benefit. It will reach the planned \$3,200. The increase we recommend will cost approximately \$5 billion, and it will yield a 37% reduction in the after-tax child poverty rate.

• (1325)

Finally, we think that federal work tax credits should be increased to \$2,400 per year. We'd like to see reinstatement of a federal minimum wage. We'd like to see it at \$10. We think this would show leadership to provinces.

We'd also like to see restoration of employment insurance eligibility. This is necessary because fully one-third of poor children in Canada live in families producing the equivalent of a full-time, full-year worker.

Thank you very much.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you, Mr. Frankel.

From WestJet, Mr. Mike McNaney.

**Mr. Mike McNaney (Vice-President, Regulatory and Government Relations, WestJet):** Thank you very much.

I want to begin by telling you that I'm not here to talk about airline issues, airport rents, or taxes and fees.

Given the weather of the past couple of days, you might want to talk to me about the airlines, but we can do that afterwards.

Instead, I am here to outline for you an idea WestJet has for amending the Income Tax Act. The purpose of what we're looking to do is to ensure that all employees, regardless of the industry they work in, have a much greater opportunity to directly benefit from the financial success of their employer. Our idea is based on our own experiences at WestJet and is designed to address the growing productivity challenge we face in this country.

When we started WestJet in 1996, we had 200 employees. Today we have almost 7,000 employees. We started with three aircraft. Today we have 70 aircraft, all Boeing 737s, costing approximately \$40 million U.S. apiece. We have grown from less than 1% of domestic market to approximately 37%, and we fly to 13 other countries in North America and South America. But perhaps most importantly throughout this entire period of growth and job creation, we have turned a profit every year. Our success is due to one very

simple fact: we have been able to align the interests of the company with the interests of the employee.

We have done this by making WestJet employees owners of the airline. Making employees owners achieves two things. They are able to far more readily partake in the financial success of the business, and they think and act like owners. They have a direct stake in the success of the company. These factors, in turn, drive productivity, efficiency, and competitiveness. At WestJet we enable employees to be owners through two mechanisms—an employee share purchase plan and a profit share plan.

Under our employee share purchase plan, from each paycheque employees can purchase WestJet shares and the company will match the employee purchase dollar for dollar up to an amount equal to 20% of their base pay. Currently, 85% of our employees participate in the share purchase plan, contributing on average 13% of their pay to buy shares. We require our employees to hold the shares for one year before they can sell them.

We also have a profit share plan and every six months we pay a portion of profits to our employees. Last month we had our largest profit share party ever. And they are parties. If you're ever in Calgary when we're doing them, let me know and please come. We have a very good time. WestJet employees earned approximately \$30 million in profit share for Q-2 and Q-3 of this year. Employees can use their profit share cheques to buy shares in WestJet, and again, the company will match the purchase dollar for dollar up to that 20% threshold.

As robust as this approach is to driving ownership and enabling WestJetters to benefit from the success of the business, these efforts are being undermined to a degree by the Income Tax Act. Under the act, when the company buys the employee the matching shares, the employee has to immediately pay tax at their personal marginal rate on the full amount of the company's contribution. Thus, to purchase shares, employees must first pay their regular income tax on wages, then they pay the money to buy the shares, then they have to immediately pay the tax on the employer's contribution. This clearly inhibits the ability of the typical employee to participate. It is eating up too much of their disposable income.

The solution to this problem is very simple: don't require employees to immediately pay income tax on the company's matching contribution. Instead, defer the tax until the employee actually sells the shares. And please note, we're saying defer the tax, we're not saying wipe out the tax.

Fortunately for us, the concept of deferring the tax is already in the act. When someone receives stock options, they are not immediately taxed on the value of the stock options. In fact, they are not taxed until the options are actually exercised or can be exercised. Employee share purchase plans should be treated the same way.

At WestJet, under our share purchase plan, you cannot sell the shares for one year. Thus, just as is the case with options, there is no financial benefit until the waiting period is finished.

Taking the concept of deferral that already applies to stock options and applying it to employee share purchase plans will allow a far greater proportion of the workforce to fully embrace and utilize share purchase plans. It will also encourage more companies to adopt share purchase plans.

At the end of the day, it is WestJet's view that to drive overall Canadian productivity, we have to look at mechanisms that focus on the individual employee mechanisms that go across industries; that go across regions; and that include part-time, full-time, hourly, and salaried employees. We need to look at mechanisms that make it more direct and meaningful for employees to benefit from their company's success, and mechanisms that align the interests of the employee and the company. Based on our experience to date over the past 11 years, we believe we have found the model that achieves these objectives reasonably well—nothing is perfect—in a notoriously difficult industry.

By recommending that the tax on employer contributions to an employee share purchase plan be deferred until the employee actually sells the shares, this committee can make a small but very important change to drive overall Canadian productivity and competitiveness.

Thank you.

• (1330)

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

You're a great panel. Most of you guys came in within the five minutes.

We're going to a question and answer period. We'll allow the members five minutes. That includes their questions and your answers, so if you can keep the answer to a brief intervention, the members can ask more questions.

Mr. Dykstra, five minutes.

**Mr. Rick Dykstra (St. Catharines, CPC):** Through you, Chair, I do have a couple of questions. I think we'll probably get an extra round in, so I may be able to get back to any that I miss.

Mr. Forbes, from a museum perspective, I noted a couple of things in your presentation, particularly the commitment the government made in 2006 with respect to committing \$50 million over two years for arts, culture, and heritage; then, in the 2007 budget, not only confirming that this would be ongoing funding but making it \$30 million a year.

Based on the fact that you did receive a grant for approximately \$60,000 in 2007-08, I'm wondering how your relationship with the federal government—obviously based on the ability to attract that

grant—is working, and also how that has benefited the local community.

**Mr. Blake Forbes:** The grant you're referring to is under the museums assistance program, and is to develop a travelling exhibit that we're hoping to put together. It has been a benefit to us. To expand on how the program works, basically the federal government will grant us money on the proviso that we also allocate a proportion of our own dollars to that program, and others that we can achieve.

It is a benefit to us. It is a benefit to our community. We can develop this travelling exhibit and, hopefully, put it on the road. That will permit other organizations to effectively rent the travelling exhibit from us, so it does potentially provide a source of revenue down the road.

Relative to that program, from our standpoint, is the issue of the limitation on the timing of it. We are really going on one-year increments. The travelling exhibit, specifically, will probably take three to four years to get to the point at which it's on the road, so part of the issue is that we can only go on the one-year increments rather than know we have a multi-year funding process that will allow us to know we can build to completion.

**Mr. Rick Dykstra:** What is the display, what is the investment? What is it actually about?

**Mr. Blake Forbes:** It's called "First Nations, First Farmers", and it's actually developed by our archaeological curatorial. They're developing a travelling exhibit that explores the farming that occurred by first nations in the Manitoba region—obviously spilling into Ontario and Saskatchewan—plus the implements, etc., that were used, based on findings that have been made in the field.

• (1335)

**Mr. Rick Dykstra:** One of the other requests you made is something that I think we've been able to begin to assist on, and that's your comment or request regarding providing incentives to create endowments and foundations.

I know that in my local community—I represent the city of St. Catharines in Ontario—there's a foundation that has been up and running for about seven or eight years. They've had their difficult times in terms of explaining to folks how a foundation works, that you only want to use the interest, you don't want to use the actual money itself, and so on.

The piece we did in budget 2006 in terms of eliminating the capital gains tax on donations, they went from...at least in one year; it's not continuing. But they were averaging about \$50,000 a year in terms of raising funds. They raised \$500,000 in the year 2006, just specifically because of this.

I wonder, then, if we could get your thoughts on the fact that perhaps we simply need to do a better job of communicating the fact that this exemption now exists and really allows a tremendous number of folks to be able to make these contributions without having to pay capital gains on them.

**Mr. Blake Forbes:** Certainly the communication of that obviously is a benefit. The more we can communicate the needs of the foundations, or actually that the foundations in fact exist, out to potential donors....



Some of the issues relative to that are when you have a small foundation grant, it's very often tough to allocate your minuscule resources and the interest thereon to promotion of that foundation, which becomes somewhat problematic. What we're proposing, or would be interested in, is where there are programs within the federal government where there's a matching to donations received, endowments, etc., and the federal government would match donations, endowments, etc., that were received from the private sector.

That's more the area we'd be looking at.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you, Mr. Dykstra.

[Translation]

Mr. St-Cyr, you have five minutes.

**Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ):** I thank you all for being here. I will start with a question for Mr. Davies.

Even though it differed somewhat from what we normally see, I found your brief very interesting. It shows a very humanistic approach and brings us back to an inescapable fact: the economic model is not an end in itself. The purpose of the economic system that we are building is to help society. It is not an end, a goal in itself. That's very interesting.

I also appreciated the fact that you brought forward some original proposals: how the economic system could be humanized through simple changes in the tax system. You suggest, among other things, that companies should not be allowed to claim as tax deductions their advertising or lobbying expenditures.

You also mentioned the Tobin tax on capital movement. I have been interested in such a tax for some time now. Could you explain to committee members how this tax proposal—which has been in the air for a while—is working, and tell us what its benefits would be?

[English]

**Mr. Derwyn Davies:** At the moment, I think it has been calculated that about \$3 trillion a day gets traded in currencies, with very little of that, really, of any benefit in terms of any economy.

Tobin was an economist—I think he has died, actually—who put forward the proposal that if you raised 0.1% tax on every transaction, you would have a huge sum of money that could go to some kind of United Nations committee or some international effort to improve the lot of the people of the world. The difficulty, of course, is how do you deal with that?

Well, it seems to me that a couple of people recently—James Galbraith in the States, and Susan George in Europe—have started reviving the concept that Keynes brought forward in his submissions to the original Bretton Woods foundation for an international clearing house. All funds would then clear through that. His proposal included a way of balancing accounts between countries so that no country would have a huge surplus and no country would have a huge deficit, because they would cease to have the direct benefit of those, and other countries would have the benefit of a more moderate trading system.

There are some changes that would need to be made, presumably, in the original Keynes proposal, but it seems to me that unless we get a grip on international finance, we're not going to move forward, because with the amount of money that corporations can make out of moving goods around, pricing them so that they don't have to pay the taxes and can make a paper profit or loss for whichever country they want to look at their accounts, the result, of course, is that they're not contributing fully to the community in which they presumably started.

• (1340)

[Translation]

**Mr. Thierry St-Cyr:** It is precisely why this proposal is interesting. It brings back this idea that a large part of the economic activity has no value added. For example, speculation makes a few individuals wealthy while bringing about no real benefit for society.

I would like to address a brief question to Mr. Giesbrecht. You are asking for a national framework of standards and accountability for the federal child care program. Obviously, the Bloc Québécois has always been against the federal government establishing standards for programs that are within provincial jurisdiction, at least in Quebec. Indeed, some solutions are being brought forward. For example, the NDP has recently introduced a bill on child care services including an opting out provision for Quebec. Students who want a national act on education are prepared to accept that Quebec be allowed to opt out and make its own choices.

If the federal government were to establish a national framework of standards and accountability, would you agree that Quebec be exempt from it?

[English]

**Mr. Don Giesbrecht:** Absolutely. I think that has worked well in the past on this issue, and I think that would continue to work well.

**The Vice-Chair (Mr. Massimo Pacetti):** Merci, Thierry.

Monsieur Richardson.

**Mr. Lee Richardson (Calgary Centre, CPC):** Thank you.

I too wanted to comment on the comments of Mr. Davies. It's quite a remarkable paper, and I'm sorry you have to condense a lifetime of thinking into five minutes. I'd like to spend more time with it and get back to you rather than take the committee's time at this point.

In the brief time we have, I would like to ask Mr. McNaney about the stock option program and the reasons for the current taxation, as opposed to what you propose.

Do I take it this is an opportunity for employees, under the current structure, to purchase shares with after-tax dollars, or is it income? Are the shares they receive part of their remuneration, or is it both?

**Mr. Mike McNaney:** It's an opportunity for employees to purchase the shares with after-tax income. We make you hold on to the shares for at least a year. After that time period, you can sell the shares if you wish. The company matches the dollars you put in, up to 20% of your salary, or whatever your remuneration might be, if it's hourly, etc. And the whole point is to get employees thinking, acting, like owners.

If you go back to when you were five years old, whose toys did you take better care of? I threw my brother's and sister's toys under my dad's car when he drove out. My toys, I protected. I wanted to make sure they stayed in good shape.

So it goes back to that most basic notion, that if you own—

**Mr. Lee Richardson:** No, I get that, and I understand that. As I think you said, it's to align the interests of the company with the interests of your employees. I would like to add that you have a tendency to align interests with your customers as well, which is a pleasant deviation in Canada.

•(1345)

**Mr. Mike McNaney:** Thank you for that.

**Mr. Lee Richardson:** Again, what we're talking about here is half and half. Is the portion that the company...?

Let's say I were to buy 100 shares a month....

Is it at market, is that what it is?

**Mr. Mike McNaney:** It's at market, yes.

**Mr. Lee Richardson:** At market, okay.

So there shouldn't be any concern about the part you buy with your own money. It's the part that the company then buys for you that you're speaking of, is that it?

**Mr. Mike McNaney:** Yes, because right now, if you bought those 100 shares—let's say, for the sake of argument, they cost \$200—and you paid \$100 off your paycheque to buy those shares and WestJet contributed \$100 in shares to you, then you would immediately have to pay tax on the \$100 in shares that WestJet bought for you.

**Mr. Lee Richardson:** Right, as income.

**Mr. Mike McNaney:** As income.

Now, you can't sell those shares for a year, so you're not going to get any cash from those shares for at least a year. From our perspective, it's the same as an option: you don't get an immediate dollar value from the option, you have to wait two years, three years, one year, whatever, to cash in those options. When you cash in those options, you pay income tax.

We're saying treat the employee share purchase in the same way. We're not saying get rid of the tax, just hold it until the employee actually sells his shares, and then he will remunerate the federal government accordingly.

**Mr. Lee Richardson:** It seems a reasonable accommodation.

Great, thank you.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

On that note, Mr. McNaney, I think it's a good proposal. The only problem I have is why can't I do the same thing? Why can I not pay tax? I don't work...well, in this case I work for and get paid by the Government of Canada, but I used to work for myself before. Why can't I take my after-tax money, invest it in WestJet, and not have to pay tax on it?

That's where the problem is, I think, with your proposal.

**Mr. Mike McNaney:** We have to look at what our proposal is designed to do. Our proposal is designed to drive productivity.

The airline industry, by any measure economically, is a silly business. It's ferociously capital-intensive, highly cyclical. It also traditionally does not have very good relations between employers and employees. Yet in that industry, we have managed to be quite successful over the past 11 years. It's by tying those interests together and driving your notion of ownership that has provided us with the ability to go from 200 to 7,000.

So if I'm looking—

**The Vice-Chair (Mr. Massimo Pacetti):** I agree. I think WestJet is a good company. But you have to get me to buy as well. Why is it just your employees?

**Mr. Mike McNaney:** Well, you can come and work for us, Mr. Chair. We'd be happy with that.

Again, I go back to the purpose of it, and the purpose of it is to make companies better, so by definition, you're looking toward your own employees.

I could make the same argument to you about stock options. Using the rationale you've used, we shouldn't allow stock options.

**The Vice-Chair (Mr. Massimo Pacetti):** Probably not.

**Mr. Mike McNaney:** I would argue that stock options are probably fairly good, and also are a way to encourage people to work for their companies. You can't simply go and give stock options to every employee. The investment community would ditch your stock because you'd be too ferociously diluted. What we do is we go to the open market and we purchase those shares.

If we all agree that there's a productivity issue in this country, if we all agree that we have to find ways to do things better, then we're proposing something that does not cost the federal treasury a dime. The federal treasury is still going to get its tax rebate, it's just not going to get it immediately.

**The Vice-Chair (Mr. Massimo Pacetti):** No, I agree with your proposal; it's just to try to find a way to expand it so that everybody benefits and not just the WestJet employees or just people who work for public companies.

**Mr. Mike McNaney:** Sure, but this would apply, obviously, to any company that wanted to take advantage of it and establish employee share purchase. This can also apply to privately held Canadian-controlled companies. It doesn't have to be a publicly traded entity. If you can create shares in your own company, a privately held company, you can have those shares purchased by your employees. You would simply have to make sure that at some point—

**The Vice-Chair (Mr. Massimo Pacetti):** The only way you can do it currently is through your RRSP, if you wanted to invest through your RRSP.

**Mr. Mike McNaney:** You can do it through your RRSP, but you can max that out fairly quickly with the company matching.

**The Vice-Chair (Mr. Massimo Pacetti):** Yes.

Okay, great. Thanks.

I'm just going to go back to the members again.

Mr. Dykstra, do you want to go again for five minutes?

**Mr. Rick Dykstra:** Thanks.

I have a question, but I have first a comment, Mike, that I can't resist: I hope and pray that you don't do the same thing with my luggage that you did with your brother's toys.

**Mr. Mike McNaney:** They don't let me near the luggage, I'm afraid.

**Mr. Rick Dykstra:** That's really good to know. It's hard enough trying to find stuff when it gets lost, much less finding it on the runway after you've taken off.

**Mr. Mike McNaney:** I'm just happy you're flying with us.

**Mr. Rick Dykstra:** Good stuff.

The question I have is what percentage of the stock that's out there with WestJet is actually owned by employees right now?

• (1350)

**Mr. Mike McNaney:** I'm going to look over my shoulder at my accounting folks we have here....

It's approximately 10% to 12%.

**Mr. Rick Dykstra:** Have you set a target as to what would be the maximum you would think of, or is this a situation that could continually evolve? If employees end up owning 90% of the company, would the board of directors have an issue with that?

**Mr. Mike McNaney:** I don't think we'd ever quite get to that level, but if we did, there would be issues we'd have to look at. But in terms of being in control of your own destiny, having 90% of the employees own the shares would be a fairly useful thing.

**Mr. Rick Dykstra:** I'm not saying it's necessarily a bad thing. I just wondered if there was a sort of projection that you had.

**Mr. Mike McNaney:** At this point there is not.

**Mr. Rick Dykstra:** Thanks.

Don, your organization actually sent in four applications in 2006-07 and received \$2.7 million in funding—significant support, obviously, from the federal government, in the work you do.

I wondered if you could talk a little bit about the moneys that you have received directly from the federal government and the results you have been able to produce because of that.

**Mr. Don Giesbrecht:** Sure.

One thing we do, obviously, is to provide services to our membership and directly back into the affiliates that make up the federation as well as the centres and family child care homes, etc., that make up those memberships. I can give two very brief examples.

One resource we were able to put out just this June was a learning kit on early literacy. It was a very user-friendly kit that was very easy for families to use, very easy for parents to look at and see where their child was in terms of their progress and development in literacy, for example. So that was one. Another one was a resource kit on the

benefits of physical education for young children. A very interactive CD-ROM was developed, and that went into the hands of, again, family child care homes, child care centres, etc., to promote best practices and put research into common, everyday language that people could use.

Those are two very brief examples.

**Mr. Rick Dykstra:** I appreciate the two, especially the second. It obviously complements and dovetails very well with the physical activities tax credit that we've introduced. I appreciate that.

I don't want to leave out the Social Planning Council of Winnipeg. I want to give them an opportunity to comment on the six applications they have forwarded through to the federal government, over half-million dollars in funding.

I don't know how much time you might have, Sid, and I certainly don't want to cut you off, but I'd love to know how that federal government partnership with your organization has been able to allow a lot of work to be done.

**Dr. Sid Frankel:** I'm not even familiar with all of them, but I can comment briefly on the couple I am familiar with.

A couple of them do have to do with housing and do have to do with the crucial issue of establishing a community housing plan for Winnipeg. Another one has to do with putting a system into place to understand the flow of homeless people in and out of shelters. We think these are important for the Winnipeg community, and we think they're going to allow some good things to develop in the future. Of course, those good things will likely require more money from some source.

**Mr. Rick Dykstra:** Yes, all good things generally do.

Thanks very much. I appreciate it.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you, Mr. Dykstra.

We'll go to Monsieur St-Cyr.

[*Translation*]

**Mr. Thierry St-Cyr:** Thank you. I ran out of time earlier and I would like to continue my discussion with Mr. Don Giesbrecht. I would like to go back to child care services. Could you tell us more about the reality surrounding the Universal Child Care Benefit. When the government introduced this taxable benefit of \$100 a month, we were told that it would give parents a choice between staying at home to care for their children or sending them to a child care centre.

In my riding, a taxable amount of \$100 a month can, at best, provide for 10 days of care in a \$7 per day subsidized public day care centre. If we are talking about a private day care, this will buy three days of care. Consequently, I can't really see how this will help provide day care services for a child. Is there any place in Canada where it is possible to buy a month worth of child care services with \$100?

[English]

**Mr. Don Giesbrecht:** No, the universal child care benefit is a great family income supplement, but it's not a replacement for sound policy that encompasses all aspects of early childhood education.

Absolutely, in Quebec, as you already referenced, the cost of care is \$7 a day, but it rises to as high as about \$85 a day in downtown Toronto, to about \$20 or \$18.80 a day in Manitoba, and to, let's say, \$30, \$40, and \$50 a day here in Calgary.

So it's great as an income supplement, but it should not be confused with child care.

• (1355)

[Translation]

**Mr. Thierry St-Cyr:** Good. In my opinion, this initiative does not really give more choice to parents, if there are no subsidized child care spaces available.

I will go on by addressing Mr. McNaney about West Jet. I am a former engineer. I have worked for Motorola and I have also benefited greatly from a similar employee program there. I felt it was very good and I encourage big corporations to do the same thing. However, I have some reservations about your proposal, specifically the part under which the employer's contribution would eventually be considered as a capital gain.

In my opinion, when you pay employees, whether in the form of a salary or with shares, it is a taxable benefit and it should be taxed as such. I agree with you: the fact employees are immediately taxed can limit their disposable income but at the same time, being able to buy shares at half price, for all practical purposes, is a benefit. If I buy two shares and I pay only for one, it means that I have paid half price for them.

It would be somewhat surprising for the government to agree to subsidize or fund this benefit by treating it as a capital gain—taxable at half its value if my memory serves me well—when a lot of people who work for non-publicly held companies would not have access to such a plan.

What do you respond to that?

[English]

**Mr. Mike McNaney:** In terms of the capital gains approach, what we did was look at the Income Tax Act in its totality in terms of how we deal with options. The options provisions are available to publicly traded and privately held companies—large, small, or medium, it doesn't make any difference. So what we tried to do was look at the rationale behind why the Income Tax Act treats options in the way it does. You don't get the benefit immediately; you have to wait a period of time. You're investing in or getting cash from your company, and there's some level of risk involved. Therefore, it's not treated exactly as a capital gain, but you end up paying, ostensibly, the same amount of tax on the option as you would if it were treated as a capital gain. That's the approach we took.

If this committee or the government of the day concludes that the deferral of the tax is a reasonable thing and does not wish to examine how the tax is treated from a capital gains perspective, we would certainly have no problem with that. From our perspective, the most

important thing is to allow the average employee a greater portion of his or her disposable income to actually participate in these things.

I do want to stress that this is not a program for WestJet. We are doing quite well right now, with 85% of the people participating and contributing 13%. The whole idea behind this comes from our executive chairman, Clive Beddoe, and the variety of companies he has developed. He has put these into every one of his companies, this notion of profit share. And we think that if you're actually going to lift the entire Canadian economy, if you want to drive productivity, you have to get down to this level of specificity.

[Translation]

**Mr. Thierry St-Cyr:** I fully understand the merits of such a plan and I am not against looking into, for example, the possibility of tax deferral for a number of things.

Your comparison with options is interesting, but I think the options are the issue. I do not think that options should be treated as capital gain. Since they are part of the total compensation package, they should be taxed the same as the normal salary and other income gained by an individual. If anything is to be done, it is surely on the option side.

Perhaps tax deferral should be allowed. I think it would be more reasonable and would cost next to nothing to the government.

[English]

**The Vice-Chair (Mr. Massimo Pacetti):** I have just two quick questions, Mr. Giesbrecht. In one or two of your recommendations, you're asking again for increasing awareness and for some type of national framework. But haven't all these studies already been done? Don't we already know what we want to do? Or do we have to continue studying this issue?

• (1400)

**Mr. Don Giesbrecht:** I don't believe we do know what we want to do. I think, as we mentioned in our presentation, there's a lot of passion about this issue, but there's also a lot of misunderstanding about this issue. We don't have a lot of accurate data that reflects the modern Canadian family today. I don't believe we as a country have developed policy around modern Canadian families that reflects their lives.

So in fact I think there is quite a bit of work to be done there.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

Mr. Forbes, just out of curiosity, how does the Manitoba Museum want to lobby for Canada science centres? Not that it's a bad thing; it's just....

**Mr. Blake Forbes:** We have a science centre within our facility. The Manitoba Museum encompasses a science centre, a planetarium, and a museum. As a result, we are a member of the Canadian Association of Science Centres, and we participate in their programs.

**The Vice-Chair (Mr. Massimo Pacetti):** Is the science portion of the museum eligible for the museum assistance program?

**Mr. Blake Forbes:** To my knowledge, no, I don't believe so.

**The Vice-Chair (Mr. Massimo Pacetti):** And there is nothing for science centres, correct?

**Mr. Blake Forbes:** There is no program recognized by the government.

**The Vice-Chair (Mr. Massimo Pacetti):** That's why you're saying to establish a new federal program.

**Mr. Blake Forbes:** Yes, sir.

**The Vice-Chair (Mr. Massimo Pacetti):** How much do you think would be required?

**Mr. Blake Forbes:** There's a five-year, \$40-million request from the Canadian association that is basically trying to get a science and

technology budget, effectively, allocated to allow us to provide the programs and to develop this technology.

**The Vice-Chair (Mr. Massimo Pacetti):** That's a cross-Canada request.

**Mr. Blake Forbes:** Yes, it's cross-Canada.

**The Vice-Chair (Mr. Massimo Pacetti):** Yes, okay. We had a few last year. I don't recall having anybody come forward this year.

I want to thank the witnesses for coming forward. It was a good debate. Thank you for your good presentations.

That's it for our stay here in Calgary. We're off back to Ottawa and then to Halifax and Montreal.

I appreciate your input. Thank you.

The meeting is adjourned.

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