



House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 031 • 3rd SESSION • 40th PARLIAMENT

EVIDENCE

Monday, October 4, 2010

—
Chair

Mr. James Rajotte

Standing Committee on Finance

Monday, October 4, 2010

• (1525)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I officially call the 31st meeting of the Standing Committee on Finance to order. Pursuant to Standing Order 83.1, we are continuing with pre-budget consultations 2010.

I have a motion from Monsieur Paillé.

Monsieur Paillé, would you very briefly introduce your motion?

[Translation]

Mr. Daniel Paillé (Hochelaga, BQ): I introduced a motion last week. Following the usual consultations, I will now read the motion, which is self-explanatory:

That the Committee call witnesses, including the HSBC bank, Mr. Don Johnston, former Secretary-General of the OECD, the Canada Revenue Agency and the federal Department of Finance, to appear before the Committee on the subject of offshore bank accounts whose holders are Canadian, in order to learn what measures will be taken by the Canada Revenue Agency to recover unpaid income tax that may have been hidden in these accounts, find out whether criminal charges will be laid against account holders suspected of tax evasion, and ascertain Canada's strategy for combating tax evasion.

Mr. Chair, I would like this motion to be studied fairly quickly. I am aware of the items on our agenda, but it would be better to strike while the iron is still hot.

[English]

The Chair: Merci, Monsieur Paillé.

I have Mr. Menzies on the floor. The motion is in order.

Mr. Ted Menzies (Macleod, CPC): Thank you, Chair. I'm assuming it is.

My friend Monsieur Paillé has shared this with all of us. We share his concern and I thank him for bringing it forward. I would actually like to propose three additions to it, which I have shared with Monsieur Paillé. I feel they will actually make it stronger.

At "including...Secretary-General of the OECD", I would like to include after that the OECD itself. I can give you the wording.

As well, after "have been hidden in these accounts", I would like to include how the voluntary disclosures program has affected our efforts in this area. I think that's something we should look at. Maybe it has; maybe it hasn't. Let's bring witnesses forward to talk about what we've done and whether it works or not.

Then, after "suspected of tax evasion", I would like to suggest that we include "discuss the work of and Canada's involvement in the

Global Forum on Transparency and Exchange of Information for Tax Purposes", and then end with the last clause.

I would propose those three additions. I can share those with you, Chair.

• (1530)

The Chair: The amendment is in order as well.

Is there any discussion on the amendment?

Mr. Brison, and then Monsieur Mulcair.

Hon. Scott Brison (Kings—Hants, Lib.): I have a couple of questions. One, why are we inviting the former secretary general, as opposed to the current one? But also, the wording of this is a little confusing. It says "former Secretary-General of the OECD, the Canada Revenue Agency...". The wording is a little confusing, because Mr. Johnston is a former cabinet minister and it's not clear here. Perhaps we should say "representatives of the Canada Revenue Agency and of the federal Department of Finance", because it may be confused that these were ministries he held at one point or another. I think it's a little ambiguous. Perhaps we should say "Mr. Johnston, former Secretary-General" and then say "as well as representatives of the Canada Revenue Agency". I think that would clear up the confusion.

[Translation]

Mr. Daniel Paillé: Yes.

[English]

Hon. Scott Brison: It would be helpful.

But are we inviting anyone from the OECD currently?

Mr. Ted Menzies: Yes. That's my amendment.

Hon. Scott Brison: Okay. Where's...?

Mr. Paul Szabo (Mississauga South, Lib.): A subamendment...?

Mr. Ted Menzies: My amendment, after "OECD", says "the OECD", so a representative from the OECD themselves—

The Chair: Does everyone have a copy of the amendment?

Hon. Scott Brison: Oh, I see. Thanks. I didn't see that.

Mr. Ted Menzies: —whoever that may be, Mr. Brison.

Hon. Scott Brison: Representatives from...?

Mr. Ted Menzies: Sure.

The Chair: Plus, the list is not exclusive. If the committee wanted to invite other witnesses, it could choose to do so.

Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Mr. Chair, I have an amendment similar to the one proposed by my friend and colleague Ted Menzies. I suggest adding the name of the former Minister of Finance Michael Wilson to the list, given his previous experience with the issue, both in the private sector and as Canada's former Minister of Finance. We could add Michael Wilson's name right after Mr. Johnston's name. He is very familiar with the issue. So we would have a former Conservative minister and a former Liberal minister. As we saw, Mr. Wilson knows the subject well, and that could be very interesting for our work.

There is one other thing that worries me. It is more of a technicality. I don't understand what "the OECD" technically means. If we are to invite someone, we cannot invite the OECD because that implies dozens of countries. It is not clear to me.

But I think it is an excellent idea. Could we find another term that will do the trick? All the OECD board members will certainly not be here.

[*English*]

The Chair: My understanding is that, with Mr. Brison's comment on the Canada Revenue Agency and the Department of Finance, we'd say "representatives of the CRA, the Department of Finance, and representatives of the OECD".

[*Translation*]

Mr. Thomas Mulcair: My only suggestion is to add Michael Wilson's name. Right after Don Johnson's name, I would add Michael Wilson's name as former minister.

[*English*]

The Chair: Okay.

Ça va? D'accord?

Mr. Szabo.

Mr. Paul Szabo: Mr. Chairman, in my experience, when you get too specific with regard to witnesses, not knowing whether they're available or in fact appropriate to the work done.... It's that this list should really be a little more generic and that people will be called as necessary, but it would appear that the objective of the motion is to ascertain Canada's strategy for combatting tax evasion. That's a proactive—as opposed to historic—review.

I don't understand why the Honourable Don Johnston is here. I'm sure there are many people who have in the past had some matters...I think if the committee would accept to simply leave the OECD there.... It does say "witnesses, including", but not limited to, and I think as we see the need.... Because I can see that this could take an awfully long time if we're going to stray too far from what I read to be the intent of the motion.

I would propose to simply leave it at "OECD" and drop the "former Secretary-General of the OECD", which is sticking out there like a sore thumb as the only person specifically named here. The committee could find out the availability of the most appropriate officials from all of these agencies and then bring them back to the committee.

● (1535)

The Chair: The motion has been presented as such. The amendment has been presented as such. Mr. Mulcair has added a name in what is essentially a subamendment. Let's deal with it in that order.

Mr. Szabo, your point has been made, and we'll deal with it when we deal with the main motion.

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: I would just like to make a clarification. Perhaps people did not see him pass by last week, but Mr. Johnston made very specific comments about the situation at hand, and that is why we want to call him. I also agree with my colleague from Outremont on his proposition to add Mike Wilson's name. Sometimes, being too vague does not get us anywhere.

[*English*]

The Chair: Merci.

I will take the committee's direction. We'll start by adding Mr. Wilson, as Mr. Mulcair suggested. *D'accord?*

On Mr. Menzies' amendment, in terms of his additions, all in favour?

(Amendment agreed to) [See *Minutes of Proceedings*]

The Chair: That's unanimous.

And on the motion as amended?

(Motion as amended agreed to)

The Chair: That's unanimous. Thank you.

I will seek some guidance from members as to when they want to do the timing. As they know, we're in pre-budget hearings and are quite busy with that, but we will obviously have to add some additional meetings this fall to accommodate the motion. Thanks to all of you.

I want to thank our witnesses for their patience this afternoon. I appreciate it very much. We do have a two-hour session here and we wanted to have this session with a number of the chief economists with respect to our pre-budget hearings.

We have with us today, from CIBC World Markets, Mr. Benjamin Tal, deputy chief economist, and from the Conference Board of Canada, senior vice-president and chief economist Mr. Glen Hodgson.

[*Translation*]

We have Bernard Brun, Director, Government Relations, and François Dupuis, Vice-President, Economic Studies, from the Mouvement des caisses Desjardins. We also have Carlos Leitao, Chief Strategist and Chief Economist from the Laurentian Bank of Canada.

[*English*]

Thanks to all of you for being with us here today.

Each organization will have up to ten minutes for an opening statement. Then we will proceed to questions from members. We'll start with Mr. Tal.

Mr. Benjamin Tal (Deputy Chief Economist, CIBC World Markets): Thank you very much. I'm going to be relatively brief.

I think the real measure of intelligence is what you do when you don't know what to do. I think Bernanke in the U.S. and Carney here in Canada will tell you that they don't know what to do, because that's the way they discuss the situation. Both of them have told us that the situation now is described as an "unusual uncertainty", which means that there is significant room for error, one way or another.

If you look at the consensus, the so-called consensus, among economists, you will see that there is a wide range between the optimists and the pessimists. Even the finance minister admitted that there is a significant level of uncertainty as far as the economy is concerned.

The question is what to do when you don't know what to do. The answer is to not overreact, first of all, and to not make mistakes. I think this kind of environment suggests that we should be prudent as far as the budget is concerned.

If you look at the U.S. economy, you see a situation in which the housing market there is really struggling in a very significant way. If you look at the real estate market in Canada, you see that it's slowing down significantly. If you look at China, you see that it's slowing.

You see so many things that are missing at this point. Government money was artificially stimulating the economy in the first half of the year, and now this government money is not available, on both sides of the border. To me this suggests that the economy will slow down much more than was expected six months ago. This means that we will face a shortage of revenues over the next 12 months, with the economy growing by only 1.9% in real GDP and maybe 3.5% in nominal GDP, where you derive the revenues from.

Clearly we are entering a very, very challenging period as far as the economy is concerned. And it's not just Canada; it's the U.S., it's China, and it's definitely Europe. It's a global slowdown that will have significant implications for the Canadian economy and the budget situation. Add to it the provincial shortcomings in terms of budgets and you see why we should be prudent.

What does it mean? It means, first of all, that the Bank of Canada should be extremely careful not to raise interest rates too aggressively. Why? Because our consumers are stretched.

The main reason why the Canadian economy was able to outperform the U.S. was the fact that monetary policy in Canada was extremely effective. You have a situation in which consumer confidence in Canada is only 20% below the rates we saw during the happy days of 2007. In the U.S. it is 60% below. If you live in the U.S. and you're not sure about your job tomorrow, and I can give you a zero-percent mortgage, you will not take it. In Canada you will jump on it. That's why Canada was able to outperform. When the Bank of Canada cut interest rates, we got much more stimulus out of it. That's why in the process we had the situation where we had not only the best financial sector in terms of the ability to provide credit but also

the strongest consumer sector in terms of the ability to accept this credit.

So we were shooting from both directions, and in the U.S. they were not shooting at all. That's why we were able to outperform. Monetary policy in Canada was extremely efficient.

The problem is that in this process we have accumulated a significant amount of debt. The debt-to-income ratio in Canada is 146%. This is a major challenge. It means that as a society we have become much more sensitive to any economic shock, including higher interest rates. I estimate that we are 40% more sensitive to higher interest rates than we were ten years ago. That is why the Bank of Canada should be very careful.

Thank you.

• (1540)

The Chair: Thank you very much, Mr. Tal, for your presentation.

We'll now hear from Mr. Hodgson, please.

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

I thought I would do three things today: describe what I think is the context for good fiscal policy and what a good fiscal framework looks like; talk a bit about the economic outlook, which, as I think Benjamin just said, is really fraught with uncertainty right now; and then talk about the future course for fiscal policy.

Very briefly, what is good fiscal policy to the Conference Board of Canada and to me as an economist? It's a policy that really manages fiscal balances over the cycle. In the good times, you run balanced budgets, if not surpluses, and pay down debt. In bad times, you are actually able to step up by virtue of that strong position and provide fiscal stimulus.

I think Canada is really a shining example of good fiscal policy over the last, say, 10 to 15 years. The fact that we paid down debt from 1994-95 until 2008 gave us a lot more latitude than countries around the world to add stimulus without a big burden for our taxpayers on a going-forward basis. In many respects, by being ultra-Keynesians in 2008 and 2009 we did the right thing. We got the balance right between fiscal and monetary policy...and we're through it. We've seen growth recovery in Canada for a year now. We've seen employment return to more or less where we were going into the recession. That's all good news.

Going forward we'll have much more difficult times, but I do think we're now in a period where we have to have a medium-term plan to get back to fiscal balance. I'll come back to that.

Secondly, on the economic outlook, it's a very choppy period. We're entering a period in which there's both structural change going on globally—with the rise of China, India, and Brazil as the new centres of global growth—and all the challenges that still remain in Europe, Japan, and North America. The balance of global growth is really switching now from the industrial countries, where it used to be based, to a world where we're going to rely a lot more upon China, India, Brazil, emerging markets, as sources of growth.

There is still uncertainty in financial markets, in Europe in particular. Japan has the highest debt-to-GDP ratio in the world right now, at about 200%. I see bad things coming down the road in Japan.

Within North America, it's obvious that the United States has gone through a very difficult period. After a financial crisis, it's very hard to see a return to stable, sustainable growth going forward. The lack of consensus in the United States on what is the right policy framework is adding to the uncertainty.

So we're going through a really difficult period as a global economy. We are the shining light, I would argue, amongst industrial countries. Canada is clearly in better shape than almost anybody else in the world. But it's not going to be easy. As a consequence, we are right now in the midst of actually slowing down our forecast for growth in Canada for this year, next year, and going forward. That's going to present a big challenge for budgets. Whoever is in office federally, provincially, and in cities is going to face a challenge, because the strong, sustained growth that we normally have coming out of a recession just won't be there. A growth of 3% will be a good year. More likely growth of 2.25% or 2.5% is the kind of world we're going to live in for the next 18 months.

So what about fiscal policy on a going-forward basis? I strongly believe that in fact fiscal stimulus has done its job now, and we're going to see the stimulus program ramping down. We are seeing slow growth—it's not strong, but it's sustained—from the private sector. I think we've reached the point where we have to withdraw the fiscal stimulus from our system and have a plan to get back to balance over, say, a five-year period.

I also think, though, that we have to build shock absorbers into our fiscal plan. We have to use conservative assumptions when planning, because we're not going to see nominal income growing at 7% or 8% on a going-forward basis.

In terms of the budgeting itself, we had a chance to meet with the minister this morning. One of the comments I made is that we should be rebuilding shock absorbers right into the budget, and go back to a period of having reserves built into the budget, simply because there is so much uncertainty out there and things can move so much in a period of time. I would like to see the federal government with a bit of an absorptive capacity inside to sustain any future shocks to the financial system, to U.S. growth and elsewhere.

So if I pull all of that together, it also means that we're probably going to have to rely more upon monetary policy in the United States and elsewhere in the world than on fiscal policy to deal with any of these shocks as they come along. I'm looking at a three- to five-year plan to get back to balance, relying more upon monetary policy as the means of dealing with shocks to growth, and really planning for balancing the budget by about 2015.

● (1545)

I'll wrap up by saying that I wrote a commentary this summer that seemed to attract a little bit of media attention, talking about the government being slightly ahead of plan when it comes to balancing the budget. We still believe that. I said up to a year; it may be a little less than a year, but I do think the government really should be aiming at getting back to a balanced budget position sometime around 2015.

The Chair: Thank you very much, Mr. Hodgson.

Monsieur Dupuis, s'il vous plaît.

[*Translation*]

Mr. François Dupuis (Vice-President , Economic Studies, Mouvement des caisses Desjardins): Thank you and good afternoon, everyone.

We have experienced an atypical recession and the recovery has been equally atypical. The financial crisis has greatly affected many countries. After all the public investments made in a number of industrialized countries, we thought there would be a spark last summer and the private sector would take over from the public sector. We finally realized that this was not the case. The economic growth rate is still relatively low by historical standards. I think it is because we are going through a rebalancing phase.

The economic world has been in a state of euphoria over the last 10 years, perhaps even longer. Many industrialized countries are in the process of rebalancing their public finances. Governments really have spent a lot of money. We are going into a period of rebalancing. The contribution of a number of governments to the economy will become negative. We see that consumers, especially in the United States, are bringing their savings rates up while trying to bring their debt levels down. As to the rate of debt to personal disposable income, we went from 140% to 125%. So there is an improvement.

It is a similar story with the housing market as levels are extremely low. The housing market in the United States will not see increased activity overnight. As a result, the Americans are sort of in limbo and there is very little demand for credit. The SMEs are the main job creators in the United States. But there is no demand for credit right now. Even though American companies are in good financial situation, are flourishing and are making a lot of profit, they seem to be waiting because they realize demand is still very low. So the situation is of major concern for the next few years. That explains to some degree why the economic context will be slightly different over the next few years. That is because a major rebalancing act is in progress in order to ensure healthy long-term economic growth.

This environment is fraught with risks. There is public debt, the housing market could crash, currencies are highly volatile, and so on. So financial markets are very skeptical at the moment towards the global economy and the American economy. As a result, everyone is very cautious and the economic growth rates are lower than usual. They will be slightly lower than the long-term production potential of any major economy would allow for, with inflation that will remain very low for a number of years. So we run the risk of disinflation and even of deflation in some cases. So central banks must be very cautious, ours included. I think it is the end of interest rate increases in Canada. We will soon have an extended break to get an idea of what is going on and how the Canadian economy will react to the American economic downturn.

Canada has a sounder economy except for the exports that have gone down significantly. We saw that our financial system was sounder, household wealth did not decline as much during the crisis and Canadians had less debt than Americans. In short, domestic demand did very well. We have even recovered all the jobs that were lost during the recession. Incomes are fairly good. Our job market is working relatively well and the housing market did not experience a drop in prices during the recession. We have even gone back to some of the prices we had before the recession. So there are less risks but we cannot think of ourselves as a remote island. If the rest of the world or the United States are experiencing difficulties, we will also have problems in the coming quarters. It will be quite a challenge for our economy.

• (1550)

The Chair: Thank you very much, Mr. Dupuis.

[*English*]

Finally, we'll hear from Monsieur Leitao.

[*Translation*]

Mr. Carlos Leitao (Chief Strategist and Chief Economist, Laurentian Bank of Canada): Thank you very much, Mr. Chair.

Good afternoon, everyone. Thank you for inviting me.

I do not want to repeat my colleagues' remarks, but I would like to reinforce what François has just said. Canada is not an island. What happens elsewhere is very important for Canada. But, in 2009 and in 2010, we still performed very well, better than our neighbours and better than Europe.

We had a very effective monetary policy and good fiscal support. As a result, consumption was really pushed to the maximum. Domestic demand, or consumption, especially in housing, was what really took the sting out of the recession in 2009 and 2010. I think we pushed the area to the maximum. Levels of debt are very high.

As Mr. Carney also mentioned in his speech in Windsor last week, from now on, future growth in consumption expenses in Canada, housing included, should be at more or less the same level as the growth in income. We can therefore no longer continue to sustain a growth in expenses that by far outstrips income growth, or, in other words, an increase in debt. Private debt, household debt, should now stabilize and level off. In the future, consumption will be a much smaller contributor to overall growth.

Exports are therefore becoming an important engine of growth in Canada. Unfortunately, as has already been mentioned here, foreign attitudes in that area, especially in the United States, our biggest trading partner, are none too pleasant, at least in the short term, for 2011 and 2012.

So that is the environment we are in and we have to face up to it. I think that we in Canada are in a period of economic growth between 2% and 2.5% in real terms at most. Inflation is very low, perhaps 1%. So there is a nominal growth in GDP from which come government revenues of 3.5% to 4% at best. When we do our fiscal planning, that is what we have to work with.

That is all for the moment, thank you.

[*English*]

The Chair: Merci.

We'll now go to questions from members, with the first round being seven minutes.

We'll start with Mr. Brison, please.

Hon. Scott Brison: Thank you, Mr. Chair.

Thank you very much to our witnesses today.

My first question is on the issue of personal debt. One of the areas where we in Canada do not compare favourably internationally is the area of personal debt levels. I believe the average is \$42,000 per Canadian in terms of personal debt. That ranks us among the highest in the industrialized world in terms of personal debt.

That, combined with the federal debt and then also provincial debt numbers, creates a more troubling figure. In fact, we're often compared as a country... Our debt-to-GDP numbers typically only compare our federal debt numbers with those of other countries that are in many cases unitary states, or states wherein other levels of government are not able legislatively to take on the same levels of debt. But if you combine federal debt, provincial debt, and personal debt—i.e., gross debt—within Canada as a percentage of GDP, the Canadian figure is 81.6% of GDP—gross debt as a percentage of GDP. The U.S. is almost at the same level, at 82.3% of GDP.

So those figures are kind of troubling, particularly considering that in terms of gross debt as a percentage of GDP we're worse off than countries like Germany and the U.K. I'd appreciate your thoughts on that, because there's only one taxpayer, even though there may be a number of states that can take on debt, and ultimately we all have to collectively deal with the realities of paying for health care, social investment, and the rest of it. I'd appreciate your thoughts on the risk that this level of indebtedness comparatively represents to Canada.

• (1555)

Mr. Benjamin Tal: Let me respond to that.

Clearly the debt situation in Canada has deteriorated—I'm talking about personal debt now—over the past two to three years, reflecting the fact that monetary policy was very effective. That's one of the reasons Canada was able to outperform...

However, you can talk about debt and you can talk about the quality of debt; namely, not all debt is created equal. If you look at the U.S., the debt-to-income ratio was more or less the same, but 33% of the mortgage market there was made up of sub-prime mortgages, as opposed to the situation in Canada, where it is less than 5%.

I'll give you another number: only 4.1% of households in Canada have less than 20% equity in their house and a debt-to-service ratio of more than 40%. So there's debt and there's quality of debt.

I will be the first to admit that the debt situation in Canada is unsustainable, and we have to see some de-leveraging happening. We have to see the savings rate rising and we have to see credit going down, and it's starting.

The question is to what extent the government should do something about it. My advice is that at this point it should do nothing, because the economy's already slowing. The market is taking care of itself.

If you look at the housing market in Canada, it is already slowing down. House prices are falling. Mortgage activity is slowing down. Consumer credit is back to the levels we have seen in the recession in terms of a month-over-month rate of growth. So the market is already clearing.

I totally agree that the debt situation is a problem. This is not the time to deal with it. A year or two years from now, if we see a rebound in credit and the housing market starting to rise again, that will be the time to take care of it.

At this point, don't fight the momentum. The momentum is helping us now.

Mr. Glen Hodgson: Mr. Brison, I guess my reaction is that you just made the case for why the federal government should have a three- to five-year plan to get back to balanced budgets. There is only one taxpayer, and some provinces are in far worse shape than the federal government.

I'm worried about Ontario's structural deficit. For example, my fear is that Ontario's going to get stuck with a structural deficit of at least \$10 billion and maybe more. We saw a very tough budget put in place in Quebec this spring because the Quebec government was well aware of the demographics working against it and the fact that it had to get back to a balanced budget by about 2014.

Notwithstanding Mr. Tal's comments, I do think the federal budget did the right thing in terms of the structure—having a five-year plan to get back to balance—because ultimately there is only one taxpayer.

I don't think there's that ongoing need, for example, for federal stimulus in any form. I think we can allow monetary policy to do the job. If there's any slack required on our economy, it can be achieved through monetary policy.

I actually agree with you entirely that we have to be very conscious of the indebtedness—personally, provincially, and federally—and ensure we have a plan to get back to reducing that debt burden over time.

The Chair: Monsieur Dupuis wanted to comment.

[*Translation*]

Mr. François Dupuis: Yes, I think you are right. In Canada, the level of debt, both public and private, is extremely high. We do not feel quite so bad when we see the situation other countries are in. Ours is a little better. I believe that we must also consider the quality of the assets. In my opinion, Canadian assets are of better quality than assets in other countries. We must also consider the percentage of the public debt which is financed from outside the country. Our risk in that area is perhaps a little lower. However, the constant increase in indebtedness is the result of very low interest rates. If ever rates quickly went up to the levels we saw some years ago, a lot of people would be in trouble, which would cause quite a significant impact on the Canadian economy.

However, I feel that is unlikely that rates will go up very much. We can probably use the opportunity to urge Canadians to reduce their levels of debt as quickly as possible in case rates were to increase. As for the federal and provincial governments, we have seen that a healthy budget situation is the best insurance during a recession or hard times. We saw that in Canada in 2008 and 2009.

• (1600)

[*English*]

The Chair: You have 30 seconds.

Hon. Scott Brison: Okay. With a commodity-led recovery in Canada, if we assume that commodity demand from the emerging countries is going to be quite robust on a secular basis for a long time, what's the risk to Canada from having a very uneven recovery, with upward pressure on our dollar and a continued crowding out of some of our traditional industries in some of our traditional economic heartland areas? I'd appreciate your thoughts on that risk and what that could mean for unemployment.

Thank you.

The Chair: Okay. Let's just get one in.

Mr. Leिताo?

Mr. Carlos Leिताo: Thank you.

On the commodities side, certainly we still think that the economic prospects in emerging markets, particularly China, India, and Brazil, are much, much stronger than they are in North America or Europe. Therefore, their growth will be higher and demand for raw materials will be higher, so there should be some upward pressure on commodity prices, which will be good for Canada. After all, we do have a large natural resource base. The byproduct of that will probably be a significantly higher or high Canadian dollar—close to parity.

Now, we can open a discussion that we have had for many, many years about the productivity of Canadians, Canadian manufacturers, and a high dollar or low dollar, but I think the economy here now is adjusting to a high currency. We are going to end up with a manufacturing sector down the road that is smaller than what it is now, but more efficient and more productive, or so we hope. That adjustment process is taking place elsewhere in Europe and in the United States.

I think the risk I see for Canada is that we keep on saying, with some reason, that we've escaped the worst of the recession, and we could be a little complacent, as Ben was mentioning earlier this morning. And we shouldn't be, because it's a scary world out there, so we need to be very productive and very efficient with the high dollar.

The Chair: Thank you.

Thank you very much, Mr. Brison.

[*Translation*]

Mr. Paillé, the floor is yours.

Mr. Daniel Paillé: Good afternoon. I agree with the general opinion that the quality of the assets is the key to the interest rate situation. It is all part of risk management. If the debt is partly or mostly domestic, let us not forget that interest income is taxable. That is a good amount of tax revenue.

I am sorry, but I am probably going to direct my questions more or less to the people from the Mouvement des caisses Desjardins, who took the time to write to us.

In your document, you talk about excessive levels of debt, but you also say that we have to achieve a balance in a measured way. I think you mentioned that earlier. Maybe a rate of 80% could be seen as terrible. But when I consider the comparables, I hesitate to use the word "excessive". It is a significant level of debt, but to call it excessive... Anyway, I do not share the same opinion. In a previous life, I could have discussed this on TVA with Mr. Leitao at any time, but those days are behind me.

In section 2 of your brief, you say that we have to bank on human capital and you mention education. I fully agree with you. We are on the same wavelength there, but I suggest a degree of prudence. I advise you to take areas of competence into consideration. You do it very well. We are here in the federal Parliament. I would like to hear your comments on that.

In section 3 of your brief, you say that Desjardins has a very decentralized system, which gets everyone involved. You seem to be saying that securities trading is working very well in Canada, and you use Desjardins as an example. Your suggestion is: "if it's not broken, don't fix it". Tell me if I am taking that a little too far, or if you really do think that the Desjardins system is working very well and there is no need to change it.

• (1605)

Mr. Bernard Brun (Director, Government Relations, Mouvement des caisses Desjardins): We certainly dealt with the question of securities trading in our brief, but in a much more general way. At Desjardins, we put a high premium on cooperation and collaboration between the provinces and the various levels of government. We do not break with those principles, even in securities trading. I think that the passport system, for example, works well. There is work to do, and it continues to be done, but we will make our way to a better outcome by working together.

Mr. Daniel Paillé: A little further on, in section 5, you say: "The Government of Canada must take rapid steps to position itself, especially with regard to programs like Clean Energy Jobs." Are you referring to the old incentive program for wind energy from which

the federal government has withdrawn? It seems to me that Quebec manufacturers of wind energy systems are going to be setting up shop in the United States, since they cannot operate in Canada. Is that what you were talking about?

Mr. Bernard Brun: We were not talking about that program specifically, but, yes, we think that we should be aligning ourselves with programs like that. We did not bring our environmental credit expert with us, but we think that our government could be taking concrete action, but that has been slow in coming of late.

Mr. Daniel Paillé: Along the same lines, in the next paragraph, you talk about greenhouse gases and a regulatory framework. You are probably going to be meeting with the Minister of Finance, if you have not already done so. Can you tell us if Canada is finally going to set rules for carbon gases and whether we are going to get a viable carbon exchange?

Mr. François Dupuis: We have a meeting scheduled for the next few weeks. We will see if we can bring that issue up.

Mr. Daniel Paillé: We hope you can too.

I would like some more details from you on another part of your document. On page 4, recommendations (1a) and (1b), you say that you would like to see a cooperative investment plan and a cooperative development fund. Those are both one-sentence proposals. Clearly, we would like to see two or three additional sentences that would give some more details about your cooperative investment plan and your cooperative development fund.

Mr. Bernard Brun: It is quite simple. It is all part of the overall program and of one coming up in 2012, which will be the United Nations International Year of Cooperatives. The entire cooperative movement, including the cooperative financial movement, will use the year to put it front and centre.

We want to ask government to prioritize certain programs, specifically the cooperative investment plan. I can send you documentation with more details.

Mr. Daniel Paillé: You could send it to all my colleagues.

[*English*]

The Chair: Okay.

[*Translation*]

Mr. Daniel Paillé: Yes, I can use one more minute.

This is for the people from CIBC. I do not have it with me, but, a few years ago—I think it was the late 1990s or the early 2000s—you published something to the effect that the governor of the Bank of Canada at the time had raised the policy interest rate a little too quickly. In order to follow what American rates were doing, he had to backpedal.

Along those lines, do you think that the governor of the Bank of Canada's latest increase could have been more cautious?

[English]

Mr. Benjamin Tal: Yes, I think we probably could have skipped the September move, but that's not significant. That was only 25 basis points. I think the message from here on is that we cannot deviate from the Federal Reserve in the U.S. in a very significant way. I think in the past it was a mistake. I think if we continue to raise interest rates at this point independently of the U. S. Federal Reserve, that would be a mistake again. So our call to the Governor of the Bank of Canada is to basically stay in neutral at this point, and to wait until we see the situation getting a bit clearer before continuing to raise interest rates when the economy is giving us the green light. I don't believe the economy is currently giving us the green light to continue to raise interest rates.

• (1610)

[Translation]

Mr. Daniel Paillé: Thank you.

[English]

The Chair: Okay, merci.

We'll go to Mr. Menzies now.

Mr. Ted Menzies: Thank you, Mr. Chair. Let me be the first to congratulate you on the resounding support this team is showing for your leadership, and we look forward to a very successful and well-run committee going forward. Congratulations, Chair.

Thank you to our witnesses for coming here today. I had the privilege of sitting with the finance minister when you appeared this morning, so I do have many questions, from not only this morning's comments but also this afternoon's.

Just very quickly, I want to read a quote. The opposition has been suggesting that we should stop our legislated and planned business tax reductions. Jack Mintz wrote an interesting piece, and I'll just quote it. I will read you the quote and then ask whether you agree.

...the reduction in corporate [taxes] will improve neutrality by imposing similar tax burdens on businesses and result in some revenue loss due to profit-shifting.

These economic gains are substantial....

Canadians by and large understand that the improved competitiveness of our corporate tax system has made Canada a much more attractive country for global investments. It helps bring down consumer prices since corporate taxes increase production costs. Greater capital investment induced by lower corporate taxes improves worker productivity and wages, as recent economic incidence studies have shown. Thus, corporate tax reductions help workers and consumers most.

It is important for Canada to complete its reforms if it wishes to maintain an image that is a country open for business.

Can I ask each one of you to comment on that?

Mr. Glen Hodgson: Well, my light seems to have gone on, so I guess I get to start.

We presented a brief about two and a half years ago with regard to reforming the Canadian tax system. I covered a lot of different things, but one of them was business taxation. At the time, we talked about reducing the corporate tax burden and some other adjustments. For example, I think the step between the small business tax and the full corporate tax rate is too abrupt a step. I'd like to see a scaled step.

As a general principle, for a country that's facing what's going to be a strong currency for a long time to come, we have to find ways to allow our business community to become more competitive going

forward and to keep attracting our fair share of overall global investment.

So we're on the record talking about reducing business taxation, of which the corporate income tax is one piece. There are some other things in the brief, but I won't go on about that now. However, I think that responds to your question.

We have to be very mindful that we're now competing in a world where our dollar is going to be more or less at par, frankly, from here to the horizon. We actually have the dollar breaking through par with the U.S. dollar sometime in 2011. One can resort to specific tax measures or deal with the overall rate of corporate taxation, but I do think that we're on the right path, in fact, to reducing the burden.

It will require us to tax other things, such as carbon—and we can talk about that if you wish—but our brief is there for all to read and we're certainly in favour of reducing the overall corporate tax burden.

Mr. Benjamin Tal: I will say that it's not only the dollar that is going up; I think that corporate Canada and SMEs in Canada are facing a significant challenge over the next few years. Why? Because the U.S. manufacturing sector is witnessing a significant structural change. We have seen a situation in which the manufacturing sector in the U.S., despite the recessionary American economy, is actually booming.

All the improvement in the manufacturing sector in the U.S. is capital-intensive improvement. We are seeing basically a renaissance in the manufacturing sector in the U.S. It is able to penetrate the emerging markets in a very significant way. I think that corporate America has realized that the future is capital-intensive, and it is moving very fast on that.

Two or three years from now, when the fog clears, I see a much leaner but much more dynamic manufacturing sector that definitely will be able to compete in the U.S. The question is what we do here in Canada in order to basically maintain our market share. Because at this point, actually, we are losing the market share in the U.S. If it's true that emerging markets are the future, we have to find a way, first, to get involved in emerging markets, and second, to find opportunities in the global supply channels that the U.S. economy will be providing us.

At this point we are not there. So I totally agree that we need to help corporate Canada to face not only an expensive dollar, but also a changing manufacturing sector in the U.S. that will be much more competitive. Taxation is part of it, but we'll have to offset it.

•(1615)

Mr. Carlos Leitao: Well, generally speaking, I do think that corporate income taxes should be kept at a minimum, and those that already have been announced and that business is already counting on I would certainly not backtrack. But also, as Glen pointed out, governments do need revenues, and if we do not raise it via corporate income taxes then there have to be some other ways.

Again, in general terms, if I were the Minister of Finance, which I'll never be, but if I were, I would keep corporate and personal income taxes at the lowest possible level. I would raise consumption taxes, value-added taxes, and the GST.

Now, we know what's going on in British Columbia. Canadians and consumption taxes are an explosive mix, so I understand the practical problems of that, but I think corporate income taxes should be kept at the lowest possible level to keep our competitiveness.

The Chair: Okay.

Mr. Dupuis, for one minute.

[Translation]

Mr. François Dupuis: I agree with Carlos. I feel it is important to understand that those companies create jobs and we have to establish a structure that is as competitive as possible. But earlier, we were talking about a scenario with a lot of risk and uncertainty. I do not think there is a need to make many changes in the next few quarters or the next few years. Given the uncertainty, I do not think this is a good time for that.

[English]

Mr. Ted Menzies: One quick comment.

The Chair: Okay, you've got 15 seconds.

Mr. Ted Menzies: That's why we elected you chair, you're so fair.

Mr. Leitao, we actually are seeing through more people working, more small and medium-sized enterprises starting businesses and maintaining businesses, that there is more revenue from all of these without raising personal or corporate taxes. That's the plan, and we're certainly hoping that will continue.

Thank you for your answers.

The Chair: Thank you.

We'll go to Monsieur Mulcair, *s'il vous plaît*.

[Translation]

Mr. Thomas Mulcair: Thank you, Mr. Chair.

I too would like to welcome the representatives from the banking and credit union sector, as well as from the Conference Board of Canada. It is always a pleasure to hear the points of view of such well-informed people.

Although we are not going to use it as the basis for major decisions, I would just like to start with a story that may explain why, where budgetary forecasts are concerned, my name is Thomas for a reason. When Catherine and I wanted to buy our first house at Cap-Rouge in the early 1980s, we went to see the Caisse populaire Notre-Dame-du-Chemin on the Avenue des Érables. The manager told us very nicely that mortgage rates were an unheard-of 13.5%. So there was no way we should take out a mortgage for more than one year

because the rates were definitely going to change. He was right. When we renewed our mortgage a year later, the rate was 20.75%. One learns from one's mistakes.

I found the presentation from the Mouvement Desjardins to be very interesting and pertinent, but I would still like to ask you a question. I share your point of view entirely. What we are living through at the moment is not at all typical, and I am very concerned. I have seen the slow-down since the summer and, once more, several tens of thousands of jobs have been lost in the manufacturing sector. These are well-paid jobs, often full-time, with a pension at retirement. The words sustainable development are often used in the context of the environment, but we forget that it also includes the question of who is going to be leaving future generations with debts and obligations. We may be thinking about solutions that are too short-term.

You mentioned that inflation is very low. That caught my attention because, historically, when there is a huge debt, governments are tempted to pay it down by using inflation. What better than reimbursing the Chinese with a four to one ratio? It is like a sale at Dollarama. What makes you sure that inflation can stay low when we have printed 6,000 billion dollars since the start of the crisis? How can we repay that debt without inflation? I really want people to admire Canada, I really want us to pat ourselves on the back and tell ourselves that we are better than anybody else, but really, realistically, I do not see how you can be so confident that, in the medium term, massive inflation will not be considered the only way to pay everything back.

•(1620)

Mr. François Dupuis: That is an important question. If we go back a few months, when governments were starting to make their expenditure plans, there was fear of an inflation bulge. There were a number of inflationary fears in 2009, but I go back to the fact that demand is extremely weak. In the short and medium terms, demand in industrialized countries is much too weak. That is because of the rebalancing in several sectors, so that, even with governments carrying enormous debt, it is still likely that inflation will be very low. The economic machine is not going fast enough.

That said, in five, seven or eight years, when we have gone through this period of rebalancing, there may be an inflation bulge then. At the moment, there is none. Few people, I feel, are anticipating inflation at the levels we saw in the 1970s, when the public debt created too many inflationary pressures. Perhaps there is a more technical way to answer. Economies are operating clearly below their potential. So there is a lot of slack in the economy. A lot of time will be needed in order for that slack to be taken up.

Mr. Thomas Mulcair: You mentioned the quality of the assets, which are apparently better in Canada. I am thinking about household debt, proportionate to assets, because this is one of the things that concerns me most. The OECD actually says that we are one of the worst countries in the world. Can you perhaps reassure me with the definition of assets that you provided earlier, because I do not see it?

Mr. François Dupuis: I was making a comparison with the sub-prime mortgages we heard so much about in the United States and the United Kingdom. That is not really the case here; loans are made on a much more solid basis. In a sense, it is—

Mr. Thomas Mulcair: Okay.

Mr. Hodgson, is the level of household debt in Canada, as a proportion of their assets, a real source of concern for you?

[English]

Mr. Glen Hodgson: Much less so than it is for Benjamin Tal. We can see the rising personal debt levels, and it's a concern. Obviously, that's why Minister Flaherty and Mark Carney have talked about this over the last year.

But we are in a period in which interest rates are low. People can afford to service them. That's part of the danger, of course: by keeping rates low, you're going to add to the personal debt burden.

At the government level, frankly, for the most part we did the right thing over the last 15 years and got our government debt levels under control, Quebec being maybe the one outlier. Even in Quebec, with the kind of budget the province had to put in place this spring, they had a plan to keep things under control.

So I compare Canada to what has happened throughout Europe, to Japan in particular, and to what's happening in the United States, where you see debt levels rising, being ratcheted up federally at the state levels and within cities. We are really a shining star by comparison if we get our act together, if we actually keep doing the right thing.

I am worried about Ontario, because Ontario has gone through a very tough period. It was so deeply integrated into the U.S. economy as the manufacturing heartland, and with the shock therapy the U.S. economy has gone through, Ontario has now gone through the same shock. We've seen the shock in the auto and other manufacturing sectors. Revenues fell off the edge of the table, added stimulus.... So Ontario is in a fairly deep hole fiscally, and I do worry about the capacity, even with the best of intentions, to get back to balance.

But overall I'm not as worried about Canada as I would be about a lot of other places around the world.

The Chair: You have 20 seconds, Mr. Mulcair.

Mr. Thomas Mulcair: Mr. Tal, quickly, on the question of the tax reductions for Canada's most profitable corporations, I know, as you do, that a company that hasn't made a profit didn't pay any taxes and doesn't get any help from a tax reduction. Is that still, in your mind, in the next projected series of reductions of the corporate tax rate, a good or a bad idea?

Mr. Benjamin Tal: I think it's a good idea to keep taxes to the minimum if you can afford it. I think you have to offset it. As I said, the manufacturing sector in Canada will face major challenges over the next two to three years, not only from a strong Canadian dollar, but also from an American industry that is restructuring in a very significant way as we talk. We will wake up two years from now and see a manufacturing sector in the U.S. that we will not be able to compete with.

I think that if you can afford to cut taxes, yes, do it, but you must offset it by something else, be it a carbon tax or anything else, including a consumption tax. I'm not getting into the details now, but the direction is definitely to lower taxes, yes.

• (1625)

The Chair: Merci.

We'll go now to Mr. Szabo for a five-minute round, please.

Mr. Paul Szabo: There seems to be a consensus that one of the top priorities is to return to balanced budgets. As for how you get there, some of you have indicated some possibilities, such as the reintroduction of contingency reserves, probably prudent reserves, etc., as was done under a previous government. But to do that, especially on the contingency side, you have to find something to cut to provide that and still hold the same projected level of deficit. Do you still feel strongly that we should have contingency and prudence factors in there? Is that an element of getting our books balanced again?

Mr. Glen Hodgson: I'll start. As a first principle, yes. On how you do it, I couldn't agree more that it's difficult. Although we did see fairly rapid federal spending growth all through the 2000 decade and there has to be some scope for.... Essentially, we're at a point where government has to be rethought. It has to think about words like "productivity" and "efficiency" and "service delivery". But I think that as a first principle, given how uncertain the world is out there—

Mr. Paul Szabo: Okay. I just have five minutes. I'm sorry.

Anybody else? Are we about the same...?

Let's talk about the U.S. dollar. I heard not too long ago that there are possibilities that the dollar could actually hit not just parity, but maybe as much as \$1.05 sometime in the next calendar year. Given the export scenario for Canada, with about 70% of our exports going to the U.S., obviously it's going to put significant pressure on our exports. How do you rebalance the economy between now and next year to take into account a premium on the Canadian dollar?

Mr. Benjamin Tal: The short answer is that you can't. That's why this economy will grow only by 1.9% to 2%. That's why the budget assumptions of last year were too optimistic. That's why this economy will slow down. In a short period of time, you cannot reverse the situation. Parity is going to be very, very significant to the manufacturing sector. We are already losing ground in the U.S., and that will continue.

Mr. Paul Szabo: Exactly. Now let's follow that through.

Others can jump in on this. This is my last question anyway.

Who is responsible for the pressure to move the Canadian dollar to parity and greater? Who is driving this?

Mr. Carlos Leitao: The short answer is the market, but that doesn't say anything. It says it all, but it doesn't say anything.

Currencies are the most difficult thing to predict, particularly in the short term. Flip a coin; I have no clue. The Canadian dollar could go to \$1.05, and it could go to 92¢ U.S. We are perceived as being part of the dollar bloc, so we tend to move along with the U.S. dollar. We've seen some very strange movements in currencies over the past six months at least.

As far as who is responsible, I throw my hands up. In fact, one of the biggest risks we now face is that there appears to be a bit of a currency war developing. We've seen the Japanese try to bring down their currency. We see the Chinese trying to resist bringing up their currency. We see the Americans not being too displeased with a lower currency. The Europeans don't know what they want with their currency. So the risk here is that we'll engage in comparative devaluations.

Mr. Paul Szabo: Okay.

I have one last one.

Does everyone agree that we must have a shift away from income taxes to consumption taxes, and do you recommend to the Government of Canada that we increase the GST/HST?

Mr. Carlos Leitao: Yes.

[Translation]

Mr. François Dupuis: I am going to say yes as well and I am also going to answer the other question on currency.

When I made my presentation at the beginning, I said that the growing volatility of currency was a significant risk. So, the American dollar is showing a long-term downward trend and the Canadian dollar is on the rise and will continue to show a long-term upward trend. All factors are presently working in favour of a strong Canadian dollar and they will continue to do so.

Everything must be done to try to help our businesses as much as possible, especially export businesses.

• (1630)

[English]

The Chair: Merci.

We'll get Mr. Tal and Mr. Hodgson on this very brief question about consumption taxes versus income taxes.

Mr. Glen Hodgson: We're on the record as saying that you tax the most what you value the least. I would go with consumption taxes and carbon taxes.

The Chair: Okay.

Mr. Benjamin Tal: I agree.

The Chair: Okay. Thank you.

We'll go now to Mr. Carrier, *s'il vous plaît*.

[Translation]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you.

Good afternoon, gentlemen. It is a pleasure to meet leading authorities in economics such as yourselves. By the way, I always appreciate a reference text with presentations. Then we at least have a written document after a presentation.

Earlier, I understood the fact that we are not living on an island: we depend on foreign markets, especially the one in the United States. I would like to explore a topic that my colleagues did not. That is housing. I believe Mr. Dupuis or Mr. Leitao mentioned it. The concern was the slowing of housing construction in the United States, which certainly affects us too. Here, it continued at relatively stable levels, but I am under the impression that the growth is currently losing speed. That is what I have read, anyway.

Since these are pre-budget consultations, dealing with the economic choices that the government has to make, I was wondering if it was doing enough for housing. I am specifically thinking about the Canada Mortgage and Housing Corporation that is accumulating billions of dollars at the moment. Could those billions be better used for non-profit community-owned and affordable housing that the country is surely in sore need of? Is this not a category, a kind of government investment that produces most economic spinoffs, compared with huge purchases of military aircraft manufactured abroad, say in the United States? In terms of job creation, would it not be more effective by comparison to invest more heavily in affordable housing for the country?

Perhaps I will start with Mr. Dupuis.

Mr. François Dupuis: That is a very good question. Of course, it has a lot to do with the government's choices and the current economic situation. In Canada, the poverty rate is still high. Particularly after the recession, we are seeing that food banks are empty and many people are still in need. Different provinces are under a lot of pressure to increase the number of housing units for people who are disadvantaged or in need. I am not sure whether the CMHC should intervene or whether the government should just increase the funding in its budget. I know some provinces have done that recently.

I, myself, am very aware of the arguments that may not be directly related to the economy, such as the environment or poverty. I support increasing the number of housing units for disadvantaged people.

Mr. Robert Carrier: Housing construction is a good economic stimulant, is it not?

Mr. François Dupuis: Yes, it is. But the residential housing market is not hurting right now. On the contrary, the market has experienced a boom in the past few years; there was a slight slowdown during the recession. Prices are higher now than they were before the recession. Yes, we have seen a bit of a slowdown in recent weeks, but that was on the heels of a very strong demand after the recession, because of the pent-up demand from people who wanted to buy during the recession. And a lot of people wanted to buy before interest rates went up.

We are seeing a healthy trend in the market, and I do not think more stimulus is needed right now.

• (1635)

Mr. Robert Carrier: Mr....

Mr. Carlos Leitao: I agree with François. Overall, the housing market is a bit overheated. I do not think more stimulus is needed.

You brought up social housing. If the government pursues that, it should be because there is a need for it and because it would help society, not necessarily to stimulate the economy. That decision should be made because it would be helpful and desirable from a social standpoint. So, yes, I am in favour of it in that sense, but not to stimulate the economy.

The Chair: You have 30 seconds left.

Mr. Robert Carrier: I would like you to explain the following point, because we are here to decide on which investments the government should make. Let us compare an investment by the government in weaponry that is acquired abroad versus an investment in a massive program to build affordable housing.

Do you not think the government should favour one program over the other?

[English]

The Chair: Okay.

[Translation]

Mr. Robert Carrier: If not, do you think it is taking the right approach overall?

[English]

The Chair: Okay, Mr. Leitaó.

[Translation]

Mr. Carlos Leitaó: I think that, in terms of policy, it is for you to decide.

Mr. Robert Carrier: It is also an economic policy.

Mr. Carlos Leitaó: Actually, I think a decision of that nature—whether it be airplanes or houses, one or the other—should be made based on its own merits and not for economic stimulus reasons. You do not buy planes to stimulate the economy, nor, in my opinion, do you build houses to stimulate the economy.

[English]

The Chair: Thank you.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

Thank you to our witnesses for coming. We've seen a number of you before. Thank you for coming again.

I have a couple of basic economic questions for you. The one thing that always interests me is that 3% of GDP seems to indicate growth. Three percent is growth and anything under 3% isn't really growth. Can you explain to me why 3% is the magic number? We're still seeing growth at 2.5% or 2.6% or 2.7%.

Some would say that economies that are growing exponentially, like China, at double-digit GDP, are out of control and they can't keep up. Why is 3% such a magic number? Why can't we be satisfied by controlling growth at 2.5%?

Mr. Benjamin Tal: First of all, let me tell you that the new number will be 2.5%. It will be the number because the potential growth of the economy is slowing down due to all the forces that we mentioned earlier. I won't repeat them.

The potential growth of the economy or the speed limit of the economy is slowing down. This magic number is simply a function of two things: productivity and the increase in the labour force. If you add them together, you've got 3%. Now you will get a little bit less than that, so the point here is that the potential growth of the economy is slowing down.

For China, the potential growth is not 3% but 8% or 9% because of the fact that it's a very young economy. For a mature economy, it's 3% and now 2.5% after this recession.

That is just the way it works, and every year you will overshoot this potential growth or not. And as far as the Bank of Canada is concerned, it basically has a model of what the potential growth should be. If you are below, you have to stimulate the economy, or vice versa.

Mr. Mike Wallace: So you're relying on the Bank of Canada analysis to determine whether that 3% is the magic number or not. I've been here about four and a half years now, and from what I've heard, 3% seems to be the number.

Here's a question for you. I don't mean to be rude about it, but you're talking about a slowdown in the economy. Would you be frank and tell me whether you predicted the growth that we have had? No, right? So the growth we have had coming out of the recession was greater than what you guys predicted. Would that be an accurate statement?

Mr. Benjamin Tal: That's correct. The direction was right. I don't think too many people predicted 6% GDP growth in the first quarter, but maybe some.

Mr. Glen Hodgson: I'll disagree a little bit. If you go back and compare our forecast against the actual outcome for the last two years, we've been pretty close to spot-on. But we've been seen as a bit of an optimistic forecaster.

Mr. Mike Wallace: Okay.

Does anyone else want to comment on that?

Mr. Carlos Leitaó: The economy did bounce back very quickly from the recession. I didn't predict the 6% in Q1, or in Q4 of 2009, but it is now slowing. So when it's all said and done, the rate of growth for 2010 is going to be fairly close to what we had predicted before.

Mr. Mike Wallace: I know you talked about consumption taxes. You would admit you don't live in the political world and that these are strictly economic assumptions you've been making. You've seen what's happening in British Columbia and to those who have had their heating bills go up. The question of whether consumption taxes are acceptable or not is a little bit different in the political world.

Our finance minister has been warning us at every opportunity he has had that the recovery is precarious and that we have to be careful even with the growth. So it's not that we disagree with you on that, but is it possible that the slowdown might not be as great as you predict?

●(1640)

Mr. Carlos Leitao: I'm afraid that in the short term—and by that I mean the next six months—the slowdown might be worse than what we think, not because of what's going on here, but because of what's going on outside of Canada. In the United States in particular there are some very troubling developments. So the very short-term outlook, for the next six months I think, could be even a little worse than what we say.

In the meantime, of course, the U.S. Federal Reserve will do something. They're talking about another wave of quantitative easing and what not, so there will be further policy decisions on the fiscal side as well in the United States. So beyond the first or second quarter of 2011 we could see an acceleration, but in the very short term I think it will be weak.

Mr. Mike Wallace: Would you agree that sometimes these things are self-fulfilling philosophies, or whatever the word is? If everyone talks about things slowing down, then confidence goes down, consumer confidence goes down, investment goes down, and all of a sudden there's a slowdown?

Mr. Carlos Leitao: Certainly. Confidence, whether business or consumer, is crucial. And yes, if there is an overall air of overly pessimistic opinions, then there's an impact. Still, underneath those pessimistic opinions there's a reality. In the U.S. that reality is twofold: there are very high rates of unemployment and very weak personal balance sheets.

Mr. Mike Wallace: I'm going to stay positive, Mr. Chair.

Thank you very much.

[Translation]

The Chair: Thank you.

Mr. Généreux, you have the floor.

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair.

I want to remind my Bloc Québécois colleague that we can walk and chew gum at the same time. We are talking about housing for the most disadvantaged, and I would like to point out that Canada's economic action plan for the past two years has been very clear.

The Chair: I have to interrupt you.

[English]

I'm sorry. I completely—

Mr. Mike Wallace: Let's revolt.

The Chair: On my first day as chair I missed Mr. Pacetti. My apologies. I'm sorry.

You will be next, after Mr. Pacetti.

[Translation]

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): I have a better question than you, Bernard.

[English]

The Chair: Mr. Pacetti, go ahead for five minutes.

[Translation]

Mr. Massimo Pacetti: I want to thank the witnesses for being here.

[English]

This may be a bit of a follow-up to what Mr. Wallace was saying. Everybody has been talking about household debt, but let's talk about government debt. I want to tie it into the domestic growth. We saw in the past two years that if the Government of Canada is off by even 1% it costs the fisc between \$15 billion and \$20 billion. Nobody is talking about the fact that we don't even know what our number is going to be. It keeps changing. The department prediction for 2010 was originally 2.3% and now it's 2.6%. The economists are coming in around 3%. Just that variance of 0.5% is going to cost the general fisc about \$10 billion. Can I get your comments on that?

How are we going to get out of this mess?

I think, Glen, you addressed it initially and said we should have a three- to five-year plan. But looking at the numbers, I don't think we're going to get out of this any time soon.

Mr. Glen Hodgson: There are obviously multiple forces at play when it comes to federal revenues, and the business cycle itself is a driver. Another thing we look at very carefully is the multiplier, such as, for example, how much revenue you're getting from every dollar of GDP.

One of the things we saw before the recession was that higher-income earners were paying more tax, and therefore we had more revenue than most of us were forecasting. Do you remember all through 2002 to 2007 we were always surprised on the upside? That was frankly a structural force, which we were seeing throughout the whole world. Under globalization, more income goes to higher earners.

We just saw the first four months of the federal numbers for this year, and they're pretty good. We actually have pretty good revenue, notwithstanding the risks and forces my colleagues are talking about. I don't quite know where it will come out, but I do know that I expect revenues from higher-income earners to actually be pretty good, in fact, on a going-forward basis. I can't give you the number, because we've just gone through a two-year period of great churn.

If it were only the business cycle, you're right: slower growth will mean slower revenue and much more of a challenge getting back to a balanced budget.

●(1645)

Mr. Massimo Pacetti: Mr. Tal, I saw that you were nodding your head.

Mr. Benjamin Tal: Yes. If you look at the first half of the year, we have \$8 billion of extra money just because of the fact that the economy was surprising us on the upside. But you know what? Easy come, easy go. This money will not be available in the next six months, because the economy will surprise us on the downside. It's already happening.

You basically see that it's not so easy to maintain this kind of revenue stream, especially if we are right that this economy is going to slow down over the next 12 months. So yes, it is going to be a major challenge to collect this money, given that there will be a slowing economy.

Mr. Massimo Pacetti: How do we balance the budget over a reasonable time period, say the next three to five years?

Mr. Benjamin Tal: It's not going to be easy. I think it's doable, but it's not going to be easy.

First of all, I think the worst will be the next eight to twelve months. Beyond that, we are going to recover. We are going to basically see a situation in which the economy will gather momentum. At the same time, it will not be rising by 6% or 7% on a nominal basis, and therefore we have to be prudent. The only way to balance the budget is to make realistic assumptions and to budget according to them.

Mr. Massimo Pacetti: What is a realistic assumption?

Mr. Benjamin Tal: Well, I think that the realistic assumption....

Mr. Massimo Pacetti: I have BMO here at 3%, CIBC at 3%, Desjardins at 3.1%, and RBC at 3.3%. TD was at 2.5% and revised it to 3%.

Mr. Benjamin Tal: Yes, I think that for the next 12 months a realistic number is around 2% to 2.5%, with nominal GDP at about 3.5% to 4%. Anything beyond that will be too risky. Beyond that, a nominal GDP of roughly 5% is reasonable.

Mr. Massimo Pacetti: That could potentially mean that the government numbers are off by \$10 billion.

Mr. Benjamin Tal: For the next 12 months, yes, they are.

Mr. Massimo Pacetti: Thank you.

I have a quick question for you, Mr. Tal. In your presentation, you spoke about the percentage of our debt based on something—I missed part of it. You said that it is a little bit more dangerous because of certain conditions here in Canada compared to elsewhere. Did I understand that right?

Mr. Benjamin Tal: Yes, I was talking about the sensitivity of consumers to higher interest rates, if that's what you're referring to. The debt-to-income ratio is 146%, which is a record high.

Mr. Massimo Pacetti: Sorry, debt-to...?

Mr. Benjamin Tal: It is the debt-to-income ratio.

Mr. Massimo Pacetti: Do you mean here in Canada?

Mr. Benjamin Tal: Yes, I mean here in Canada. Within six months, we will be basically more or less where the U.S. is now.

This is not the main story, because of course debt is the stock of debt and income is the flow of income, so you cannot compare them. But the number has been rising very quickly, reflecting the very effective monetary policy.

I think it's very important to understand what we are talking about when we talk about this personal debt situation. Are we talking about a wave of defaults tomorrow? Are we talking about a subprime-type situation, or are we talking about a situation in which so many people are stretched that they will simply reduce their consumption in the future? I think this is the situation.

When interest rates go up, and they will go up eventually, you will see people spending more on debt and less on other things. This doesn't mean that everybody will default. We'll not see a situation in which default rates will rise to the sky, but you will see consumer spending slowing, and that's why I believe, if you will, that the speed limit of the economy will be reduced.

The Chair: Thank you.

[*Translation*]

Mr. Massimo Pacetti: Mr. Leitaio and Mr. Dupuis, do you agree?

Mr. Carlos Leitaio: As far as balancing the budget goes, I think the federal government's five-year plan is entirely achievable. I would not insist on reducing....

Mr. Massimo Pacetti: But if interest rates went up, would there be a risk?

Mr. Carlos Leitaio: We are vulnerable, of course, because interest rates are abnormally low. Eventually, rates will return to normal. It will probably not be in 2011, but in 2012 or 2013. Then there will be a shock. That is why Mr. Carney has been saying repeatedly that we need to prepare for the day when interest rates return to normal.

The Chair: Okay.

Mr. Dupuis, go ahead.

Mr. François Dupuis: I think the government's plan was very sensible. We have made a lot of progress, I think, thanks to the strong recovery after the recession. If we stay on course, I think Canada will return to a balanced situation as planned, perhaps even a year early.

But, as has often been said today, there are a lot of risks out there. So we need to be very careful as far as the next few budgets go.

● (1650)

The Chair: Thank you.

Now we will hear from Mr. Généreux.

Mr. Bernard Généreux: Thank you, Mr. Chair.

I want to repeat to my colleague across the way that we are able to walk and chew gum at the same time; we can build social housing and buy airplanes. What's more, those planes will be based in your riding. So it is even harder to believe that you are not interested in having them.

That said, you talked about a variety of things, including export companies. I looked at it in terms of the potential fiscal stimulus. I would like to hear your opinion on that, Mr. Dupuis. You mentioned export companies a number of times during your remarks.

Mr. François Dupuis: When you look at Canada's economic performance for the past 10 years, you see that the economy has done relatively well overall, thanks, in part, to a cleanup of public finances. We had more freedom. The domestic economy grew much stronger.

But the export sector is really hurting. The high Canadian dollar has a lot to do with it. In a number of continents, companies have had a hard time staying competitive. Some companies shut down, with certain problems in specific industries. That is where the challenge lies. For some provinces, such as Quebec, the challenge is huge. It has seen a rather significant drop in exports.

We need to find a way to make our companies more competitive. In any case, we cannot really go against the trend of a rising or steadily strong Canadian dollar. It is often said that being competitive is the result of improving productivity, investing in technology and equipment.

I feel as though I have been beating the same drum for a while now, but that is the message we need to send companies. That is the sector that is lagging behind in Canada right now, there is no doubt.

Mr. Bernard Généreux: Right now, the government is being accused of cutting corporate taxes. I would like to hear your thoughts on the implementation of the recovery plan and the continuation of what has already been done to stimulate the economy.

[English]

Mr. Glen Hodgson: As I mentioned earlier, we did research about three years ago pointing to ongoing tax reform as important for the competitiveness of our economy. So the reductions in corporate income tax from you are an important piece of that in adapting to a world where the dollar is going to be more or less at par going forward.

But as I mentioned very briefly before, I'm a bit troubled by one small thing in corporate income tax—the step from the small-business tax rate up to the full corporate rate. I frankly think it's a barrier to growth for small companies. If you're going to be taxed at 5% and suddenly you're at 12%, or whatever the rate is today, that can inhibit overall economic growth in our economy. So I'd like to see a step increase, but as a first principle, shifting the burden of taxation away from earnings and investment towards consumption and carbon would be the right route for me.

Mr. Bernard Généreux: Thank you.

Mr. Benjamin Tal: I agree. As I mentioned, it's not only the dollar but other challenges that will make the life of SMEs in Canada very difficult over the next two to three years. We've already lost ground. During this recovery, most of the job gains were actually in large corporations, not small businesses. I think the dollar is part of it, and the reduced propensity to export among SMEs is definitely negative. If we believe that the future is global, SMEs must be outside of Canada and increase their export orientations. Cutting taxes might help doing so, given the very strong dollar.

[Translation]

Mr. Bernard Généreux: Thank you.

Yes, sir?

Mr. Carlos Leitao: I would add to my colleague's opinion that we need to diversify our export markets. Canada has always been accustomed to exporting to the United States. Our SMEs are quite adept at it, but we need to seek out other markets: Asia, Europe and so forth. In that kind of environment, the state has a role to play through its agencies, whether it be the EDC, the BDC or some other

organization, in encouraging Canada's SMEs to export outside North America.

Mr. Bernard Généreux: So you look favourably on all the trade agreements we are trying to set up right now with various countries, especially in terms of Europe, which we are studying as we speak?

Mr. Carlos Leitao: Of course, I am a strong supporter of free trade. It is always a bit of a struggle for economists to sell people on the benefits of free trade. For us, it is practically intuitive. But I do understand that there are political issues involved. In my view, we need to stay on that path.

• (1655)

[English]

The Chair: Okay.

Monsieur Dupuis? No?

Okay. We'll go now to Mr. Brison, please.

Hon. Scott Brison: Thank you.

I want to ask a question on tax policy and fiscal policy around deficit reduction. During a time of high deficit, if you had a choice between putting the country back in surplus faster or cutting corporate taxes further, how would you respond to that? I mean, on cutting corporate taxes during times of surplus I think that, with some exceptions to my left, perhaps, most people would agree that a competitive corporate tax rate is a good thing. But the difference between cutting corporate taxes during a surplus and cutting corporate taxes with borrowed money—it's a very different question. So I would appreciate your views: given that any further corporate tax cuts in the short term are going to be on borrowed money, would it not make more sense to cut the deficit further and put us back into the black faster?

Mr. Glen Hodgson: That's a very tough call, because there are different forces at work, of course. The tax rate becomes an issue of really firm competitiveness. How do firms adapt to a dollar at par? I'm looking for ways to take pressure off them, but I'm also enough of a fiscal hawk—I mean, I spent ten years of my life inside the Department of Finance, and I certainly believe in balanced budgets. So it's sort of Hobson's choice, frankly, for me, or maybe Hodgson's choice: I want both.

Hon. Scott Brison: You are at a great place. Those economists, those two hands...

Mr. Glen Hodgson: That's why I have them both working.

Hon. Scott Brison: You were mentioning, Mr. Hodgson, that you would prefer a shift towards a carbon tax. I don't know where you were the last federal election, but in any case that's another question.

You were saying that you would support a shift towards a consumption tax. So I'd appreciate your views on a policy to cut consumption tax on high-carbon fuels.

Mr. Glen Hodgson: Most well-trained economists believe that you have to get the price right on the benefits and what are called “negative externalities of activity”. So as the first principle we should be trying to get the prices right. For me that means actually taxing greenhouse gases.

Frankly, governments that intervene in the price system are inviting trouble down the road. The longer you freeze tax or prices and lock in prices, you are going to have challenges at some point when you have to unfreeze that, and probably face as big a challenge at the end point as you are going in.

Hon. Scott Brison: Do you have any other comments on this?

Mr. Carlos Leitao: I was just going to say that from a very practical point of view, if you see what went on in British Columbia, I think B.C. was one of the first jurisdictions in North America to actually put in place a fairly intelligent carbon tax some years ago. The backlash against that was huge. So I don't know if the public is receptive.

I've been saying yes, raise consumption taxes, but I appreciate the practical problem of that. The Canadian public is perhaps not prepared. Nothing rallies people more than to see the price of gasoline go up. Everybody goes nuts. We all know that it should go much higher than where it is now.

So there is a very practical, real-life problem of how politicians and political systems address that. But generally speaking, yes, I think we should be taxing carbon, we should be taxing consumption, and lowering corporate income tax rates.

The Chair: You have one minute, Mr. Brison.

Hon. Scott Brison: Just on the issue, Mr. Hodgson has an interest, I think, on the environmental side as well as the economic side. I'd appreciate your views on cutting consumption taxes on high-carbon energy from an environmental perspective.

• (1700)

Mr. Glen Hodgson: Cutting taxes on high-carbon energy is heading in the wrong direction. Our economy is going to be more competitive over the long term if we get all the prices right so that investors and consumers both can make rational decisions based upon transparent right prices. That's the right thing to do.

Hon. Scott Brison: Thank you very much.

The Chair: Thank you.

Thank you, Mr. Brison.

I just want to follow up on a few issues here. It was mentioned in your opening presentations that Canada has recovered all the jobs lost during the recession. That is not true, though, in the United States. Another challenge in the U.S. is that there has been a lack of earnings growth in the U.S., so I want you to address the earnings growth issue here in Canada, as to what it has been and what you expect it to be over the next two years.

Mr. Tal.

Mr. Benjamin Tal: Let me say yes, we were able to recover all the jobs, but if you look at the distribution of those jobs you can see that roughly one-third of all the jobs created during the recovery came from two sectors: construction and the public sector. You don't

have to be an economist to predict that those sectors will not create too many jobs over the next twelve months. What we have seen is not only that the number of jobs is rising, but also that the quality of employment is rising significantly because those are high-paying jobs.

I predict that over the next six to twelve months not only will you see the number of jobs created in the economy slowing, because you will not have construction jobs and public sector jobs, but also, the quality of employment will go down. Therefore, I see income growth in Canada slowing in a very significant way. That's part of the reason why we believe consumer spending in Canada will not rise in a very significant way.

The Chair: Anyone else...?

Mr. Glen Hodgson: We estimate income growth in two different ways.

We have a number built into our forecast. We estimate that income will grow by about 2.2% to 2.3% for the balance of this year and into 2011.

We also do a survey that's not yet public. We do a survey of about 500 large employers, public sector and private sector, and then come up with a number. Last year, the number was 2.7%, which was higher than what we were forecasting. It's not a perfect survey, but we have a fairly good sense for what the number is going to be going forward. I wouldn't be surprised if that number is about 2.5% in 2011.

The Chair: Okay.

Monsieur Dupuis, and then Mr. Leitao.

[Translation]

Mr. François Dupuis: It is true that there is the issue of the quality of employment and that many of the jobs created were part-time. They may not be jobs people want, and it may not be a very good distribution of jobs, but at the very least jobs were created.

In the United States, however, SMEs and businesses that normally create jobs have not done so. They still need to recover at least 7 million jobs that were lost during the recession.

So there are certainly risks, but at the same time, jobs have been recovered, which has led to increased consumption and better incomes. So we have been more successful, but there will still be risks in the quarters and years ahead.

Mr. Carlos Leitao: I just wanted to add that the Canadian job market has in fact performed very well. The U.S. is actually facing a very significant structural shift. Thankfully, we are not in the same boat. The U.S. is now having to deal with issues surrounding long-term unemployment, and those issues are not being felt in the same way here. So we are in better shape in that regard.

[English]

The Chair: Thank you.

I have about two minutes left. I do have at least two more questions, so perhaps I'll put them on the table and see how much can be addressed.

You talked about the debt and the quality of debt. One of the things that Canadians did during the recession period, because of the low rates, was to purchase homes. There was an article in the papers today with respect to whether further government action should be taken on housing to address the debt issue. I want to ask whether any of you four think we should do anything on the housing side.

Next, you talked about the manufacturing sector. One of the things I've supported is changing capital cost allowance rates so you can write off your equipment more quickly. A lot of economists say that's in fact a subsidy, a distortion of the economic life of an asset, and that you should not be doing that.

The government is in fact moving away from accelerated CCA rates for the manufacturing sector, but I just want your views as economists. Do you see that as a subsidy? Also, whether you see it as a subsidy or not, is it something the government should look at going forward in regard to the issue of addressing productivity and companies becoming more productive but also upgrading the equipment and the processes they have within their facilities?

I have about a minute, if you can just very quickly answer this.

Mr. Benjamin Tal: Let me talk about the housing story. I'll let other people comment on the manufacturing.

The housing market is slowing significantly. House prices are falling everywhere, especially in the west, but also in central and eastern Canada. I think this will continue. The market is already adjusting and taking care of the business. At this point, I don't think the government should introduce anything, given the fact that the economy is already slowing. Doing so would really cause major risk.

• (1705)

The Chair: Okay.

Mr. Hodgson.

Mr. Glen Hodgson: I'll answer your question by putting it this way. If I had to choose between extending the accelerated CCA rates and reducing corporate taxes, I would probably invest my money in accelerated CCA for a period of time, because it really does allow firms to then invest more in technology and the kinds of things they're going to have to do right now to improve their productivity. That is, if you had to choose.

The Chair: I've got about 15 seconds.

Mr. Carlos Leitao: Just very quickly, one of the surprises, one of the disappointments in Canada so far, has been the poor performance of investments. Private investment hasn't been as strong as we thought it would be. So any sort of measure that would promote investment, even if it smells like a subsidy, might be welcome in the short term.

The Chair: Thank you.

Mr. Mulcair, for five minutes.

[Translation]

Mr. Thomas Mulcair: Mr. Chair, Bank of Canada Governor Mark Carney recently gave chartered banks some free advice. He told them they would do well to make cuts to their own compensation and senior management. When you know that Canada's chartered banks raked in \$15 billion in profits during the

first 9 months of the year, you are not supposed to worry because they have promised to share those profits with themselves in the form of \$7.5 billion in executive bonuses.

Mr. Leitao, what do you think of Mr. Carney's comment?

Mr. Carlos Leitao: I will let my colleagues from the big banks answer that. As for us, the small banks, we do not have that kind of compensation. I will say, however, that yes, Canadian banks are very profitable, and that has served us well. It has helped us to get through this crisis and to preserve an important financial system. For every dollar we make in profit, we also pay a lot in taxes. The banking sector is a major contributor to government coffers. But executive compensation is not really much of an issue for us.

Mr. Thomas Mulcair: So you do not earn a salary.

Mr. Carlos Leitao: I am not a volunteer; I get a salary all right, but as far as bonuses go, we are not in the same league as our colleagues.

Mr. Thomas Mulcair: I am sure that, in terms of your analyses, you are in the same league. You are merely more modest.

Mr. Tal, I want to pick up on something you said at the very end, when we were talking about tax cuts for the most profitable corporations. You said, "if you can afford it".

[English]

Can we afford it?

Mr. Benjamin Tal: At this point, for the next 12 months, I don't think we can afford it. I think, given—

Mr. Thomas Mulcair: You do or do not?

Mr. Benjamin Tal: I don't think we can afford it.

I think that given the fact that there is so much uncertainty, I would not change the system so quickly. I would allow monetary policy to do the work. I would allow interest rates to remain low, and, if needed, would actually cut interest rates as the first wave of improving the economy. I would be very careful in tackling the fiscal situation by cutting taxes at this point in time.

My comment was from a long-term perspective and the medium term, but not for the next 12 months.

Mr. Thomas Mulcair: Good, that's a very clear answer. We're so unused to clear answers around this table, I want to say thank you.

Thank you, Mr. Chair

The Chair: Thank you.

We'll go to Mr. Szabo, please.

Mr. Paul Szabo: Thank you.

I want to go back to where we are and where we might be going. We have an aging society. Budgets don't generally want to anticipate revenues, but they certainly want to provide for the expenses. The aging society is becoming a major area for planning and investing. I'm wondering whether, if you're going to suggest that we need to move into contingencies and other reserves like productivity reserves, we should also start to identify the significant priorities that we should commit to now, because you can't flip a switch in the short term. In the real world, it takes years. I'd be interested in your comments about thinking ahead.

Mr. Glen Hodgson: I agree with you entirely. I think the Quebec budget is very instructive in that. Quebec clearly faces demographic challenges ahead of many other provinces. It was very clear, as that budget was rolled out, that it was thinking about the impact of slowing growth, an aging workforce, and early retirements.

Chris Ragan, by the way, wrote an academic paper; I think it's in the IRPP policy options. He was a visiting scholar at the Department of Finance last year and wrote a very good paper on demographics and fiscal impacts that might be useful for this committee to take a look at. We've done similar analyses. I think it's an excellent question.

• (1710)

Mr. Paul Szabo: With regard to international trade, whether it be China, India, or Brazil—we've done Colombia and we're looking at other countries—what should be our reasonable expectations that enhanced free trade agreements around the world will be part of the solution to getting us to that balanced budget? Or is there a protracted period that does not follow our domestic activities? Is there a disconnect?

Mr. Glen Hodgson: I don't think trade automatically flows into fiscal policy, but I think trade is fundamental to our competitiveness going forward.

We just put out a great paper, frankly, on Canada-EU trade, looking at how big it is and in fact reinforcing the case for a Canada-Europe free trade agreement as a way to ensure that we have access to other markets. There are more consumers in Europe than there are in the United States with comparable incomes. So broadening the number of free trade agreements for negotiating and concluding the deal with Europe we think is really critical to Canada's ongoing competitiveness.

Mr. Paul Szabo: My last question has to do with housing. It seems to me that Canadians can relate to a house and the cost of a house. Last week there was a program that was talking about the high-priced-house areas across the country and indicating that a lot of Canadians have maxed out in terms of the carrying cost as a percentage of their income. In B.C. I think as much as 75% of the income that the family was bringing in was actually for carrying the house.

This is a recipe for disaster, I would think, if we get a correction in the housing market. How bad could that be, given that we know what the experience has been in the United States?

Mr. Benjamin Tal: That's a very good question. I think the point I made earlier, that we became very sensitive to higher interest rates, is exactly what we are talking about. I do believe that house prices will fall, and that's a good thing, because I think we need this kind of adjustment. I don't think we are in a crash type of situation like in the U.S., because for that you need extremely high interest rates and you need a sub-prime type of situation, and we don't have these preconditions for a crash.

I do see an adjustment in the housing market, and after that I see a housing market that will go nowhere for a long period of time.

[Translation]

The Chair: Mr. Dupuis, you have the floor.

Mr. François Dupuis: As is the case for many markets, I think that increases happen over short periods. So it is my sense that the housing market has grown considerably in recent years and that, given where family incomes and people's salaries are at, we cannot go any further.

That is why I remain optimistic. I see an adjustment taking place and prices remaining relatively stable for a number of years yet. I do not foresee a crash or a spike. I think that we have regained some ground and that things will be much calmer in the next few years.

[English]

The Chair: Thank you, Mr. Szabo.

Mr. Paillé.

[Translation]

Mr. Daniel Paillé: Economic forecasting is the art of being wrong as little as possible. We know that.

As far as you are concerned, Mr. Hodgson, I would encourage you to exercise caution. If you ever come to Montreal, maybe the price is not right, contrary to what you stated three or four times.

One anecdote deserves another. Back when Mr. Mulcair was having his mortgage problems in Quebec City, I was at the finance department. And in those days, the department's chief economic forecaster was the only one walking around with a smile on his face, saying he told us so, but no one had believed him.

We are currently in an atmosphere where it is being said that none of the experts believed there would be a 6% quarterly increase in GDP. You need a certain number of months, which were known as the months of cyclical dominance. I am not sure whether that still exists, but you need at least a certain number of periods to be able to say the rate has increased.

Let's assume that this slowdown no one wants to see happens and that everyone estimates between 2.5% and 3%—they won't be fighting in the buses in Hochelaga over whether it will be 2.75% or 2.82%. And let's assume that is followed by a truly sluggish economic climate or, worse yet, what no one has dared to mention in the past two hours or so, a deflation. If it has happened elsewhere, it can very well happen here. If we forecast a figure, in other words, we engage in a bit of science-fiction, would you agree that a foolishly Conservative government—and I use the term to mean a number of things, hypothetically speaking—should adopt an interventionist policy? Is it monetarist? Is it Canadian? Which way do you want to go?

Faced with that kind of situation, would it not be a very bad surprise if the government persisted in continuing to curb the economic situation or, in fact, economic activity?

• (1715)

Mr. François Dupuis: This may not have been mentioned, but I believe my colleagues are of the view that the probability of another recession in the United States is between 20% and 40%; we estimate the odds at 1 in 3. I am not sure, I think it is roughly between 20% and 40%—regardless, it is a pretty significant number.

If there is another U.S. recession, and given current price levels, we could be approaching a period of dramatic disinflation, or even deflation, so negative price growth. But I do not think it will be the same as in Japan.

In my opinion, other government intervention measures will be possible, and since we are talking about an alternative scenario, other stimulus programs will follow. In fact, they are talking about one such program for the Federal Reserve System. There is talk of once again easing monetary restrictions on a large scale to kick-start the economy or stop the slowdown.

I would not be as negative as you and say that we are going to relapse into deflation, that it is going to happen. I think that other major measures will be taken, but the risk will still be there.

Mr. Daniel Paillé: It is not a matter of being pessimistic. It is that when you....

Mr. François Dupuis: It is being realistic, yes.

Mr. Daniel Paillé: When you are managing risks or a portfolio, you need some latitude to be able to say that it could happen.

Mr. François Dupuis: Yes, of course.

Mr. Daniel Paillé: The interest rate of 21% or 20.5% that hit Thomas Mulcair could emerge again.

Mr. François Dupuis: There is one thing I have learned in economics, and that is never say never.

Mr. Daniel Paillé: Exactly.

Mr. Carlos Leitao: In that very unlikely scenario—I agree with François that it is not very likely....

Mr. Daniel Paillé: But it is possible.

Mr. Carlos Leitao: Indeed, it is possible. In a scenario like that, I think the solution would lie in international cooperation. We saw that in 2008: central banks, governments, including the Canadian, American and English governments, joined forces to coordinate

their efforts. If we find ourselves in another situation in 2011, the solution would also lie in very close international cooperation.

Mr. Daniel Paillé: International cooperation, then, would allow us to stay on track with all the other governments, to uncover tax havens, to close them down, and thus improve the fiscal performance of companies that would then have to stop practising tax evasion. That is what you are saying.

Mr. Carlos Leitao: That is one measure; there are others.

Mr. Daniel Paillé: That is not so bad right there.

The Chair: Thank you, Mr. Paillé.

Mr. Hiebert, you have the floor.

[English]

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you.

To follow up on some of the questions that have been raised with respect to real estate, Mr. Tal and Mr. Dupuis have both predicted prices to come down and then said “stagnation” and “stable”. Could you unpack that? Why do you make those predictions? Is it a lack of income? Is it over-exposure to personal debt?

Mr. Benjamin Tal: I think if you look at the housing market in Canada, it has basically been booming for ten years. A lot of pent-up demand has been utilized. Then over the past year or six months we have seen Canadians trying to beat the HST and have basically accelerated their purchasing borrowing activity from the future and the future has arrived. This means there will be a very non-linear recovery in the market. That's why we believe the first half of the year was very strong in the housing market, artificially strong, and now we're going to slow down.

After a peak or after a boom of ten years, if you look at the house prices vis-a-vis income, or vis-a-vis rent, or vis-a-vis demographics, you can see that basically we were overshooting. And if we were overshooting it means we have to go down. The only question is how quickly and how much. That's why I say we're not crashing here, because we don't have the preconditions for a crash, but we definitely have the conditions for a slowdown.

• (1720)

Mr. Russ Hiebert: Would you like to add anything, Mr. Dupuis? No, okay.

I have another question. Speaking of the demographic slowdown that was mentioned, how do you see that unfolding? We hear predictions about tens if not hundreds, if not more, removing themselves from the workforce in the next 10 to 15 years. What impact do you see that having on the Canadian economy, and what can be done to address that?

Mr. Benjamin Tal: Do you want to continue with that?

Mr. Glen Hodgson: We do long-term forecasts going up to 2030, and basically show the slowing trend of labour force growth over that period. So the first symptom would be you'd see all the boomers getting ready to retire; they'd leave the workforce. They'd maybe work half-time, but you'd have a lot fewer hours worked and overall labour force growth would slow.

As Benjamin was saying, that has a deadening impact on the overall economic growth potential. It's happening already; you can already see it happening in various parts of our economy. That's probably the reason why the unemployment rate didn't jump as high as in the last two recessions. It is that employers were worried about the fact that they wouldn't be able to find new people in the recovery period we're now in. But it's very evident if you look at the demographics that we'll be facing that slowing impact. We've seen it over the last five to eight years and we're going to see it going forward now.

Mr. Russ Hiebert: A shrinking economy?

Mr. Glen Hodgson: It will impact on the overall growth potential of our economy, because labour force growth and therefore consumption growth is really a fundamental piece of an economy's growth potential.

Mr. Benjamin Tal: That's why immigration policy is crucial. I think immigration quotas will be raised over the next ten years. That will be an economic reality in order to balance this impact.

Mr. Carlos Leitao: Maybe a little different note on the question of demographics. We are assuming, and it's an honest assumption, that labour force participation rates will remain the same. By that I mean that 65-year-olds will behave the same way in 2015 as 65-year-olds did in 1960, meaning they will be glad to retire, to leave the labour force and go fishing or something.

I think that maybe these days that is not a prudent assumption. I think a lot of people over 60 would like to remain in the labour force. If that's the case, then perhaps the shock that Glen alluded to won't be as severe. For all the people to stay in the labour force we need some institutional changes to allow for that in terms of retirement, retirement age, retirement benefits. For some people it might not pay to stay in the labour force if by doing so they'll miss out on some pension payments, but we should not simply assume that a 65-year-old will behave the same way his grandfather did.

Mr. Russ Hiebert: Do you have any comments on the U.S. debt levels that we're witnessing and the impact that will have on the Canadian economy?

Mr. Glen Hodgson: I have a commentary sitting in my computer right now addressing that very issue. I'll try to put it on our website or get it in one of the national newspapers in the coming weeks. But it's frankly shocking to see how quickly the U.S. federal debt has jumped from 6% of GDP to 80%, heading toward 100%. The states are in a horrible position. I was calling it a ticking time bomb. I think it's something we're really going to have to worry about. Unfortunately, we can't do much about it except sit back and watch and maybe get our own act together, which we've already done.

[*Translation*]

Mr. François Dupuis: Indeed, we are very concerned by the debt level of the United States. But the tax room in that country is among the largest in the world. Their rates of taxation are very low. As we

know, Americans do not like taxes. If, one day, they hit their peak, a slight increase in the rate of taxation would probably end up reducing their debt pretty significantly. You always have to look at both sides of a problem. At least they have that advantage, right now.

[*English*]

The Chair: Thank you.

[*Translation*]

I want to thank you for your presentations and your answers to our questions.

[*English*]

If you have anything further you'd like the committee to look at, even on an ongoing basis—and Mr. Hodgson mentioned some reports—please feel free at any time to forward those to the clerk and we'll ensure that all members get them.

Thank you so much for your time here today.

Colleagues, I will pause for a few minutes and then we will move on to Bill S-3.

- _____ (Pause) _____
-
- (1725)

The Chair: I call the meeting back to order, colleagues.

The clerk has asked me to remind you that we will be at 1 Wellington tomorrow at 9 a.m. That is the new building next to the Chateau Laurier.

We have an hour set aside for the study of Bill S-3, an act to implement conventions and protocols concluded between Canada and Colombia, Greece, and Turkey for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. We do have....

Mr. Mike Wallace: We do?

Do we actually have questions, or can we move to doing...?

- (1730)

The Chair: We're expecting officials from the Department of Finance, but perhaps we'll follow Mr. Wallace's lead and just get a sense of whether committee members do have questions or issues they wish to raise. My understanding is that it is a very straightforward bill and that the parties do not have too many questions.

We'll ask the officials to take a seat.

Mr. Tim Wach (Director of Legislative Development, Tax Policy Branch, Department of Finance): Something was happening up here and they wouldn't let us in.

The Chair: My understanding is that the officials do not have an opening statement.

Is it correct, Monsieur Castonguay, that there is no opening statement by the officials?

Mr. Alain Castonguay (Senior Chief, Tax Treaties, Tax Policy Branch, Department of Finance): That's right.

The Chair: Okay.

So we do have two officials from the Department of Finance.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chair.

I just have a couple of standard questions. Is there anything unusual in the bill or different from other tax treaties that you would like to bring to our attention?

That would be the first question.

Mr. Alain Castonguay: These bills generally follow the OECD model and our own policy, which is patterned after the OECD model. There are a few things that are different. One of them, for example, is that the taxation of non-resident business in treaties requires a permanent establishment—that is, a substantial presence from a business in a country. In some cases, other countries will insist that the provision of services, without a permanent establishment, is sufficient presence to warrant taxation. And actually in three of these treaties we do have this provision that basically if someone comes to Canada for more than six months providing services, or goes to the other country for more than six months, then they would be taxable in that country.

Mr. Massimo Pacetti: Why would this bill be introduced in the Senate rather than in the House of Commons?

Mr. Tim Wach: My understanding is that with tax treaties it's not unusual because it's not a revenue-raising bill. It only acts as a shield for taxpayers against taxation, so it can be introduced in the Senate.

Mr. Massimo Pacetti: I have just a quick question on some of the technicalities, on the rate of withholding on dividends, the rate of withholding on interest payments, the withholding on royalty, and the periodic pension payments. Among the bottom four, interest payments, royalty, and periodic pension payments are all the same, but when it comes to dividends the rate is different for each country. Colombia and Greece are at 5% and Turkey is at 15%. In all other cases the amount varies as well. I'm just wondering why that would be, and why it wouldn't be standard for all treaty countries.

Mr. Alain Castonguay: That's right. Our treaty policy is to insist on a rate of 5% for dividends when they are dividends from direct investment, usually defined in treaties as investment above either 10% or 15% equity position, and 15% for other dividends.

In the case of Turkey, this is give-and-take negotiation. Their policy is to seek higher rates of withholding in countries with which they are perceived to import capital. And these are the rates that they have with countries comparable to us, like the U.K., the U.S., and others.

Mr. Massimo Pacetti: So Canada would be charging 15% and Turkey would be charging 15%?

Mr. Alain Castonguay: That's right. The rate is bilateral, obviously.

Mr. Massimo Pacetti: It's bilateral, okay.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Pacetti.

[*Translation*]

Mr. Carrier, do you have any questions?

Mr. Robert Carrier: No, thank you.

[*English*]

The Chair: Monsieur Mulcair? Okay?

Mr. Szabo, any questions?

Mr. Paul Szabo: You've had an opportunity to prepare for this meeting and I know you have a nice briefing book. Is there anything there that you would like to suggest or bring to our attention related to this bill that may require some further discussion? Is there anything at all that you've detected in your preparation for this meeting?

Mr. Alain Castonguay: As I said earlier, there are no tax treaties that are alike. But essentially they follow our policy. Obviously, withholding stands out in the case of Turkey. I've already talked about the provision of services.

One other thing—and it is not major—is that in the case of the selling of insurance across the border, we would insist that it requires a permanent establishment to authorize taxation. But some of those countries prefer that simply the selling of insurance is sufficient to trigger taxation. So it is not in accordance with what we do but it's part of the give and take of treaty negotiations.

But by and large those three conventions follow our model and the OECD model.

• (1735)

Mr. Paul Szabo: Is there a deadline or a sunset clause that the government is prescribing?

Mr. Alain Castonguay: Treaties are in force until they are either terminated or amended. We have a network of 87 treaties. Some of them are quite old and they require periodic revision, but these treaties are in force until they are terminated.

Mr. Paul Szabo: Okay. And finally, in terms of the crafting of this particular bill and the provisions there, have we in fact identified areas in which previous legislation does not meet the same standards or requirements that would require amendments to be recommended to the government?

Mr. Tim Wach: The reason these treaties are enacted as legislation is so they can override the Income Tax Act. So these treaties and the legislative provisions enacting them specifically provide that where there's a conflict between the Income Tax Act and the provisions of the treaty, the treaty governs. That's why they're enacted as legislation.

Mr. Paul Szabo: Thank you. That's helpful.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Szabo.

[*Translation*]

Mr. Mulcair, you have the floor.

Mr. Thomas Mulcair: I will keep it brief. Mr. Castonguay brought up this subject; he explained, and rightly so, that even if no two treaties are alike, there are always adjustments. That is why we do these exercises. He referred to a framework, a template that could serve as a standard.

I just wanted to ask him whether liability, in terms of human rights, factored into his analysis. I am thinking specifically about what is planned in Colombia regarding these treaties.

Mr. Alain Castonguay: We negotiate treaties in terms of broader government policies. We ask the department of foreign affairs to advise us of its opinion on these issues. In the case of Colombia, the position of the department of foreign affairs was that a tax treaty was desirable given the trade volume between the two countries. That is all I can say.

Mr. Thomas Mulcair: Thank you. I understand the difference between your job and mine. I was not trying to press the matter any further.

The Chair: Mr. Carrier, your turn.

Mr. Robert Carrier: Mr. Castonguay, I am directing this at you because you speak French well. The policy aspect of this bill has to do with tax evasion. I think the bill's passage will go a long way toward solving the problem. It is a scourge condemned by everyone. It involves losing money, losing taxes in the course of commercial transactions. With this bill, will Canada recover a significant amount of the money lost through tax evasion?

Mr. Alain Castonguay: One of the main goals of a tax treaty is to prevent tax evasion. The treaty sets out information-sharing mechanisms under which the Canada Revenue Agency can approach tax authorities in each of the three countries and request information on any taxpayer suspected of failing to meet their tax obligations in Canada. So there is a mechanism in place insofar as the agency has good reason to believe that Canadian taxpayers are not complying with Canadian tax laws. The agency can approach each of these countries. The government's policy is expected to include the most recent version approved by the OECD on the exchange of information. That is an important objective of tax treaties.

• (1740)

Mr. Robert Carrier: Could the bill solve the tax evasion problem in the three target countries completely? If not, can we say that it will solve just a part of the problem? That would still be worthwhile. Is further progress on this issue anticipated?

Mr. Alain Castonguay: That is a good question. Tax evasion is difficult to counter precisely because it is a covert practice. So we do not necessarily have information on that. The treaties give us the ability to approach another country when we have reason to believe that the government or institutions in that country have information pertaining to the administration of taxes in Canada. I cannot say that it is the complete and total solution, but it is certainly an important tool that will make the job of the Canada Revenue Agency easier.

Mr. Robert Carrier: Good, thank you.

[*English*]

The Chair: Mr. Pacetti, please.

[*Translation*]

Mr. Massimo Pacetti: Thank you, Mr. Chair.

I have two brief questions. First, is this the first time we are signing an agreement or treaty with these three countries?

Mr. Alain Castonguay: Yes, this is the first time we are signing an agreement with these three countries.

Mr. Massimo Pacetti: So this is not an agreement that is being renewed.

Mr. Alain Castonguay: No.

Mr. Massimo Pacetti: Second, we are going to pass the bill and administer the act. Do the other countries have to do the same thing before the legislation can be enforced?

Mr. Alain Castonguay: Yes, each of the three countries also has to ratify the agreement in accordance with its legislation. The latest reports indicate that Greece has completed the process and is ready to ratify the treaty. As for Colombia, I am told that the Senate approved the treaty at the end of September. It is now in the hands of that country's House of Representatives, which will debate the matter. In Turkey's case, it has gone through the foreign affairs committee in the Turkish Parliament and will be studied by the general assembly. Chances are good that these two countries will be able to ratify the agreement by the end of the year.

Mr. Massimo Pacetti: If it is not ratified, we cannot enforce it, is that correct?

Mr. Alain Castonguay: That is correct. Those two countries must ratify the treaty in order for it to take effect.

Mr. Massimo Pacetti: Fine.

To date, we have never signed an agreement with Greece. This is the first time we are signing a tax agreement with them.

Mr. Alain Castonguay: This is the first time we have had an agreement with Greece, yes.

It is a bit of an anomaly because Greece is a part of the OECD. Let's just say the negotiations took a while.

Mr. Massimo Pacetti: Fine.

Thank you, Mr. Chair.

[*English*]

The Chair: Thank you.

I will now suggest we move to clause-by-clause consideration of Bill S-3.

Pursuant to Standing Order 75(1), consideration of clause 1 is postponed.

Mr. Wallace.

Mr. Mike Wallace: Can I move that clauses 2, 3, and 4 be moved all at the same time?

The Chair: Okay.

(Clauses 2 to 4 inclusive agreed to)

(Schedules 1 to 3 inclusive agreed to)

The Chair: Shall the short title carry?

Some hon. members: Agreed.

The Chair: Shall the title carry?

Some hon. members: Agreed.

The Chair: Shall the bill carry?

Some hon. members: Agreed.

The Chair: Shall the chair report the bill to the House?

Some hon. members: Agreed.

The Chair: Merci.

Mr. Mike Wallace: Do I have to leave you my notice of motion on this?

The Chair: No, we will discuss your motion. I believe Mr. Brison's motion is on Wednesday.

Mr. Mike Wallace: Yes, but this is a notice...handing this out. It's a notice of motion for Wednesday, right?

The Chair: Well, if it's submitted to the clerk, it's a notice.

Mr. Mike Wallace: Okay. Great. Thank you.

The Chair: Thank you, colleagues. We will see you tomorrow at 9 a.m.

Mr. Thomas Mulcair: Could I ask you one quick thing while the colleagues are still here? Can we un-gavel for a nanosecond?

The Chair: Yes, I will un-gavel.

We'll thank the officials from the Department of Finance. Thank you very much for coming. We appreciate that.

Mr. Menzies.

Mr. Ted Menzies: Thank you, Thomas, for reminding me. I was so excited that we're getting out of here before 6:30.

There are some more names that we as an all-party group would like to suggest for pre-budget hearings. The one I would like to put forward is Special Olympics. Somehow we neglected to get them on our list, so I'd like to ask for unanimous support that the Special Olympics group be allowed too.

• (1745)

The Chair: I'm not opposed to any one group.

To be blunt, last fall I had members coming to me and saying there were too many meetings. We've added a motion today that is going to add meetings. I'm not opposed to adding any more witnesses. Any time a witness is added, though, I want it to be very clear that this

means the chair will add meetings upon meetings this fall for pre-budget hearings.

We have about 430 who have submitted; I think 155 are now on the list. We're going to be adding more. I'm not opposed to that. I'm just saying let's be cognizant and let's not beat up the chair when names are added. The consequence of adding names to the list is more meetings.

I'm fine with that if committee members do that, with the knowledge that I will add meetings.

Mr. Menzies.

Mr. Ted Menzies: Thomas and I have talked....

The Chair: Mr. Mulcair.

Mr. Thomas Mulcair: We're both in a very delicate situation, because in both cases there was a group that thought they were going to be on it. It just slipped through the cracks.

I agree with his suggestion. I think we can understand that two more out of 155 is not going to add a heck of a lot of meetings.

I have one, which is number 122. This is the English list. It's the Canadian Feminist Alliance for International Action. We would have liked to hear from them. For some reason, the way the list got put together too quickly, we missed one. I take full responsibility for that, and I apologize to the colleagues.

If we could see our way free to allow Ted's and mine to be added, I think it would make an important contribution to our work.

The Chair: Okay, we've taken note of the two names.

Mr. Pacetti.

Mr. Massimo Pacetti: Yes, we'd like to add five additional names: the Canadian Nurses Association, the Canadian Housing and Renewal Association, the Pembina Institute, Canadian Clean Technology Institute, and Canada's Research-Based Pharmaceutical Companies, Rx&D.

Mr. Thomas Mulcair: If we're going to close the books on that, we're for it.

The Chair: Thank you.

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: I do not want to keep people from dancing, but I would like to point out that people in our region have complained about not being selected. They were denied because of a rule mentioned by the clerk, according to which, briefs had to be submitted by August 15, if I am not mistaken. Again today, people in the riding of Saint-Jean told us how unfortunate it was.

If we start adding one name here and four names there, I am going to submit my list.

Mr. Massimo Pacetti: All of these people have already submitted their requests.

Mr. Daniel Paillé: I know, but people need to wake up, and we need to buckle down here.

Mr. Thomas Mulcair: If you have witnesses you would like to add, go ahead.

Mr. Daniel Paillé: No, I do not want to add any, just like that. We stopped the hockey game, and that is the end. In any case, you will do exactly what you want, as usual, but I take issue with what, to me, is a bit of an errant approach.

[English]

The Chair: We can adopt the names today, but frankly, my suggestion is that we set some time aside, perhaps later this week, to have an in camera discussion, because if these names are added, frankly, our offices are going to get flooded with calls from now on in—

Mr. Thomas Mulcair: Monsieur le président—

The Chair: Mr. Mulcair?

[Translation]

Mr. Thomas Mulcair: Mr. Chair, I think Mr. Paillé has just given his agreement.

I accept the Liberals' list as well as Mr. Menzies'. I can swallow the pill, but I still think it is a much better idea to settle this once and for all. If there are other requests, we will be able to provide a justified explanation.

[English]

The Chair: Mr. Hiebert.

Mr. Russ Hiebert: Mr. Chair, I agree with your recommendation of having a further steering committee to address this issue. We've had to give the unfortunate news that not all the groups that would like to present to this committee...they weren't on the list. If we're now going to open it up again, the obligation on our offices is going to be to revisit the requests we've received since the deadline.

I really encourage you to gather the steering committee together and re-evaluate this question, because once the door opens, then we all have an obligation to go back to the groups that asked to be here and were not admitted the first time around.

The Chair: Thank you.

Monsieur Paillé.

[Translation]

Mr. Daniel Paillé: Along the same lines, given what happened last week with the call for a vote on division, could we consider

using the days set aside for the trip out east and staying here instead? That way, we would have more time.

In any case, we can discuss it during the steering committee meeting.

[English]

The Chair: Well, my preference as the chair would be to have a steering committee or subcommittee, but it's up to the committee as to whether they want to do that or not. That's my suggestion. I think we could find agreement on who or who not to add. I also then would want the approval of the subcommittee as to what kind of agenda we're putting forward, because we are going to have to add more meetings.

Mr. Pacetti.

• (1750)

Mr. Massimo Pacetti: I would say that we did not exclude any of the witnesses, like the chair said. We have 430 witnesses: it's who we decide to have come. It's the first time that we're doing this, so it's not scientific, and that's what I've been telling the people I've been speaking to.

I think if there were an amicable agreement that we add six people... I think that's what we're saying here. But if we need to have a steering committee, I would suggest that we have it tomorrow afternoon, from 3:30 to 4:00, and we agree then. But we have to bring it to the full committee, which means Wednesday, and the clerk has to do some planning. It's not meant to reopen the number of witnesses. I think we have a total of six additional people.

The Chair: Well, if the four parties are fine with the names mentioned, that's fine with me.

Mr. Mulcair, do you want to add anything?

Mr. Thomas Mulcair: That's fine.

The Chair: We're okay with the names...? *D'accord?*

All right. Thank you.

The meeting is adjourned.

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

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

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

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

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>