CANADA: People, Places and Priorities

REPORT OF THE STANDING COMMITTEE ON FINANCE

Sue Barnes, M.P.
Chair

November 2002

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CLERKS OF THE COMMITTEE

Richard Dupuis
Lisa Chartier-Derouin
Marc Toupin (until June 19, 2002)

RESEARCHERS TO THE COMMITTEE

Parliamentary Research Branch

June Dewetering
Blayne Haggart
Marc-André Pigeon

COMMITTEE MANDATE

Standing Order 83.1

Each year the Standing Committee on Finance shall be authorized to consider and make reports upon proposals regarding the budgetary policy of the government. Any report or reports thereon may be made no later than the tenth sitting day before the last normal sitting day in December, as set forth in Standing Order 28(2).

House of Commons
Canada

Wednesday, November 20, 2002

Certified to be a true copy of the Journals of the House of Commons of Monday, October 7, 2002.

MOTION

The following extract of motion was concurred in on October 7, 2002:

"That any evidence adduced by any Standing or Special Committee on any matter not reported upon in the previous Session shall be deemed to have been laid upon the Table in the present Session".

ATTEST

The Clerk of the House of Commons

THE STANDING COMMITTEE ON FINANCE

has the honour to present its

SECOND REPORT

In accordance with its mandate under Standing Orders 108(2) and 83.1, your Committee has studied proposals on the budgetary policy of the government and has agreed to report the following:

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CHAIR'S REMARKS

First of all, I need to say thank you. Thank you to those witnesses throughout this comprehensive process who devoted their thinking, analysis and time to presentations to our Committee members. It is with their insight into their daily reality reflected onto a national, even global, perspective that a vision of what Canadians strive for in our collective future emerges.

Thank you also to those who provided the necessary support which enabled the participants' efforts to be communicated through the final report. This includes the clerks of the Committee, Richard Dupuis, Marc Toupin, Lisa Chartier-Derouin and their assistants. An enormous amount of work was well done by the Committee researchers from the Parliamentary Research Branch, led by June Dewetering and assisted by Blayne Haggart, Marc-André Pigeon and their associates. The smooth functioning, especially during our cross-country travels, of interpretation, technical and logistical services specialists was noted and appreciated. My own Ottawa staff, Darlene Springall and Alex Ciappara, continually kept the appointments and paperwork straight during very hectic activity. Merci.

I believe all Parliamentarians come to Ottawa to work for the benefit of their constituents and to contribute to the policy development of the country. Without a doubt my colleagues, as members of the Finance Committee, have devoted much energy and time in reading, listening and questioning the 437 witnesses, including 279 organizations, in their efforts to provide input into and build this report. I respect and acknowledge their valued contribution.

In October, the Finance Minister provided in the *Economic and Fiscal Update 2002* a longer-term planning timetable. Our report responds with not only a longer-term vision of Canada but sensitivity to the fact that, in the shorter term, budgetary resources are lesser and build over the upcoming years. We saw a holistic Canada, from the achievers aggressively leading a more innovative economy, to newcomers searching for a future that allows active contribution and participation, and inclusive of greater-challenged people within Canada demanding to be included so they can better their lives and contribute value to Canadian society.

The report continuously emphasizes transparency, accountability and productivity for smarter and targeted priorities. We heard many, many worthwhile suggestions and tried in the text, if not in the recommendations, to emphasize areas that can be fruitfully followed.

Over and over again, as we listened to the witnesses and read their briefs, an overlay of a Canadian value system emerged. Yes, we want prosperity. Yes, we want a high quality of life. But more importantly, we want it shared, as much as possible, by all. Smart choice is necessary. Priorities are the reality. We have tried to structure this report to reflect accurately what we heard. Where many people told us the same thing it is reported. Where there was dissent, you will see it. We have also worked together as a Committee to tell you what we support in the near and long term.

The reality of our place in Canada, our place in the world, comes down to the choices made among our expenditures, debt reduction and tax relief. There is no doubt that Canadians can achieve their priority goals.

Sue Barnes, M.P.

INTRODUCTION

> *[T]his Committee, through public hearings, provides an important sounding board for the issues and concerns of Canadians. You are an important forum for identifying the economic and fiscal priorities that should go to the heart of our country's policy agenda.* (Minister of Finance John Manley, 19 June 2002)

In spring 2002, the House of Commons Standing Committee on Finance invited Canadians to participate once again in our pre-budget discussions and consultations, and to make recommendations that, when given legislative or policy expression, would help to ensure that Canadians can achieve the future they envision.

As we plan for our future, the Committee feels that two themes are important, and most Canadians making presentations to us focussed on:

- how Canada can best assure greater levels of economic prosperity, widely shared by all Canadians; and
- how the government can best assure the highest quality of life for all.

Most commentators agree that economic prosperity depends on a number of important factors, including a high level of productivity and innovation, as well as a business environment favourable to growth. Key to attaining this prosperity is research and development, lifelong learning and skills development, appropriate taxation and other measures, and a continued commitment to debt reduction.

While economic prosperity contributes to Canadians' quality of life, other factors are also important. Decisions that positively address environmental concerns, healthcare challenges, the needs of vulnerable Canadians and the sustainability of our communities are also needed. These measures help to create a social context within which economic prosperity can be enjoyed.

The Committee's pre-budget discussion and consultations process — our contribution to the budget-making process — plays a key role in the decisions made in these, and other, areas. Beginning in 1993-94, pre-budget consultations have been undertaken with a broad range of Canadians, in their home communities and in Ottawa, to seek their thoughts about the contents of the next federal budget. Allowing Canadians to present their budget-related concerns and recommendations is important in helping to ensure transparency in the budget process and in providing interested Canadians with a mechanism to influence the federal budget.

Unlike the 2001 report, which was largely focussed on security, this report takes a broader, longer-term view. The results of the 2001 Census provide information that can assist us in the development of this longer-term vision, giving information about who we are as a people, and where and how we live. The first two chapters review these Census data and provide a framework for the remainder of the report. Specifically, Chapter One provides demographic information about Canadians, identifies vulnerable groups within our country, discusses the volunteer and charitable donation efforts of our nation's residents, and describes the assistance we provide worldwide from a foreign aid and a defence perspective. Chapter Two reviews the economic context within Canada and describes where Canadians live, as well as the challenges faced by municipalities and concerns related to the environment.

The subsequent six chapters, which focus on the future, summarize what Canadians told the Committee about the future they envision for Canada and about the policies and practices needed today to realize that future. In particular, we address the broad actions that should be taken fiscally, changes to Canadian tax policy, the measures needed to stimulate productivity and innovation, the challenges facing the healthcare system, mechanisms to ensure healthy and sustainable communities, and assistance to vulnerable Canadians.

Finally, in his appearances before the Committee, Minister of Finance John Manley asked for our views on a number of issues:

- How the government can best control expenditures;
- How the government can best focus priorities;
- How the government can best align its spending to meet the highest priorities of Canadians;
- The amount of economic prudence that should be included in the upcoming budget in order to guard against going back into deficit; and
- The policies Canadians think are needed to make Canada a magnet for investment, skilled knowledge workers and cutting-edge research and innovation.[1]

The Committee's views on these issues are presented below, and reflect what groups and individuals told us about who we are and where and how we live today, as well as the actions needed to ensure economic prosperity and a high quality of life in the future.

[1] *Economic and Fiscal Update 2002*, Department of Finance, 30 October 2002, p. 15-16.

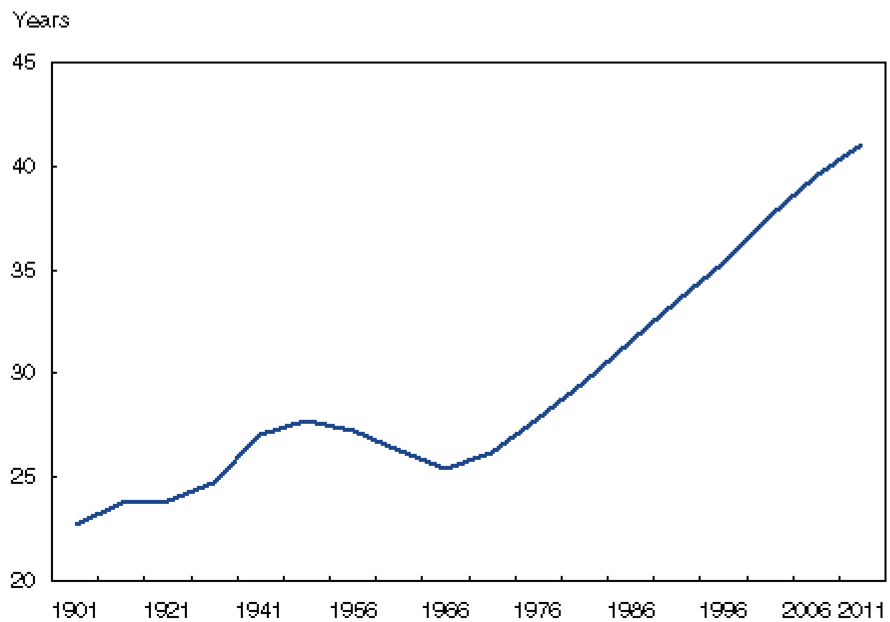
CHAPTER ONE — WHO WE ARE

The Aging Population

> *[B]y 2030, almost one in four Canadians will be 65 years or older. This revolutionary — and I can't emphasize that word too much, because society, in recorded history, has never had this kind of balance, with so many people over the age of 65 — and new reality must be seriously addressed now. It will have a myriad of social, economic and political impacts on our nation in a variety of areas, ranging from health care to housing, employment to pensions.* (Canada's Association for the Fifty-Plus, 21 May 2002)

According to the 2001 Census and as revealed in Figure 1,[2] the median age of Canada's population reached a record high of 37.6 years in 2001, an increase of 2.3 years from 1996 and the biggest Census-to-Census increase in a century. Statistics Canada has reported that seniors aged 65 or over accounted for 13% of the nation's population in 2001 and will reach 15% by 2011, while 26% of the population was aged 19 or younger in 2001, a proportion that is likely to fall to less than 23% by 2011.

Figure 1: Median Age, Canada, 1901-2011

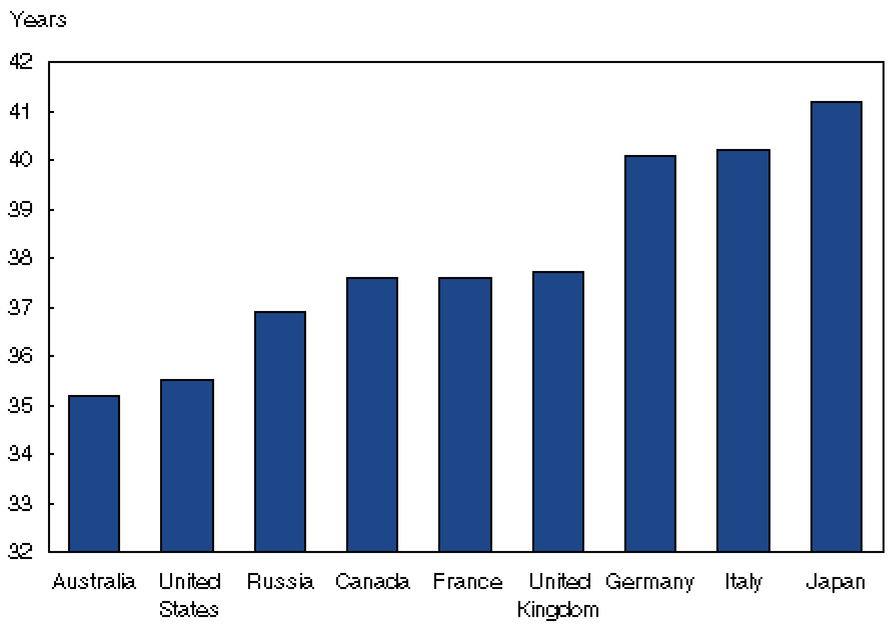


Source: Statistics Canada.

[2] Unless otherwise noted, all age data are from Statistics Canada, "Profile of the Canadian population by age and sex: Canada ages," 2001 Census, Catalogue no. 96F0030XIE2001002, 16 July 2002, available at: www12.statcan.ca/english/census01/products/analytic/companion/age/canada.cfm.

The aging of the Canadian population is consistent with a trend in the rest of the industrialized world. According to Statistics Canada, and as shown in Figure 2, "Canada's median age is higher than that of the United States and Russia but lower than that of Germany, Japan or Italy. It is about the same as that of France and the United Kingdom. … Because of the impact of Canada's baby boom, and the speed of the decline in fertility at the end of the 1960s, the population of core working ages is older in Canada than in all other G-8 countries, except Germany and Japan." Data also reveal that fertility rates continue to decline, reaching a record low of 1.52 children per woman in 1999, the most recent year for which these data are available.[3]

Figure 2: Median Age, Countries of the G-8 and Australia, 2000 or 2001



Source: Statistics Canada.

An aging population, falling rates of fertility and a decline in the proportion of working-age individuals will put pressure on Canada's social programs. While part of this pressure will be relieved by seniors' redemption of their Registered Retirement Savings Plans — which will be subject to income and consumption taxes — some pressure will still be placed on the relatively smaller workforce, particularly for benefits from the Old Age Security and Guaranteed Income Supplement programs, and probably for health care. Consequently, immigration and productivity improvements are likely to play an important role in sustaining Canadians' standard of living and quality of life in the future. Dr. Mario Seccareccia suggested to the Committee that:

> *[T]here's no question that a high standard of living vis-à-vis that of other countries can only be maintained over time if we are sufficiently productive as a society in achieving high rates of measured productivity growth.*

3 Statistics Canada, "Trends in Canadian and American fertility, 1980 to 2000," *The Daily*, 3 July 2002.

While immigration can help address future labour shortages, the Committee has long argued that productivity improvements are the foundation for Canada's continued economic prosperity.[4] Productivity increases allow firms to lower costs and thereby prices charged to consumers, as well as to achieve a competitive advantage. Lower prices enable consumers to purchase more goods and services for the same amount of money. As the proportion of retired individuals rises — and greater government expenditures are needed to support the aging population — productivity improvements will become an increasingly important source of economic growth.

High productivity growth in the United States and relatively sluggish Canadian productivity growth have led to concerns that Canadians' standard of living has been falling behind that of Americans. Economists also worry that Canada's lagging productivity growth will have long-term adverse effects on the economy. According to revised U.S. data and recent Canadian data, however, the gap — while still in existence — is smaller than previously thought.

Statistics Canada has reported that "[b]efore these [recent data] revisions, the U.S. advantage in labour productivity growth varied between 0.1% and 1.9% per year over the period since 1998. It now varies between -0.3% and 0.9%."[5] In other words, in some years Canadian productivity growth actually outpaced that of the United States. This is not an argument, however, for complacency. Actions must be taken in order to ensure the highest possible levels of productivity growth in Canada, since such growth is a key to future prosperity for our nation and our future standard of living.

Population Growth Through Immigration

> *In ten years, one hundred per cent of the growth in the Canadian labour force will come through immigration. … An aggressive immigration policy that targets individuals with specific skills sets must be at the heart of any Canadian innovation strategy.* (Canadian Chamber of Commerce, 23 April 2002)

Canada has always been, and remains, a nation of immigrants. The latest Statistics Canada Census data reveal that, for Canada as a whole, immigration was the main source of population growth between 1996 and 2001.[6] According to Citizenship and Immigration Canada, Canada accepted a near-record 250,346 immigrants in 2001.[7] Immigrants

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4 The most widely cited measure of productivity is labour productivity (the ratio of the economy's total output to the number of hours worked over a given time period).

5 Statistics Canada, "Labour productivity, hourly compensation and unit labour cost," *The Daily*, 13 September 2002.

6 Statistics Canada, "A profile of the Canadian population: Where we live," available at: geodepot.statcan.ca/Diss/Highlights/Page2/Page2_e.cfm.

7 Citizenship and Immigration Canada, *Facts and Figures 2001*, available at: www.cic.gc.ca/english/pub/facts2001/1imm-01.html.

overwhelmingly settle in Canada's larger cities, specifically Toronto, Vancouver, and Montreal, which creates a greater need for immigrant services in these cities.

According to groups such as the Canadian Council of Professional Engineers, as baby boomers begin to retire, skilled labour shortages will develop, and immigration — particularly immigration of individuals who are skilled workers — will help alleviate these shortages. At the same time, while immigration continues to account for an increasing share of Canada's population growth, the Committee heard that immigrants seem to be finding it harder to succeed in Canada. The Canadian Council on Social Development told us that "[m]any recent immigrants to Canada, those people who came predominantly to Toronto, Vancouver, and Montreal, are facing extremely significant difficulties in finding a secure footing in the labour market, as well as adequate employment."

Moreover, while the poverty rate for immigrants has traditionally been in line with the overall Canadian average, the Campaign for Stable Funding of Adult ESL Classes informed the Committee that those who immigrated between 1991 and 1996 face a poverty rate of 52%, well above that of immigrants in previous periods.

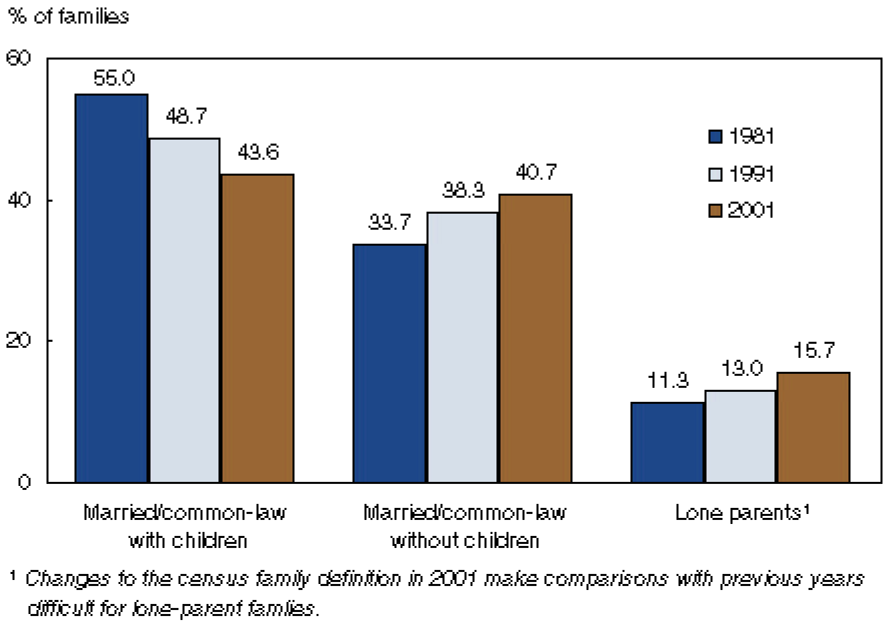
Changing Families and the Needs of Canada's Children

> *Whether or not parents are in the work force, and regardless of their socio-economic status, providing their children with the opportunity to participate in an early childhood education and care setting should be an option. Some think it should be a right.* (Campaign 2000, 4 November 2002)

The structure of families continues to change. As reported by Statistics Canada and shown in Figure 3,[8] the proportion of married or common-law families with children at home continues to decline, accounting for 44% of all families in Canada in 2001, down from 49% in 1991 and 55% in 1981. Lone-parent families represented 16% of all families in 2001, and the number of families with no children living at home continued to rise, reaching 41% of all families in 2001 as a result of lower fertility rates in recent decades and the greater prevalence of "empty nest" families as seniors live for longer periods. Almost 12% of all Canadian couples with children in 2001 were step-families, and the proportion of common-law families grew from 5.6% to 14% between 1981 and 2001.

[8] Unless otherwise stated, all data in this section are from Statistics Canada, "Profile of Canadian families and households: Diversification continues," Catalogue no. 96F0030XIE2001003, available at: www.12.statcan.ca/english/census01/products/analytic/companion/fam/contents.cfm.

Figure 3: Proportion of Couples with Children at Home, Canada, Selected Years



Source: Statistics Canada.

In 2001, 1.07 million children, or about 19%, did not live with both parents. Most of these children lived with a lone parent, the majority of whom were lone mothers. For the first time, Statistics Canada also counted the number of same-sex couples in Canada. In 2001, they represented 0.5% of all couples.

Statistics Canada has reported that the proportion of dual-income families continues to increase,[9] which places pressure on families who must care for children and/or elderly parents. As Beverley Smith informed the Committee, "[t]he Canadian Policy Research Network estimated in 2001 that absenteeism due to work-life conflict costs $3 billion Canadian per year. This problem is not going to disappear. It may be that with a declining birth rate there will be less child-rearing absenteeism proportionally, but with an aging population, there will be more elder care."

Regardless of whether children live in two-parent or lone-parent families, their needs, especially in the early years, remain the same. They require nutritious food, adequate shelter, a stimulating environment, access to early childhood education, and love, among other needs. In its brief to the Committee, the Ontario Coalition for Better Child Care argued that "the early years are absolutely critical to the development of healthy, secure, productive Canadian citizens."

The Organization for Economic Co-operation and Development has commented that the early years are the first formative step in lifelong learning and are a key to

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9 Statistics Canada, "Family Income," *The Daily*, 18 July 2002.

successful education, social and family policy. It has identified key elements for a successful Early Childhood Education and Care policy:[10]

- A systematic and integrated approach to policy development and implementation;
- A strong and equal partnership with the education system;
- A universal approach to access, with particular attention to children in need of special support;
- A substantial public investment in services and infrastructure;
- A participatory approach to quality improvement and assurance;
- Appropriate training and working conditions for staff in all forms of provision;
- A systematic attention to monitoring and data collecting; and
- A stable framework and long-term agenda for research and evaluation.

One of the main problems affecting Canadian children is poverty. The National Council of Welfare told the Committee that "the age group that is most likely to experience long duration of poverty is children from birth to six years of age." According to data collected by the Council, in 1999 the rate of child poverty was 18.7% (or 1,313,000 children), down from 20.6% (or 1,459,000 children) in 1997. Over the same period, the average depth of poverty (i.e., how far a family is below the poverty line) for two-parent families with children fell 7%, to $8,691 from $9,387; for single-mother households, it fell 9%, to $8,459 from $9,325 (all figures in constant 1999 dollars). Despite these improvements, however, the gains in both the rate and depth of poverty are actually weaker than might have been expected considering the strong economic and employment growth of recent years.[11]

In its submission to the Committee, Citizens for Public Justice pointed out that:

> [W]hile many European countries have invested significant public funds in supporting families with children throughout the life cycle, Canada, the U.S. and other English-speaking countries have tended to view child development as the private affair of families. Apart from funding for primary and secondary education and public health insurance, Canada's systems of support for families are weak, particularly in the early years.

The Committee notes that the federal government has already recognized the importance of Canada's children and their role in ensuring the country's future prosperity

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10 OECD, *Starting Strong — Early Childhood Education and Care,* 2001.

11 National Council of Welfare, "Poverty Profile 1999," 29 July 2002, available at: www.ncwcnbes.net/htmdocument/reportpovertypro99/Introduction.html.

through a variety of initiatives, including the creation, with the provinces and territories, of the National Children's Agenda and, specifically, the Canada Child Tax Benefit (CCTB), which is part of the National Child Benefit (NCB) Initiative. The CCTB replaced and enriched the Child Tax Benefit in July 1998. By 2004, the amount of family net income at which the CCTB phase-out begins will be at least $35,000, and the phase-out rate of the base benefit of the CCTB will be reduced from 5% to 4% for families with more than one child, and from 2.5% to 2% for families with one child.

The NCB Supplement was also introduced in 1998, and was increased by $300 in July 2001 to an annual maximum amount of almost $2,400. Additional increases to the National Child Benefit should occur in the future as a consequence of the commitment made in the September 2002 Speech from the Throne. At that time, a commitment was also made regarding the development of a long-term investment plan to allow poor families to break out of the welfare trap in order that children born into poverty do not carry the consequences of that poverty throughout their lives.

Moreover, in 2000, the federal, provincial and territorial governments agreed to the Early Childhood Development initiative, which expands and improves access to services for all families and children in four key areas: health, pregnancy, birth and infancy; parenting and family supports; early childhood development, learning and care; and community-level supports. The federal government has committed to investing $2.2 billion over a five-year period, beginning in 2001-02.

Nevertheless, the lack of adequate, affordable, high-quality child care continues to be a problem for many families. According to data provided to the Committee, 82% of children under the age of six did not have access to a regulated Early Childhood Education and Care space in 2001, and most of the cost of these spaces are financed by families. In the area of child care, as with child poverty, much remains to be done.

Ensuring equality of opportunity for all of Canada's children makes sense from a moral, as well as an economic, perspective. Providing all Canadians with the best possible life — and the best possible start in life — is a sound investment in the future, not only for the benefit of Canada's children, but also for Canada itself.

Poverty and Income Inequality Among Canadians

> *The rising tide of homelessness, the high level of student debt for post-secondary education, the growing demands on food banks, user fees for health services, cuts in services previously provided by some provinces [such as home care], long waiting lists for low-cost housing and nursing homes and some medical procedures — all these take place as the very rich continue at an extremely high level of consumption while the poor are left to struggle with higher costs of living and doing without life essentials.* (Canadian Pensioners Concerned Incorporated (National and Ontario Division), 5 November 2002)

Poverty among Canada's children must be eradicated, which is also the case for poverty among other Canadians. Statistics Canada has reported that in 2000, the latest year for which data are available, "[a]n estimated 666,000 families of two or more people had low income in 2000, down from 714,000 in 1999. The low-income rate also declined, from 10.7% in 1996 to 7.9% in 2000, the lowest rate since 1989 when it was 7.5%."[12] While the declines are welcome, a continued focus on measures to reduce the rate of poverty must occur.

During the last half of the 1990s, the percentage of low-income Canadians, when assessed on an after-tax basis, fell to 11.8% in 1999 from 13.2% in 1995.[13] Studies have repeatedly found that the persons most susceptible to low income tend to have little education, to be students and to live as unattached individuals or in lone-parent families. Immigrants and disabled Canadians also are more likely to find themselves in low-income situations. Actions must be taken, particularly for those most vulnerable, to ensure that the proportion of low-income Canadians continues to decline.

There remains a concern that not all Canadians have benefited from the strong economic growth of the last several years. In his presentation to the Committee, John McConnell voiced his concern that Canada is experiencing a declining middle class, with increases in poverty and income inequality. According to the Vanier Institute of the Family, "[b]etween 1990 and 1995, the richest 20% of families had incomes that were, on average, about 4.8 times larger than those of the poorest 20% of families. This ratio jumped to 5.4 times by 1998 and was still at 5.2 times in 1999. The economic recovery seems to have benefited all income groups but has been of most benefit to the rich."[14]

Low-incomes rates (defined by Statistics Canada as spending more than 64% of after-transfers/after-tax income on food, shelter and clothing) for all families as a group and for all unattached individuals as a group improved during each of 1997, 1998 and 1999. However, the Vanier Institute has reported that:

> [t]he share of the total 'family income pie after taxes' that went to the poorest 20% of families shrank from 7.6% to 7.4% between 1990 and 1999, while the share that went to the richest 20% of families increased from 36.7% in 1990 to 38.3% over the same period. While the economic recovery has benefited all five major income groups, it has been of most benefit to the rich.[15]

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12 Statistics Canada, "Family income," *The Daily*, 30 October 2002.

13 René Morissette, Xuelin Zhang and Marie Drolet, *The Evolution of Income Inequality in Canada, 1984-1999*, Statistics Canada, Research paper no. 187, 2002, p. 20.

14 Vanier Institute of the Family, *The Current State of Canadian Family Finances 2001 Report*, 2000, p. 15, available at: www.vifamily.ca/cft/state01/state01.htm.

15 Ibid., p. 6.

Governments play a significant role in reducing income inequality through transfer payments to individuals and through the progressive income tax system. Statistics Canada figures indicate that, in 2001, government transfers reduced the income gap between the richest 20% of Canadian families and the poorest 20% from 11.7 to 1 to 5.3 to 1. In other words, before taxes and transfers are taken into account, the richest 20% held $11.70 in market income for every $1 held by the lowest 20%; after taxes, this figure falls to $5.30 for every $1 held by the lowest 20%.[16]

The Reality for Aboriginal Canadians

> *[The Assembly of First Nations] believe[s] that you recognize the impact of poverty on First Nations communities and citizens, and the social and economic costs to the provincial and federal government. First Nation poverty is costing all governments an additional $3.5 billion a year. … If First Nation poverty is allowed to continue at this level, all governments in Canada will have to spend an additional $60 billion over the next 15 years. … Investing in our peoples and communities is an investment in the force that will be driving Canada's economy for the coming decades.* (Assembly of First Nations, 8 November 2002)

While Canada is generally considered to be one of the best places to live in terms of quality of life, these benefits are not shared equally. First Nations peoples, as well as Métis and Inuit, fare worse than non-Aboriginal Canadians on almost every social and economic indicator. Unemployment and prison incarceration rates are higher for Aboriginal Canadians than non-Aboriginal Canadians, while employment rates, labour force participation and median income are lower. On-reserve housing conditions are among the worst in Canada, and relatively fewer Aboriginal Canadians go on to post-secondary education.[17]

As shown in Figure 4, the federal government currently spends about $7.5 billion annually on Aboriginal issues, mainly through Indian and Northern Affairs Canada and Health Canada. Other departments and agencies also provide funding, including the Canada Mortgage and Housing Corporation, Human Resources Development Canada, Heritage Canada, Fisheries and Oceans Canada, Industry Canada and Natural Resources Canada.

Each year, Parliament approves appropriations to Indian and Northern Affairs Canada for funding arrangements that support a variety of programs and services in Aboriginal communities, including capital facilities, elementary and secondary education, social assistance, housing, health services and economic development initiatives. The majority of the department's program budget is managed by First Nations directly, while

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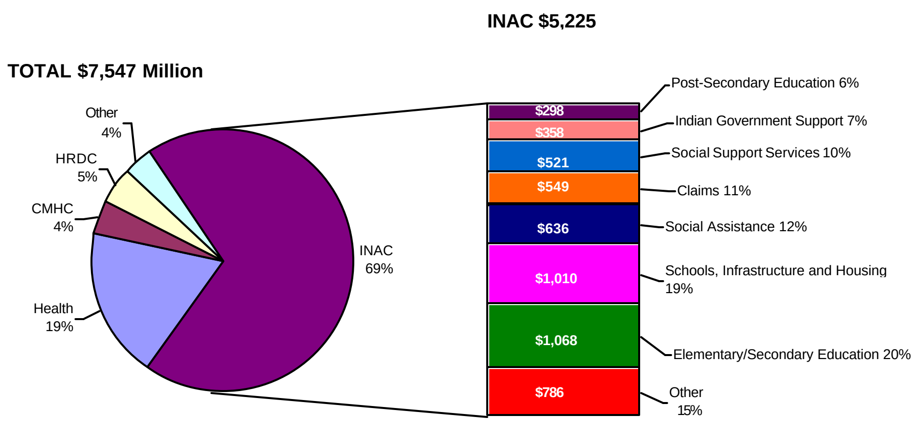
16 Statistics Canada, "Family Income," 30 October 2002.

17 Assembly of First Nations, "Socio-economic Exclusion of First Nations in Canada," August 2001, p. 2.

another portion is transferred to the provinces for the delivery of services to Aboriginal Canadians.

Figure 4: Federal Programs Directed to Aboriginal People, 2002-03 Planned Spending



CMHC = Canada Mortgage and Housing Corporation
INAC = Indian and Nothern Affairs Canada
HRDC = Human Resources Development Canada
Source: Library of Parliament and Indian and Northern Affairs Canada.

Moreover, the December 2001 budget allocated $185 million over the next two years to Aboriginal child development, and $5 million over two years to Health Canada to produce health data on Aboriginal Canadians who live on reserves. The Aboriginal child development funding will be used to:

- Enhance programs (such as child care and head-start programs) that support early childhood development;
- Intensify efforts to reduce on reserves the incidence of fetal alcohol syndrome and fetal alcohol effects; and
- Provide increased funding to support children on reserves who have special needs at school.

In a number of cities, poverty is disproportionately concentrated among Aboriginal people. The federal government is committed to resolving this situation and, in the September 2002 Speech from the Throne, has indicated that it will work with interested provinces to expand existing pilot programs to meet the needs of Aboriginal people living in cities.

Helping Aboriginal Canadians to realize the same quality of life as other Canadians remains one of the greatest challenges facing Canada. In its report on the Canadian healthcare system, the Standing Senate Committee on Social Affairs, Science and Technology remarked that:

[t]here is a disproportionately, and completely unacceptable, large gap in health indicators between Aboriginal and non-Aboriginal Canadians. Aboriginal peoples experience much higher incidence of many health problems, including: significantly higher rates of cancer, diabetes and arthritis; heart disease among men; suicide among young men; HIV/AIDS; and morbidity and mortality related to injuries. Infant mortality rates are twice to three times the national average, with high rates of fœtal alcohol syndrome and fœtal alcohol effects (FAS/FAE), and poor nutrition. Approximately 12% of Aboriginal children have asthma, in comparison with 5% of all Canadian children. This last trend is attributable, at least in part, to environmental health issues, such as the presence of moulds in houses.[18]

Homeless Canadians

In Ottawa, the current average for shelter users on any given night is 961 people. Approximately 30% of these are children. … All of these children suffer the impacts of homelessness: emotional stress, obstacles to good, consistent parenting and very often the effects of poverty: lack of basic nutrition and other material supports. (Alliance to End Homelessness, 1 September 2002)

According to the United Nations' International Covenant on Economic, Social and Cultural Rights — to which Canada is a signatory — access to adequate housing is a basic human right. As the National Housing and Homeless Network reminded the Committee, "[t]he Trudeau government announced plans for an ambitious new federal housing program in 1973 with these words: 'Good housing at a reasonable cost is a social right of every citizen of this country. … This must be our objective, our obligation and our goal.'"

Adequate and affordable housing is essential for Canadians to realize economic stability and prosperity, and a high quality of life. Most groups and witnesses who commented on this issue in their presentations to the Committee agreed that much remains to be done in this area, noting that in 1996 the Canada Mortgage and Housing Corporation found 1.7 million Canadian households to be in 'core need' of housing (households that cannot afford shelter that meets adequacy, suitability, and affordability norms, where affordability is recognized as a maximum of 30% of the household income spent on shelter).

Housing is not only a social issue. It also affects productivity. As the Canada Council of the United Brotherhood of Carpenters and Joiners of America told the Committee, "[t]he stress of unstable accommodations diminishes the ability of individuals to remain productive or even to maintain employment, instigating a vicious cycle of social upheaval." It also noted that "in Calgary, 40% of people using emergency shelters have employment."

[18] Standing Senate Committee on Social Affairs, Science and Technology, "Volume Five: Principles and Recommendations for Reform — Part I," *The Health of Canadians — The Federal Role*, Interim Report, April 2002, p. 104.

Despite last year's economic slowdown, rental markets continue to be very tight across the country, a situation which often has the greatest impact on the least well off because they cannot afford rising rental and real estate prices. For some, rent represents a disproportionate share of their income, a particular burden for the working poor, those on social assistance and recent immigrants.

In the rental market, some analysts have estimated that an additional 42,000 new rental spaces (there are currently an estimated 2.5 million rental spaces in the country) would be needed to raise the vacancy rate from 1.1% to a more sustainable 3%. At the same time, there are reports of insufficient supplies of skilled trades labour — including carpenters, electricians and plumbers — to help increase the housing stock.

Canadians with Disabilities

> *Research over the past decade has repeatedly shown that Canadians with disabilities and their families face poverty, unemployment and unmet needs for supports.* (Canadian Association for Community Living, 6 November 2002)

Disabilities present challenges to both disabled individuals and their families. As the Canadian National Institute for the Blind noted in its submission to the Committee, "[v]isually impaired persons have traditionally faced rates of high unemployment." Moreover, according to data provided to the Committee, 26% of adults with disabilities live below the poverty line, compared with 11% of adult Canadians without disabilities; as well, 48% of adults with disabilities are employed, compared with 73% of adult Canadians without disabilities.

Federal government programs to address the needs of disabled Canadians include the Disability Tax Credit, a non-refundable tax credit that reduces federal income tax by up to $960 in 2001 for taxpayers with a severe and prolonged physical or mental disability, as well as monthly disability benefits available through the Canada Pension Plan for qualifying contributors who have a severe and prolonged disability that prevents regular employment at any job. The maximum Canada Pension Plan disability benefit as of January 2002 is $956.05.

The federal government also provides the Infirm Dependant Credit, the Caregiver Credit, the Medical Expense Tax Credit, the Attendant Care Deduction, the Child Care Expense Deduction, and Goods and Services Tax/Harmonized Sales Tax relief. Disabled Canadians also benefit from the research supported by the Canadian Institutes of Health Research (CIHR).

Volunteers

> *The voluntary sector touches very specifically on the social agenda through inclusion and supporting good governance and investing in people. On the economic side, the voluntary sector … creates employment, provides jobs, increases training opportunities and makes a significant contribution to the economy.* (National Aboriginal Voluntary Organization, 9 September 2002)

Charitable and voluntary organizations are important contributors to Canadian society. They encompass an estimated 180,000 non-profit organizations, including minor hockey leagues, meals on wheels programs, humane societies and United Way programs, among a vast array of others. Together, they provide valuable and needed services, and contribute to maintaining Canadians' quality of life.[19]

According to Statistics Canada's most recent survey of volunteerism, although the number of individuals aged 15 years and older performing some kind of volunteer work fell to 26.7% (6.5 million Canadians) in 2000, down from 31.4% (7.5 million Canadians) in 1997, those that did volunteer contributed a greater number of hours.

In addition to formal volunteerism, in 2000, 77% of Canadians reported helping others on their own (i.e., not through an organization), up from 73% in 1997. Of these, 79% reported helping people other than relatives, up from 71% in 1997. The most common types of assistance were providing rides to stores or appointments, housework, unpaid babysitting, yard and maintenance work, visiting the elderly and providing care for the sick or elderly.

Statistics Canada has also reported that a "civic core" of 28% of Canadian adults accounted for 83% of total hours volunteered in 2000, 77% of total charitable dollars donated and 69% of civic participation. In general, they are:

- 35 to 40 years of age or older, with the peak years falling in the late 40s and 50s;
- religious but less likely to be Catholic;
- relatively well-educated;
- committed to their communities;
- married;
- higher than average in income;

[19] All data in this section are from Statistics Canada, "Caring Canadians, Involved Canadians: Highlights from the 2000 National Survey of Giving, Volunteering and Participating," Catalogue no. 71-542-XIE, August 2001.

- employed in higher-status occupations;
- parents with a number of children between six and 17 years old;
- less likely to watch television than most Canadians; and
- likely to reside in communities away from large metropolitan centres.[20]

Canadians are also generous with their money. According to Statistics Canada, 78% of the population made charitable gifts to organizations in 2000, the same proportion as in 1997. Furthermore, the average amount donated rose to $259, up $20 from 1997. While high-income individuals tend to make the largest donations, low-income individuals give a larger percentage of their income to charities.

The federal government supports charitable organizations through a variety of fiscal mechanisms, including tax credits for donations to charitable organizations. The credit is 16% of the first $200 donated and 29% on donations exceeding this amount. As well, last year the government permanently reduced the capital gains inclusion rate applied to certain donations of publicly traded securities to public charities to one-half of the amount applied to other capital gains.

In 2000, the federal government and the voluntary sector launched the Voluntary Sector Initiative to strengthen the voluntary sector's ability to meet future challenges and to enhance the relationship in the service of Canadians. In light of pressures to deliver a greater number of services, raise larger amounts of money to support their activities, adapt to the information age, recruit volunteers from a time-constrained population, and ensure the resources and expertise to continue to work effectively, the Initiative is designed to develop:

- an accord between the federal government and the voluntary sector to guide future work together;
- a code on policy dialogue and a code on funding principles and practices to identify good practices;
- new research in such areas as individual giving and volunteering, and the sector's contribution to the Canadian economy;
- projects to develop the sector's capacity, including a policy internship and fellowship program, as well as exchanges between government and the sector; and
- the Canadian Volunteerism Initiative, a $43 million program that will establish national and local networks to strengthen volunteerism in Canada.

[20] Paul B. Reed and L. Kevin Selbee, "Patterns of citizen participation and the civic core in Canada," Catalogue no. 75F0048MIE — No. 03, Statistics Canada, 2002, p. 14.

Finally, in October 2002, Prime Minister Jean Chrétien announced the appointment of Minister of Canadian Heritage Sheila Copps as being responsible for leading the federal government's efforts to strengthen its relationship with the voluntary sector. The Minister will work to ensure that the federal government fully implements the Accord signed with the voluntary sector in December 2001, as set out in the September 2002 Speech from the Throne.

Canada in the Global Context

> *We are heartened by the fact that the Prime Minister has stated publicly that the Government plans to increase Canadian development assistance significantly and is committed to a timetable to rebuild Canadian Official Development Assistance. The upcoming budget must reflect this promise.* (Action Canada for Population and Development, 9 September 2002)

The terrorist attacks in the United States on 11 September 2001 reminded us that the world is growing ever smaller, and events taking place a world away can have repercussions in our own country. In the past year, Canadian soldiers have been deployed to Afghanistan and other locations, Canadian naval forces remain in the Persian Gulf and there are concerns about a future war with Iraq. These events have focussed Canadians' concerns and, according to some commentators, the concerns of some of our allies about the state of readiness of Canada's Armed Forces.

Defence and security were major themes in last year's pre-budget consultations and in the December 2001 budget. The budget provided $7.7 billion in security expenditures, including $6.5 billion for security (encompassing air security and Canada's military) and more than $1.2 billion for border initiatives aimed at strengthening border security, facilitating the flow of goods and people, and improving border infrastructure.

Canadians are also viewed as a people with a great concern for the well-being of those who live in developing countries. In the 1960s, a United Nations committee chaired by former Prime Minister Lester Pearson provided countries with the goal of dedicating 0.7% of their Gross Domestic Product (GDP) to foreign aid. Canada's Official Development Assistance (ODA), currently equal to 0.26% of GDP, is far below this target. Furthermore, the North-South Institute informed the Committee that '[f]ifteen years ago, Canada used to count itself among the six most generous rich countries, as measured by the proportion of national income allocated to foreign aid. Today we are sixteenth among 22 donor countries."

In the 2001 budget, the federal government announced a $500 million "Canada Fund for Africa" to support new African sustainable development initiatives. This is part of $6 billion in new and existing resources committed by the government over five years to support African development.

The Committee notes that, in the September 2002 Speech from the Throne, the federal government made a commitment to increasing its aid budget by 8% annually, with a view to doubling Canada's ODA by 2010. As indicated to us by the Centre canadien d'étude et de coopération internationale, however, "[e]ven if we succeed in doubling our development assistance budget by 2010, we estimate that this will still only represent 0.4% of our GDP."

In addition to aid, there is a need to focus on barriers to trade — especially in sectors like textiles and agriculture where developing countries have traditionally had strong absolute and comparative advantages over developed countries — and on the chronic lack of investment flows into lesser-developed countries. The New Partnership for Africa's Development (NEPAD), adopted by the G-7 nations at this year's Kananaskis Summit, is a prescription that grew out of these realizations. The federal government, for example, promised that Canada would eliminate tariffs and quotas on imports from 48 Least Developed Countries (LDCs), of which 34 are in Africa, effective 1 January 2003.

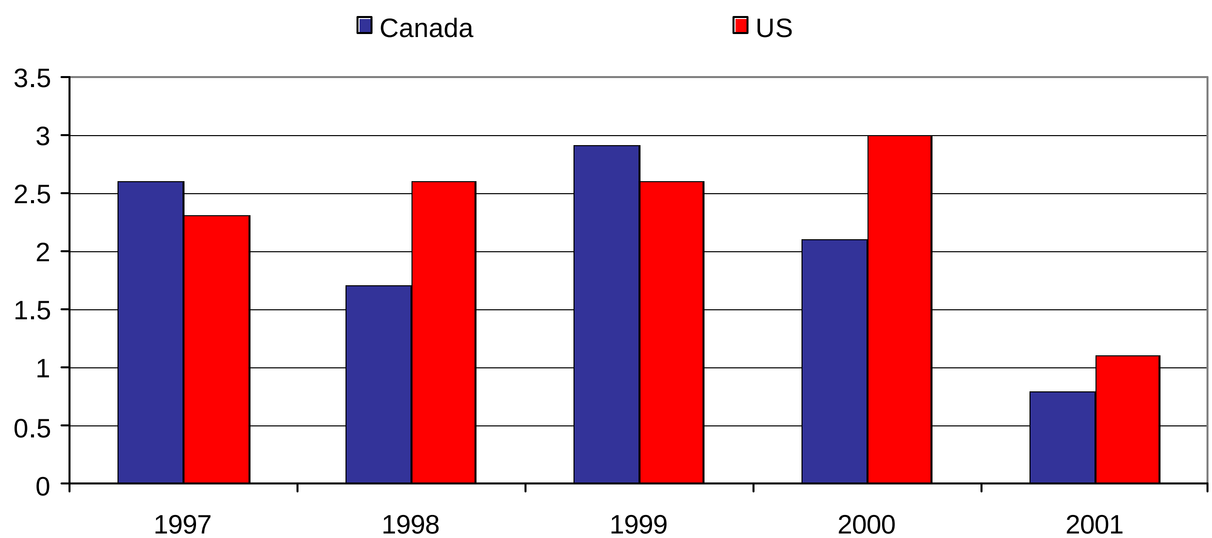
CHAPTER TWO — WHERE AND HOW WE LIVE

The Economic Context

> *Canada enjoys a strong foundation from which to foster economic growth, increase opportunity and enhance the prosperity of Canadians. Personal and corporate tax rates have come down significantly, with further reductions to take effect over the next few years. Inflation is firmly in check, and prime lending rates continue near their lowest levels in years. Moreover, Canada has experienced five successive years of federal budget surpluses, and the country's debt-to-GDP ratio has fallen by 20 percent over the past seven years, faster than any other developed country. These are important and impressive achievements.* (Computing Technology Industry Association, 9 September 2002)

The Canadian economy has experienced a strong recovery from last year's slowdown, when growth fell to 1.5% from 4.5% a year earlier, well below its potential growth rate of 3%. Following the terrorist attacks of 11 September 2001 and the effect of these actions on the economy, economists in the private sector are now predicting that the Canadian economy will grow at a rate of about 3.4% in 2002 and 3.5% in 2003.[21] Recently revised data show that Canada outperformed the U.S. in productivity growth in 1997 and 1999, and may be slowly closing the long-standing productivity gap between the two countries, as shown in Figure 5.

Figure 5: Productivity Growth, Canada and the United States, 1997-2001



Source: Library of Parliament and Statistics Canada.

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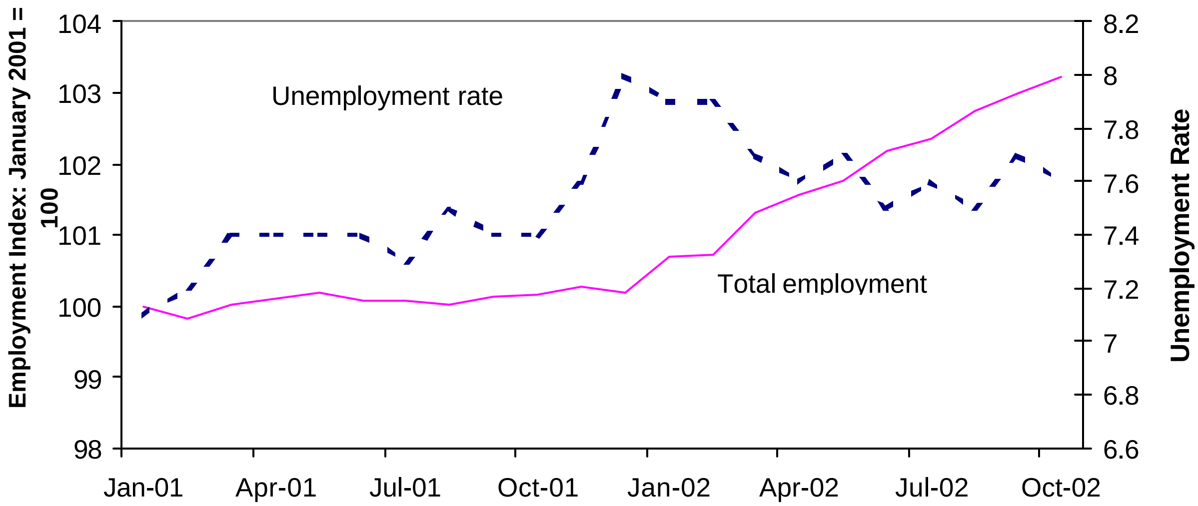
21 Library of Parliament calculations.

Employment is also rising after stagnating for most of 2001. As shown in Figure 6, 459,000 jobs were created between January 2002 and October 2002, while the unemployment rate has been steady at about 7.6% since spring 2002.

Figure 6: Total Employment and Unemployment Rate, Canada, January 2001-October 2002

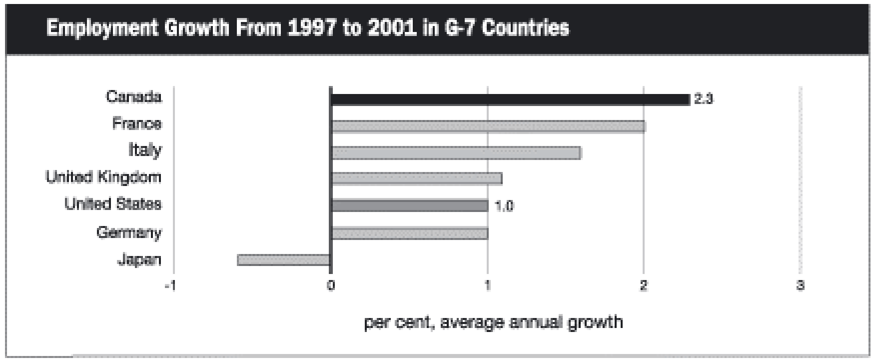


Source: *Canadian Economic Observer*, November 2002 and Library of Parliament.

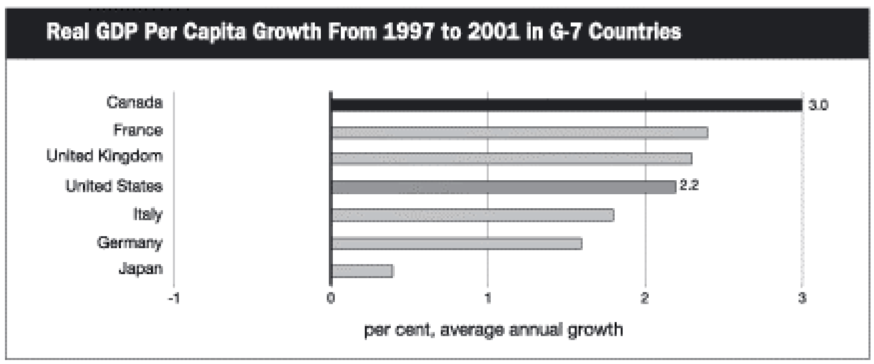
Canada has performed well relative to other G-7 countries, both in terms of employment and standard of living as measured by GDP per capita, as shown in Figure 7. The strong recovery has been reflected, to some extent, in income growth. Personal disposable income rose at a 5.3% annual rate in the second quarter of 2002, up from a 3.3% rate in the first quarter and 3% in the fourth quarter of 2001. In 2000, personal disposable income rose 6.9%, followed by a 4.4% increase in 2001.[22]

[22] Statistics Canada, *Canadian Economic Observer,* October 2002, p. 5.

Figure 7: Employment Growth and Real GDP Per Capita Growth, G-7 Countries, 1997-2001



Sources: Statistics Canada, Bureau of Economic Analysis and *OECD Economic Outlook No. 71* (June 2002).



Sources: Statistics Canada, Bureau of Economic Analysis and *OECD Economic Outlook No. 71* (June 2002).

Source: Department of Finance, *Economic and Fiscal Update 2002.*

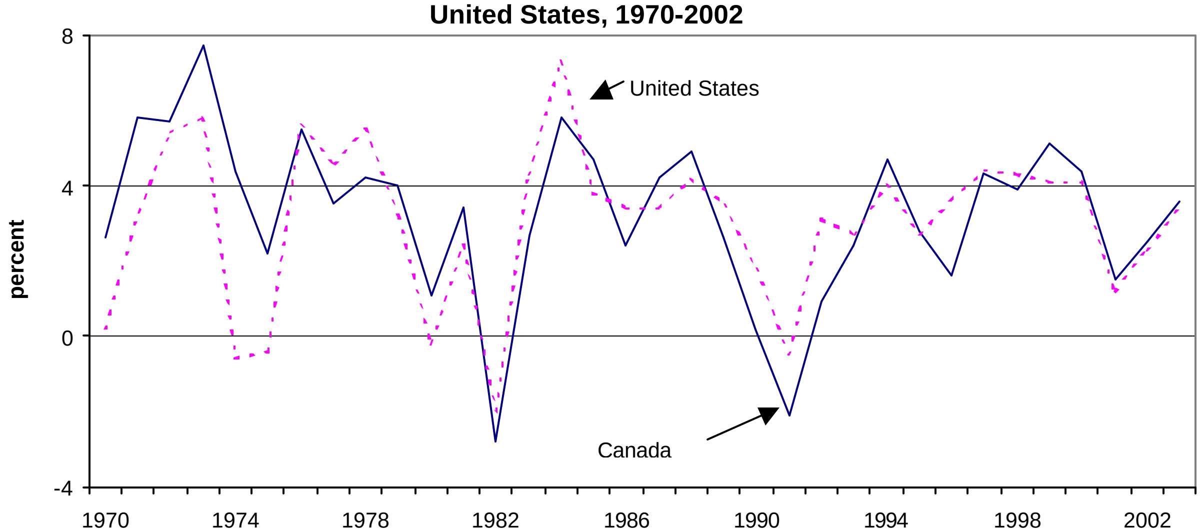
Partly in response to strong employment and economic growth, the Bank of Canada has raised its overnight interest rate three times in 2002 to its current rate of 2.75%, although more recently the Bank has held the rate steady because of signs that the U.S. economy is slowing, and more rapidly than most analysts expected. In raising the rate, the Bank indicated that the increases were necessary because the Canadian economy might be growing too fast and could push the core inflation rate (the rate used by the Bank when setting interest rates) outside the Bank's 1% to 3% target range, with 2% as the anchor within the range.

On 6 November 2002, the U.S. central bank reduced its overnight lending interest rate by one-half of one percentage point to 1.25%, which has been interpreted as a sign of concern by the U.S. Federal Reserve that the U.S. economy may be slipping back into recession. Two weeks earlier, the U.S. Federal Reserve's Beige Book review of the U.S. economy described an economy of declining retail sales, deteriorating manufacturing output and a continued slump in commercial real estate.

Historically, the health of the Canadian economy has been closely tied to that of the United States, as shown in Figure 8, largely because of the significant volume and value of trade between the two countries: the United States purchases more than 85% of Canada's exports. While Canada has outperformed the U.S. economy in 2001 and 2002, the sluggish U.S. economy is starting to affect Canada. In particular, exports to the U.S. in the first nine months of 2002 were 3.5% lower than for the similar period in 2001. Concerns about the outlook for the Canadian economy were reflected in a survey of members conducted by the Canadian Professional Sales Association (CPSA), which told the Committee that:

> [w]hen he appeared before the Standing Committee on June 19, 2002, the Finance Minister reported that the economy grew at an annualized rate of six per cent in the first quarter of 2002. Compared to that good news is the much less optimistic forecast provided by CPSA members. Only 16 per cent of respondents have predicted a Canada-wide growth rate of greater than three per cent … .

Figure 8: Real GDP Annual Growth Rates, Canada and the United States, 1970-2002



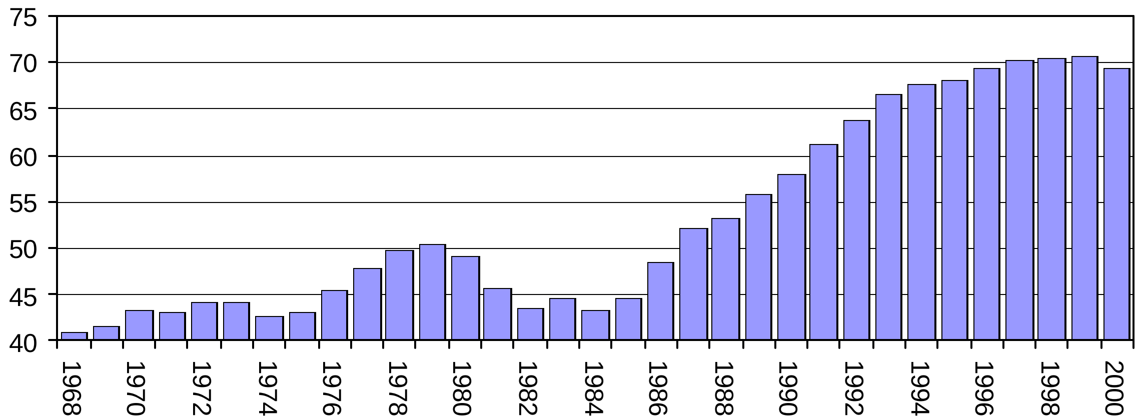
Source: International Monetary Fund, *World Economic Outlook* , April 2002, and Library of Parliament.

Spending and Saving by Canadians

> *Canada's economy is back on the road to recovery following a year of very slow growth compounded by the uncertainties and business losses caused by the terrorist attacks of September 11th. Consumer spending and construction activity remain relatively strong. Exports and manufacturing production have begun to pick up, driven by stronger demand in our major export market, the United States.* (Canadian Manufacturers and Exporters, 23 April 2002)

After stagnating for much of the 1990s, consumer spending has played a key role in Canada's recent strong economic performance and has helped to compensate for the recent slowdown in exports to the United States. In the second quarter of 2002, for example, consumer spending rose 0.7%, driven by a strong housing market and related purchases of goods and services. As indicated in Figure 9, the surge in housing demand has increased overall mortgage debt, potentially leaving consumers vulnerable to an economic slowdown or higher interest rates. Nevertheless, the servicing costs on this debt are near historic lows. This last point has been emphasized repeatedly by the Bank of Canada, which in its October 2002 *Monetary Policy Report* noted that "households appear to be well positioned to finance this debt, with the share of personal income going to debt service remaining well below historical averages."[23]

Figure 9: Ratio of Mortgage Borrowing to Personal Disposal Income, Canada, 1968-2000



Source: National Balance Sheet Accounts.

The overall household debt-to-income ratio was 95.8% in the second quarter of 2002, while the personal saving rate was 5.3%, up from 3.7% for the same period a year earlier.[24] The ratio of total assets to total debt for individuals and unincorporated businesses has been steady throughout the 1990s, with increased indebtedness largely offset by higher housing prices and increased investments in savings plans, including employer-sponsored Registered Pension Plans (RPPs), Registered Retirement Savings Plans (RRSPs) and Registered Education Savings Plans (RESPs). Income is perhaps the most important factor in determining the rate of saving for retirement: in 1999, for example, 15% of the 6.1 million taxfilers with total income of less than $20,000 contributed to an RRSP or an RPP. Between 1999 and 2000, the median contribution to an RRSP increased by 3.9% to $2,700.[25]

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23 Bank of Canada, *Monetary Policy Report*, October 2002, p. 18.

24 Statistics Canada, *Canadian Economic Accounts Quarterly Review*, Second Quarter 2002, Catalogue no. 13-010-XIE, available at: www.statcan.ca/english/freepub/13-010-XIE/free.htm.

25 Data are from Statistics Canada's publication *The Daily*. The data on taxfilers are from 17 July 2001, available at: www.statcan.ca/Daily/English/010717/d010717a.htm. Data on the median RRSP investment in 2000 are from 28 November 2001, available at: www.statcan.ca/Daily/English/011128/d011128f.htm.

Housing and Homelessness in Canada

> *If a household cannot find an affordable, decent place to live, they can't begin to share in Canada's prosperity.* (Cooperative Housing Federation of Canada, 9 September 2002)

In the midst of the housing boom, 2001 Census data reveal that there were 14,145 homeless people living in shelters in 2001, of whom nearly 1,490 were under the age of 15.[26] The federal government has taken steps to alleviate the homelessness problem, beginning with the $753 million homelessness strategy, the National Homelessness Initiative, designed to add emergency shelter beds and related services. There are two main components to the National Homelessness Strategy:

- The Supporting Communities Partnership Initiative (SCPI), which is designed to help communities develop solutions to the homelessness problem; and
- The Canada Housing and Mortgage Corporation's Renovation and Conversion Programs, delivered through the Residential Rehabilitation Assistance Program (RRAP) and the Shelter Enhancement Program (SEP). The RRAP is designed to restore inner-city neighbourhoods, make housing safe and secure, and preserve valuable urban housing stock, while the SEP provides funding to create new shelters or repair existing shelters for women and their children fleeing domestic abuse, as well as youths who are victims of family violence. This funding may also be used for the creation or repair of second-stage housing aimed at helping people make the transition to independent living.

The homelessness initiative has four additional, but smaller, components:

- The Urban Aboriginal Strategy, which brings federal departments together to coordinate their efforts to help homeless Aboriginal people in urban centres;
- The Youth Homelessness Strategy, which is delivered through Human Resource Development Canada's Youth Employment Strategy and is designed to help young people get the work experience, knowledge, skills and information they need to prepare for the world of work;
- The Surplus Federal Real Property for Homelessness Initiative, which provides federal properties for community-based homelessness programs; and
- Planning and Research, in which the government, through the National Secretariat on Homelessness and the Canadian Institutes of Health Research, analyzes the demographics and social circumstances of the homeless as well

[26] Statistics Canada notes, however, that these figures probably underestimate the true extent of homelessness because they exclude, for example, people who live on the street or who live in shelter-alternatives, such as YM/YWCAs and low-budget hotels. See 2001 Census: "Collective Dwellings," available at: www12.statcan.ca/english/census01/Products/Analytic/companion/coll/contents.cfm.

as the structural/systemic forces that contribute to homelessness. This research is also designed to develop solutions to the homeless problem.

While initially targeted at ten big cities, 51 communities have since been added to the federal government's homelessness initiative. According to the government, the homelessness strategy has, to date, assisted in the construction or renovation of 5,600 beds for overnight or transitional housing and 164 food banks and soup kitchens. The strategy is now in its third and final year, and will be reviewed in 2003.

While the September 2002 Speech from the Throne suggested that the federal government would extend the SCPI component of its homelessness strategy, no decision has yet been made on whether to continue with other elements of the program, such as the RRAP or the Youth Homelessness Strategy. The SCPI program has been recognized by the United Nations as one of the best of its kind in the world.

To address a shortage of rental accommodation, the federal government signed a $680 million, five-year Affordable Housing Framework Agreement with the provinces and territories in November 2001, as part of its 2001 Speech from the Throne commitment to stimulate the creation of more affordable housing. The final framework includes the following elements:

- The provinces and territories have the primary responsibility for housing program design and delivery;
- The provinces and territories require flexible programs to address their housing needs;
- Affordable housing must be created for low- to moderate-income households;
- The housing units funded will remain affordable for a minimum of ten years; and
- The provinces and territories will be required to match federal contributions overall.

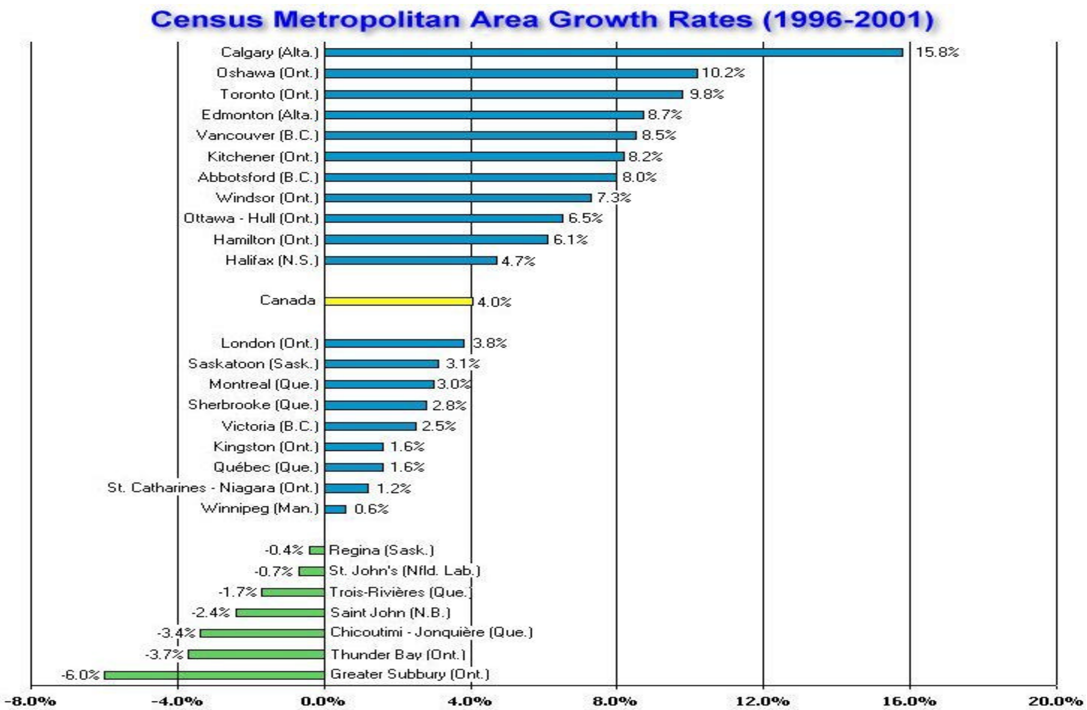
To date, bilateral agreements to provide matching funds have been signed with all provinces and territories except Newfoundland and Prince Edward Island.

Increased Urbanization

> *The trend of rural depopulation and migration to our cities has not only stressed our urban centres, but has created an uncertain environment in many small and remote communities that has placed new pressures on existing resources.* (Association of Manitoba Municipalities, 30 August 2002)

Data from the 2001 Census reveal that Canada is becoming an increasingly urban society. In 2001, 79.4% of Canada's more than 30 million citizens lived in an urban centre of 10,000 people or more, compared with 78.5% in 1996. During this five-year period, the population of urban areas increased 5.2%, faster than overall population growth of 4%. As indicated in Figure 10, four major urban regions accounted for most of this growth: Ontario's extended Golden Horseshoe; Montreal and adjacent regions; British Columbia's Lower Mainland and southern Vancouver Island; and the Calgary-Edmonton corridor.[27]

Figure 10



Source: Statistics Canada.

The population in some municipal cores, however, is growing more slowly than in the areas surrounding it, forming what has become known as a "donut effect." The larger the difference in the growth between the municipal core and the areas surrounding it, the more pronounced the effect. This phenomenon was particularly prominent in such census metropolitan areas as Saskatoon and Regina.

The growth in communities surrounding the municipal core has been fuelled by migration and natural increase, as many young families choose to live and raise children in suburbs because of their affordability and convenience, and for personal reasons. Seventeen of the 25 fastest growing municipalities in Canada surround the core of census metropolitan areas.

Rural areas and small municipalities, defined as areas outside urban populations with 10,000 or more inhabitants, recorded a 0.4% decline in population between 1996 and

[27] Data and charts in this section are from Statistics Canada's "A Profile of the Canadian Population: Where We Live," available at: geodepot.statcan.ca/Diss/Highlights/Highlights_e.cfm.

2001. In 2001, 20.3% of Canadians lived in rural and small town areas, down from 21.5% in 1996. The population of these areas declined in every province except Ontario, Manitoba and Alberta. The growth of rural areas in these three provinces depended on the proportion of their residents who commuted to urban centres, choosing to live just beyond urban boundaries in more rural settings. The population of rural areas in which more than 30% of the residents commuted to urban centres increased 3.7% between 1996 and 2001.

With the exception of a few remote areas, rural and small town areas where the proportion of commuters was less than 30% saw declines in their population because of out-migration. At the same time, an aging population meant that their rate of increase was low and, in some cases, negative. The population of the most remote areas grew by 1% because the birth rate, especially among Aboriginal Canadians, was high enough to offset out-migration.

In terms of provincial population growth rates, Alberta has experienced notable growth since the 1996 Census. It was the only province to increase its population growth rate, rising from 5.9% with the 1996 Census to 10.3% with the 2001 Census. Moreover, five of the ten fastest growing municipalities, defined as communities with 5,000 or more people, were in Alberta; most of Alberta's increase was due to migration from other provinces.

Other provinces and territories experienced declining populations between 1996 and 2001, including Newfoundland and Labrador, with a decline of 7%, the Yukon Territory, which fell 6.8%, the Northwest Territories, which experienced a 5.8% decrease, and Nova Scotia, with a 0.1% decline. Declines in all of these provinces and territories were the result of out-migration. In the case of Newfoundland and Labrador, low fertility rates were also a factor.

Canada's 4% population growth rate is well above that of many other developed countries, which are growing at an average rate of 1.5%, although below the 8.4% average rate in developing countries. For the first time in 100 years, the population growth rate in Canada was below that of the United States, in part because of very high fertility rates in the U.S., especially among citizens originating from Latin America.

Challenges for Municipalities

> *There is a need for coordination, collaboration, effective representation and commitment to a new approach for Canada's urban regions. … Without a long-term source of infrastructure investment, cities cannot plan properly for the anticipated population and commercial growth expected. This can have a dramatic effect on the competitiveness and economic health of the region.* (Urban Development Institute, 9 September 2002)

The increasing trend to urbanization documented by the 2001 Census has left many municipalities with challenges they are financially ill-equipped to address. According to many analysts, re-investments are urgently needed in social housing, water systems, sewers, roads and public transit systems. As evidence of the financial constraint, the Federation of Canadian Municipalities told the Committee that:

> [g]rowth in municipal funding lags behind that of federal and provincial/territorial governments. From 1996 to 2001, federal revenues increased 38%, provincial/territorial revenues 30%, and municipal governments only 14%. Already over-reliant on property taxes, municipal governments are further disadvantaged with a form of taxation that is regressive and unresponsive to economic growth. Experts agree that property taxes are inappropriate for funding redistributive services, such as affordable housing.

Since cities have no constitutional standing, they have only limited tools to address the challenges they face. The downloading of services to municipalities, with no corresponding shift of taxation power, means that cities are being asked to do more with less.

Several solutions have been proposed. For example, municipalities could change the structure of their property taxes to better reflect costs, or they could make greater use of user fees. At present, cities generally over-tax commercial properties relative to residential properties, downtown properties relative to suburban properties, and rental housing relative to owner-occupied housing. Other suggestions focussed on the need for greater access to funds, including grants, taxation power, and revenue transfers (particularly from the 10 cent per litre federal excise tax on gasoline) from senior levels of governments.

Protecting our Environment

> *Whenever we look at the facts, it's clear that Canadians can reduce their greenhouse gas emissions, make their air more breathable, reduce their health care costs, and make their homes more comfortable at the same time as developing new economies and new fortunes in the future.* (Sierra Club of Canada, 7 May 2002)

At the Johannesburg World Summit on Sustainable Development in September 2002, Prime Minister Jean Chrétien announced Canada's intention to ratify the Kyoto Protocol by the end of 2002. The Prime Minister affirmed his commitment to the Kyoto Protocol in a 4 November 2002 speech when he said, "I do not pretend that achieving our climate change objectives will be easy. It will not be. We have ten years to meet our obligations under the treaty. But we can make progress together. We can ratify Kyoto and implement our obligations with a made-in-Canada plan. That we will do."[28]

[28] "Address by Prime Minister Jean Chrétien on the Occasion of the St. John's Maple Leaf Dinner," available at: pm.gc.ca/default.asp?Language=E&Page=newsroom&Sub=Speeches.

Implementation of our commitments under the Kyoto Protocol is likely to have implications in a range of areas. In terms of the economy, the data show that strong economic growth leads to increased greenhouse gas emissions, at least with current technology and energy sources. Moreover, in terms of housing, older homes tend to be less energy efficient than modern homes; upgrading and adding to Canada's housing supply could play a role in reducing the country's greenhouse gas emissions. Similarly, alleviating such challenges as road congestion, urban sprawl and crumbling road, rail, water and sewage infrastructure could contribute to meeting Canada's Kyoto commitments.

While a majority of Canadians appear to support Canada's Kyoto commitment to reduce greenhouse gas emissions to 6% below 1990 levels between 2008 and 2012, a number of groups and individuals are concerned that Canada's ratification could harm the competitiveness of Canadian firms and lead to slower economic growth and large job losses, particularly in Canada's oil and gas sector. Some witnesses suggested that the federal government should release a more detailed plan and engage in further consultations with Canadians before ratifying the Protocol. There is a need for greater certainty, which could be achieved through the collaboration of relevant parties with the objective of concluding sectoral agreements.

Supporters of the Kyoto Protocol argue, however, that ratification could prompt Canadian companies to make more efficient use of their existing resources and to develop or adopt new environmentally friendly technologies. They also suggest that atmospheric warming may already be imposing costs on Canadian society in the form of natural disasters. In their view, ratification is a first step in controlling the rise in greenhouse gases. As the David Suzuki Foundation told the Committee:

> [c]limate change threatens the economic and social well-being of all Canadians and future generations' opportunities for a sustainable future. However, solutions are both available and feasible. By designing budgets and funding priorities to promote sustainable renewable energy and energy efficiency we can ensure that Canada does its part to prevent climate change.

For its part, the federal government has said that its Kyoto plan would spread the costs of meeting commitments evenly across the country and across sectors of the economy. At the individual level, for example, reduced emissions could be achieved by programs that would provide incentives for individuals and firms to renovate homes and buildings and by encouraging greater use of public transportation. For businesses, the federal government could implement measures that would encourage firms to use the latest, most energy-efficient technologies. This could mean, for example, expanding the use of Class 43.1, which allows firms to write off certain kinds of environmentally friendly assets more quickly than they otherwise could. Moreover, "smart regulations" could be developed to encourage energy efficiency and help industry by purchasing a certain portion of the permits needed for Canada to achieve its target.

The value placed by Canadians on the environment is also reflected in the federal government's recently announced plan to create ten new parks and five new marine conservation areas during the next five years. This promise goes beyond recommendations of groups such as the Canadian Nature Federation, which has recommended the creation of eight new parks and four marine conservation areas. The ten new parks will expand Canada's park system by almost 50%, with a total protected area nearly the size of Newfoundland and Labrador. While the estimated cost of this proposal has not yet been released, the Canadian Nature Federation had estimated that its more modest proposal would have cost $165 million over five years.[29]

[29] Parks Canada, "The Government of Canada Announces Action Plan to Protect Canada's Natural Heritage," 3 October 2002, available at: www.parcscanada.gc.ca/apps/newsreleases/release_e.asp?id=636&andor=nr.

CHAPTER THREE — THE PRIORITY OF PROSPERITY AND GROWTH

> *It is the view of the [Canadian Professional Sales Association] that the federal budget for fiscal year 2002-03 will be the most important such document in recent years. In fact, it should probably be accorded the same degree of significance as the budgets that introduced measures to return Canada to a position of fiscal integrity. Maintaining that integrity in the fiscal years ahead should be the central objective of the coming budget.* (Canadian Professional Sales Association, 9 September 2002)

As identified in the Introduction, economic prosperity, with the benefits widely shared by all Canadians, is an issue upon which Canadians were asked to comment during the Committee's pre-budget discussions and consultations. Certain conditions must exist if Canada is to continue to enjoy economic prosperity, and many of these were identified by the Committee's witnesses: ensuring that the budget, at a minimum, is not in a deficit position; continued efforts to reduce our debt; an adequate contingency reserve along with a measure of economic prudence; tax reductions as a stimulus to growth and prosperity; and the reallocation of existing expenditures to meet new spending needs.

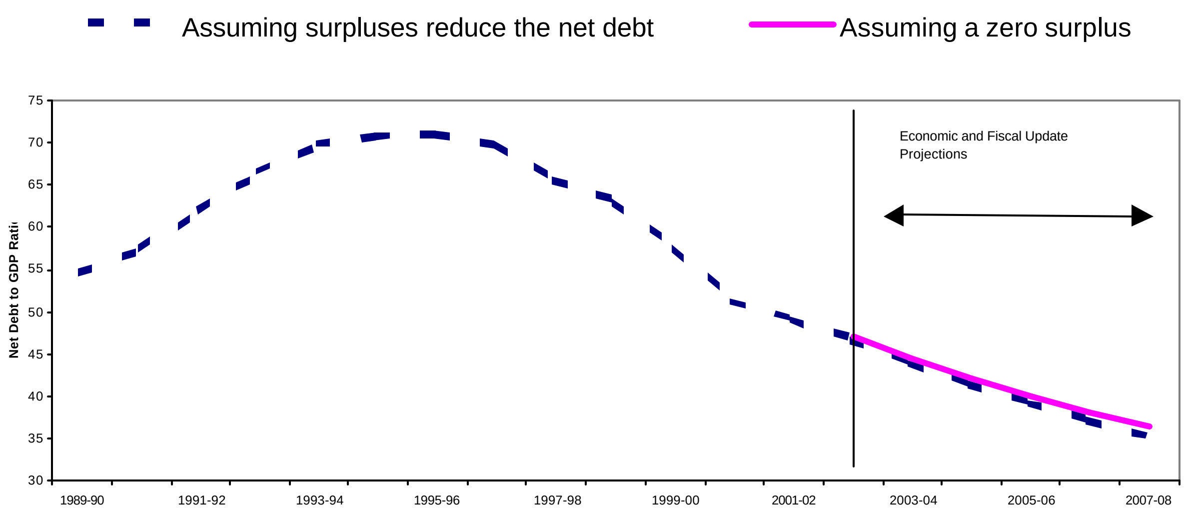
Staying the Course

> *We have placed a mortgage on future generations and unless we adopt and implement responsible measures in the short and medium term, our action from the past will reduce the quality of life of our children and grandchildren. It will also impact on our ability to prosper as a nation.* (Canadian Printing Industries Association, 31 August 2002)

In his October 2002 presentation to the Committee, Minister of Finance John Manley informed us that Canada continues to enjoy strong economic growth, and that we will lead the G-7 countries in economic growth in the future. This is a notable achievement in light of global uncertainty, weaker-than-expected growth in some countries — notably the United States — and uncertainty related to corporate governance failures and a potential war with Iraq.

Strong economic growth has resulted in benefits, not only in terms of employment gains and rising incomes for Canadians, but also in terms of the federal government's financial situation. Since 1995-96, Canada's net-debt-to-GDP ratio has fallen from almost 71% to 49.1%. On a National Accounts basis, an accounting system that allows for cross-country comparisons, Canada's net-debt-to-GDP ratio in 2001 was below the G-7 average for the first time since 1985. While almost all of the reduction in the net-debt-to-GDP ratio was the result of economic growth, budget surpluses totalling $46.7 billion since 1997-98 also contributed to the decline. Data from the federal government's *Economic and Fiscal Update 2002* suggest that the trend toward a lower net-debt-to-GDP ratio is likely to continue — and fall below the G-7 average of 40% — even if the government only just balances its budget (i.e., makes full use of the economic prudence and contingency reserves), as shown in Figure 11. The Committee supports efforts that would contribute to further declines in the net-debt-to-GDP ratio to 30% by 2011 to address partially the demographic pressures that will result from the retirement of the baby-boom generation. The resulting savings in interest payments could be used to finance those programs and services desired by Canadians.

Figure 11: Net-Debt-to-GDP Ratio Under Two Different Scenarios

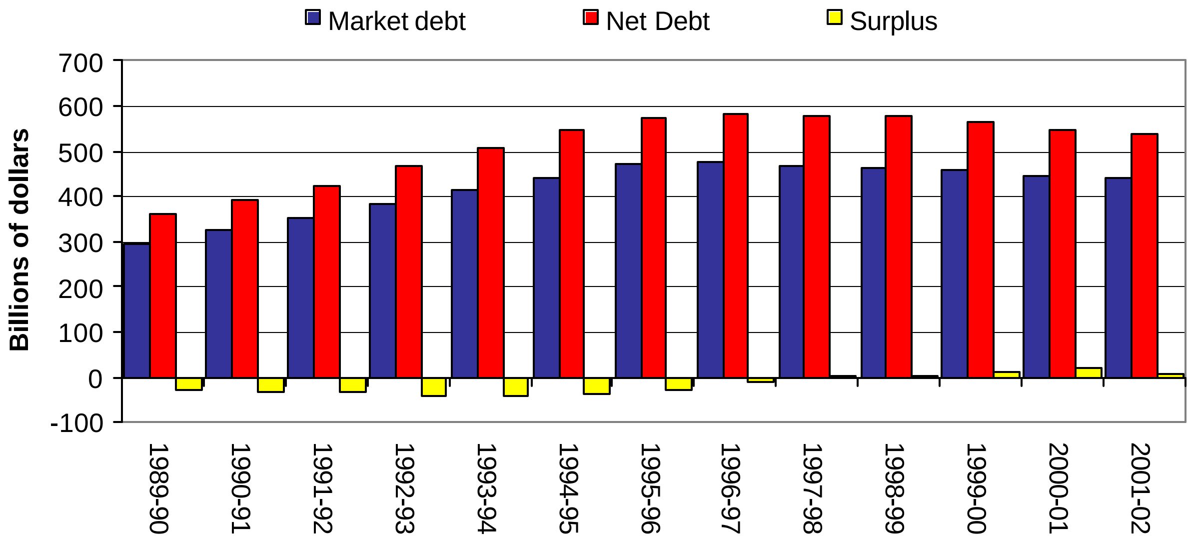


Source: Library of Parliament and Department of Finance, *Fiscal Reference Tables 2002* and *Economic and Fiscal Update 2002*.

The Committee notes, however, that *reducing* the net debt is not equivalent to *paying down* the debt. These are two separate concepts, as the Auditor General recently noted in her review of the federal government's financial statements: "The surplus for the year does NOT automatically pay down the debt. There is neither any law nor accounting rule that requires this. This year's surplus was applied to several areas, only one of which was the reduction of debt. Part of the surplus was used, for example, to support increases in financial assets such as loans, investments and advances."[30] That being said, a portion of the surpluses has gone to paying down the government's market debt, which more closely corresponds to a mortgage or loan and has saved the government a certain amount in interest costs. Figure 12 shows the evolution of these two debt concepts.

[30] "Auditor General's Observations on the Financial Statements of the Government of Canada for 2001-2002," p. 1.39, available at: www.oag-bvg.gc.ca/domino/other.nsf/html/99pac_e.html/$file/2002agobs_e.pdf.

Figure 12: Net Debt, Market Debt and the Surplus



Source: Library of Parliament and *Fiscal Reference Tables 2002*.

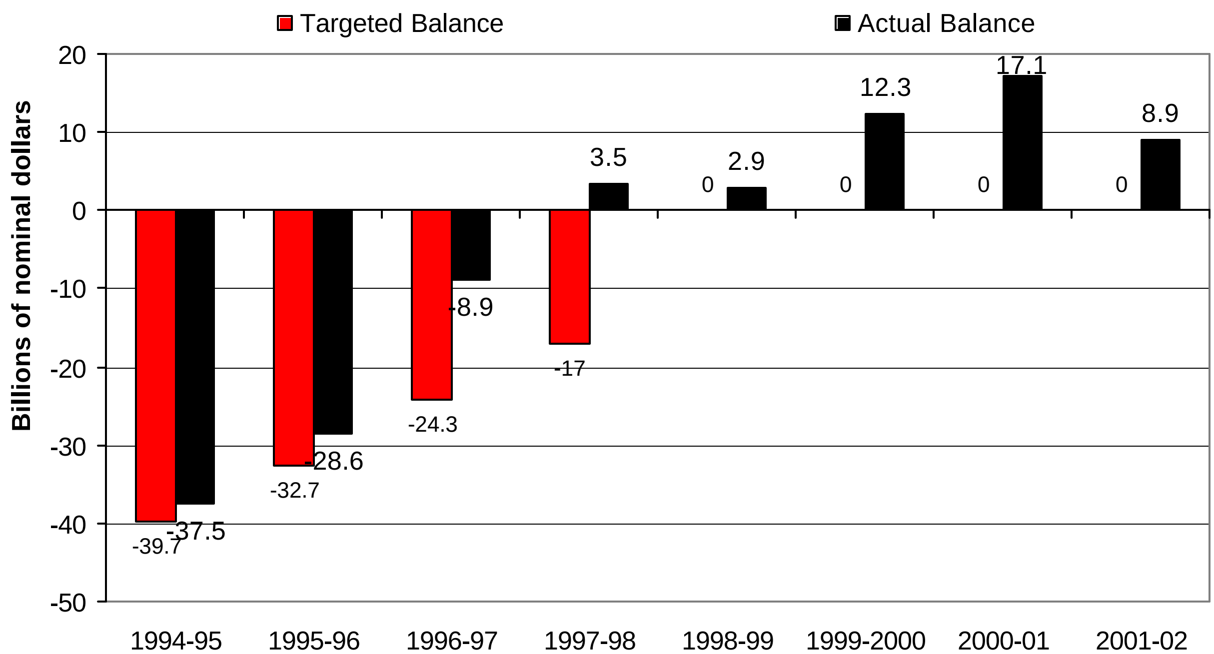
Many witnesses, including the Canadian Federation for Promoting Family Values and the Canadian Institute of Chartered Accountants, told the Committee of the need for prudent action in order to avoid moving back into a deficit position. As well, Dr. David Laidler indicated to us that the credibility of Canada's monetary policy regime "has been considerably enhanced since 1995 by fiscal policies that have reduced both the public debt, particularly at the federal level, and Canada's overseas indebtedness." A balanced budget, if not a surplus, remains a priority of Canadians.

Budget Planning, the Contingency Reserve, Economic Prudence and What to Do with the Surplus

> *Identifying areas in need of an injection of public funding, ensuring that there will be positive spin-offs attaining multiple policy objectives, and partnering with other organizations from the public, private or not-for-profit sectors; these are characteristics of a wise strategy for spending hard-earned tax dollars.* (Canadian Library Association, 9 September 2002)

Government efforts designed to ensure that the federal government avoids budget deficits and generates surpluses were welcomed by witnesses, although some commented on the frequency with which the government underestimates the size of the budget surplus. The government has been able to consistently surpass its surplus forecasts, as shown in Figure 13.

Figure 13: Federal Budget Balance: Targets Versus Actual Balances (Public Accounts Basis)



Source: Library of Parliament and Department of Finance. Note that the "zero" surpluses for 1998-99 through 2001-02 assumed that the economic prudence and contingency reserve would be fully utilized.

There are a number of reasons underlying these smaller-than-anticipated deficits and larger-than-anticipated surpluses:

- Strong revenue growth due to a booming U.S. economy throughout the latter half of 1990s and strong domestic growth since 1997, as well as the effects of "bracket creep" until indexation was re-introduced in the 2000 budget;[31]

- Spending cuts that guaranteed savings in the future, the downloading of some spending responsibilities and resisting demands for restoring spending to previous levels;

- Falling debt servicing costs due to lower interest rates and debt repayments; and

- A budget process designed to produce estimates conservative enough that targets can be met under most circumstances.

[31] Between 1986 and the 2000 budget, income thresholds were indexed to inflation in excess of 3%. Since inflation remained below this level throughout most of the 1990s, many Canadians found themselves in higher tax brackets even though in real, inflation-adjusted terms, their incomes had not increased.

There has been some erosion in all of these conditions except, perhaps, for the budget process itself. That being said, recent employment growth suggests that last year's slowdown in revenue growth stemming from the U.S. recession could be short-lived. Moreover, program spending has increased by an annual average rate of about 3.8% since the federal government began balancing its budget in 1997-98. According to projections in the *Economic and Fiscal Update 2002,* federal program spending will rise from $126.7 billion in 2001-02 to $163.6 billion by 2007-08.

Minister of Finance John Manley has made it clear that he will not risk a budget deficit. Federal government program spending as a percent of GDP is currently 11.6%, its lowest level in the post-war period; it is projected to fall to 11.1% by 2007-08, indicating that program spending is expected to grow slightly more slowly than the economy as a whole.

In terms of interest rates, while the Bank of Canada's benchmark interest rate has risen by 75 basis points since spring 2002, reaching 2.75%, it — and interest rates in general — remains near historic lows. With the continuing uncertainty in the U.S. economy, it is unlikely that interest rates will rise significantly in the short- to medium-term.

Furthermore, the budget process remains essentially unchanged: the federal government still adopts a conservative approach to its forecasts by using the average of private sector forecasts and then adding a measure of economic prudence for unforeseen economic circumstances and a contingency fund for emergency spending needs.

Following the terrorist attacks of 11 September 2001, the federal government, in its 2001 budget, abandoned the economic prudence amount altogether and reduced the contingency reserve to $1.5 billion. In the post-September 11 environment, these conservative assumptions made sense, as the government noted in its 2001 budget: "The size of the Contingency Reserve and economic prudence included in this budget is smaller than in previous budgets. Previously, the contingency reserve was set at $3 billion per year, with an additional amount for economic prudence. These amounts were included to cover risks arising from unforeseen circumstances, like those being experienced now."[32]

While appearing before the Committee in October 2002, the Minister of Finance announced that the contingency reserve would be restored to $3 billion, and that economic prudence would be re-introduced in order to ensure no return to budget deficits. He also reaffirmed the federal government's commitment to devote any surpluses not utilized — including the economic prudence amount and the contingency reserve — to reducing the debt. In that event, the Committee believes the government should ensure that these funds are used to reduce actual market debt.

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32 *Budget 2001*, p. 148.

The Minister of Finance's announcement about the re-introduction of a larger contingency reserve and a return to economic prudence received the support of witnesses. They also shared with the Committee a wide range of views on what to do with any budget surplus. Some witnesses advocated spending the excess funds on social programs — notably health care — while others supported tax cuts of various kinds. Still others suggested that the full amount should be used to pay down the federal government's market debt.

The Bottom Line

> *The government must determine priority areas and exercise restraint. We recognize that certain incremental growth in spending based on population growth and inflation is inevitable. Our position is focused on new initiatives — if the government believes that money would be better spent in one area, they need to reallocate that money from another area which is no longer a priority concern. Real, consistent and aggressive spending control strategies are required for fiscal flexibility.* (Metropolitan Halifax Chamber of Commerce, 30 October 2002)

The Committee endorses the federal government's prudent approach to budget making and believes that surpluses should be used to pay down the market debt as much as possible. This has benefits for all Canadians. In addition to taking action in order not to burden our children, grandchildren and all future generations, reducing our debt means that the federal treasury saves on debt-interest costs. These savings can then be used to focus on the priorities of Canadians, whatever they may be.

Tax competitiveness is a key component of the federal government's strategy to become a magnet for investment and skilled labour, two of the basic drivers of economic growth. Tax cuts, whether personal or corporate, are a priority for the Committee, as they too can generate economic growth. Economic growth, in turn, enables spending on other priorities. As pointed out by the federal government in 2001, and by several witnesses presenting to the Committee, the five-year tax reduction plan announced in the 2000 budget was perfectly timed to help Canadians and the Canadian economy during the 2001 economic slowdown. In our view, a further reduction in tax rates in the next budget could have a similarly positive effect in the event that the sluggish U.S. economy begins to affect seriously the Canadian economy. We believe that, at a minimum, the measures outlined in the five-year tax reduction plan must continue to be implemented. From this perspective, the Committee recommends that:

RECOMMENDATION 1

The federal government continue to implement the five-year tax reduction plan announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*.

A healthy corporate governance culture is another important element of competitiveness and economic prosperity. The scandals at large U.S. firms such as Enron and WorldCom have not only undermined confidence in corporate balance sheets and corporate culture, they have also had a deleterious effect on capital markets and the economy as a whole. As the Canadian Pensioners Concerned Incorporated noted in its appearance, "assurance of the highest quality of life for all can only be brought about if the economy is governed by the highest principles of honesty, fairness and justice as well as efficiency and effectiveness." While Canada has not experienced any corporate scandals similar to those arising in the U.S., the Committee feels that a review of corporate governance and related issues should be a federal government priority, and we note a number of initiatives currently under way.[33]

The Committee also understands the need for limited spending increases to meet the normal needs of existing programs. We believe, however, that the federal government should limit average annual program spending increases to 3% or less, which is equal to the sum of population growth (approximately 1% annually) and inflation (about 2% annually). We also note that the average of private-sector projections for program spending in the *Economic and Fiscal Update 2002* are reasonably close to this target: between 2002-03 and 2007-08, government spending is projected to grow at an average annual rate of about 3.9%.

Spending targets are essentially "disciplinary" tools that force the government to scrutinize closely any new spending proposal. In the Committee's view, any new spending that threatens the objective of a balanced budget should either be abandoned or delayed. If the government still finds it necessary to pursue these new policies, it should undertake program review and reallocate existing expenditures to other purposes. We believe that this is the proper approach, and that the monies in the contingency reserve should only be spent in extraordinary circumstances.

Budget making is about prioritizing. This prioritizing must be done in the context of a continued focus on the avoidance of a budget deficit, a plan of action to reduce our debt, a contingency fund and economic prudence of an appropriate size, personal and corporate tax reductions as an economic stimulus, and a review of existing expenditures in order to identify areas for the reallocation of spending from lower- to higher-priority areas consistent with the views of Canadians, whether they be further debt reduction, tax reductions or increased spending. Discipline in all of these areas is required in order to ensure the future economic prosperity of our nation and the quality of life of its citizens. For these reasons, the Committee recommends that:

[33] See, for example, the 20 November 2002 report by the Minister of Finance's Special Representative on securities regulation, Harold MacKay, and the public hearings by the Standing Senate Committee on Banking, Trade and Commerce.

RECOMMENDATION 2

The federal government continue to focus on a balanced budget, with any surplus used to pay down its market debt. The government should consider the extent to which savings realized as a consequence of lower debt-interest costs should be spent on existing or new programs that have been identified as priorities for Canadians. Moreover, the government should undertake an ongoing review of federal expenditures with a view to monitoring continuously the activities that are priorities for Canadians in order that appropriate reallocation of spending occurs. Finally, spending increases should be limited to the rate of inflation and population growth.

CHAPTER FOUR — THE PRIORITY OF TAX CHANGES

> *To encourage business and individuals to invest in building a globally competitive nation, the federal government must eliminate the disincentives created by inefficient and excessive taxes. The better than expected economic outlook should provide the government with the fiscal stimulus and capacity to respond effectively.* (Mining Association of Canada, 9 September 2002)

Taxation is primarily a means for governments to raise revenue that can then be used to provide a variety of public goods and services. Taxation is also, however, an important public policy tool in its own right. For example, the design of the tax system can help to bring about a more egalitarian society by taxing individuals according to their ability to pay, so that those who *have* more *pay* more. In Canada, the personal income tax system embodies this principle through four different tax brackets with progressively higher marginal tax rates, which are also indexed to inflation. For 2002, the personal income tax rates are:

- 16% on the first $31,676 of income;
- 22% on income between $31,677 and $63,353;
- 26% on income between $63,354 and $102,999; and
- 29% on income of $103,000 and higher.

As well, a taxation system can be structured to encourage or discourage behaviour. Consider, for example, governments' taxation of so-called "sin products" such as tobacco and alcohol. Earlier this year, the taxation of tobacco products increased by $2 a carton in Quebec, $1.60 in Ontario and $1.50 in the rest of the country, with the tax increase defended by a suggestion that it would curb tobacco consumption while raising an additional $440 million annually in revenue.[34] In the course of legislative hearings, the Department of Finance told the Committee that a 1% increase in tobacco costs can be expected to reduce consumption by between 0.4% and 0.7% for the population as a whole and by 1.4% for youth.[35]

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34 While there is a public policy element to high taxes on such products, it is also true that these so-called "sin products" tend to be what economists call "demand inelastic," which means that consumption does not vary proportionately with changes in prices (i.e., a 1% increase in tobacco prices is generally believed to lead to only a 0.4% to 0.7% decrease in demand) and that they are excellent revenue generators, often with minimal political cost.

35 Testimony before the House of Commons Standing Committee on Finance by Brian Willis, Senior Chief, Excise Act, Sales Tax Division, Tax Policy Branch, Department of Finance, 11 April 2002, available at: www.parl.gc.ca/InfoComDoc/37/1/FINA/Meetings/Evidence/FINAEV86-E.HTM.

Groups and individuals presented the Committee with numerous proposals for changes to the *Income Tax Act*, each of which individually appeared to satisfy the Committee's objectives of improving economic prosperity and/or improving Canadians' quality of life. While we appreciate the efforts taken to develop policy proposals that meet our stated objectives, we must also be wary of increasing the complexity of an already complex tax code. As the C.D. Howe Institute indicated to the Committee,

> Canadians … , after filling out their difficult-to-comprehend income tax forms this past week, know that the government continues to absorb a large share of their paycheques. Our bloated tax system, with high rates and targeted preferences, continues to be an impenetrable obstacle in improving Canada's standard of living. Further tax reform is needed if Canada is going to reverse the slide in our standard of living relative to other growing economies, including the United States.

In trying to decide whether to recommend a particular tax policy change, the Committee must also consider the proposal's potential revenue impact. While many witnesses presented evidence that their proposals would have little or no impact on government revenue in the long run,[36] we are also mindful of our long-standing recommendation — and the desire expressed by many groups and individuals — that the government avoid deficits, reduce the national debt and ensure the integrity of our social programs.

As indicated earlier in the report, incurring a budget deficit today in order to implement a tax cut that *may* generate additional revenues — or generate revenues of an unknown amount — tomorrow is not an option. The Committee is also concerned that the impact analyses of some of the proposals presented to us were "static" in nature: while a small tax change in part of the *Income Tax Act* might, by itself, have a relatively small effect on revenue, there is a risk that this same tax change — when combined with other proposals — could have a much greater effect and unintended consequences.

Consequently, the Committee must choose judiciously when considering tax policy changes, and recommend those that not only provide the biggest benefit in terms of economic prosperity but that are also consistent with the commitment to, at a minimum, a balanced budget. All proposals presented to us by witnesses were considered, even though they may not have been adopted as recommendations. In the end, our recommendations reflect the advice of the C.D. Howe Institute, which told us that while major reforms to the tax code may be needed, we should begin by concentrating on the reduction of corporate taxes and on recommending policies that encourage citizens to save for their retirement.

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36 Some witnesses suggested that their proposed changes to the *Income Tax Act* could actually generate increased revenue by spurring additional economic activity.

Personal Income Taxes

> *Our marginal tax rates on mobile factors — physical, financial, and human — must be competitive with those south of the border. In the 2000 budget and in the 2000 economic statement, we made important progress, but it's still the case that the top combined, federal plus provincial, marginal tax rates for personal income taxation are too high vis-à-vis the U.S. rates. High marginal tax rates are one of the factors that can fuel the brain drain.* (Dr. Thomas J. Courchene, 30 April 2002)

While the Goods and Services Tax accounts for an ever-increasing portion of government revenue (14% in 2001-02), personal income tax still generates almost one-half of federal revenues (48.3% in 2001-02). The Committee heard from a number of groups and individuals that lowering the income tax rates might help Canada to retain — and lure back — some of its most skilled workers, thereby enhancing the country's productivity and economic prosperity.

There was a general sense that Canada cannot afford to allow its income tax rates to diverge too much from those of the United States. The Toronto Board of Trade, for example, told the Committee that "we don't have to be first in the race for competitive taxes, but we need to be in the race, and we need to be competitive. The package that attracts investment here is not necessarily just one regime or the other."

Le Conseil du patronat du Québec told the Committee that Canada should strive to gradually lower its personal income tax rates to the G-7 average, paying particular attention to the highest marginal tax rate, which affects the most skilled and most mobile workers. The Committee feels that the federal government should pay particular attention to its tax competitiveness with the United States, where the top marginal rate begins at US$307,050 for married individuals filing joint returns and for unmarried individuals, and at US$153,525 for married individuals filing separate returns. The Canadian Professional Sales Association recommended that the federal government reduce its top marginal rate to 27% from 29%. Finally, Canadian Federation of Independent Business surveys of its members consistently place personal income tax reductions at the top of their list of federal tax priorities.[37]

That being said, when asked to choose their most desired tax policy change, most witnesses identified other priorities. Some felt that while Canada may be unable to match the United States in terms of personal income taxes, it could be more competitive in its corporate taxation and in its payroll tax system. A number of witnesses expressed the sentiment that higher marginal tax rates, relative to the United States, may be the price that Canadians have to pay in order to both maintain their social programs and be competitive in terms of corporate taxes.

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[37] Canadian Federation of Independent Business. *Small Business Outlook & Priorities for 2002*, available at: www.cfib.ca/legis/national/5121.pdf.

The Committee believes that the federal government must continue to implement planned changes to the tax system, which should be fully phased in by 2004-05. Moreover, we feel that tax reductions generally serve as an economic stimulus, since Canadians will have greater disposable income that can then be spent on more goods and services. Nevertheless, as indicated earlier, we are also of the view that the budget must, at a minimum, be balanced, although surpluses are preferred and should be used to reduce market debt and thereby generate savings in debt-interest costs.

That being the case, the Committee hesitates, at this time, to recommend additional reductions to personal income tax rates. As our fiscal situation improves, however, and as the need for spending on lifelong learning and skills development, research and development, health care, infrastructure, the environment, vulnerable Canadians and other issues of importance to Canadians are met, the government should revisit the issue of reductions in personal income tax rates. Such a review should also occur if the difference between rates in Canada and those in the United States grow, since this divergence could present problems for Canadian employers wishing to recruit and retain workers. It is from this perspective that the Committee recommends that:

RECOMMENDATION 3

The federal government consider further personal income tax rate reductions as a source of economic stimulus and for reasons of competitiveness, as resources permit.

Corporate Taxes

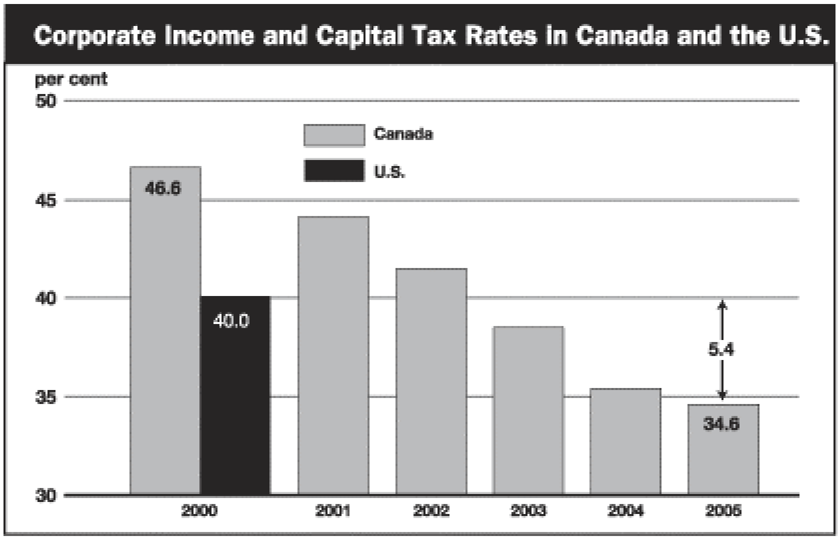
> *Governments must recognize that their approach to business taxation can attract and maintain businesses just as easily as it can sweep away business investment, job creation and economic growth.* (Canadian Bankers Association, 9 September 2002)

Within Canada, the general (federal) corporate tax rate will fall to 21% by 2004 for sectors such as services, but not for sectors such as manufacturing and processing, which are already taxed at the lower 21% rate. The resource sector continues to face a 28% corporate tax rate because, according to the Department of Finance, it "benefits from a number of sector-specific tax measures."[38]

Without further changes, Canadian corporate tax rates — including the capital tax — will fall below those of the U.S. by 2003 and will be five percentage points less by 2005, as shown in Figure 14.

[38] Department of Finance, *Budget 2001*, p. 173.

Figure 14



Note: Rates are based on changes announced to December 2001. Rates include the income tax rate equivalent of capital taxes.

Source: Department of Finance, *Budget 2001*, p. 173.

While many witnesses expressed support for the federal government's actions in this regard, they also urged the government to push Canada's advantage even further, particularly in light of the widespread expectation that Republican Party control in both the U.S. Senate and the House of Representatives will ease passage of President George W. Bush's tax-cutting agenda and thereby erode Canada's potential tax advantage.

Data from the National Tax Program at the University of Toronto suggest that a more comprehensive analysis of corporate taxes — including an examination of depreciation rates, the treatment of inventories and other elements of the corporate tax system — shows that Canadian corporate tax rates will actually be much closer to those of the U.S. by 2004 than what has been suggested by the Department of Finance, with less than one percentage point difference.[39]

A number of witnesses from the resource sector, including the Canadian Association of Petroleum Producers and the Canadian Fertilizer Institute, argued that they should be taxed at the same marginal rate as the rest of the corporate sector for both competitive and equity reasons. This position was supported by the Tax Executives Institute, Inc. Adoption of this recommendation would lower the sector's tax rate to 23% in

[39] Data supplied by Jack Mintz, C.D. Howe Institute.

2003-04 and to 21% in 2004-05. It rejects the Department of Finance's arguments that the sector benefits from special considerations that effectively reduce its corporate tax revenue.[40] These include the Canadian Exploration Expense (CEE), which allows firms to deduct 100% of their exploration costs, the Canadian Development Expense (CDE), which allows firms to deduct 30% of their exploration costs, and a resource allowance to partially compensate for provincial royalties, which are not deductible.[41]

Whatever the merits of these arguments, the potash industry told the Committee that it deserves special treatment because, unlike other firms in the resource sector, it does not benefit from the CDE or the CEE because it has little need for exploration or development of potash sources. In fact, the industry benefits from one of the richest ore bodies in the world, with proven reserves in excess of 100 years. It asked the Committee to recommend both full deductibility of provincial royalties for the potash sector and a reduction in the marginal corporate tax rate in line with other non-resource industries.

Other groups argued that the federal government should accelerate its tax cuts and reduce rates to 21% next year rather than wait until 2004-05. They also recommended that the federal government gradually reduce the general corporate tax rate to 17%, as the fiscal situation permits.

Recommendations were also presented to the Committee about the threshold on small business taxation. Currently, the federal government imposes a 12% marginal rate on the first $200,000 worth of income of Canadian-controlled private corporations, followed by a 21% rate on income between $200,000 and $300,000 and 25% — the general corporate tax rate for 2002 — on income above this amount. The Canadian Hardware and Housewares Manufacturing Association, the Canadian Retail Building Supply Council, the Canadian Retail Hardware Association, the Canadian Automobile Dealers Association and the Canadian Construction Association have proposed increasing the 12% threshold to between $300,000 and $500,000.

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40 The Committee notes, however, that the report of the Technical Committee on Business Taxation (often referred to as the Mintz report), found that the resource sector does, in fact, benefit from CDE, CEE and the resource allowance: "Effectively, the resource allowance means that income from mining, and oil and gas production faces federal and provincial corporate income tax rates that are 25 percent below those applicable to other corporations (for example, a combined federal and provincial rate of 44 percent is reduced to 33 percent)." This quotation and a full discussion of the resource allowance is on p. 5.27-5.30 of the report, available at: www.fin.gc.ca/toce/1998/brie_e.html.

41 The Department of Finance glossary of key terms describes the resource allowance as a provision that "is designed as an annual deduction to mining and oil and gas producers. It is set at 25% of a taxpayer's annual resource profits, computed after operating costs and capital cost allowances, but before the deduction of exploration expenses, development expenses, earned depletion and interest expenses. The resource allowance measure gives the provincial governments room to impose royalties or mining taxes on the production of natural resources. The non-deductibility of these charges, coupled with the resource allowance, means that these provincial charges do not affect the level of federal income taxes payable." Available at: www.fin.gc.ca/gloss/gloss-qr_e.html#resall.

The Committee believes that some of the arguments presented by witnesses on the issue of corporate taxation are compelling. In particular, we believe that the Department of Finance must be vigilant in order to ensure that Canadian corporate taxation rates are at least competitive with — if not continuously lower than — those in the United States. This is particularly important in light of the result of the 2002 mid-term elections in the United States. Moreover, we must ensure that business continues to be attracted to, and invest in, Canada. Corporate tax rates are one decision factor in this regard.

The Committee is also sympathetic to the resource sector's concerns, and especially those of the potash industry, that it is being unfairly taxed. It must, however, balance these concerns with those of environmentalists, who have long argued that prices via taxes should reflect the externalities of the resource sector and, in the case of the potash industry, the need for minimizing the complexity of the *Income Tax Act*. That being said, we believe that a major review of the tax code should occur, and that the review should address these, and other, concerns. From this perspective, the Committee recommends that:

RECOMMENDATION 4

The Department of Finance report to Parliament annually on the extent to which corporate rates of taxation in Canada are competitive with rates in the G-7 nations, especially the United States.

Capital Taxes

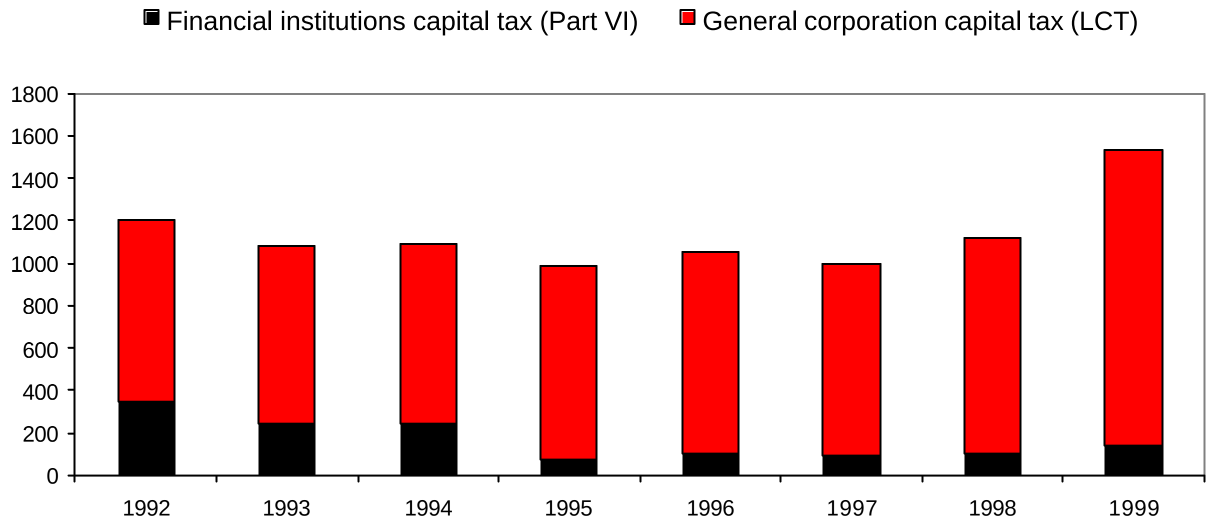
> *Capital taxes are damaging Canada's economy. They discourage investment in plant and equipment and technology, which are essential for long-term growth and job creation. … There is no dispute amongst academics, the business community and governments themselves that capital taxes are a bad form of tax.* (Association for the Abolition of Capital Taxes, 5 November 2002)

The Committee received testimony from at least 20 groups and individuals, including the Forest Products Association of Canada, the Fraser Institute, Dr. Herbert Grubel, the Canadian Taxpayers Federation, the Canadian Institute of Public and Private Real Estate Companies and the Credit Union Central of Canada, calling for the elimination of, or a reduction in, the capital tax. These groups pointed out that no other major industrial country has a capital tax, and noted the relatively small amount of revenue collected. In 1999, the latest year for which data are available, capital taxes generated about $1.5 billion for the federal government, as shown in Figure 15, and about $3.9 billion for the provinces.[42] Seven provinces[43] levy a general capital tax on corporations, and every province levies a capital tax on financial institutions. The bases for provincial capital taxes differ from the federal base, and the provincial bases differ from one another.

[42] Conference Board of Canada, *The Case Against Capital Taxes*, November 2001, p. 6.

[43] Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan and British Columbia.

Figure 15: Federal Capital Tax Revenue, 1992-1999, $ millions



Source: Library of Parliament and Conference Board of Canada.

The federal government collects two capital taxes, the Large Corporations Tax (LCT) — which applies to all corporations with capital employed in Canada in excess of $10 million — and the Part VI capital tax on financial institutions. The main difference between the two taxes is that the LCT base includes balance-sheet entries such as equity, reserves and debt *plus* the net book value of fixed assets (all fixed assets and land used in Canada). Both taxes are reduced by the amount of corporate surtax paid. Life insurers must pay an additional surtax. These taxes act as a minimum tax — rather than an additional tax — that is paid in good times and bad. Surtax incurred in any of the previous three, or subsequent seven, years may also be applied against current year capital tax liabilities.

Recommendations to eliminate the capital tax may have a particular urgency in light of the uncertain economic outlook in the United States, with its possible ramifications for Canada. As many witnesses noted, the capital tax is largely profit insensitive.[44] In the event of an economic slowdown, some companies could be required to borrow cash to meet their tax obligations, even if they are losing money.

44 In accounting terms, the capital tax applies to shareholders' equity plus debt. Reserves may fluctuate owing to profitability (i.e.,via retained earnings) but debt and equity are generally immune to the economic cycle.

The Committee was presented with studies by Ernst & Young showing that the capital tax disproportionately affects three of Canada's most important industries: mining and oil and gas, manufacturing, and financial services.[45] The data indicate that the mining and oil and gas industry contributed about 4.5% of total GDP in 1998 but paid 12.2% of the LCT, while the manufacturing industry accounted for about 18.7% of GDP but contributed 26.5% of the LCT. The disparity was most severe in the financial services industry, which accounted for 5.5% of GDP but paid 21.3% of the LCT in 1998. These three industries also rank amongst the most productive in Canada. The correlation between productivity and the capital tax burden is not surprising, since the capital tax is, by design, meant to target the most capital-intensive industries that also tend to have the highest productivity.

The Saskatchewan Chamber of Commerce recommended that the Committee "eliminate the capital tax, since it was introduced as a deficit-elimination measure, and the deficit is now gone. Capital taxes also are not linked to ability to pay; their elimination will lead to increased investment in capital-intensive operations, enhance productivity and lead to increased economic activity." The Canadian Council of Chief Executives told us that a "commitment to eliminating the federal capital tax on a phased basis over the next three years would be not only affordable within the current fiscal context but also the single most powerful move this government could make in driving innovation, productivity and economic growth."

The Committee supports the elimination of the capital tax. As noted earlier, many witnesses told us that the elimination of the capital tax is the single most important tax change that we could recommend that would respect the government's commitment to debt reduction, balanced budgets and effective social programs. While some suggested that the tax be phased out over a number of years, we believe that more rapid change is needed. Consequently, the Committee recommends that:

RECOMMENDATION 5

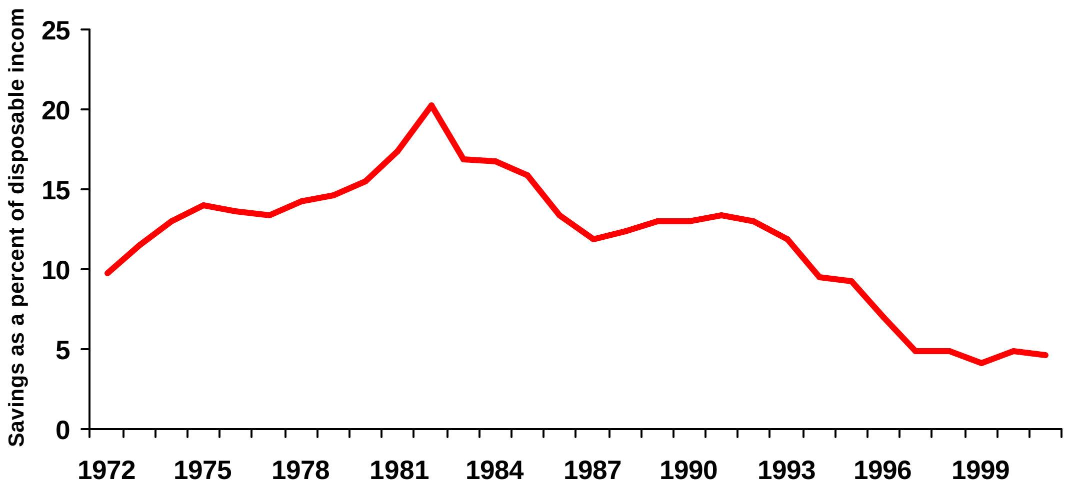
The federal government eliminate the capital tax in the next federal budget.

Tax-assisted Savings Plans

> *Registered Retirement Saving Plans (RRSPs) are not a "program for the rich." A variety of middle-income salaried employees are adversely affected, such as nurses, plumbers, police officers, sales managers and school administrators. Moreover, RRSPs play a vital role for over 2.4 million self-employed Canadians who must plan their own retirement without the luxury of a company-assisted pension plan.* (Canadian Real Estate Association, 9 September 2002)

[45] Ernst & Young brochures: "*Who Pays the Capital Tax?*" and *"Capital Taxes: Penalizing Investment in Canada*," Spring 2002.

Figure 16: The Savings Rate, Canada, 1972-2001



Source: National Accounts.

As shown in Figure 16, in 2001 Canadians saved, on average, 4.6% of their disposable income, down from 9.2% in 1995, suggesting that Canadians may not be as actively saving for their future as might be hoped. Low savings rates also have consequences for interest rates and investment: generally speaking, increased savings are believed to lead to lower interest rates which, in turn, can lead firms to increase their investments.

In 2000, the federal government took steps to encourage saving behaviour among Canadians by reducing the capital gains inclusion rate — the portion of capital gains that is taxable — to 50% from 75%. At that time, the government also committed to increasing Registered Pension Plan (RPP) limits to $14,500 in 2003 and Registered Retirement Savings Plan (RRSP) limits to a similar amount in 2004. Thereafter, the limit will rise to $15,500 for RPPs in 2004 and $15,500 for RRSPs in 2005, after which limits will rise with inflation. The current limit of $13,500 or 18% of income, whichever is less, has been unchanged since 1996, when it was lowered from $14,500 as part of the government's effort to eliminate the deficit.[46]

For most witnesses who commented on this issue — including the Association of Canadian Pension Management, the Canadian Teachers Federation, the Direct Sellers Association of Canada, the Investment Dealers Association of Canada, the Investment Funds Institute of Canada and the Retirement Income Coalition — the planned contribution limit increases are not sufficient. In their view, contribution limits have been frozen for too long and must be increased more quickly to compensate for inflationary increases and to remain competitive with the United States. Higher contribution limits are especially important for self-employed individuals and small businesses. In the former case, they are

46 Department of Finance. *Budget 1995*, available at: www.fin.gc.ca/budget95/fact/FACT_12e.html.

both the employer and employee in some sense, and do not benefit from employer-sponsored pension plans. In the latter situation, few small businesses offer Registered Pension Plans. Ultimately, providing incentives for individuals to save for their own retirement should relieve part of the burden on government support programs.

Increasing individual incentives to save for retirement would not necessarily entail a large long-term fiscal cost for the federal government: the monies saved today will be taxed tomorrow when citizens begin to retire and withdraw funds from their tax-sheltered investments. Government tax revenues should, therefore, rise as the baby-boomer population reaches retirement and withdraws funds from its retirement plans. These increased tax revenues will be collected at the same time as this population increases its requirements of the healthcare system.

As the Canadian Life and Health Insurance Association Inc. noted in its appearance before the Committee, "not only do low RRSP and RPP contribution limits make employment in Canada less attractive, but they ultimately reduce the tax revenue available to federal and provincial governments when such plans enter their payout stage. Given that health care costs rise dramatically throughout our retirement years, that is precisely when governments will need to maximize their tax base. Income withdrawn from enhanced private retirement savings vehicles … would provide critical tax revenue at that time to match the anticipated tax expenditures necessary to provide the quality of life that Canadians expect."

The Committee heard a wide range of recommendations on how to change tax incentives for savings, although their essence was an increase in the annual contribution amount. Several organizations recommended that the 18% contribution rate apply to the highest tax bracket — that is, $103,000 in 2002 — which would mean a maximum contribution of $18,540. Witnesses such as Wayne Burroughs recommended that the federal government increase the contribution limit to $15,500 immediately to better reflect the "implicit limit" for employer-sponsored pension plans.[47] Several groups requested immediate indexation of the contribution limit to inflation, rather than waiting until 2005, while Kebrom Haimanot discussed the foreign content limit.

The Committee believes that Canadians should be given appropriate incentives to save for their retirement. While these incentives would involve a short-term cost to the federal government, there would be long-term benefits in terms of a more limited burden on federal retirement programs. Moreover, revenues will be gained when the retirement funds are taxed as they are withdrawn. We also note that increasing the contribution limit could also help Canada attract and retain workers. As the Investment Fund Institute of Canada observed in its appearance before us, "raising the RRSP limits would accomplish two

[47] Since 1976, defined pension plans have been limited to providing 70% of earnings up to about $85,750. If the 18% contribution limit were truly effective, this would imply an RPP contribution limit of $15,425. Witnesses have tended to round this figure up to $15,500.

objectives: First, it would provide Canadian workers, at all income levels, with more flexibility in planning for their retirement. … Second, it would bring Canada in line with other countries that are competing with us for skilled talent. For example, in the U.K. the contribution limit to their savings plan amounts to the equivalent of $45,000 annually." The Committee feels that an increase in RPP and RRSP contribution limits is overdue and, therefore, recommends that:

RECOMMENDATION 6

The federal government, in the next budget, raise Registered Retirement Savings Plan and Registered Pension Plan contribution limits to $19,000 in order to allow those in the top income tax bracket to shelter 18% of earnings. Moreover, contribution limits should be raised in accordance with the inflation rate beginning immediately.

Another important aspect of the federal government's efforts to encourage savings is the Registered Education Savings Plan (RESP), which allows parents to invest up to $4,000 per year for their children's post-secondary education up to a lifetime maximum of $42,000. In 1998, the government introduced the Canada Education Savings Grant, which contributes 20% of the first $2,000 invested — that is, $400 annually — in an RESP.

While the Committee heard unanimous support for both programs, some witnesses shared concerns that they do not provide enough assistance to low- and middle-income families. The Canadian Association of Not-for-Profit RESP dealers shared with us its three-pronged proposal to address this concern:

- Increase the federal contribution for low- and middle-income families to 30% of the first $1,000 (annually) contributed to an RESP;
- Change the *Income Tax Act* to make it easier for provinces to offer programs similar to the Canada Education Savings Grant; and
- Create bankruptcy protection for RESP plans, since low- and middle-income families are more likely to declare bankruptcy than higher-income families, thereby threatening the accumulated savings even though the funds are explicitly targeted to children.

The Committee believes that the proposal of the Canadian Association of Not-for-Profit RESP dealers has merit, and would contribute to the goal of ensuring equal access to higher education. It is from this perspective that the Committee recommends that:

RECOMMENDATION 7

The federal government increase the Canada Education Savings Grant contribution for low- and middle-income families to 30% of the

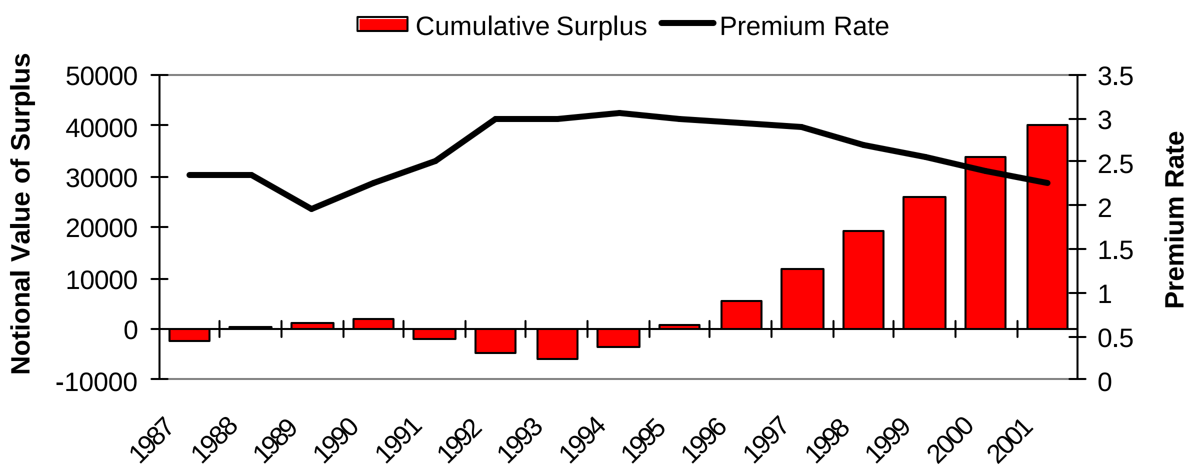
first $1,000 contributed annually to a Registered Education Savings Plan. Moreover, the *Income Tax Act* should be amended to permit the provinces and territories to set up contribution programs similar to the Canada Education Savings Grant. Finally, the government should amend the *Bankruptcy Act* to provide protection for Registered Education Savings Plan funds.

Employment Insurance Issues

> *EI should not run a surplus "well in excess of any reasonable reserve." The current employee premium should therefore be reduced to $2.00 per $100.* (Canadian Construction Association, 6 June 2002)

A number of the Committee's witnesses presented proposals to reduce employment insurance (EI) premiums from the current rate of $2.20 per $100 of insurable earnings. This rate is down from a peak of $3.07 in 1994. The portion paid by employers is 1.4 times the employee rate. Even at this relatively low rate, the federal government recorded an EI account surplus of $3.9 billion in 2001-02 and expects a surplus of $2.3 billion in 2002-03. While revenue from employment insurance premiums are part of general government revenue — a change recommended by the Auditor General of Canada and in effect since 1986 — the notional employment insurance "surplus" in 2002-03 is expected to total $42.3 billion by the end of 2002-03. Figure 17 provides details of premium rate changes and the size of the cumulative surplus over the 1987-2001 period.

Figure 17: Employment Insurance Premiums and the Cumulative (Notional) Surplus (\`000 of dollars)



Source: Human Resources Development Canada.

Although the federal government has not explicitly committed to a further reduction in the EI premium rate, the budget estimates in the *Economic and Fiscal Update 2002* assume that rates will fall to $2.00 by 2004.[48] Moreover, Human Resources Development Canada notes, in Part III of its *Report on Plans and Priorities*, that "for planning purposes, a premium rate at 2.1% (i.e., $2.10) is used to forecast premiums for the first three months of 2003."

The Committee is sympathetic to the view of many witnesses that EI premium rates should not generate surpluses of the magnitude currently being realized, and that EI premium payments can limit employment growth, and hence economic prosperity, by raising the cost of hiring new workers. Moreover, we feel that the public consultation process on the setting of the EI premium rate — which is to be led by the Department of Finance — should begin immediately, since there has been an expectation for more than 18 months that a discussion paper would be forthcoming and that consultations would then occur. As well, we are mindful of the Department of Finance budget estimates that include a reduced premium rate. It is for these reasons that the Committee recommends that:

RECOMMENDATION 8

The federal government reduce the Employment Insurance premium rate. Moreover, the government should immediately commence a public consultation process regarding the setting of the premium rate, with additional rate reductions considered in accordance with the new premium rate-setting process following the consultation process. The rate should be set to ensure, to the extent possible, sufficient revenues to cover program costs and fund an appropriate reserve that would enable relative stability in the rate over the business cycle.

The Committee heard several other proposals designed to reduce the gap between EI revenues and expenditures. The Canadian Labour Congress, for example, recommended to the Committee that the federal government "[b]uild into the EI program a training relief component, whereby contributors could accumulate five weeks worth of training leave for each year of contribution to the system, up to a maximum of 50 weeks. Such a program would have the merit of portability and of creating an incentive for workers to get retrained."

Other labour groups — such as the Canadian Office of the Building and Construction Trades Department — recommended instead that EI benefits be made more generous. The Confédération des syndicats nationaux (CSN) recommended "increases in the coverage rate, the replacement rate and the benefit period" for EI. In its view, "the employment insurance system constitutes an important strand in the social safety net that

48 *Economic and Fiscal Update 2002*, p. 69.

protects Canadians from poverty or economic insecurity. That is why, in the CSN's opinion, Canadians want a progressive return to a balance between the employment insurance plan's revenues and its expenditures by raising expenditures to reflect the plan's current revenues rather than the other way around, as suggested by the five-year debt-reduction plan."

Many employers had a somewhat different view. The Canadian Construction Association, for example, recommended that employers pay the same premium as employees, a position supported by the Tourism Industry Association of Canada and the Vancouver Board of Trade.

Another proposal focussed on the creation of a yearly basic exemption (YBE) for EI, similar to that which exists in the Canada and Quebec Pension Plans. A YBE would exempt employers and employees from paying EI premiums on part of an employee's income, and would primarily benefit labour-intensive sectors of the economy that employ immigrants, students and part-time workers. The Canadian Restaurant and Food Services Association has been a main proponent of this view, believing that such a change would increase both the disposable income of Canadians with the greatest propensity to spend, and the ability of labour-intensive business to retain staff. It has proposed to the Committee that a YBE of $3,000 be established. At current premium rates of $2.20 per $100 of insurable earnings, the Association has estimated that the cost would be about $2.2 billion annually, slightly less than the expected surplus for 2002-03.

The Committee realizes that the concept of a YBE for the employment insurance program is not new. The House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities supported a $2,000 YBE in its May 2001 report, *Beyond Bill C-2: A Review of Other Proposals to Reform Employment Insurance*. The report noted that a YBE would "reduce administrative complexity and … ensure that all individuals, not just those who apply for a premium refund by filing an income tax return, are treated equally... . This approach is not only fairer to workers with low earnings, but also to employers who are currently required to pay premiums on behalf of workers who receive a premium refund."[49]

Selected individuals also support the initiative. For example, Joseph Polito shared with the Committee his view that "[t]he exemption will provide a financial incentive for employers to create a bias to full employment. Employers will save money by reducing hours, not employees, during recessions, and save money by hiring rather than relying on overtime in good times."

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49 House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities. *Beyond Bill C-2: A Review of Other Proposals to Reform Employment Insurance*, p. 16, available at: www.parl.gc.ca/InfoComDoc/37/1/HUMA/Studies/Reports/HUMARP3-E.htm.

The Committee believes that the idea of a YBE in the context of the EI program has merit. In our view, it would stimulate both consumer spending and employment creation. It is from this perspective that the Committee recommends that:

RECOMMENDATION 9

The federal government amend the *Employment Insurance Act* to create a yearly basic exemption. The amount of the exemption should be determined following consultation with stakeholders. This change should occur concurrently with a reduction in Employment Insurance premium rates.

Sectoral Issues

> *The government's success in setting a strong macroeconomic environment for Canadian business has yielded impressive results. The focus now must be on improving the microeconomic climate and helping our small and medium size enterprises grow and flourish into large, world-leading enterprises.* (Certified Management Accountants of Canada, 1 October 2002)

As noted earlier in the report, many witnesses made recommendations for tax policy changes that were specific to their industry or sector. The Committee has considered the full range of representations made to us, and we make recommendations about a number of them.

Capital Cost Allowance Rates

> *Accelerated capital cost allowances could also be geared towards particular investment activities and could be used to encourage investment in innovation. The accelerated capital cost allowance would also allow companies to defer taxes payable, which would also serve to improve Canada's comparative tax advantage.* (Canadian Vehicle Manufacturers' Association, 9 September 2002)

The existing schedule of capital cost allowance rates (CCA) — the rate at which a firm can write-down the value of its investment in a piece of machinery or real estate — often does not appear to reflect the actual economic life of the underlying equipment. This result is due largely to rapid technological change, which renders the existing stock of machines and equipment economically obsolete more quickly than in the past. Accelerating CCA rates would have productivity and environmental benefits, since new equipment is generally more productive and more energy efficient.

To remain competitive, companies must constantly re-invest in new computer-based hardware and software, and other capital equipment, since technology becomes obsolete very rapidly. The Canadian Printing Industries Association told the

Committee that “according to a recent survey, printers are disposing of computers and peripheral equipment within 24 to 36 months. At [the] present time, it may take more than seven years before a piece of computer equipment is substantially depreciated for tax purposes and even longer for expensive technology devices.” The Certified Management Accountants of Canada emphasized that small businesses, in particular, have fewer resources to replace aging equipment or to invest in new machinery.

The Canadian Association of Railway Suppliers also told the Committee that changing the structure of CCA rates is important for Canadian competitiveness. It said that U.S. railcar and locomotive leasing firms have an important advantage over their Canadian competitors because they can fully write off a railcar in seven years, equivalent to a CCA rate of 30%. The CCA rate for Canadian railcar leasing firms is 13%. Even after 20 years, Canadian rail assets are not fully written off. Given the integrated rail business within North America, this presents a serious competitive disadvantage to Canadian firms. Moreover, we were told by the Railway Association of Canada that “[t]he recent U.S. stimulus package provides a bonus first-year depreciation of 30% for rail assets — this has the effect of widening the gap between Canada and the United States.”

The electricity-generating sector faces similar North American competitive issues, especially with deregulation in Alberta and Ontario as well as a growing gap between demand and supply that has led to sharp price increases. These, in turn, have prompted the use of either price caps or consumer rebates to cushion the blow to consumers. In its presentation to the Committee, the Canadian Electricity Association said that ‘[h]igher CCA rates are needed to attract the investment capital to upgrade and build new generation and infrastructure capacity. … [T]hese would allow the industry to improve environmental performance, … enhance security and reliability of the overall electricity system, [and] safeguard our competitive advantage in electricity.”

The Committee understands that capital cost allowance rates have the potential to either assist or hinder the global competitiveness of a number of sectors. In a dynamic business environment, we believe that the federal government must do what it can to assist our businesses in maximizing their competitive potential. For this reason, the Committee recommends that:

RECOMMENDATION 10

The federal government, as a priority, undertake a comprehensive review of capital cost allowance rates to ensure that they accurately reflect the pace of technological change, the ever-shortening economic life of many pieces of modern machinery and competitiveness concerns.

Microbreweries

> *Regional breweries of Europe and [the] U.S.A. have long enjoyed a tax privilege, not allowed in Canada, rendering them more competitive domestically and internationally. Conversely, this privilege is making it hardly possible for Canadian regional breweries to compete outside our country. The financial well-being and required growth of our young industry are seriously threatened as evidenced by the very limited number of regional breweries still doing business in Canada.* (Canadian Council of Regional Brewers, 1 November 2002)

Representatives of the microbrewing sector, including the Brewers Association of Canada, told the Committee that excise duties are having an adverse effect on their economic viability, and are contributing to the loss of small regional brewers. Excise taxes represent the single-highest federal tax paid by the industry. We were informed that small Canadian breweries — those with an annual volume of production less 300,000 hectolitres (30 million litres) — require parity with American breweries, which would be achieved through a 60% reduction in the federal $0.28 per litre rate to $0.12 per litre.

The Committee believes that the current excise duties applied to small breweries are limiting their competitiveness, with negative effects on them and the Canadian economy. From this perspective, the Committee recommends that:

RECOMMENDATION 11

The federal government lower the federal excise tax rate applicable to small breweries to achieve parity with rates in the United States.

Air Travellers Security Charge

> *The Air Travellers Security Charge … is an impediment to the mobility of Canadians and an encumbrance on many businesses that depend on Canadians' readiness to travel.* (Tourism Industry Association of Canada, 7 November 2002)

The Air Travellers Security Charge (ATSC) was introduced in the 2001 budget as part of the federal government's broader security initiative. The charge, which came into effect on 1 April 2002, is $12 for a one-way trip and $24 for a round trip within Canada. The Department of Finance originally estimated that the charge would generate $430 million in 2002-03 and $445 million per year through to 2006-07, and would be "roughly equivalent to the new air security expenditures."[50] Former Minister of Finance Paul Martin promised that the charge would be reviewed in fall 2002, and said that "if revenue from the charge exceeds the cost of enhanced air security, the charge will be lowered."[51]

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[50] *Budget 2001*, p. 102.

[51] Department of Finance Press Release No. 2002-027. "Air Travellers Security Charge to Take Effect as of April 1, 2002," available at: www.fin.gc.ca/news02/02-027e.html.

In November 2002, interested parties were asked to provide the Department of Finance with their views on the Air Travellers Security Charge. In launching the consultation process, the Department noted that "under the Government's current five-year forecast, which is based on ATSC collections and air traffic data observed to date, revenue from the charge is not expected to exceed the cost of enhanced air security as set out in Budget 2001. As such, there is little scope for reducing the charge at the present time. However, the Government's change to accrual accounting — possibly as early as Budget 2003 — could provide an opportunity for reducing the charge. Under accrual accounting, the costs to be recovered from the charge through 2006-07 may be lower than those set out in Budget 2001."[52] The public consultation process will continue until 31 December 2002.

While the Committee welcomes the consultation process, we must indicate that many witnesses appearing before us rejected the Department of Finance's criteria for setting the charge, arguing in part that air security affects everyone, as demonstrated by the events of 11 September 2001. They shared the view expressed by Air Canada, the Air Transport Association of Canada, the Association of Canadian Travel Agencies and the Air Line Pilots Association (International), that the costs of enhanced airport security should be financed out of general revenue, rather than by a dedicated tax. Witnesses also argued that the charge is regressive, since its flat-rate structure disproportionately affects low-cost and short-haul carriers and budget travellers.

The Committee was told that some low-cost carriers have reduced their flight schedules. WestJet, for example, indicated that it has cut back on flights between Edmonton and Calgary as well as between Kelowna and Vancouver. It told us that "[i]f this trend continues as we expect it will, more capacity will be taken off our short-haul routes like Calgary-Edmonton, Hamilton-Ottawa, and Kelowna-Vancouver. … A move away from short-haul markets will aid us in operating a financially successful business, but it will cause considerable damage to the communities of the markets that now enjoy short-haul service." Pacific Coastal Airlines, which operates a charter service for communities on Vancouver Island and the British Columbia coast, informed us that it has had "customers tell us they will no longer be flying between Vancouver and outlying communities with their families because the round-trip charges for security fees exceed the cost of ferry rides, plus fuel for their car." It also said that no security improvements have been made at the main airports out of which it operates.

Notwithstanding the consultation process that is now underway, the Committee believes that there is a critical need to reconsider the manner in which the Air Travellers Security Charge is applied. During legislative hearings in spring 2002 and again during our pre-budget discussions and consultations, we heard from air carriers and others about the negative effects of the charge on short-haul and low-cost carriers. As well, we feel that it is

[52] Department of Finance Press Release No. 2002-091. "Finance Minister Welcomes Public Input on Air Travellers' Security Charge Review," available at: www.fin.gc.ca/news02/02-091e.html.

inequitable that some travellers are charged a fee without receiving any increase in air security. In our view, the charge should be applied in a manner that is neither regressive for passengers nor detrimental for low-cost and short-haul carriers. It is for this reason that the Committee recommends that:

RECOMMENDATION 12

The federal government, in the next budget, consider changes to the size and manner of calculation of the Air Travellers Security Charge. The government should have regard for the consensus reached in the public consultation process and the actual costs of providing air security. Moreover, a mechanism should be established for ongoing review of the manner of calculation and amount of the charge in order to ensure that revenues collected are just sufficient to cover the reasonable costs of air security.

Other Tax Measures

> *Tax levels are obviously not the only factors that drive decisions on the location of investment but they are important considerations. Canada remains at a disadvantage in attracting and keeping investment because, notwithstanding recent progress, our tax levels remain too high. That means Canada also loses the substantial jobs and other economic benefits that increased foreign investment would provide, together with the multiplier effects those investments would trigger.* (CanWest Global Communications Corporation, 9 September 2002)

The *Income Tax Act* is complex. With the associated regulations, tax treaties and explanatory notes, it exceeds 2,800 pages in length.[53] Given its complexity and size, it is not surprising that the Committee heard numerous other narrowly targeted proposals for change to the Act, including those discussed below.

These proposals were generally advocated by a very limited number of groups or individuals. Consequently, while the Committee has elected not to make specific recommendations in these areas, we urge the federal government to consider the following issues, with a view to their implementation where feasible.

One matter concerns Employee Stock Ownership Plans (ESOPs) or, alternatively, Employee Stock Purchase Plans (ESPPs). ESOPs are benefit plans that help employees to acquire shares in the company for which they work, usually with little or no initial expenditure, no salary deduction, no commitment of the employee's pension funds and no personal liability. The shares are purchased with loans assumed by the company on the employee's behalf and repaid out of the company's own contributions.

[53] CCH Canadian. *Canadian Income Tax Act with Regulations.*

The ESOP Association of Canada told the Committee that, by giving employees a stake in their own company, share-ownership plans encourage employees to think more like owners, leading to the development of cost-saving and revenue-generating ideas that result in productivity gains. In its view, "ESOPs are win-win, equity-incentive plans geared to helping employees of small and medium Canadian private companies increase their wealth and plan for their futures; and to helping employers attract and retain staff, increase productivity and competitiveness and create succession plans." We urge the federal government to consider the creation of a 15% tax credit to promote the use of ESOPs. This would match the tax incentive already in place for investments in labour-sponsored venture capital funds.

A second issue, that of duty-free shops, is also familiar to the Committee as a result of prior legislative work. The Association of Canadian Airport Duty-Free Operators urged the Committee to recommend that the federal government "restore the principle of keeping duty-free truly duty free since it first imposed taxes on duty-free shopping (tobacco) on 5 April 2001. This immediately began eroding consumer perceptions of what duty-free is." The argument was also made that elimination of the tobacco tax would not jeopardize the government's efforts to reduce tobacco consumption or lead to increased tobacco smuggling because, even prior to the application of the tax, customers could only purchase one carton for convenience purposes. Any purchases above this amount were subject to all duties and taxes. In its view, "[d]uty-free has never been a vehicle for purchasing quantities of tobacco that could be a factor in smuggling."

The Information Technology Association of Canada asked the Committee to recommend a measure that would help it spread out the revenue from maintenance contracts over a number of years. Currently, firms can claim reserves that spread the revenue from payments for future delivery of goods and services if they can show that it is reasonable to expect that the goods and services will be provided after the year-end. The Association noted that most software maintenance agreements do not provide for scheduled releases of upgrades, updates or code fixes. That being said, it informed us that most maintenance agreements specify regular preventive maintenance and "therefore there is no question as to whether or not services will be provided." Therefore, it recommended that the government create "a provision that will allow [information and communications technologies] vendors to recognize revenue from maintenance contracts over time as the maintenance service is provided, rather than when the payment is received. … It should be done by prorating the fees collected and including only income for the portion of the fees that relates to the percentage of the contract period for the current taxation year."

The Horse Racing Tax Alliance of Canada told the Committee that section 31 of the *Income Tax Act* is harming the Canadian horse racing industry, weakening its position with respect to other Canadian sport and entertainment industries, as well as its U.S. counterpart. For most businesses, losses are fully deductible against other income if it can be shown that there is a reasonable expectation that the business will generate a profit. Part-time farmers — including most race horse operators — however, can deduct a maximum loss of $8,750 against other income, regardless of the size of their investment in the business. It is seeking a repeal of section 31 and an Interpretation Bulletin from the Department of Finance and the Canada Customs and Revenue Agency providing guidance on the requirements for meeting the “reasonable expectation of profit” test in the context of the horse racing industry.

Finally, the Canadian Factors Association told the Committee of its concern that the Department of Finance could soon introduce proposed legislation that would make the factoring industry liable for Goods and Services Taxes (GST) owed by a debtor. Factoring firms buy the “accounts receivables” of small and medium-sized firms (for the sake of clarity, consider these latter firms to be manufacturing firms) at a discount to the nominal value of the accounts receivable. As a result, manufacturing firms are provided with immediate cash flow and the factoring industry receives a profitable asset. This “intermediation role” is similar to the rediscounting historically done by banks and central banks.

Recently, the Supreme Court of Canada found that factoring firms are not liable for GST owed by manufacturing firms that found themselves in financial distress (i.e., the firms that sell their accounts receivables to the factoring industry). The factoring industry asked the Committee to recommend that the government make a public statement saying that it will abide by the Supreme Court decision. It also asked that we recommend the creation of a “public record for consultation” that would identify financially troubled manufacturers that owe the government GST remittances.

CHAPTER FIVE — THE PRIORITY OF PRODUCTIVITY AND INNOVATION

> *Implicit is the understanding that the relationship between innovation, the economy and quality of life is symbiotic. Innovation is the catalyst for change; it will improve productive efficiency through the application of new techniques and discoveries, and within the context of environmental stewardship. Through its results, we can all equally share its rewards and benefits of an improved quality of life.* (Canadian Council of Professional Engineers, 24 October 2002)

As indicated earlier in the report, productivity growth is the foundation for long-term economic development and prosperity and, consequently, a high quality of life. This growth often occurs as a result of innovation, which requires investments in research and development. Furthermore, productivity growth and the ability to capitalize on innovations are enhanced when a nation has highly skilled employees, which requires a focus on lifelong learning and skills development.

Research and Development

> *To be a major force in the New Economy, Canada must be — and be seen to be — an important hub of scientific and technological activity on a global scale. The government's social, economic, and tax policies should send a loud, clear, and consistent message to the world that Canada offers a highly desirable home base from which to operate in the world economy. We need … an environment that encourages … Canadian centres of excellence to attract leading scientists, professionals, and entrepreneurs from around the world. Building such an infrastructure will provide graduates … with the best possible opportunities to pursue their careers and thus encourage them to stay in Canada.* (Canadian Association of Insurance and Financial Advisors, 9 September 2002)

For a number of years, the federal government has focussed on innovation, most recently with the February 2002 release of the government's two-component Innovation Strategy: *Knowledge Matters: Skills and Learning for Canadians* and *Achieving Excellence: Investing in People, Knowledge and Opportunity*. The Strategy focuses on the creation of an innovation-friendly business environment.

The Innovation Strategy undertakes a commitment for Canada to, by 2010:

- Rank among the top five countries worldwide in terms of R & D performance;
- At least double the federal government's current investments in R & D;
- Rank among world leaders in the share of private sector sales attributable to new innovations; and

- Raise venture capital investments per capita to prevailing U.S. levels.

On 18 and 19 November 2002, the federal government convened the National Summit on Innovation and Learning in Toronto, with the objective of engaging the private sector, non-governmental organizations, academia and government in shaping the priorities for Canada's Innovation Strategy. The Summit also provided an opportunity for all sectors to commit to a Canadian innovation and learning action plan.

As the nation realizes the importance of research and development as contributors to innovation, attention must be paid to support for research and development activities, commercialization, patent and copyright protection, and smart regulation.

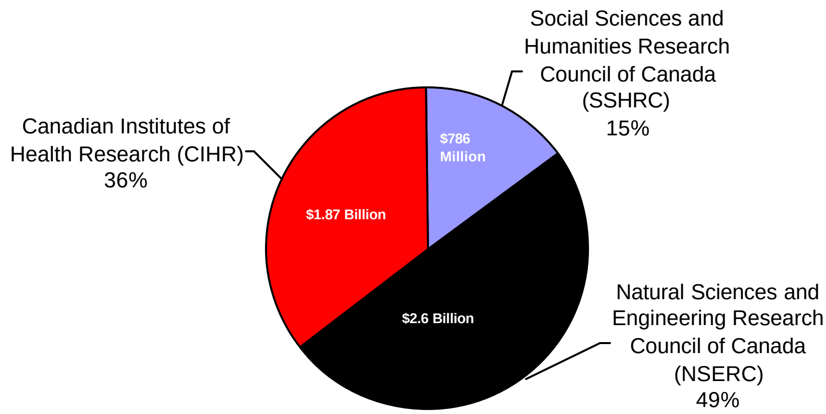
Support for Research and Development

> *[L]et me turn to the importance of funding for the federal granting councils. This is the bedrock of university-based research. It is difficult, if not impossible for governments to predict winners and losers in the knowledge economy. No one foresaw, for example, that the Internet would arise from a need of physicists engaged in the most basic research to exchange massive amounts of data internationally. No one would have thought that an obscure study of the fur trade in Canada by Harold Innes would spark a line of thought that transformed the way we think about communications technology in Marshall MacLuhan's* Global Village*. These examples show that basic research led not only to the World Wide Web, but also to the way we assess social impact.* (University of Toronto, 4 November 2002)

A number of entities play a vital role in helping Canada to meet its research and development targets, including the Natural Sciences and Engineering Research Council of Canada (NSERC), the Social Sciences and Humanities Research Council of Canada (SSHRC), the Canadian Institutes of Health Research (CIHR), the Canadian Institute for Advanced Research (CIAR) and the Canada Foundation for Innovation (CFI). By providing support to Canada's R & D community, they help to improve Canada's productivity and contribute to innovation. In the 2001 budget, the federal government increased the annual budgets of the NSERC and the SSHRC by 7% each, for an annual increase of $36.5 million and $9.5 million respectively. Figure 18 provides information on the funding of the NSERC, the SSHRC and the CIHR.

The University of Toronto told the Committee that more than 75% of the inventions reported to it every year arise out of projects funded not by industrial partners, but instead by the federal granting councils. We were told, however, that the granting councils are becoming victims of their own success. According to the Canadian Consortium for Research, increased federal support for research infrastructure through the CFI has placed additional demands on the base budgets of the councils, as has the increasing number of new and young scholars being hired in Canadian universities.

Figure 18: Cumulative Funding for Canada's Granting Councils, 2001-02 to 2004-05



Source: Library of Parliament. Data are from each granting council's *Report on Plans and Priorities 2002-03* .

The evidence received by the Committee indicates that the granting councils are not being funded to the same level. In particular, we heard from several groups, including the Canadian Federation for the Humanities and Social Sciences, the Université du Québec à Montréal and the Université de Montréal, that in contrast to the other granting councils the SSHRC is relatively underfunded. The SSHRC informed us that it can only fund 3.5% of the entire (relevant) graduate student population, while application rates for new scholars have increased 47% over the past three years in the core programs. It also remarked that recent funding increases do not address the fact that 55% of Canada's academic community receives only 12.5% of total federal R & D funding.

While witnesses were generally supportive of the granting institutions, several suggested to the Committee that the presence of the CFI is leading to duplication in the federal granting structure, and that research and development efforts would be better served by redirecting CFI funds toward the other granting institutions. As well, we heard criticisms that the CFI favours larger institutions that have access to private funding and commercialization offices at the expense of smaller institutions, including colleges. A similar criticism of the CFI was made by the Conference of Alberta Faculty Associations about the Canada Research Chairs program. In its appearance before the Committee, it claimed that the program favours "institutions that already have CFI and private sector funding and are specifically designed to strengthen institutions that are already strong in terms of grants from the federal granting councils." The CFI, however, told us that "[i]nstitutions in all parts of the country, institutions large and small, have quite similar success rates. The excellence that [the] CFI is seeking is found in all of these institutions. Remarkably, the distribution outcome is similar to that achieved in their competition for granting council funds."

In the September 2002 Speech from the Throne, the federal government made a commitment to increase funding to the federal granting councils. The Committee supports increased levels of funding, but believes that the valuable contributions made by the social sciences and the humanities deserve recognition, and that smaller institutions must not face discrimination because of their size and/or lack of private-sector funding or commercialization offices. Moreover, accountability is needed regarding the disbursement of funds by these entities, since the responsibility for spending tax dollars carries with it a responsibility to be accountable to the Canadian public regarding these expenditures. For these reasons, the Committee recommends that:

RECOMMENDATION 13

The federal government increase funds for the federal granting councils and, in so doing, ensure that the Social Sciences and Humanities Research Council of Canada receives an appropriate share of the allocation. Moreover, the federal granting councils and the Canada Foundation for Innovation should consider the concerns of smaller universities and colleges when disbursing funds, and should ensure that they do not face discrimination.

Within Canada, support for research and development can also occur through funding of the indirect costs of research. The Committee heard from a number of groups and individuals on this issue, and their overriding recommendation was for a permanent program to cover such costs. We were told that indirect costs — infrastructure, equipment, libraries, administrative and other costs that are incurred so that research can be undertaken — can be quite significant. Problems financing these costs are often encountered, since funds are not typically provided in research grants for these costs. In the absence of funding, the result has sometimes been deterioration in infrastructure, equipment and libraries, since support must come from other parts of educational institutions' budgets. We received evidence that for every dollar of funding received from the granting councils, an additional 40 cents may be taken from educational budgets for infrastructure needs.[54]

In the 2001 budget, the federal government provided a one-time investment of $200 million through the granting councils to Canada's universities and research hospitals to assist in financing the indirect costs of federally supported research. This initiative enjoyed wide support among the Committee's witnesses, but the argument was made that a permanent program is needed. For example, the Canadian Association of Research Libraries, the Graduate Students Association of Canada, the University of Saskatchewan, the University of Regina and the University of British Columbia called on the federal government to continue to support the indirect costs of research. While we also support the measure contained in the 2001 budget, we believe that more must be done. In particular,

[54] A notable exception is the Canada Research Chairs Program, which covers the total costs of research undertaken by professors assigned to the Chairs.

the indirect costs of research continue, and it is unlikely that the $200 million committed last year was sufficient to meet the need. For this reason, the Committee recommends that:

RECOMMENDATION 14

The federal government, in the next budget, provide a permanent program for financing the indirect costs of federally funded research.

Several of the Committee's witnesses commented on the degree to which the federal government should finance the indirect costs, and made reference to the commitment in the September 2002 Speech from the Throne to work with universities on this issue. Some groups suggested that a 40% grant would be appropriate to cover the indirect costs of research.

The Committee feels that the 40% figure suggested by most witnesses as the appropriate level for funding indirect costs would provide levels of support competitive with that found in other G-7 nations. Therefore, the Committee recommends that:

RECOMMENDATION 15

A permanent program financing 40% of the indirect costs of federally funded research be implemented in the next budget.

Research and development support by the federal government is also provided through the Scientific Research and Experimental Development (SR&ED) investment tax credit. With this credit, qualifying Canadian-controlled private corporations (CCPCs) with less than $200,000 of taxable income during the previous year are eligible for a refundable investment tax credit of up to 35% for qualifying expenses, to a limit of $2 million; this limit is reduced by $10 for every $1 of tax income between $200,000 and $400,000 in the preceding year. Other Canadian corporations, proprietorships, partnerships and trusts are eligible for a 20% non-refundable tax credit on qualifying expenses; they may be carried back three years or carried forward ten years to reduce tax liability.

Several groups, including the Ottawa Centre for Research and Innovation, commented that the SR&ED tax credit needs to be improved for it to have its intended effect of encouraging research and development for all Canadian companies. Some witnesses complained that the credit was too complicated and recommended simplification. The Canadian Manufacturers and Exporters recommended that Canadian subsidiaries of foreign multinationals be eligible for the credit.

At present, the SR&ED credit can only be claimed by public companies when they are profitable. According to the Canadian Advanced Technology Alliance (CATA):

> [t]his has the effect of eliminating these valuable tax credits at the time when companies need them most. When your revenues are down and your profits are

> under pressure, it's very difficult to resist cutting your R & D expenses. If the credits were available, there would be less of that taking place and Canadian industry would be in a better position to capture new markets and encourage job and revenue growth when the turnaround comes.

The CATA would prefer the 35% refundable tax credit to the current 20% non-refundable tax credit, despite its carry-forward and carry-back options.

Throughout this report, the Committee stresses the importance of prosperity and growth, productivity and innovation, research and development. Like many Canadians, we are convinced that our future prosperity depends on the research and development activities that will enable enhanced productivity and innovation. Thus, changes must occur, and the Committee recommends that:

RECOMMENDATION 16

The federal government simplify the process by which firms access the Scientific Research and Experimental Development investment tax credit. Moreover, a change should be made that would allow the credit to be better utilized by a company during periods that are not profitable so as to act as a continuing incentive to invest in research and development.

Commercialization

> *Increased spending on R & D will be necessary, but by itself, will not achieve the goals. … [T]here must be much earlier industrial involvement, greater opportunity for private sector leadership in defining research goals, and more flexibility of funding availability in order to realize successful commercialization of innovative technologies.* (Canadian Lightweight Materials Research Initiative, 3 September 2002)

Commercialization is the final step in the research and development process. Many great advances have resulted from basic, non-commercial research. Nevertheless, while research represents an essential first step, the development aspect of R & D must not be forgotten. In order for research to have the maximum possible effect on productivity, a climate that is favourable to the development, dissemination and commercialization of research is needed.

The Committee heard from groups such as Environmental Technology Innovation Canada and the Association of Canadian Community Colleges that while Canada has favourable incentives for basic research, insufficient attention has been paid by the federal government to bringing innovations to the marketplace. Canada's innovators must be provided with assistance to bring their ideas, products and processes to the marketplace, since to do so would result in more jobs, increased economic activity and future R & D undertakings. Without a favourable atmosphere for commercialization, Canada risks losing its innovators and their work.

The Partnership Group for Science and Engineering recommended that the federal government help universities build capacity for the commercialization of university research, including the training and employment of individuals with skill sets in intellectual property, contracts management, patents and licensing, venture capital negotiation and management. Such support, it suggested, could involve supplementary funding to the indirect costs program, or the creation of a commercialization office or secretariat, as well as working to minimize barriers to industry-university partnerships.

Canadian community colleges are also well positioned to promote innovation and commercialization in the regions they serve. The Association of Canadian Community Colleges recommended the creation of college and community innovation and technology commercialization centres. These centres would leverage the applied research capabilities and the assets of colleges and institutes to make resources more accessible to small and medium-sized enterprises (SMEs) and thereby stimulate business innovation and new business creation and/or expansion.

Testimony was also received about the National Research Council's Industrial Research Assistance Program, which works at the local level in all regions to help SMEs develop innovation projects collaboratively. The National Research Council and the Aerospace Industries Association of Canada suggested that increased funding and access to this Program is needed. Moreover, an example of the success of collaborative work and funding was provided by Triumf, Canada's national laboratory for subatomic physics and a world leader in its field. It told the Committee of the excellent links it has with Canadian industry for the transfer of knowledge.

The Committee believes that Canada must improve its ability to take innovative ideas and products from the research stage to the marketplace. We recognize that innovators and universities of various sizes may differ in the types of assistance they need, and support the September 2002 Speech from the Throne's commitment to work on strategies for commercialization. While any costs associated with commercialization could be considered to be an indirect cost of research, we think that the concept of a commercialization office or secretariat within the federal government has merit, particularly as an agency to facilitate partnerships. It is for this reason that the Committee recommends that:

RECOMMENDATION 17

The federal government create a commercialization office within Industry Canada. The mandate of this office would be efforts leading to the commercialization of research undertaken in Canada.

Patent and Copyright Protection

> *We need the Federal Government to maintain mechanisms for patent protection, and to ensure their effective enforcement. Contrary to popular belief, 20 years of patent protection does not mean 20 years of shelf life for new medication. In fact, we are very lucky when it means half of that, because patent protection begins long before a medicine is approved and made available to patients.* (Canada's Research-Based Pharmaceutical Companies, 28 October 2002)

Strong patent protection is another tool that helps to ensure that innovators have an economic incentive to undertake research and development, as was indicated to the Committee by Canada's Research-Based Pharmaceuticals Companies. During the hearings, however, the Committee heard the concerns of the Canadian Generic Pharmaceutical Association, which suggested that its industry was being unfairly penalized by the application of patent law. According to the Association:

> [t]he patented medicine notice of compliance regulations of Canada's *Patent Act* allow brand-name companies to stop Health Canada approval of generic drugs simply by alleging patent infringement. The automatic 24-month stay under the regulations means that Health Canada cannot approve a generic drug until any claim of alleged patent infringement is decided in court. The regulations withhold Health Canada approval, not when a patent is actually being infringed, but when the brand-name company says it might be.

It believes that nuisance lawsuits are impeding the arrival of generic drugs on the market, based only on an alleged, not a proven, claim.

The Committee firmly believes that patent and copyright protection play an important role in inducing companies and individuals to undertake research and development. In our view, the federal government must ensure that all parties respect these laws. From this perspective, the Committee recommends that:

RECOMMENDATION 18

The federal government ensure that the rights embodied in patent and copyright protections are vigorously defended.

Smart Regulation

> *[W]hen the regulatory process is not responsive to innovative products, critical competitive factors for other industries are impacted. They can be a significant barrier to Canada's international competitiveness. It is hard for a Canadian producer using old technology to compete with a U.S. or European producer using cutting-edge technology that has not yet been approved here. … The most maddening thing is that it doesn't have to be this way. In the right environment, cost-recovery policy and regulators can actually encourage innovation, something that*

> *has been proven in other countries.* (Canadian Animal Health Institute, 22 October 2002)

Regulations can affect the prosperity of particular industries or sectors, and thus the prosperity of our nation. In this area, however, there may be competing interests. Consider, for example, that health, environmental and competition regulations help to protect our quality of life by setting standards in areas that are thought to be important to Canadians. Regulations do, however, impose a cost on businesses in the form of user charges and time spent addressing regulatory requirements, which can affect competitiveness and impede productivity improvements. For example, the Canadian Animal Health Institute told the Committee that "Canada's system of regulating the approval and use of veterinary pharmaceuticals has a serious impact on the competitiveness of our member companies and the customers we serve." Such witnesses as the Canadian Home Builders' Association and CropLife Canada also commented on regulatory issues. The challenge, therefore, is smart regulation; balancing the need for regulations to meet the needs of Canada's citizens with their effect on efficiency and productivity for firms.

The Committee notes this challenge, and believes that striking the proper balance will not be easy. It must, however, be done. In our view, a mechanism is needed that would require regulatory changes and government programs to be assessed in order to determine whether they will assist or hinder productivity and innovation within Canada. Conceptually, this notion resembles the current Rural Lens that is used by the Rural Secretariat within Agriculture and Agri-Food Canada, which determines if new programs, services and policies are appropriate for rural Canadians. From this perspective, the Committee recommends that:

RECOMMENDATION 19

The federal government develop a mechanism by which existing and future policies and programs would be assessed to determine their impact on productivity and the incentive to undertake research and development in Canada. Particular attention should be paid to the impact of regulations in these areas.

Lifelong Learning and Skills Development

> *In the fast-paced, global economy of the 21st century, prosperity relies on innovation, which depends on investments by both government and the private sector, in the creativity and talents of our people.* (Canadian National Institute for the Blind, 26 September 2002)

In order to benefit from productivity and innovation, Canada must make a commitment not only to research and development, but also to the lifelong learning and skills development of Canadians, whether that learning and development occurs in educational institutions or on the job. In addition to support for traditional providers of education and training, witnesses recommended innovative approaches to learning and skills development, including the proposal by the Financial Executives Institute Canada for a centre for continuing workplace training and education.

In assessing what policies and practices are needed to provide Canadian students, workers and their employers with an incentive to invest in learning and skills enhancement, such issues as access to learning opportunities, skilled labour shortages, foreign accreditation, assistance to refugee students and support for educational institutions must be considered.

Access to Learning Opportunities

> *For all learners, the education levels required to obtain and keep rewarding employment or to seek higher education are rising. The importance of ensuring opportunities for lifelong learners has emerged … as an equity challenge.* (Saskatchewan School Trustees Association, 9 September 2002)

Literacy is absolutely necessary for any individual to engage in lifelong learning and skills development: a literacy deficit limits opportunities. While the federal government has affirmed its intention to address Canadian literacy problems in the last two Speeches from the Throne, the Movement for Canadian Literacy (MCL), citing data from Statistics Canada, told the Committee that the need is pressing:

> [T]he literacy skills of nearly half of Canada's adult population rank below the acceptable range: 22 per cent have serious difficulty with reading, writing and math, and another 26 per cent do not have the literacy skills necessary to prosper in the knowledge-based economy. … Canada's future economic vitality is threatened by looming labour shortages. … Now more than ever, we cannot afford the loss of potential, innovation, and productivity that stems from allowing millions of less-literate Canadians to sit on the sidelines. … [W]ithout a national strategy for adult literacy, less than 10 per cent of those who could benefit from literacy training are currently being helped.

The MCL's main recommendation was that the federal government expand the funding and mandate of the National Literacy Secretariat so that it can develop a national literacy strategy. According to the MCL, the National Literacy Secretariat currently operates with an annual budget of $28-30 million, an amount that has not changed since 1997.

Immigrants to Canada face a special literacy challenge because they must also develop basic English and/or French vocabulary before they can begin literacy training and before they can even contemplate lifelong learning. The Campaign for Stable Funding of Adult ESL Classes told the Committee that becoming fluent in English or French is an essential ingredient to immigrants' prosperity, and stated that "[w]hen large numbers of people cannot speak fluently, nor read and write at least one of Canada's official languages, we all lose. It affects our economy, it affects our ability to provide quality health care and deal with other social issues." The Canadian Community Economic Development Network also highlighted the need for programs for recent immigrants.

The Committee was also told that both Citizenship and Immigration Canada and the Prime Minister's Task Force on Urban Issues have commented on the importance of English and French language training, with a lack of language training hindering the ability of immigrants to enter the labour force and fill labour shortages. We were told by a number of groups and individuals that there is a lack of resources for second-language programs, although there have been commitments by the federal government to provide targeted measures to assist the children of recent immigrants so that they can realize the opportunities that brought their parents to Canada.

The Committee believes that literacy training hould be a priority of the federal government, which would recognize that literacy is absolutely critical to full participation in society. As such, the Committee recommends that:

RECOMMENDATION 20

The federal government expand funding for the National Literacy Secretariat and increase its role in supporting English/French as a second language.

Some citizens face financial barriers in obtaining the kind of education and training that the job market demands and/or that they desire. The Committee heard many presentations by groups and individuals — such as the Manitoba Organization of Faculty Associations and the National Professional Coalition on Tuition — that highlighted problems with high tuition costs, an inability to access sufficient funds to finance education and training, and excessive debt upon graduation. We learned that these barriers may be particularly severe for those wishing to study in certain areas, such as dentistry.

Most Canadians would adopt as a societal goal the notion that access to post-secondary education in Canada should be based on skill, not ability to pay: everyone who wants and is able to complete a post-secondary education should be afforded the opportunity to do so. That being said, tuition fees continue to rise and fee increases have outpaced inflation for a number of years. Statistics Canada data reveal that undergraduate students currently pay an average of $3,738 in tuition, a 4.5% increase over 2001-02 and nearly double the average tuition of $1,872 paid in 1992-93. As well, since 1997-98, tuition fees for graduate programs have increased 11.5% annually, compared with over 6% for undergraduate programs.[55] Groups such as the Canadian Association of Student Financial Aid Administrators and the Conseil national des cycles supérieurs noted that high debt levels can be a barrier to participation in post-secondary education. The Canadian

[55] Statistics Canada, "University tuition fees" and "Universtiy tuition fees — Data revision," *The Daily*, 21 August and 9 September 2002.

Association of University Teachers also expressed concerns about rising tuition fees and student debt.

Moreover, while there are slightly fewer students borrowing from student loan programs, the amount borrowed and debt levels two years after graduation are significantly higher. The Canada Student Loan Program estimates that 75% of borrowers who exhaust the 54 months of interest relief provided by the federal government are ineligible for debt reduction in repayment, largely because debt reduction and interest relief use two different eligibility tables.

In recent years, federal budgets have often contained education-related measures, including the Canada Education Savings Grant, Canada Millennium Scholarships, Canada Study Grants, improved tax measures and an enhanced Canada Student Loans Program. The Canada Millennium Scholarships provide more than 90,000 students annually with scholarships averaging $3,000 per year to reduce the debt that they would otherwise have incurred, while Canada Study Grants of up to $3,000 each provide assistance to about 25,000 students with dependants.

Through its Debt Reduction in Repayment (DRR) program, the federal government changed the Canada Student Loans Program to help manage student debt by: increasing the number of people eligible for interest relief; providing debt reduction of up to 50% of Canada Student Loans outstanding up to a maximum of $10,000 for those in extended financial difficulty; and giving a tax credit for interest paid on federal and provincial student loans.

More recently, the 2001 budget contained additional initiatives:

- An increase in the maximum study grant to cover exceptional costs associated with disabilities;
- Modified employment insurance in order that apprentices in approved training programs are subject to only one two-week waiting period;
- A deduction for registered apprentice vehicle mechanics of the cost of their tools where it exceeds the greater of $1,000 or 5% of their apprenticeship income; and
- Extension of the education tax credit and exemption from income tax of any tuition assistance for adult basic education provided under certain government programs, including employment insurance.

As well, the 2001 budget allocated $24 million over two years to sector councils — industry-wide partnerships that bring together employers, unions, employees and educators to assess future employment patterns, skill requirements and training practices in various sectors of the economy. Moreover, recent budgets have increased funding for research and development, as noted earlier.

In spite of these efforts, the Committee heard that student debt levels remain a problem for many graduates. This may be the result, in part, of the programs themselves, since some programs such as dentistry and medicine are more costly than others. The Canadian Federation of Students told the Committee that the federal government's 1998 DRR program has fallen far short of its goal of helping more than 12,000 students a year with debt and interest relief. The Federation told us that " ... less than 500 students per year are benefiting from the program to-date. … Officials from both the Department of Finance and Human Resources Development Canada acknowledged this problem years ago, but to date no action has been taken."

These concerns were echoed by the Canadian Alliance of Student Associations (CASA), which also recommended an increase in Canada Student Loans Program limits and annual increases based on a students' price index that would factor in such costs as tuition, books, food and rental accommodation. The CASA shared cost information with the Committee, telling us that "[f]or a typical 34-week academic year, students can only receive a maximum of approximately $9,350 when the federal portion of their loan is combined with their provincial loan. Consider that the national average for undergraduate tuition is $3,737 a year; an average student will be left with less than $5,700 to pay for rent, food, books, ancillary fees, transportation and personal costs over eight months."

The Committee believes that adequate student loan funding should be a federal government priority. Tuition fees, inadequate access to financing and the prospect of burdensome levels of student debt are limiting educational opportunities for Canadian citizens. Action is needed if Canada, and Canadian employers, are going to be able to access the highly skilled workers that will be needed to ensure our future prosperity and our quality of life. From this perspective, the Committee recommends that:

RECOMMENDATION 21

The federal government re-evaluate the criteria for its student debt relief initiatives to determine if they are too stringent. Consideration should also be given to expanding student loan limits to assist students in financing rising tuition fees.

Skilled Labour Shortages and Foreign Accreditation

> *As technology continues to advance at an accelerated rate, Canada's present and future workforce will require part-time training and skills upgrading to ensure that they remain current. With technologies and job descriptions changing rapidly, and many experienced workers close to retirement, the skills gap facing Canadian business and industry is bound to widen unless concerted, focused action is taken.* (Northern Alberta Institute of Technology, 9 September 2002)

Several industry groups, including the Greater Toronto Home Builders' Association, told the Committee that Canada is facing a skilled labour shortage in several areas. According to the Canadian Machining and Tooling Association, "[c]urrent estimates are that 50,000 tradespeople will need to be replaced within five years in the automotive sector alone and, of this total, an estimated 5,000 skilled precision metal tradespeople will be required independent of the various economic cycles to be encountered." Given expected skilled labour shortages, funding for community and vocational colleges is desired.

The Committee heard two solutions to this shortage. First, several witnesses argued that the accreditation process for skilled immigrants is often unduly onerous and restrictive. Furthermore, while attracting skilled immigrants and addressing certification issues will help, it will not be enough. Witnesses told us that the federal government must become involved in helping to address the skilled labour shortage; several suggested using the EI system to encourage training, and allowing the creation of Training Trust Funds modelled on the Registered Individual Learning Accounts Program. Others, such as the Canadian Tooling and Machining Association, suggested a program of apprenticeship tax credits.

While the Committee notes that actions have recently been taken to reduce waiting period provisions for apprentices in the Employment Insurance program, to allow an income tax deduction for apprentice vehicle mechanics' tools and to assist mentoring and business support to young entrepreneurs, greater efforts are needed and on a priority basis. Earlier in the report, data were provided on the aging of our population, and some have argued that skilled immigrants may be needed if we are to avoid skilled labour shortages. While several of the other proposals voiced by witnesses have merit, we believe that priority should be given to the problems associated with the recognition of foreign accreditation. It is for this reason that the Committee recommends that:

RECOMMENDATION 22

The federal government work with the provinces, territories and relevant professional associations to make it easier for foreign workers with the necessary level of expertise to practice their trade in Canada.

Refugee Students

> *Given that recognized refugees are here to stay, it makes no sense to delay their education. The sooner they begin their studies, the sooner they will become self-supporting, full participants and contributors to the Canadian economy and society. Conversely, the longer their education is delayed, the greater the risk that their opportunity to be a full-time student will be forfeited.* (The Getting Landed Project, 29 October 2002)

The Committee also received testimony from the Getting Landed Project, a group advocating the extension of the Canada Student Loan Program to refugees. We were told that "under current student loans legislation only Canadian citizens and permanent residents qualify for student loans. Recognized refugees, known as 'Protected Persons' under the new *Immigration and Refugee Protection Act*, are currently excluded. This exclusion is bad for refugees and bad for Canada as well."

It generally takes at least one year for a refugee to acquire permanent resident status, although some wait as long as five years. During this period, most refugees cannot afford an education. The Getting Landed Project estimates that extending the Canada Student Loan Program to these persons would cost about $4.5 million.

The Committee believes that refugees to Canada must be embraced by us, and that they must be able to begin their integration into Canadian society as soon as possible. The ability to undertake education is part of this process, and should be assisted by the federal government. We believe that assisting their integration into Canada benefits both them and us. From this perspective, the Committee recommends that:

RECOMMENDATION 23

The federal government immediately implement any changes necessary to ensure that recognized refugees are treated in the same manner as Canadian citizens and permanent residents for purposes of qualification for student loans.

Support for Educational Institutions

> *Institutions have economized in the short term by deferring necessary maintenance, to the point that deferred maintenance is a major problem on our campuses. The provincial government in Alberta reckons the provincial backlog [for universities, colleges and technical institutes] at about $350 [million] while a recent study by the Canadian Association of University Business Officers estimates the national total at $3.6 billion.* (Confederation of Alberta Faculty Associations, 31 August 2002)

Inadequate support for educational institutions is also a barrier to the type of lifelong learning and skills development needed by Canadians. Research and development funding, which was discussed earlier, is not the only financial issue facing educational institutions. Other stresses on them also exist. The Association of Universities and Colleges of Canada told the Committee that '[o]verall, the most significant issue facing universities is institutional capacity, in terms of both human and physical resources."

The Committee heard that cash-strapped post-secondary institutions are facing an increasing infrastructure deficit, since they lack the funds to repair buildings, and maintain libraries and laboratories, among other elements. The Association of Nova Scotia University Teachers told us that, in the absence of adequate core funding, it is becoming increasingly difficult to update laboratory and computing facilities, and that on some campuses the buildings are on the verge of collapse. The discussion above noted the infrastructure deficit in the discussion of the indirect costs of research.

The federal government's main contribution to post-secondary education occurs through the Canada Health and Social Transfer (CHST). As is the case with spending on health care, there is a concern about the lack of accountability and transparency regarding how the CHST funds are spent: at present, there are no explicit requirements that a certain portion of the CHST be spent on education or health care. According to some groups, including the New Brunswick Faculty Associations, this absence has resulted in some provinces diverting CHST funds away from their intended uses, potentially resulting in underfunding of one sector or another. This deficiency prompted some of the Committee's witnesses to recommend a post-secondary education act, which would mirror the *Canada Health Act* and address accountability and access issues.

The Committee believes that many educational institutions are experiencing financial stresses and an unacceptable erosion of their infrastructure. Ultimately, this erosion will have the effect of reducing the quality of lifelong learning and skills development that occurs. While addressing this issue through the indirect costs of research may be one option, we are not convinced that it is the best option. We feel that federal funding of lifelong learning and skills development must occur, but are hesitant to recommend a particular allocation in the absence of clearly stated principles that would ensure accountability and transparency. The issue of jurisdiction in the area of education must also be considered. From this perspective, the Committee recommends that:

RECOMMENDATION 24

The federal government meet with the provinces and territories with a view to developing accountability and transparency mechanisms related to the expenditure of funds on post-secondary education by both levels of government.

CHAPTER SIX — THE PRIORITY OF HEALTH CARE

[I]t is only the federal government that is accountable to all Canadians for achieving access to comparable services no matter where they live in this country. Federal leadership is critical. (Canadian Healthcare Association, 22 October 2002)

Canada's publicly funded healthcare system plays an important part in our social safety net and in our national psyche. The country is currently involved in a debate over the future direction of our healthcare system. The Standing Senate Committee on Social Affairs, Science and Technology released the last in a series of reports on the healthcare system in October 2002, and the Final Report of the Commission on the Future of Health Care in Canada, chaired by Roy Romanow, is expected at the end of November 2002.

In the September 2002 Speech from the Throne, the federal government announced that the Prime Minister will convene a First Ministers Meeting early in 2003 to put in place a comprehensive plan for reform. It also indicated that the upcoming budget will include "the necessary federal long-term investments," and included a number of other healthcare commitments:

- to renew federal health protection legislation to better address emerging risks, adapt to modern technology and emphasize prevention;
- to take steps to strengthen the security of Canada's food system and reintroduce pesticides legislation to protect the health of Canadians, particularly children;
- to work with its partners to develop a national strategy for healthy living, physical activity and sport, and to convene a national summit on these issues in 2003;
- to take further action to close the gap in health status between Aboriginal and non-Aboriginal Canadians by putting in place a First Nations Health Promotion and Disease Prevention strategy with a targeted immunization program, and by working with its partners to improve healthcare delivery on-reserve; and
- to modify existing programs to ensure that Canadians can provide compassionate care for a gravely ill or dying child, parent or spouse without putting their jobs or incomes at risk.

The Current Healthcare System

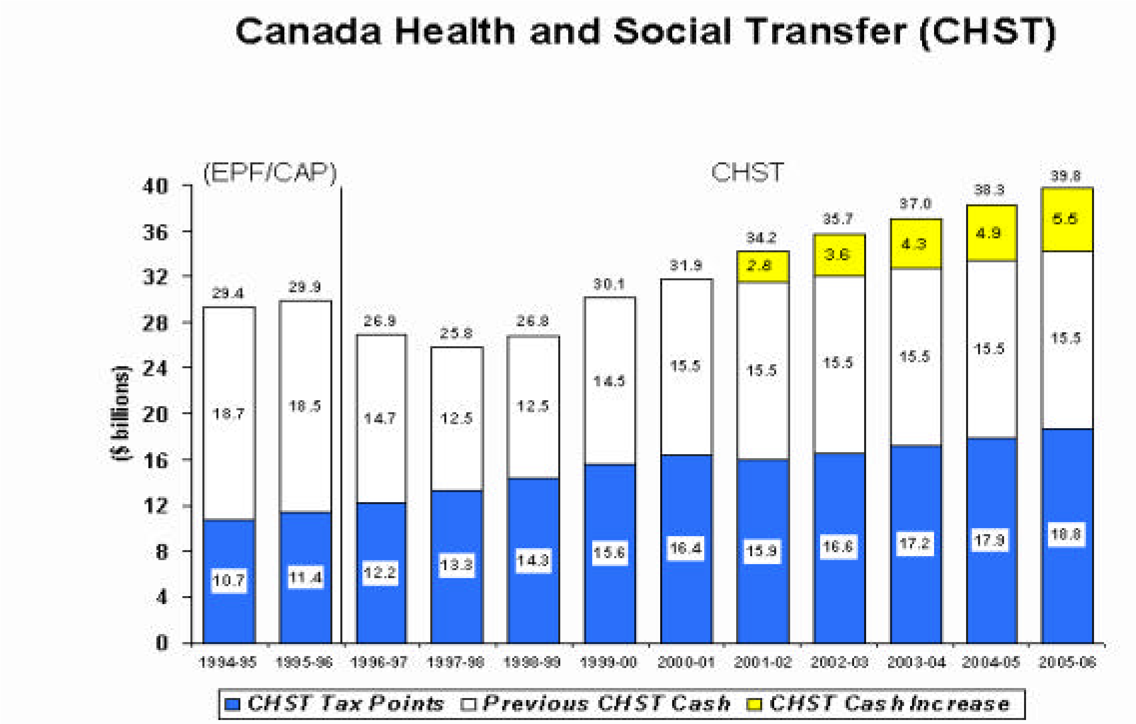
We fully support the government's apparent openness … to explore new concepts and new ideas to improve the delivery of health care services to Canadians. Fixing the healthcare problems will require more than just money. We believe there is considerable scope for 'back office' management efficiencies that would enable a higher proportion of healthcare resources to be devoted to front-line patient care and *to the procurement and operation of the latest diagnostic and treatment technologies where under-investment has contributed to the well-documented current deficiencies.* (CanWest Global Communications Corporation, 9 September 2002)

According to the Canadian Institute for Health Information (CIHI), Canadians — individually and through government — spent more than $100 billion on health care in 2001, up 4.3% from the previous year, adjusted for inflation and population growth. While healthcare costs have generally risen over the past several decades, during the 1990s healthcare spending — after adjusting for inflation and population growth — fell. As a share of GDP, healthcare spending has fallen from 10.2% in 1992 to 9.4% in 2001.[56]

The federal, provincial and territorial governments are already working together to improve the healthcare system for the benefit of Canadians. In September 2000, the federal government announced — together with an agreement on early childhood development — that it would spend an additional $23.4 billion over five years to support the healthcare system. This investment consisted of two major components: $21.1 billion over five years to the Canada Health and Social Transfer (CHST) and $2.3 billion for the purchase of up-to-date medical equipment, improved information systems supporting health services and accelerated changes in the way primary health care is provided to Canadians. As Figure 19 indicates, total federal CHST funding, including tax points, was $34.2 billion in 2001-02.

56 Canadian Institute for Health Information, *Health Care in Canada 2002*, Ottawa, p. 29; and *Health Care Spending in Canada*, News Release. Available at: www.secure.cihi.ca/cihiweb/hcic/media_29may2002_b6_e.html.

Figure 19



Source: Department of Finance.

The Concerns of Canadians

> *The [Canadian Medical Association] believes that to achieve real reform, more than 'tweaking' of our current system is required. We see change as requiring a fundamental rethinking of the system including its governance and accountability structures in order to move forward and turn the corner towards a sustainable healthcare system.* (Canadian Medical Association, 22 October 2002)

During the Committee's pre-budget discussions and consultations, many witnesses such as the Ontario Hospitals Association shared their views on healthcare reform, addressing such issues as the treatment of mental health problems and the need for more comprehensive reform of the healthcare system. Although witnesses may have disagreed on how extensive reform should be, all were supportive of a revitalized and sustainable healthcare system. Since the Committee does not, at this time, have the benefit of the Romanow Commission's report, we feel the best means of contributing to the healthcare debate is by highlighting a number of key themes that emerged during our hearings.

Canadians Overwhelmingly Support a Public Healthcare System

Public health care is not merely an expression of Canadian values: it is also a sound business investment. As the Canadian Healthcare Coalition remarked to the Committee, "[b]usiness leaders continue to recognize the economic benefits of our publicly funded health system in terms of [a] healthy workforce, increased productivity, economic development (through health research and innovation), quality of life related to business decisions to locate in Canada, and increased global competitiveness." Its universal nature enables the delivery of health care at a lower cost than is possible in the largely privatized U.S. system. The Ontario Chamber of Commerce told the Committee that privatization moves costs around without necessarily reducing them, "since 'patients' are often 'workers' and their employers have to bear the costs."

Increased and Stable Funding of Health Care is Needed from the Federal Government

While most witnesses agreed with the need for increased funding to the healthcare system, there was disagreement about the best way to fund such an increase. The Ontario Chamber of Commerce told the Committee that "[a]llocating ever larger amounts of financing to this area will not remedy the current pressures on the system." It expressed a preference for "significant structural changes in the healthcare system." Other groups recommended that the federal government use its expected surpluses to effect a funding increase. One option, a dedicated health tax of the type advocated by the Standing Senate Committee on Social Affairs, Science and Technology, was rejected by most witnesses. Several groups recommended returning funding to its 1992 level (in real terms) and including an escalator to reflect future inflation and population growth.

The Canadian Medical Association and the Canadian Nurses Association told the Committee that there is a shortage of physicians and nurses in Canada, particularly in rural and remote areas, and that high tuition fees are creating barriers that discourage people from applying to medical school. We were also informed by the Nova Scotia Association of Health Organizations (NSAHO) that the federal government's per capita health funding formula is inadequate because it does not recognize that provinces with older populations are relatively more intensive users of health care. The NSAHO argued that healthcare funding allocations to provinces should reflect the underlying demographics of provinces.

A number of the Committee's witnesses recognized that money alone is not the solution to current and future healthcare challenges. In their view, restructuring is also needed, as is a focus on transparency and accountability with respect to the expenditure of public funds. Restructuring could, for example, result in the reallocation of funds to the use of new information technologies to improve the accountability, efficiency and effectiveness of the healthcare system. Investments in health technologies and health-related information technologies are a key part of helping to ensure the delivery of quality health services.

The Public Nature of the Healthcare System Should be Expanded to Include Extended Pharmacare and Homecare Programs

A number of presentations to the Committee mentioned pharmacare and homecare programs in the context of expected healthcare reforms. The Canadian Union of Public Employees, for example, recommended that these programs be funded on a 50/50 cost-shared basis with the provinces and territories. Currently, spending on drugs — which is only partially covered by federal, provincial, territorial and private insurance — represents the fastest-growing component of the healthcare system. According to the Canadian Institute for Health Information, Canadians spent about $15.5 billion on drugs in 2001, up 8.6% from the previous year, making it the second-largest category of health expenditure.[57]

Homecare offers the possibility of lower-cost, non-institutional care. At present, however, these programs are unevenly funded across the country. As the Health Charities Council of Canada remarked to the Committee,

> [t]he access to health care is currently limited to access to physicians and hospitals. Access to less costly and more appropriate health care providers outside the hospital system is not covered by public medicare. This characteristic of the [*Canada Health Act*] has in some ways provided a perverse incentive to Canadians. That is, many Canadians have been conditioned to using the most expensive health resources for even minor and non-medically related needs. Accessibility, therefore, needs to include funding for all services and should begin with the implementation of primary healthcare models.

The ALS Society of Canada, which advocates for persons with a progressive neuromuscular disorder sometimes called Lou Gehrig's disease, also noted that increased funding to homecare would benefit their members, since ALS sufferers require minimal hospitalization and depend mostly on homecare.

The Committee also heard other suggestions for further expansion of the healthcare system. For example, the Canadian Dental Hygienists Association suggested that dental work be covered for seniors and low-income Canadians.

Accountability and Transparency Should be Ensured in the Future Healthcare System

Transparency and accountability should exist whenever public funds are spent, since Canadians have a right to see where and how their tax dollars are being spent. Accountability is necessary in order to evaluate whether a particular program is effective, efficient and meeting intended goals. There are a number of means by which enhanced

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57 *Health Care in Canada 2002*, p. 33.

transparency and accountability might be realized, including, for example, a Canadian health commission to report annually on the performance of the healthcare system and the health status of the population. There is a consensus that the delivery of monies to the provinces and territories for several program areas through a single program — the CHST — interferes with transparency and accountability, and can result in federal funds intended for one purpose being used in other areas.

The Canadian Institutes of Health Research Enjoy Widespread Support

Witnesses strongly supported the federal government's investments in the Canadian Institutes of Health Research (CIHR), with most — including the Council for Health Research in Canada and the Heart and Stroke Foundation of Canada — recommending budget increases in order to support advanced Canadian health research. Witnesses also suggested that the CIHR increase support to such areas as ALS and vision research.

Preventive Health Care Should be Emphasized

To the extent that prevention can reduce use of the healthcare system, and thus reduce healthcare costs, groups such as the Canadian Cancer Society recommended increased investments in primary prevention and community care. The Insurance Bureau of Canada suggested investing in a national injury prevention program to promote healthier lifestyles and reduce the risk of occupational/recreational injury and death, while other groups — such as the Coalition for Active Living and Sport Matters — stressed physical activity as a way to reduce future healthcare costs through healthier living. The Coalition, for example, recommended a $500 million investment over five years in the development of an aggressive strategy to cure what it believes is a physical inactivity epidemic in Canada.

Caring for all Canadians

Various groups and individuals told the Committee that in addition to homecare and pharmacare, Canada's healthcare system does not provide adequate assistance to certain groups. The Canadian Alliance for Children's Healthcare recommended that the federal government implement programs to aid "extraordinary care children" (those with serious illnesses and disabilities) and their caregivers.

A number of the Committee's witnesses spoke about palliative care. The Canadian Nurses Association informed us of recent study results indicating that "while more than 80 per cent of Canadians die in hospitals, 80 to 90 per cent would prefer to die at home, close to their families and living as normally as possible." Consistent with the request for support for extraordinary care children and their caregivers, similar programs are needed to support palliative care patients and their caregivers.

The Committee also heard, from the Canadian Mental Health Association among others, that mental health has been relatively neglected. Moreover, the Mood Disorders Society of Canada suggested that the federal government spend $50 million on a national action plan on mental illness and mental health, which would provide "a concerted, long-term approach towards mental illnesses as well as to the encouragement of positive mental health." According to the Society, "[i]n 1998, mental illnesses and disorders were the seventh highest among all diseases in terms of the overall cost of illness. It is estimated that mental illness is the second-leading cause of hospital use among those aged 20 to 44, a period in life normally associated with high productivity." The Manitoba Schizophrenia Society Inc. and the Lifelinks Health Program mentioned research and disability tax credits in the context of diseases of the brain.

The Committee wishes to note the Canadian Medical Association's recommendation of several relatively small, one-time investments that could support the healthcare system. They respond to specific needs, such as the shortage of medical personnel (including nurses) and the modernization of the healthcare system through the use of information technology:

- $50 million to Canada Health Infoway Inc. to initiate a program to fund specific sites across Canada to undertake aggressive, large-scale project implementation of remote information and communication technology solutions to facilitate care in home and community-based settings;
- $20 million to establish an international offshore program to pre-screen potential medical graduates who wish to immigrate to and practice medicine in Canada;
- $30 million to increase capacity in areas of the public health system to ensure communication in real time, both between multiple agencies and with healthcare providers, especially in times of national emergency or to meet national health needs; and
- $25 million to create Pan-Canadian Networks of Clinical Excellence, which would develop electronic registries to track and connect patients across the country, support collaborative research, establish and implement clinical best practices, develop and implement knowledge translation plans, and promote the sharing of human capital and expertise across jurisdictions.

Finally, the Canadian Executive Council on Addictions recommended a comprehensive federal/provincial drug strategy, coordinated with the CIHR, that would reduce the resource imbalance in combating drug addiction away from supply reduction and enforcement and toward the social sector.

What the Committee Believes

> *[I]t is imperative that the federal government view health as its foremost funding priority. To do otherwise would be to ignore the values and priorities of its citizens and the advice of the commissions and committees mandated to advise the federal government on this matter. You may well ask whether this should be a blank cheque? Absolutely not — governments and providers need to be publicly accountable for their health funding decisions and the results achieved from these decisions.* (Nova Scotia Association of Health Organizations, 30 October 2002)

The Committee supports the main themes articulated by witnesses: the need for a public healthcare system with stable funding at an appropriate level; an approach to health care that recognizes prevention, pharmacare and homecare, and that provides services to Canadians experiencing a full range of illnesses; accountability and transparency, which could be enhanced through the unbundling of CHST allocations; and support for the Canadian Institutes of Health Research. For this reason, the Committee recommends that:

RECOMMENDATION 25

The federal government work with provincial and territorial governments, and other stakeholders, to ensure that the Canadian healthcare system of the future respects the following principles:

(a) public funding at an appropriate level;

(b) an approach to service delivery that recognizes the role of prevention, pharmacare and homecare, and that is sensitive to the needs of Canadians experiencing a wide range of illnesses;

(c) mechanisms to ensure accountability and transparency at every level of spending; and

(d) continued support and increased funding for the Canadian Institutes of Health Research.

Moreover, as resources permit, the government should consider the one-time funding of initiatives that would yield significant benefits for relatively little cost.

CHAPTER SEVEN — THE PRIORITY OF SUSTAINABLE COMMUNITIES

Communities large and small throughout Canada are reeling under severe social and economic pressures. The concentration of Canada's population in a handful of large urban centres imposes financial pressure upon city governments forced to expand infrastructure and services while coping with reductions in federal and provincial allocations. The corollary of urbanization, of course, is the severe decline of rural communities now faced with a shrinking tax base and drain of skills and experience. (Canadian Museums Association, 16 September 2002)

Whether we live in urban or rural communities, Canadians have long valued sustainable communities. Until recently, this has been reflected in steps taken in most sizable Canadian cities to avoid the largely abandoned downtown cores found in many large U.S. cities in the post-war period. These steps have included ensuring efficient and effective public transportation, building parks and sidewalks, and supporting residential development in downtown cores.

In Canada's rural and remote communities, the commitment to sustainability has been reflected in federal and provincial government efforts to support these areas economically and culturally, through assistance to local industries, regional economic development programs, infrastructure spending, and funding for travelling theatre productions and musical shows.

Faced with budget constraints during the 1990s, all levels of governments reduced expenditures in these areas. The effect of this move is now being felt in the form of crumbling roads, overburdened mass transit systems, increased out-migration from rural and remote areas, and decaying water and sewage-treatment facilities. At this time, the federal government's long-standing commitment to sustainable communities in both urban and rural areas should be renewed and reaffirmed.

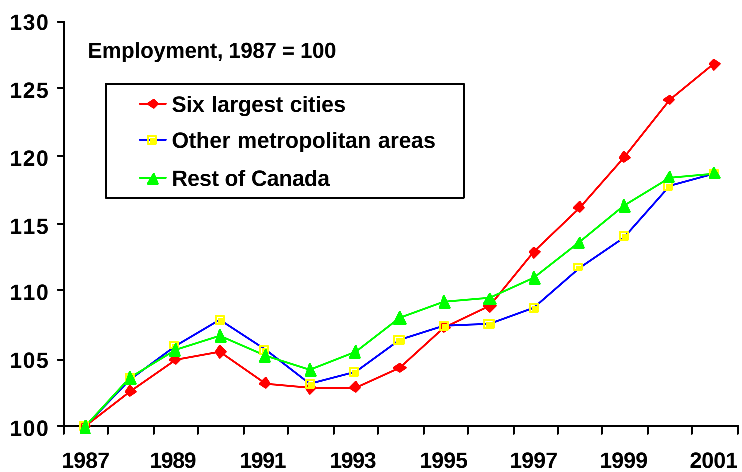
Support for Urban Areas

Competitive cities and healthy communities are vital to our individual well-being and to Canada's ability to attract talent, innovation and investment. For this reason, they deserve appropriate federal investment, legislative and regulatory treatment to permit them to be sustainable. (Urban Development Institute, 5 November 2002)

A recurring theme presented by witnesses during the Committee's pre-budget discussions and consultations was the increasingly urgent need to address the strains on cities and urban areas. This message was consistent with the September 2002 Speech from the Throne, which said that there was a need "for a new partnership, a new urban strategy, a new approach to healthy communities for the 21st century,"[58] and the April 2002 *Interim Report of the Prime Minister's Caucus Task Force on Urban Issues*, which noted that "as the economic engines of the country, it is critical that our urban regions sustain their levels of growth and continue to contribute to Canada's high quality of life."[59]

Most analysts agree that urban regions account for much of Canada's economic and employment growth. In terms of economic output, Canada's six largest cities — Toronto, Montreal, Vancouver, Calgary, Edmonton and Ottawa-Hull — accounted for 47.7% of economic activity in 2001, up from 46% in 1991.[60] As Figure 20 shows, employment growth in these cities has outpaced employment growth in the rest of the country since 1997.

Figure 20: National Employment Growth in Canada's Major Cities, 1987-2001



Source: Library of Parliament and Statistics Canada.

There are a number of forces underlying the need for change. As previously noted, urban areas have seen their population increase dramatically since the 1996 Census. According to Statistics Canada, 7 of 27 metropolitan areas — defined as regions with 10,000 or more people — had a growth rate double the national average of 4%. This growth was driven in large measure by a rising immigrant population. Statistics Canada told the Committee that "virtually all of our immigrants come into two or perhaps three big cities: Montreal, Toronto, and Vancouver. … The areas attracting immigrants will clearly

58 *The Canada We Want*. Speech from the Throne, 30 September 2002, available at: www.pco-bcp.gc.ca/sft-ddt/hnav07_e.htm.

59 *Interim Report of the Prime Minster's Caucus Task Force on Urban Issues*, "Executive Summary," April 2002, p. v.

60 Library of Parliament calculations.

have higher growth rates, all other things being equal, when compared to areas that don't attract immigrants."

Generally speaking, rising populations put pressure on municipal services, such as public transportation, social services, water and sewage treatment, road maintenance, and even snow removal and parks. These quality of life elements of urban living are tied to the competitiveness of a community. As Dr. Enid Slack told the Committee:

> [t]axes are important in attracting people, but the studies are beginning to show, more and more, that to be competitive, cities need to be nice places to live. The knowledge workers, the key to economic prosperity, are increasingly looking for a nice place to live, and that means good schools for their children. It means being able to jog in the park. It means feeling they're safe. It means not seeing homeless people on the streets. These are all services that municipalities are responsible for, so to be competitive, they have to provide these services.

Another reason for action is that, at the same time that population increases were being experienced, combined federal and provincial transfers to municipal governments were falling, from 18.8% of total municipal funding in 1990 to 15.1% in 2000.[61] Municipalities are less able financially to cope with the increasing demands being placed on them. Figure 21 shows how local government financing has evolved since 1990.

Figure 21: Local Government Revenues, By Source, 1990 and 2000

	Value ($ millions)		% growth	% of Total Revenues	
	1990	**2000**	**1990-2000**	**1990**	**2000**
Own-Source	32,643	44,699	36.9	81.2	84.9
Taxes	16,004	24,412	52.5	39.8	46.3
property taxes and related	15,601	23,845	52.8	38.8	45.3
licences and permits	316	494	56.3	0.8	0.9
other taxes	86	73	-15.1	0.2	0.1
Investment Income	2,282	2,246	-1.6	5.7	4.3
Sales of Goods and Services	6,476	9,526	47.1	16.1	18.1
Other Own-Source	338	535	58.2	0.8	1.0
Government Transfers	7,543	7,980	5.8	18.8	15.1
Federal	191	323	68.8	0.5	0.6
Provincial	7,352	7,658	4.2	18.3	14.5
Total	40,187	52,680	31.1	100.0	100.0

Source: Library of Parliament and Statistics Canada.

Witnesses suggested a number of solutions to address the urban funding problem. Recommendations included direct federal transfers to municipalities or increased transfers to the provinces, which are constitutionally responsible for municipalities, and dedication of a portion of the 10 cents per litre federal excise tax on gasoline to municipalities.

61 Library of Parliament calculations.

Several witnesses endorsed the *Interim Report of the Prime Minister's Caucus Task Force on Urban Issues*. One of the main proposals in that report was a recommendation that the federal government adopt an "urban lens" by which to analyse and develop policy. The Task Force also noted the positive effects of the Rural Secretariat and the Canadian Rural Partnership, two results of an extensive consultation process with rural Canadians in 1997 and 1998.

The Committee believes that addressing the issue of urban funding is complex, given jurisdictional and accountability concerns. Nevertheless, like the Canada West Foundation — which told us that the federal government should "see its role more in light of stimulating an urban dialogue in Canada, and in considering more fully the urban impacts of federal policies" — we feel that an urban lens is worthy of consideration. It is from this perspective that the Committee recommends that:

RECOMMENDATION 26

The federal government adopt the proposal made by the Prime Minister's Caucus Task Force on Urban Issues for the creation of an "urban lens" that would require federal government departments to consider the implications of major government policies on urban communities. Moreover, the government should consider the creation of an urban counterpart to the Rural Secretariat and the Canadian Rural Partnership within Industry Canada.

Support for Rural and Remote Areas

> *The ability to maintain the community hall or rebuild municipal roads directly relates to the ability of a community to encourage economic development rather than face a future of economic decline and deterioration.* (Association of Manitoba Municipalities, 30 August 2002)

Strong population growth in urban areas has been concurrent with population declines in Canada's rural and remote areas, notably the more remote northern areas of the provinces. This, too, has important financial repercussions: a declining population generally leads to declining property values, which means a smaller tax base and lower tax revenue. As a result, municipalities can offer fewer services, further worsening the normal out-migration to larger centres.

A number of analysts have argued that the absence of strong economic growth is at the core of rural depopulation. The economic livelihood of many rural communities depends on commodity-based industries such as agriculture, mining and forestry products, all of which face intense international competition. The Alberta Association of Municipal Districts and Counties noted that '[r]ural municipalities are keenly aware of the need to sustain a viable, productive and competitive agricultural sector". The Canadian Federation of Agriculture, the Canadian Dehydrators Association and the Canadian Hay Association all expressed concern about the challenges currently faced by the agriculture and agri-food industry.

As noted by the Prime Minister's Caucus Task Force on Future Opportunities in Farming, "distance to markets is a major issue for producers in the Prairies, the North and some of the Atlantic provinces. Additional transportation costs can make the difference between profit and loss."[62] The problem is especially acute in Western Canada because the elimination of the Crow Rate (a subsidy for rail transportation of grain) has led to a significant increase in truck traffic, which has led to serious deterioration of the highway infrastructure. While telecommunications technology could help rural and remote communities diversify their economies towards Internet and other technology-based industries, access to high-speed Internet is still not a reality in many of these areas.

Several witnesses, including the Northwest Territories Association of Municipalities, the Nunavut Association of Municipalities, the Northern Development Board and the Northern Lights School Division, told the Committee about the unique challenges faced by rural and remote communities in terms of water and sewage infrastructure — as well as other infrastructure — in part because they lack the tax base to finance the large, up-front expenditures needed to ensure adequate water and sewage-treatment services and to meet other infrastructure needs. As the Prime Minister's Caucus Task Force on Future Opportunities in Farming noted, "water and sewer capacity can limit economic development opportunities, including value-added agricultural opportunities."[63]

The Association of Yukon Communities told the Committee that its request for $160 million for infrastructure spending would not only "bring Yukon communities to a level that will help make them more competitive with their southern and northern neighbours," it would also "replace much-needed infrastructure, such as roads, water, and sewer, and high-speed cable fibre, and build a much-needed bridge across the Yukon River in the Klondike." The Women Warriors of Sahtu also stressed the importance of infrastructure in improving the quality of life in remote areas.

Rural communities have witnessed some progress in recent years. The federal government's 1998 consultations with Canadians led to the creation of a "rural lens" that requires policy-makers to consider the implications of federal government programs on rural communities as well as to the creation of the Rural Secretariat and the Canadian Rural Partnership. The Worker Co-operative Fund, a $1.5 million Human Resource Development Canada pilot project that invests in worker co-operatives to create and maintain jobs, appears to be making good use of the rural lens: 8 of its 12 projects are located in rural communities. The fund's administrator, the Canadian Worker Co-operative

[62] Prime Minister's Caucus Task Force on Future Opportunities in Farming, *Interim Report*, p. 16, available at: www.liberal.parl.gc.ca/agriculture/press_release_mar29_e.htm.

[63] Ibid.

Federation, is seeking an additional $15 million to make the pilot project sustainable on a long-term basis. It is not clear, however, that our northern communities have had the same progress, and more must be done to assist these communities in order that they, and their citizens, are fully active participants in the Canadian economy and in Canadian society.

The Committee believes that all communities in Canada — urban, rural and remote — have needs that must be met. We must ensure that attention is paid to the particular needs of all areas, and must be cognizant of the unique requirements of rural and remote areas. It must also be recognized that rural and remote communities vary greatly in the nature and stage of their economic development; policies and programs must be sensitive to this fact. From this perspective, the Committee recommends that:

RECOMMENDATION 27

The federal government ensure that adequate attention is paid to the needs of rural and remote communities. Moreover, the government should focus resources on working with remote communities in Northern Canada to advance their economic development efforts.

Support for Infrastructure

> *Canadians need clean water, safe disposal of wastes, reliable highways and a more efficient national rail system. Canada's infrastructure deficit and cumulative infrastructure debt should be seen as equally crippling as the national fiscal debt and should be tackled with the same level of priority and urgency because they directly affect people's lives. In fact, the infrastructure deficit potentially has a greater impact on the health, safety and well-being of Canadians.* (Association of Consulting Engineers of Canada, 9 September 2002)

Canada's economic history and prosperity have always been tied to its infrastructure of waterways, canals, ports, railways, bridges, border crossings, airports and roads. Witnesses told the Committee, however, that spending cutbacks at all levels of government in the 1990s have led to a serious "infrastructure deficit" that will only worsen, and become more costly, with time, unless it is addressed soon.

According to the Coalition to Renew Canada's Infrastructure, "Canadians are wasting fuel, time and money, endangering their health, their environment and are in the process becoming less competitive in the new global economy. Infrastructure decay adds unnecessary costs to Canadian corporate operations and impacts negatively on our competitive capability, reducing demands for Canadian products." La Coalition pour le renouvellement des infrastructure du Québec also told the Committee that deterioration of infrastructure continues and represents a growing threat to quality of life as well as to Quebec's competitiveness.The Trans-Canada #1 West Association indicated that existing federal infrastructure programs — the Infrastructure Canada Program, a five-year, $2.05 billion program created in 2000, and the $2 billion Strategic Infrastructure Fund, which was established in the 2001 budget — are insufficient and their funds are being delivered too slowly.

Even if adequate funding were available, caution would still be needed in selecting which infrastructure needs should receive funding. Rural and remote communities, for example, primarily need highways, rail linkages and, in some cases, port and air facilities to help them overcome their distance from markets. While urban communities have similar needs, they also require an efficient and low-cost public transportation system to solve traffic congestion problems as people move between their homes and their workplaces.

The Greater Vancouver Gateway Council told the Committee that gridlock costs the Vancouver region between $700 million and $1.3 billion per year because it slows shipments of goods from and to Prairie farmers, the petrochemical industry, retail outlets and natural resource industries. The Council said that the problems “result from a lack of investment in infrastructure over many years.” The Greater Vancouver Transportation Authority told the Committee that addressing these problems is crucial for ensuring Canada’s continued access to markets in Asia and the Pacific Rim nations in particular. Go Transit, the agency that provides rail and bus transportation in the Greater Toronto and Hamilton area, told the Committee that without its services, Toronto would require “four additional Don Valley Parkways,” the major North-South highway artery into the city of Toronto. It asked the Committee to recommend that the federal government provide Go Transit with $34 million worth of funding per year.

The Committee notes that developing urban public transportation does not necessarily mean moving people between downtown and the suburbs. As Statistics Canada informed the Committee, “what we used to call suburbs or bedroom communities are clearly no longer bedroom communities, they’re magnets for employment. This has real implications for things like travel to work. Transportation patterns across a big region like this are no longer just from the suburbs to downtown; they are much more complicated.”

Consistently, the Committee heard that the country’s infrastructure needs can only be met through long-term stable infrastructure funding that would supplement or replace the existing Infrastructure Canada Program and the Strategic Infrastructure Fund. Groups making this recommendation included the City of Calgary, the Federation of Canadian Municipalities, the Association of Manitoba Municipalities, the Cement Association of Canada and La Coalition pour le renouvellement des infrastructure du Québec. The Prime Minister’s Caucus Task Force on Urban Issues’ Interim Report makes this recommendation as well.

The Committee also heard a number of other, less ambitious, proposals that would begin to address some of the country’s infrastructure needs. The Canadian Urban Transit Association (CUTA) and the National Task Force to Promote Employer-Provided Tax-Exempt Transit Passes, for example, proposed that we recommend the creation of an employer-provided tax-exempt transit benefit. The CUTA said that its proposal would redress an inequity in the present tax system whereby employer-provided parking, which encourages individuals to drive to work and therefore contributes to congestion problems, is *de facto* subsidized by the tax system because employees generally do not include these benefits in their income, although in theory they should.

In terms of rural and remote communities, the Committee heard a number of proposals for change, including recommendations to eliminate the 10 cents per litre excise tax on gasoline and the 4 cents per litre excise tax on diesel fuel for farmers, a plan to create a program that would help regions develop value-added industries, and a proposal for the creation of a national broadband initiative.

While the Committee believes that these recommendations have merit, we feel that the federal government's current priority — given the current fiscal situation — must be long-term funding of the country's infrastructure. While witnesses have presented a variety of figures that identify the amount of funding needed, we are hesitant to recommend a precise figure. Instead, the imperative is ensuring that the funding is adequate and stable in order to permit the long-term planning horizon often needed for infrastructure projects. For this reason, the Committee recommends that:

RECOMMENDATION 28

The federal government, along with other stakeholders, expeditiously develop and implement a long-term, adequately funded infrastructure plan, with an initial focus on transportation and water and sewage deficiencies.

Moreover, the Committee feels it is important that the funding allocation mechanism for any infrastructure program not be limited to population, since per capita funding is disadvantageous to some communities, including those in Northern Canada. Instead, the requirements of communities vary and that fact must be recognized. Therefore, the Committee recommends that:

RECOMMENDATION 29

The federal government ensure that the infrastructure plan developed in collaboration with stakeholders incorporate an allocation mechanism that is not limited to population but recognizes the unique strategic and development needs of communities. Moreover, economic development and need, rather than a strictly per capita funding formula, should determine the level of funding allocated to rural and Northern communities.

Issues Related to the Environment

> *The growing concern over the welfare of our urban centres underscores the need to address the problems of contaminated sites, in city centres in particular. Redevelopment of these sites, usually for commercial use, not only increases the tax base of the municipality but also contributes to urban densification and revitalization of the downtown core.* (Alberta Real Estate Association, 6 November 2002)

The population trends witnessed in recent years have important implications for the environment. Typically, the environment is negatively affected when cities begin to expand into the countryside. Not only do increased traffic congestion and travel-to-work times have important repercussions on air quality and greenhouse gas emissions, the loss of green space around cities is also a cause for concern. As the Canadian Foundation for Climate and Atmospheric Sciences pointed out, "[h]uman activity has contributed to a striking increase in carbon dioxide and other greenhouse gases over the last century, and exacerbated global warming." Parklands — an issue addressed by such groups as the Canadian Nature Federation, the Green Budget Coalition and the World Wildlife Fund — are also important. Groups expressed support for the September 2002 Speech from the Throne commitment regarding the creation of several new national parks, and requested that the federal government provide adequate resources to finance this commitment.

Conversely, in rural communities, depopulation results in a smaller tax base, which in turn means less money is available for services, including sewage treatment. Similarly, given their relative need for industry and sustainable populations, rural and remote communities may be more lax in their enforcement of environmental regulations and zoning laws.

Environmental concerns also exist with respect to Canada's marine environment. As the Vancouver Aquarium Marine Science Centre told the Committee, "[w]e believe that both economic prosperity and quality of life can be enhanced by finding new ways of working together to use, and sustain, our amazing ocean and aquatic environments."

The Committee heard a number of proposals that attempt to address environmental concerns. Nature Conservancy Canada, among other groups, proposed that the federal government use the tax system to "encourage Canadians to participate in conserving Canada's natural heritage" by donating ecologically sensitive lands. Saskatchewan Agrivision Corporation recommended an ethanol strategy and action plan, which would also serve as a catalyst for rural development. The Cement Association of Canada proposed that the federal government encourage provinces to build their highways with concrete rather than pavement by offsetting the additional up-front construction costs associated with the use of concrete. It provided evidence that while initially more expensive, concrete has a longer life and lower maintenance cost than pavement, and can result in greater fuel efficiency.

Environmentally sustainable energy technologies represent an important new field, from both an environmental and an economic perspective. The Committee heard from several Canadian companies and groups that are leaders in their field, including Fuel Cells Canada and Global Thermoelectric Inc., which represent pioneering firms working on alternatives to carbon-based energy sources, and ATS Automation Tooling Systems Inc., a manufacturing firm that develops solar energy devices. ATS told the Committee that solar energy could help the federal government achieve Canada's Kyoto targets. It also urged the government to assist in the development of guidelines that could be used by provincial regulators to ensure that small commercial power systems can plug into energy grids. These groups argued for government support to help develop and promote these technologies, and suggested funding assistance and government adoption of their technologies.

In addition to the testimony regarding hydrogen and solar energy sources, the Committee also heard recommendations related to other alternative energy sources, including wind-power generation. The Clean Air Renewable Energy Coalition said that the federal government's wind power production incentive (WPPI) should be increased to 2.7 cents per kilowatt hour from the 1.2 cent rate for 2002-03 in order "to ensure appropriate investment in wind energy and harmonization with the United States." According to Natural Resources Canada, the government's WPPI plan is designed to "help establish wind energy as a full-fledged competitor in the electricity marketplace by the Kyoto commitment period of 2008-2012."[64] Moreover, the promotion of ethanol as a fuel source, as mentioned earlier, is another possible area for investigation.

Go for Green, a charitable organization whose goal is to encourage the pursuit of outdoor activities, recommended that the federal government devote 7% of its infrastructure budget to "active transportation infrastructure," such as sidewalks, bike paths, bike lanes, paths, trails and mechanisms that would make it easier to connect from one type of transportation to another — for example, securing a bike onto a bus. Conservation Ontario, a group devoted to protecting Ontario's watershed areas and especially the Great Lakes, asked the Committee to recommend a federal investment of $100 million over five years for a "healthy Great Lakes" program.

The Committee heard from a number of witnesses who recommended that the federal government develop incentives to assist communities and private businesses develop their "brownfield" sites — old industrial or commercial sites that have been abandoned or idled, or are underused because of environmental concerns. In many instances, these brownfield sites are in the downtown areas of major metropolitan cities. Their development would assist in alleviating the problem of urban sprawl and could reduce greenhouse gas emissions. They would also help urban communities by increasing the taxable base and revitalizing neighbourhoods.

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64 Natural Resources Canada. *Wind Power Production Incentive: 1000 Megawatts Over Five Years*, available at: www.canren.gc.ca/programs/index.asp?CaId=107&PgId=622.

The City of Hamilton indicated to the Committee its supports for a forthcoming recommendation from the National Roundtable on the Environment and the Economy that would ask the federal government to support brownfield redevelopment by:

- creating income tax incentives that would allow remediation expenses to be fully deductible in the year incurred;
- offering loans and grants for environmental investigations and cleanup of contaminated sites; and
- guaranteeing mortgages for qualifying residential, industrial and commercial brownfield projects.

The Committee also notes the conclusion of the Prime Minister's Caucus Task Force on Future Opportunities in Farming,[65] that:

> [t]here are significant prospects for reducing greenhouse gases through "best management" practices for farmland. Land set-asides and permanent cover programs boost our carbon sequestration potential and can help Canada meet our Kyoto commitments. The Prairie Farm Rehabilitation Administration (PFRA) administers the Community Pasture Program, the Rural Water Development Program and the Shelterbelt Program. Similar programs should be extended to the rest of Canada's farming regions.

The Committee notes that several "green" federal initiatives already exist, including the Green Municipal Enabling Fund and the Green Municipal Investment Fund. These funds are designed to support energy- and water-efficiency projects. To date, these initiatives have stimulated community-based feasibility work and investments in more than 100 projects in such areas as energy and water savings, community energy systems, urban transit, waste diversion and renewable energy.

The Committee feels that many of the proposals made by witnesses are innovative, and should be investigated further by the federal government. Among the proposals noted above, at this time we have the most interest in brownfield redevelopment, the "healthy Great Lakes" program and the development of alternative sources of energy. For example, a focus on brownfield redevelopment would help to address some of the concerns about increased urbanization and the need for revitalization of urban cores; it would also help to minimize the "donut" effect on cities. For this reason, the Committee recommends that:

RECOMMENDATION 30

The federal government meet with stakeholders in order to develop a plan for brownfield redevelopment. Consideration should be given to tax incentives, loans, grants and mortgage guarantees, with such

65 Prime Minister's Caucus Task Force on Future Opportunities in Farming, *Interim Report*, p. 18.

initiatives funded through a reallocation of existing government expenditures.

Moreover, the Committee also believes that our water resources must be protected for future generations. Consequently, the Committee recommends that:

RECOMMENDATION 31

The federal government take immediate action to ensure the sustainability of our Great Lakes.

Finally, the Committee also feels that, for a variety of reasons, programs and incentives must exist that support the development, marketing and use of alternative sources of energy. From this perspective, the Committee recommends that:

RECOMMENDATION 32

The federal government examine the policies and measures needed to promote the development and use of alternative sources of energy.

While the Committee believes that renewable and alternative energies are important, they are unlikely to help Canada meet its Kyoto targets in the short- to medium-term. Similarly, improved infrastructure and public transportation are only part of the overall solution. To achieve its Kyoto targets, we believe that the federal government must negotiate realistic sectoral agreements with key industries and respect its promise to spread the adjustment costs evenly. As a result, the Committee recommends that:

RECOMMENDATION 33

The federal government meet with stakeholders expeditiously, with a view to reaching sectoral agreements for the implementation of greenhouse gas emission reduction targets. In implementing the measures that will be adopted to reduce greenhouse gas emissions, the government must take all necessary steps to protect and enhance investment levels, economic activity and employment in Canada.

Charitable Giving and Volunteers

> *What … can the government do to assist our universities, hospitals, arts organizations, social service agencies and research centres to access greater funding from the private sector? And how can it do so with minimum cost to its tax revenues? The answer is simple: eliminate the remaining capital tax on gifts of listed securities.* (Donald Johnson, 6 November 2002)

The voluntary sector plays an increasingly critical role in the quality of life of Canadians. The Association of Fundraising Professionals told the Committee that

"Canada's charitable sector exists to help seek the highest quality of life for all Canadians. … But to provide these services, Canada's charitable sector needs funding. … Government funding has decreased over the past several years."

The federal government has attempted to lessen the financial burden of reduced direct funding to charities, beginning with a 1997 measure that set the capital gains inclusion rate on donations of publicly traded securities to charities at one-half the amount included for other gains. A similar measure was introduced for donations of ecologically sensitive lands in the 2000 budget. In 2001 and beyond, this means that 25% of the capital gains resulting from the donation of publicly traded securities or ecologically sensitive lands to a charity must be included in the donor's income, rather than the 50% rate that would have applied had the measures not been implemented.

The change in the capital gains inclusion rate appears to have had some success. A Deloitte & Touche survey of 471 charities found that the average gift of publicly traded securities in 1999 was $251,626, almost 20 times the average donation of $13,022 in 1996, the year before the lower inclusion rate was introduced.[66] Earlier this year, the Department of Finance noted that the growth in gifts of publicly traded securities to registered charities was much faster than the growth in total donations between 1997 and 2000.[67] The Hospital for Sick Children Foundation told the Committee about an experience that was common among charitable groups:

> When the initial capital gains exemption was announced in 1997, [we] were in the midst of a public fundraising campaign to increase the hospital's endowment. … In the year prior to the exemption [1996], the campaign received three gifts of stocks, totalling $1,266,810. The next year, the number of gifts tripled to 12 and total funds skyrocketed to $8,445,895.

The success of the tax incentive prompted the federal government to make the measure permanent. It was originally set to expire on 31 December 2001.

Despite these gains, charitable groups told the Committee that more can — and should — be done, beginning with the elimination of the remaining tax on donations of securities. As pointed out by the Canadian Arts Summit, such a change would create consistency between Canada and both the United States and the United Kingdom. Department of Finance figures suggest that completely eliminating the inclusion rate would entail a tax expenditure of between $15 million and $73 million, depending on the extent to which the measure encourages additional giving.[68]

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66 Deloitte & Touche, *Survey of Gifts of Publicly listed Securities*. Final Report, August 2000, available at: www.afptoronto.org/resources/deloitte_touche_report.html.

67 Department of Finance. *Tax Expenditures and Evaluations 2002*, available at: www.fin.gc.ca/toce/2002/taxexp02_e.html.

68 Department of Finance. *Tax Expenditures and Evaluations 2002*.

Such witnesses as the Asper Foundation, the CanWest Global Foundation and the Council for Business and the Arts in Canada argued that private foundations, which were not part of the federal government's 1997 change, should also benefit from any further reduction in the inclusion rate. Philanthropic Foundations Canada (PFC) told the Committee that about 84% of the 1,684 grant-making foundations in 2000 were family foundations. The PFC also informed us that private foundations must meet many of the same reporting requirements as public foundations, and are "subject to various restrictions in the *Income Tax Act* to prevent abuses of the foundations by their donors for their own benefit … ."

Witnesses also suggested to the Committee that the federal government should extend the provisions for publicly traded securities to all kinds of real estate, rather than just ecologically sensitive lands. The Canadian Association of Gift Planners told us that "[r]eal estate is the most widely held asset in Canada, and yet it is rarely donated to charity. It represents an enormous and important future source of donations to the sector for the benefit of Canadians."

Similarly, the Committee heard that the federal government should fully exempt donations of ecologically sensitive lands from capital gains taxation, which implies an inclusion rate of zero, and extend the provision to urban lands that are socially and historically important but perhaps not crucial from an environmental perspective.

Evergreen Common Grounds, a charitable organization seeking to expand the amount of green space in cities, told the Committee that this latter change would be "a very cost-effective tool for the acquisition of land in the public interest. … [T]he cost of acquisition measured in forgone tax revenue will be 25 per cent or less of the fair market of the land." This proposal was echoed by Escarpment Biosphere Conservancy, a group representing 82 land trusts across Canada. It told us that since the lower inclusion rate on donations of ecologically sensitive lands was introduced, "our land trust has grown substantially. By Christmas, we should have created about 20 nature reserves with over 1,400 acres. This would not have been possible without the reductions to capital gains tax."

A number of witnesses, including the Voluntary Sector Steering Group and Community Foundations of Canada, also urged the Committee to recommend changes that would allow charities to engage more actively in the policy process without losing their charitable status. The Canadian Centre for Philanthropy told the Committee that "policy advocacy is often one of the most efficient and effective ways for a charity to fulfill its mission, as has been well demonstrated by charities such as Amnesty International, Mothers Against Drunk Driving and the Canadian Cancer Society, among others."

As noted earlier in the report, the Committee believes that the voluntary sector is an important element in ensuring a high quality of life for Canadians, and feels that federal support for public — and private — foundations would further contribute to our quality of life. For this reason, the Committee recommends that:

RECOMMENDATION 34

The federal government amend the *Income Tax Act* to eliminate the capital gains inclusion rate applied to donations of publicly traded securities to charitable organizations, including private foundations.

The Committee also believes that the proposals of some witnesses regarding the extension of these provisions to real estate and land has merit. Such a change would likely result in greater levels of donations by Canadians. Consequently, the Committee recommends that:

RECOMMENDATION 35

The federal government study the feasibility of extending the provisions regarding the capital gains inclusion rate applied to donations of publicly traded securities to donations of real estate and of land. This study should be undertaken with a view to phasing in the application of the change when feasible.

Finally, the Committee feels that the members of the voluntary sector should be viewed as stakeholders in the development of policy in this country. Their participation would recognize the valuable role that they play. From this perspective, the Committee recommends that:

RECOMMENDATION 36

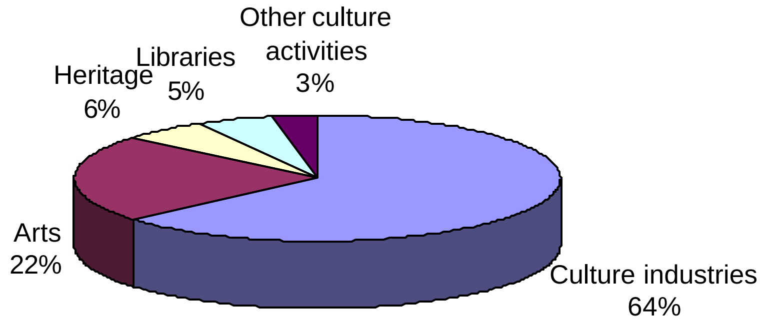
The federal government encourage active dialogue between relevant departments and the voluntary sector regarding how the sector might best participate in the policy-making process without risking their charitable status.

Culture and Tourism

> *There is nothing more basic, more intrinsic to human life, than the culture of a people. Art has been used as a primary means of communication since the time people first walked the earth and, consequently, is the primary legacy we bestow on future generations.* (Canadian Conference of the Arts, 9 September 2002)

Culture is a significant contributor to the quality of life of Canadians. Whether through books, theatre, television, radio, art, museums or other media, we express ourselves through culture. Part of this expression is through Canada's multicultural policy, as noted by the Canadian Ethnocultural Council. The Council told the Committee that "[t]he reality is that today multiculturalism, [like] our linguistic duality, plays a significant part in the development of our national identity — it is a statement of who we are as a people and it forms an important part of our national psyche."

Figure 22: Contribution of Each Segment of the Cultural Sector to Total Cultural Sector Output, 1996-97



Source: Statistics Canada Publication 87-211 XPB: *Canadian Culture in Perspective: A Statistical Overview (2000).* Cultural industries include writing and publishing, the film industry, broadcasting, recording and music publishing, and new media.

The nurturing of Canada's cultural industries, for economic and social reasons, has been a long-standing goal of the federal government. Statistics Canada has reported that, in 1996-97 (the latest year for which data are available), cultural industries represented 3.1% (or $22.5 billion) of Canada's GDP. They also accounted for almost 641,000 employees, or 4.8%, of total employment. Federal spending on culture was $2.7 billion in 1997-98, almost 8% lower than in 1990-91.[69] Figure 22 shows the contribution of each segment of the cultural sector to total cultural sector output.

According to KPMG, the Canadian Television Fund's $200 million contribution to the broadcasting and production industry results in more than $600 million in production activity and 16,000 direct and indirect jobs. Moreover, it supports over 40% of English and more than 50% of French priority programming. In its appearance before the Committee, the Canadian Film and Television Production Association told us that its members are experiencing delays in the certification of projects and the receipt of tax credit refunds, which is creating a financial burden, and that progress in the addressing these issues has been slow.

Canada's heritage buildings are another important element of Canada's cultural life. The Committee was told, however, that heritage buildings are disappearing quickly and incentives are needed to stop this trend. According to the Heritage Canada Foundation's presentation, between 1970 and 2000 Canada lost 21-23% of its historic building stock. Recently, the federal government has taken action. In June 2002, Minister of Canadian Heritage Sheila Copps outlined the first phase of the federal government's $24-million

69 Data on Canada's cultural industries are from Statistics Canada Publication 87-211 XPB: *Canadian Culture in Perspective: A Statistical Overview, 2000*.

Historic Places Initiative, which is based on a national register of heritage buildings, national conservation standards and guidelines, and a certifying function.

Museums are another important aspect of the country's heritage. Not only do museums offer an important historical and cultural perspective for Canadians, many of the buildings in which museums are housed are themselves historically and architecturally important. About 2,300 museums across Canada contribute daily to the country's quality of life. The Canadian Museums Association (CMA) told the Committee, however, that museums have tended to be relatively low-priority items when compared to health care, infrastructure and taxes; consequently, funding has fallen by about 15% since 1991-92, while operating costs have risen 20%. In an effort to address this issue, in 2001 the Department of Canadian Heritage announced a $300 million, three-year program to support the cultural sector. The CMA said that while it appreciated the renewed funding, it felt stymied by ever-shifting government priorities and the large number of overlapping, deeply layered and competing objectives, priorities and support structures in the Department's cultural program. It asked us to recommend that the government set up a more coherent framework for heritage planning to ensure an effective distribution of funds to the institutions that need them.

Writers are also part of Canada's cultural milieu. As The Writers' Union of Canada noted in its presentation to the Committee, "we report, record, amuse and relate out of the creative soil of this country so that, in the end, it becomes a far better country in which to work and live." Some writers earn very low pay. The Writers' Union provided us with an estimate of $11,480 as the average net income of writers in 1998. If these incomes were earned in a manner like a normal salary, writers would pay very little tax. The reality, however, is that writers' incomes tend to be more sporadic, depending on book advances and royalty cheques that often bear little relationship to the time taken to write a book, play, article or poem. The Writer's Union, therefore, asked the Committee to recommend amendments to the *Income Tax Act* to enable "income backward averaging for creators," a measure that would allow writers to apply their earnings from book advances and royalties over a period of years rather than a single year, thereby reducing the cost of the tax to the writer. They also asked that the government create a copyright income deduction for authors that would allow them to deduct their "creative" income, up to a certain limit, from total income.

The Committee is sympathetic to arguments that Canada's cultural sector may suffer as a result of such other priorities as health care, taxes and infrastructure. We must not lose sight of the contribution made by the cultural sector to our quality of life. That being said, we must choose judiciously among the recommendations, supporting those that deliver the most benefit for the least cost and with minimal distortion to the *Income Tax Act.*

The Committee feels that the recommendations put forward by the Canadian Museums Association satisfy these criteria. Museums play a valuable role in enhancing the quality of life of Canadians, and also contribute to our tourism industry. In order for our museums to maximize their contribution to both quality of life and economic prosperity, however, they must be adequately funded, and funded through a process that ensures that funds are distributed to institutions that are in the greatest need. As well, we believe it is important that we act today in order to preserve our heritage buildings for the generations of tomorrow. From this perspective, the Committee recommends that:

RECOMMENDATION 37

The federal government allocate appropriate resources to maintain Canada's stock of historical buildings and to fund Canadian museums.

Tourism is an important sector in the Canadian economy, and was severely affected by the 11 September 2001 terrorist attacks in the United States. The Committee heard that the industry continues to recover from the downturn. As the Hotel Association of Canada told us, "[w]e're seeing some good results out there, and a lot of this is as a result of that one-time $20 million contribution that the federal government made to marketing efforts through the Canadian Tourism Commission [announced prior to the 2001 Budget]."

The Committee believes that tourism contributes to both our economic prosperity and quality of life. As well, we are of the opinion that the $20 million federal investment in the Canadian Tourism Commission provided much-needed support and yielded benefits exceeding the value of the investment. As a result, the Committee recommends that:

RECOMMENDATION 38

The federal government continue to support the Canadian Tourism Commission.

CHAPTER EIGHT — THE PRIORITY OF HELPING THE VULNERABLE

> *Economic growth alone cannot solve the challenge of child and family poverty in this country. Leadership and effective public policies are required from government in order to ensure that economic prosperity is more equitably shared, and that all Canadians benefit from a higher quality of life.* (Campaign Against Child Poverty, 9 September 2002)

While the Committee believes in the importance of enhanced productivity and innovation — and hence economic prosperity — through changes to the tax system, the implementation of appropriate policies and practices, and investments in health care and our communities, we also note that the nation's prosperity and the quality of life of its citizens depend on the ability of all Canadians to participate in the economy in a meaningful way. We believe that programs addressing housing, children, Aboriginal Canadians, persons with a disability, our seniors and citizens of other countries make an important contribution to Canadians' quality of life. Other groups not addressed in this report, but which are nevertheless deserving of the federal government's attention, include the Canadian Resource Centre for Victims of Crime, which asked the Committee to recommend that it receive sustainable funding for its advocacy work.

The terms "quality of life" and "standard of living" are often used interchangeably, although the latter is, strictly speaking, an economic term that is usually measured by a country's GDP per capita. GDP per capita is, however, an imperfect measure of a country's overall well-being, since it neglects everything — such as clean air, leisure time and unpaid labour (e.g., housework and child care within the home) — that does not have a price attached. It also provides no information about how a country's economic output is distributed. While GDP per capita does contribute to quality of life, it is not the only determinant. Social programs and other more intangible factors also make a contribution.

As Better Environmentally Sound Transportation remarked to the Committee, "[t]rue economic prosperity goes well beyond measures like GDP. In conventional economics it is established that a society's economic welfare includes not only financial transactions recorded in markets, but also transactions that do not currently have prices attached." Dr. John Helliwell, in his brief to the Committee, also stressed the importance of social capital to the quality of life and well-being, and cited recent research suggesting that "the importance of the social fabric is even greater than previously thought, thus tilting any perceived trade-off between increasing income and sustaining the social fabric towards the latter."

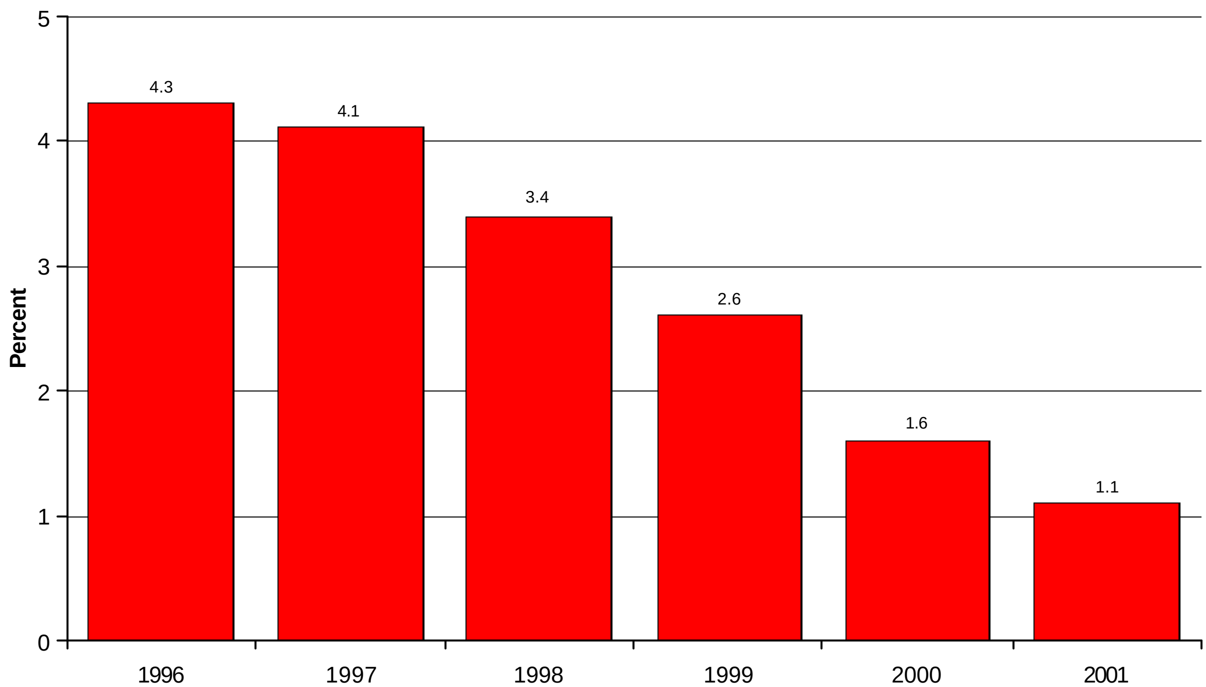
Groups and individuals appearing before the Committee pointed out many areas in which the federal government could invest in its citizens within a social policy context. In general, they focussed on measures to address homelessness and the affordable housing crisis, early childhood needs, policies and programs to improve the situation for Aboriginal Canadians, supports for disabled persons, poverty and related problems among our seniors, and the role played by Canada in the international context.

Housing Issues

> *Canada is experiencing a rental-housing crisis. … Vacancy rates in the 26 largest metropolitan areas are at historically low levels, 1.1% in 2001. … Statistics Canada's Survey of Household Spending for 2000 reports that 1,186,877 renter households, which constitutes more than 40% of all renter households, are paying more than 30% of their monthly income on rent.* (Cooperative Housing Federation of Canada, 17 September 2002)

According to witnesses who made presentations to the Committee on the issue of housing and homelessness, there is a pressing need for a serious federal commitment to the construction of affordable rental housing, in partnership with the provinces and municipalities. In their view, the current level of rental rates uses up a disproportionate share of the incomes of certain vulnerable groups of Canadians. The Tenants Rights Action Coalition told the Committee of a marked increase in the number of families and individuals at risk of homelessness due to lower incomes and the lack of affordable housing. According to data presented to the Committee, the number of social housing units developed across Canada has fallen from almost 10,000 in 1989 to about 1,500 in 1998. Figure 23 provides an indication of the declining vacancy rate for apartments in metropolitan areas over the 1996 to 2001 period.

Figure 23: Vacancy Rate (%) for Apartments in Metropolitan Areas, 1996-2001



Source: Library of Parliament and the Canada Mortgage and Housing Corporation.

While many groups commended the federal government's work with the provinces and territories through the National Homelessness Initiative and the Affordable Housing Framework Agreement, they raised several concerns about both the level of funding needed and the need for other instruments. A number of groups, including the Federation of Canadian Municipalities and the Canadian Housing and Renewal Association, pointed out that, according to 1996 figures, 1.7 million Canadian households are in "core need" of funding, meaning that it is hard for them to find money for food, clothing, medicine, housing and other basic necessities.

Witnesses, including the Ottawa Child Poverty Action Group, told the Committee that addressing the shortage of affordable housing would require the creation of 20,000 affordable units and the rehabilitation of 10,000 affordable units each year for ten years. Witnesses suggested a variety of ways to accomplish the goal of an increased supply of affordable housing. In particular, recommendations included increased funding, changes to the tax system to encourage apartment building construction and subsidies or tax credits to low-income households.

Although they may have disagreed about the means through which it should increase its involvement, witnesses argued for a greater federal presence in the provision of affordable housing. They suggested increased funding of current initiatives, as well as tax and regulatory measures. For example, the Canadian Federation of Apartment

Associations told the Committee that "fully rebating the GST on rental housing, deferral of capital gains tax and recaptured depreciation [upon reinvestment in rental housing], increasing the [capital cost allowance] rate and restoration of soft-cost deductibility would be the most effective measures in stimulating new rental investment." Several groups, including the Nepean Housing Corporation, supported the Toronto Disaster Relief Committee's recommendation that the federal government allocate $2 billion annually for a National Housing Strategy. Others recommended allocating $700 million to the federal/provincial/territorial Affordable Rental Program over the next four years.

Witnesses also told the Committee about their support for the federal government's National Homelessness Initiative (NHI), particularly the Supporting Communities Partnership Initiative (SCPI) and the Residential Rehabilitation Assistance Program (RRAP). According to the Winnipeg Real Estate Board, "Winnipeg is second only to Montreal for having the highest per capita percentage of older housing stock in the country so the need for RRAP support will only expand." The North End Community Health Care Centre told us that the "SCPI is beginning to address … problems on a small scale. The problem of sustainability is an issue. Supportive housing requires staffing and programs." Moreover, the City of Vancouver shared its view that "[o]ver the past three years the Federal Homelessness Program has proven to be invaluable in addressing the homeless needs in our country."

The Canada Mortgage and Housing Corporation (CMHC) also plays a role in the housing market, especially in the rental market. In addition to supporting portions of the federal government's housing policy, it provides insurance for loans used to buy or build rental properties, which is usually needed when equity is less than 25% of the project value. The premium rates range from 1.75% for equity of at least 35%, to 4.5% for 15% to 19% equity. According to the Ontario Non-Profit Housing Association:

> [t]he key problem for non-profit housing development is the very low level of insured financing that [the] CMHC will approve based on their standard underwriting criteria. This problem is then exacerbated by the lower, more affordable rents that non-profit providers are hoping to achieve, thus reducing further the allowable mortgage loan. A typical CMHC approved mortgage for non-profit housing might cover only 55-60% of the actual costs of the project.

In the view of witnesses, the CMHC could do more to support affordable housing. Some suggested that the federal government require the CMHC to provide favourable mortgage rates to middle- and low-income families and individuals.

When Canadians are told that the government is committing, for example, $680 million to address homelessness issues in conjunction with the provinces and territories, a number of witnesses expressed their view that they have a right to know how this money — their money — is being spent. Unfortunately, we heard that not all of the money provided by the federal government through the Affordable Housing Framework

Agreement is being matched by the provinces and territories. In this area, as in others, witnesses feel that transparency and accountability are essential.

The Committee believes that a number of federal government initiatives related to housing and homelessness are working well, and are having the intended effect. We are also pleased with the September 2002 Speech from the Throne's explicit commitment to extend investments in affordable housing for those whose needs are greatest, particularly in Canadian cities with the most acute problems, and with the commitment to extend the SCPI. We are of the opinion, however, that given the priority placed on a balanced budget, any funding increases must be the result of reallocation of spending from low-priority to high-priority areas as determined through program review and consultation with stakeholders. It is for this reason that the Committee recommends that:

RECOMMENDATION 39

The federal government review existing expenditures in the area of housing and homelessness with a view to reallocating funds in order to increase support for the National Homeless Initiative.

Moreover, the Committee feels that the CMHC has a valuable role to play in assisting Canadians to access the adequate, affordable housing needed to ensure that they are fully contributing members to the Canadian economy and to Canadian society. Consequently, the Committee recommends that:

RECOMMENDATION 40

The federal government work with the Canada Mortgage and Housing Corporation to increase the affordable housing stock in Canada.

Finally, the Committee supports transparency and accountability as an over-riding principle when public funds are spent. From this perspective, the Committee recommends that:

RECOMMENDATION 41

The federal government establish mechanisms to ensure accountability and transparency with respect to the expenditure of funds allocated to the alleviation of housing problems and homelessness in Canada.

Children's Issues

> *We've also certainly been very pleased with progress that's been made over the last couple of years on the National Children's Agenda. We all know the work is not yet finished and certainly recognize the progress that's been made on the early child development initiative.* (Coalition of National Voluntary Organizations, 24 October 2002)

Witnesses repeatedly reminded the Committee that children are a country's most valuable asset. Consequently, ensuring that Canada's children have access to the opportunities needed for them to lead successful, productive and happy lives was a major theme in our pre-budget discussions and consultations. Governments must commit to childhood development at birth, and continue that commitment throughout a child's life.

Witnesses voiced a great deal of support for a national approach to early childhood development. For example, the Canadian School Boards Association (CSBA) told the Committee that:

> [the] CSBA commends the federal government on the National Child Benefit and is pleased that a commitment has been made to continue to increase the government's contribution. [The] CSBA also applauds the federal government and the provinces and territories for having come to an agreement on an action plan for the Early Childhood Development initiative. However, while government and political leaders have been negotiating and debating next policy steps and agreements on implementation, Canadian children remain in need.

More specifically, the Committee heard recommendations addressing such issues as child poverty and early childhood education. The Coalition of Child Care Advocates of B.C. argued that "[w]e know that adequate income and a healthy start in life have positive long term impacts and promote the healthy growth and development of our community's children." The Saskatchewan Early Childhood Association and the Manitoba Child Care Association supported this assertion.

While witnesses were supportive of the Canada Child Tax Benefit, many claimed that it should be expanded and increased if it is to have a significant effect on child poverty. The general consensus is that an increase to $4,000 from the current $2,400 would be appropriate, with one witness estimating the cost of such a change to be $10 billion annually. Witnesses also requested that the federal government turn the benefit into a refundable tax credit available to all families.

Support was also expressed for national programs addressing childcare needs, early childhood education and the Early Childhood Development Agreement (ECDA). In particular, witnesses recommended increased spending on early childhood education and expansion of the ECDA to children aged six to 12 years. Several groups, including the

Canadian Teachers Federation, also highlighted the need for stable funding and national standards.

Quality child care is seen by many as the cornerstone of a comprehensive early childhood plan and one of several key components in a strategy to address family poverty. The Child Care Advocacy Association of Canada told the Committee that "Canada remains one of the few highly developed, industrialized countries that does not have a federally led, publicly funded childcare policy or sustainable childcare system." Moreover, according to Parents for Child Care, "[t]here is only one licensed child care space available for every nine B.C. children who need it." Canada's economic prosperity is also compromised by the lack of child care, since this lack affects the ability of some parents in terms of their type and level of participation in the labour force.

Some witnesses also complained that not all provinces are matching federally provided funds. In their view, the problem is the lack of tied funds in the ECDA and of guiding principles or timelines for creating a comprehensive national early childhood education and care strategy. The result, as seen in Figure 24, is a patchwork of programs across the country. The Committee also heard about a lack of accountability in the $2.2 billion spent by the federal government through the Early Childhood Development initiative, and parental leave was identified as an important issue.

Figure 24

Source: www.socialunion.gc.ca.

Furthermore, as the OECD's Key Elements of Successful Early Childhood Education and Care policy points out, monitoring and data collection are essential to assuring that programs are having their desired effect. Unfortunately, the Committee was informed by Campaign 2000 that data on the implementation of the Early Childhood Development Agreement are only sporadically available.

In addition to data on current programs, information is needed on the goals of particular initiatives, with the data used to assess whether the goals of initiatives are being met. The 1989 Parliamentary resolution on child poverty was one such target. Another potential target, which was suggested by the Nova Scotia School Boards Association, among others, was to reduce the depth of child poverty by 50% over five years.

As noted earlier in the report, the federal government currently offers the Canada Child Tax Benefit, the National Child Benefit and, in conjunction with the provinces and territories, the Early Childhood Development initiative to which it has contributed $2.2 billion over five years, starting in 2001-02. Moreover, in the September 2002 Speech from the Throne, the federal government indicated that it will significantly increase the National Child Benefit for poor families and work with its partners to increase access to early learning opportunities and to quality child care, especially for poor and lone-parent families. Moreover, the Speech contained a commitment to implement a long-term investment plan to allow poor families to break out of the welfare trap in order that children born into poverty do not carry the consequences of that poverty with them throughout their lives.

The Committee supports the federal government's initiatives to support children — including the commitment of increased funding for the National Child Benefit, enhanced access to learning opportunities and child care, and a long-term investment plan — but shares some of the concerns identified by witnesses. More than a decade has passed since the 1989 Parliamentary resolution to eradicate child poverty, and too many children still live in unacceptable circumstances. We question whether the funds currently spent on children are achieving the best possible results, and are disappointed about the apparent lack of data on child initiatives, since data are required in order to assess whether programs are meeting their intended goals. For this reason, the Committee recommends that:

RECOMMENDATION 42

The federal government continue to increase incrementally the National Child Benefit. Moreover, the government should ensure the existence of mechanisms to make certain that monies are spent appropriately, with accountability and transparency.

While the Committee is cognizant of the request by many witnesses for a national, adequate, affordable, high-quality childcare system, and of the benefits of such a system for Canadian children and all of Canada, child care is already a component of the Early Childhood Development initiative. As well, provinces and territories are able to spend on child care if it is deemed to be a priority. Early learning is not separate from child care; a quality, national childcare system should address early learning and care, pre-school, and early childhood education and care as well as development. We need a coherent and inclusive system that does not duplicate infrastructure and resources, thereby fragmenting services.

The Committee does, however, believe that child care is a pressing need within Canada, and feels that monies must be allocated once there are accountability mechanisms in place and a commitment has been gained from governments. From this perspective, the Committee recommends that:

RECOMMENDATION 43

The federal government, along with provincial and territorial governments, recognize the urgent need for affordable, high-quality child care in Canada, and take actions to alleviate this problem.

Regarding parental care, the Committee notes that, since 31 December 2000, a maximum of 50 weeks of maternity and parental leave are available to new parents under the Employment Insurance system, a figure that represents a doubling of the previous entitlement. While this benefit allows working parents to spend more time with their newborn during the early months, certain groups of parents have troubling accessing the entitlement, including part-time workers and self-employed individuals. We urge the federal government to initiate public discussions on the possibility of extending parental leave to part-time employees and self-employed individuals.

Aboriginal Issues

> *Statistics and numbers continue [to] paint … a grim and disheartening picture of the First Nations in times when the majority of society around us lives in relative comfort and safety. The rates for unemployment, suicide, infant mortality, sexual abuse, alcohol and drug abuse and unemployment greatly exceed the national average. Underlying these facts and figures are people — people living day to day with no clear future in sight.* (Federation of Saskatchewan Indian Nations, 8 November 2002)

As noted earlier in the report, improving Aboriginal Canadians' quality of life to match that of other Canadians is an important, although daunting, challenge. During the pre-budget discussions and consultations, the Committee heard several suggestions from First Nations, Inuit and Métis peoples about a variety of issues, especially governance, infrastructure, poverty and health outcomes.

Several groups told the Committee about the deplorable state of repair of housing and infrastructure — including education and health services as well as water and sewer systems — on many First Nations reserves. Poor housing and infrastructure negatively affect quality of life and the ability of First Nations peoples to realize an adequate level of prosperity, productivity and employment opportunities. As noted by the Indian Taxation Advisory Board (ITAB) in its presentation to the Committee, "it should be noted that First Nations infrastructure is the most substandard in the country. Research undertaken by [the] ITAB consistently identifies a lack of quality public infrastructure as one of three serious impediments to economic growth on First Nation lands."

The Committee also heard that other Aboriginal peoples, particularly in Northern Canada, suffer from inadequate infrastructure. For its part, the Assembly of First Nations told us that an investment of $27.5 billion over the next 20 years is needed. Aboriginal groups from Northern Canada remarked that isolated communities have their own particular infrastructure needs.

The issue of land claims continues to be a concern. Some believe that uncertainty associated with the settlement of land claims makes businesses reluctant to invest in disputed lands, which places yet another constraint on First Nations' economic development. Several groups, including the Federation of Saskatchewan Indian Nations, informed the Committee that the lack of resolution to the treaty process is the main impediment to the realization of prosperity for First Nations. Unfortunately, the current treaty process appears to have resulted in a situation in which stakeholders are unable to agree on how to move forward. A number of groups, including the Métis National Council and the Chakastaypasin Band of the Cree Nations, commented on treaty concerns.

Uncertainty over the place of Aboriginal organizations in Canada was also articulated by the Social Planning Council of Winnipeg, which told the Committee that the Social Union Framework Agreement (SUFA), while generally successful, has been struck by "jurisdictional conflicts and a certain degree of ambiguity with regard to mobility issues and access to services, particularly for Aboriginal people in Manitoba. Aboriginal governments should and must be made a party to SUFA, as they have a vested interest in the design and delivery of programs."

The development of policies and programs to assist Aboriginal Canadians must recognize that not all Aboriginal groups in Canada face the same circumstances or the same problems. The concerns of a First Nations individual living on a reserve are not the same as a First Nations individual living off-reserve, and the concerns of an Inuit Canadian living in the Yukon Territory differ from the concerns of an Aboriginal Canadian living in Winnipeg. As a result, federal government policy development must recognize these differences and incorporate needed flexibility. The Inuit Tapiriit Kanatami of Canada remarked to the Committee that:

> [w]e see Ottawa searching for a narrow, one-size-fits-all policy for Aboriginal peoples. That approach simply won't work, for the same reasons that a single fisheries policy will not serve Canada's three oceans, the Great Lakes, and all of our

rivers. Canada is too large, and our population, including Aboriginal peoples, is too diversified for a one-policy approach or solution.

Access to health and education of the same type and quality as that enjoyed by other Canadians is also required. The Canadian Dental Association told the Committee that 72% of First Nations and Inuit children aged two to five suffer from early childhood tooth decay, and the decayed, missing, filled teeth rate for 12-year old First Nations children is two to three times higher than for non-Aboriginal children. Moreover, the Pauktuutit Inuit Women's Association informed us that Inuit Canadians lack access to basic diagnostic and prevention services taken for granted in Southern Canada. Health concerns were also mentioned by the Native Women's Association of Canada. Women, in particular, are not diagnosed with many cancers specific to women before it is too late to save their lives, since they are unable to access information that would enable early diagnosis. We also received a recommendation that the First Nations and Inuit Health Program be re-established with a proper funding base and adequate growth factor.

It should be noted that the September 2002 Speech from the Throne listed a number of Aboriginal-related health improvement measures, including a First Nations Health Promotion and Disease Prevention strategy with a targeted immunization program, and a commitment to work with partners to improve health care delivery on-reserve.

A high-quality education is essential for individuals to participate in society, both as citizens and as economically productive people. The Committee heard that Registered Indians are more likely than the general population to have less than a grade nine level of education: three times more likely in the case of on-reserve Registered Indians (32.5% versus 12.4%), and one-and-one-half times more likely for those living off-reserve (18.4% versus 12.4%). Given the strong link between educational attainment and economic prosperity, it is not surprising that Registered Indians face lower participation rates and significantly lower average income levels than Canadians as a whole. The Saskatchewan School Trustees Association advocated financial support for partnerships with First Nations school boards and the provinces and territories that address the academic, social, emotional, physical and spiritual development of First Nations children and youth. The Northern Teacher Education Program stressed the importance of Indian and Métis teachers to the development of education for Aboriginal students.

The Committee also heard that the First Nations population that will be entering the labour force is expected to triple over the next 15 years, making it even more essential that education and employment needs be addressed. The Assembly of First Nations informed the Committee that there is a backlog of 10,000 First Nations students, requiring $147 million in funding.

Regarding Aboriginal education, the September 2002 Speech from the Throne committed to:

- Raising the on-reserve standard of education;
- Taking additional measures to address the gap in life chances between Aboriginal and non-Aboriginal children;
- Putting in place early childhood development programs for First Nations, expanding Aboriginal Headstart, improving parental supports and providing Aboriginal communities with the tools to address fetal alcohol syndrome and its effects;
- Working with the recently created National Working Group on Education to improve educational outcomes for First Nations children; and
- Taking immediate steps to help First Nations children with special learning needs.

Moreover, while the September 2002 Speech from the Throne stated the federal government's intention to reintroduce legislation designed to strengthen First Nations governance institutions that would support democratic principles, transparency and public accountability, as well as provide tools to improve the quality of public administration in First Nations communities, the Committee heard representations both opposing and supporting the government's governance initiative. This lack of cohesiveness among First Nations peoples suggests not only a split within the First Nations community, but also perhaps between the federal government and First Nations peoples. As well, the Speech committed the federal government to work with First Nations communities in an effort to build their capacity for economic and social development, and to expand community-based justice approaches, especially for youth on reserves and Aboriginal Canadians residing in Northern Canada.

The Committee is aware of the challenges associated with improving the quality of life of Aboriginal Canadians, and believes that a multi-faceted approach is needed in order that they can enjoy the same standard of living, and access to opportunities, as their non-Aboriginal counterparts. This approach must recognize the differing needs of Aboriginal Canadians, and the different challenges faced by First Nations individuals living on- and off-reserve. The Houston Friendship Center Society, for example, advocated increased funding for youth programming targeted at Aboriginal youth living in urban areas. Action must also be taken with respect to health, education, water and sewer systems as well as other infrastructure requirements. These needs should be funded primarily through the reallocation of expenditures on existing initiatives that, on the basis of consultation and program review within Indian and Northern Affairs Canada and other relevant departments, are no longer needed, are not a priority for Aboriginal Canadians or are not meeting their intended goals.

As well, while the Committee does not support the development of a First Nations/Aboriginal Canadian infrastructure program, as suggested by the Indian Taxation Advisory Board and the Assembly of First Nations, we believe that any future infrastructure programs introduced by the federal government should contain funds earmarked specifically for Aboriginal communities. Since small and remote communities which may be sparsely populated are disadvantaged when funds are allocated based on population alone, a different method for determining the amount of any allocation must be used. Traditional population-based funding mechanisms are ineffective in improving Aboriginal living conditions. Moreover, we believe that governance issues must be resolved. It is from this perspective that the Committee recommends that:

RECOMMENDATION 44

The federal government implement programs that adequately address the governance, health, education and other infrastructure needs of Aboriginal Canadians. These programs should contain sufficient flexibility to meet the divergent needs of Aboriginal Canadians. As well, any future infrastructure initiatives announced by the government should contain an allocation targeted to Aboriginal communities, but not based strictly on population.

Disability Issues

> *We are not seeing incremental progress, we're actually seeing erosion of services for people with disabilities in this country. We are living in greater poverty, we're having parents go to the extreme of taking the lives of their children. It is at the point now where people have to select which province they might reside in to gain the service they may need.* (Council of Canadians with Disabilities, 21 May 2002)

Earlier, the report noted that a disability presents challenges not only for the person with the disability, but also for family members who help to care for the disabled individual, often placing the family under severe economic and emotional strain. The National Council of Women told the Committee that "[s]uch caregivers sacrifice career opportunities and frequently subsist on inadequate income, both during the caregiving years and in later life." At present, the federal government plays a role in helping disabled individuals and those who care for them enjoy the best possible quality of life through funding for health and home care, and through targeted tax and program spending.

Nevertheless, many witnesses commenting on disability issues criticized elements of the federal government's support. In particular, they did not support the government's recently implemented guidelines, which effectively narrow the eligibility for the Disability Tax Credit (DTC). The Committee heard that a sizeable number of disabled Canadians are no longer eligible for the credit. As such, the Multiple Sclerosis Society of Canada suggested to the Committee that:

> [w]e cannot believe it was the intention of Members of Parliament who approved the language in the *Income Tax Act* to exclude from receiving the DTC a person with MS who might be able to struggle to walk 50 metres on level ground [one of the tests for

> the DTC] on one of her 'good' days, but ordinarily cannot climb stairs unsupported or walk a block in less than 30 minutes.

Concerns are heightened by the DTC's role as one of the main tools to help defray out-of-pocket expenses associated with disability. In its March 2002 report *Getting It Right for Canadians: The Disability Tax Credit,* the House of Commons Sub-Committee on the Status of Persons with Disabilities stated its view that "the guidelines pertaining to the application's questions are very restrictive and serve to deny support for too many applicants with a severe disability."

Many of the recommendations made to the Committee concerned enhancements and refinements to existing programs. Suggestions included making the DTC refundable, and providing paid leave as well as refundable and enhanced tax credits for those providing significant levels of unpaid care to disabled individuals. T-Base Communications reminded the Committee of the importance of ensuring that all Canadians can access and use government documents and information.

While income security is ultimately achieved through the full labour market participation of persons with disabilities, the Committee heard that only 48% of adults with disabilities are employed, compared with 73% of adult Canadians without disabilities. For a labour market strategy to benefit disabled Canadians, the federal government must invest in supports for them, and for their family and community. Several groups suggested that the federal government increase its involvement in this area in addition to the existing federal/provincial Employability Assistance for Persons With Disabilities Initiative, under which the federal government contributes 50% of the cost, up to a maximum, of eligible provincial/territorial programs and services.

The Committee also heard suggestions for a national disability strategy to assist provinces and territories in investing in better programs and services. As recommended by witnesses, such a program would be a federal/provincial/territorial agreement (developed in conjunction with interested groups) to equalize supports across all provinces and territories, and ensure the mobility rights of persons with disabilities.

As with other vulnerable groups in Canadian society, the Committee believes that the federal government has a responsibility to provide assistance that enables disabled Canadians to be full participants in our economy and in society. This requires that attention be paid to such issues as enhanced support and tax assistance for disabled Canadians and their caregivers, reasonable qualifying conditions for the Disability Tax Credit, and appropriate labour market assistance. In developing policies and programs, both physical and mental disabilities must be considered, with a view to ensuring the equitable treatment of various types of disabilities.

In the Committee's view, appropriate actions are being taken by the federal government in some areas as it assists disabled Canadians and their families in meeting their challenges. There is, however, room for improvement. In particular, we believe that a number of suggestions presented by the witnesses have merit or warrant further examination. Consequently, the Committee recommends that:

RECOMMENDATION 45

The federal government study the feasibility of a refundable disability tax credit, enhanced tax assistance to disabled Canadians and their caregivers, and options for providing enhanced labour market supports to disabled Canadians. Moreover, the government should consult with organizations representing those with a disability regarding a federal/provincial/territorial National Disability Strategy and a Labour Market Agreement.

Seniors' Issues

> *The protection of the pension security net is important to aging with dignity and security.* (Congress of Union Retirees of Canada, 9 September 2002)

From housing to health care, Canada's senior citizens have a stake in all major economic and social policy debates. Their dependence on a fixed income and heightened needs in areas such as health care, however, make them vulnerable to economic disruption and changes in social policy. Seniors' potentially precarious economic position is highlighted by the National Council of Welfare's report which indicates that while poverty rates fell in 1999, poverty rates for single senior women actually rose in 1999, reflecting "significant gender-based differences in labour force attachment, in life expectancy, in marital status and in health or disability status."[70]

While the implementation of many of the recommendations in other sections of the report would help to address the needs of seniors in the areas of health, housing, RRSPs, sustainable communities and general tax policy, other concerns would not be addressed. For example, a number of the Committee's witnesses expressed concern with various aspects of the retirement income system. Witnesses suggested improvements to the Canada Pension Plan — including allowing individuals to contribute to the Plan regardless of their employment status — and having the federal government finance the "employer" portion of the premium for those taking care of the young, sick, elderly, disabled or dying. Other suggestions included enhancing accessibility to and the generosity of Guaranteed Income Supplement benefits, eliminating the social benefit reduction tax (or clawback) on Old Age Security payments and, as recommended by the Multi-Employer Benefit Plan Council of Canada, introducing a retirement tax credit for extra contributions to a Registered Pension Plan.

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[70] National Council on Welfare, *Poverty Profile 1999*, Summer 2002. Available at: www.ncwcnbes.net/htmdocument/reportpovertypro99/Introduction.html.

Over the past several years, the federal government has implemented *ad hoc* reforms of Canada's retirement income system, for example through changes to the RRSP program and to the CPP. While each of these changes individually has been undertaken for valid public policy reasons, decisions have not perhaps been made with due consideration given to other parts of the system. A holistic review of Canada's retirement income system should occur in order to ensure that Canada's seniors have an adequate level of retirement income and the quality of life they deserve. Such a review is particularly needed in view of the aging of the Canadian population.

The Committee believes that Canadian citizens have respect for and value their senior citizens. We have made recommendations regarding tax changes, health care and sustainable communities that could indirectly benefit our seniors. More targeted assistance, however, is needed and a comprehensive review of the retirement income system is in order. From this perspective the Committee recommends that:

RECOMMENDATION 46

The federal government initiate a public consultation process on the changes that are needed to the three pillars of Canada's retirement income system: Old Age Security/Guaranteed Income Supplement/ Allowance/Allowance for the Survivor; the Canada Pension Plan; and Registered Retirement Savings Plans/Registered Pension Plans. In the short term, and pending the completion of the review, the government should consider increasing the amount of the Guaranteed Income Supplement to assist those seniors most in need.

Canada's Participation in the World at Large

> *[I]nternational aid is a way to maintain influence. It's the right thing to do. It reflects and is a way to project Canadian values: care, compassion, multiculturalism. This is important at a time when other international values are being projected all too clearly. Fifty million dollars over five years saves between 350,000 and 700,000 lives but $50 million wouldn't buy one military aircraft.* (David Cross, 4 November 2002)

As noted earlier in the report, Canada's foreign aid budget is currently equal to about 0.26% of GDP, far less than the United Nations goal of 0.7% of GDP. According to Action Canada for Population and Development, Canada's Official Development Assistance (ODA) has been reduced disproportionately compared to other program areas between 1991 and 2001. While the federal government's commitment in the September 2002 Speech from the Throne to increase the aid budget by 8% annually — with a view to doubling Canada's ODA by 2010 — has been welcomed by some, the Committee was informed that this funding commitment will not enable Canada to reach the 0.7% target. Results Canada, KAIROS and Eric Cordeiro spoke about Canada's ODA, and several groups also recommended that the federal government continue to pursue the cancellation of the unsustainable debt of the world's poorest countries.

The Committee is proud of Canada's participation in the international environment. We support the recent commitment to increase our Official Development Assistance, and believe that we must always help to support vulnerable citizens in other countries. From this perspective, the Committee recommends that:

RECOMMENDATION 47

The federal government incrementally increase the foreign aid budget until it reaches 0.7% of Canada's Gross Domestic Product. A timetable for achievement of this goal should be developed.

In addition to Canada's participation in the international environment through development assistance, aid to citizens in other countries is also provided by Canada's Armed Forces. In a 25 October 2002 speech, Minister of Defence John McCallum described the role of the military as the defence of Canadian citizens and the preservation of Canada's sovereignty:

> So what does sovereignty mean in this context? It means that our government must be able to deploy forces overseas to reflect Canadian priorities and values, to help Canada achieve its foreign policy objectives and to do our fair share in the struggle for democracy and freedom around the world. [It] means that we must be able to defend Canada and participate meaningfully in the defence of North America. As well, [it] means the defence of our territorial claims … Finally, [it] means strengthening our capacity to fight terrorism. What can be more threatening to our sovereignty than a bunch of terrorists determined to kill innocent Canadian citizens and destroy Canadian property? Sovereignty means all of these things … .

During our pre-budget discussions and consultations, some witnesses told the Committee that Canada was not providing its Armed Forces with the resources needed to fulfill its mandate. We also note the comments of the Standing Senate Committee on National Security and Defence in its November 2002 report, *For an Extra $130 Bucks … Update On Canada's Military Financial Crisis, A View from the Bottom Up*:

> *The question whether the Government of Canada is investing sufficiently in the nation's insurance policy is essential to what has to be the main question: whether Canadians are being provided with what reasonable risk analysts would deem to be an adequate amount of collective security for their lives, their assets, and their way of life. It is the position of this Committee that* ***they are not****.*

The Senate Committee recommended an "immediate increase of $4 billion to bring the Department of National Defence's baseline from $11.8 billion to $15.8 billion, with increases in future years that are realistic, purpose-driven and adjusted for inflation." The Conference of Defence Associations advocated a smaller amount, recommending an immediate $1.5 billion increase in the operating budget of the Department of National Defence.

Defence, however, involves more than the Canadian Forces. For example, the Union of Canadian Transportation Employees informed the Committee that, at present, there is no Coast Guard presence in our coastal waters to deal with criminal activity or the smuggling of illegal immigrants. We also heard from the Canadian Association of Fire Chiefs and the International Association of Fire Fighters (AFL-CIO) about the need to involve groups such as firefighters, often the first respondents to emergency situations, in protecting Canadians' critical infrastructure. On the subject of preparing for emergencies, the Canadian Association of Mutual Insurance Companies argued that there is a need to address the frequency and severity of man-made and natural disasters.

The Committee believes that our Canadian Armed Forces play a vital role in the worldwide struggle for democracy and freedom. Fulfilling this role, however, requires resources, and we believe that some increase in funding is in order. We also feel that there is a more fundamental need for a defence and foreign policy review. Moreover, from the perspective of national security, we support the position of the Union of Canadian Transportation Employees. For these reasons, the Committee recommends that:

RECOMMENDATION 48

The federal government provide an increase in funding to the Department of National Defence to meet the most urgent needs. The government should also immediately initiate a defence and foreign policy review, with a re-examination of funding requirements occurring at the conclusion of the review and mindful of the priority to avoid a budget deficit. Funding should also be allocated to ensure a Coast Guard presence in Canadian waters.

Finally, Canada also participates in the international environment as an importer and an exporter. As a small, relatively open economy, trade is very important for our well-being: exports account for about 44% of our GDP. Furthermore, Canada is fortunate to be located next to the largest market in the world, the United States, into which we sell the vast majority of our exports and from which we buy over two-thirds of our imports. Because of our reliance on the United States as an economic partner, it is essential that goods and services flow across our shared border as freely as possible.

As noted earlier, the focus of the Committee's report last year was securing our future, particularly with regard to the Canada-U.S. border. At that time, the goal was to respond to U.S. security concerns while improving the efficiency of border operations. While governments in both countries have developed and implemented plans and programs to address trade-related border concerns, we must not become complacent in addressing border issues. The Canadian Trucking Alliance told us that they "continue to need, and the federal government continues to pursue, bilateral solutions at the border with the Americans." Moreover, the Shipping Federation of Canada informed us that requests for increased security have led to new initiatives for marine border patrols, and that more money is needed to ensure that increased security needs do not interfere with commercial flows. The management of our trade relationship with the United States and an ongoing examination of measures that can be taken to improve the cross-border flow of goods and people, must remain a government priority.

The Committee also notes that trade disputes with the U.S., particularly over such commodities as softwood lumber and wheat, are having detrimental effects on communities across Canada. The imposition of softwood lumber duties, combined with new agricultural subsidies for U.S. farmers and tariff protection for the U.S. steel industry, indicate a rise of protectionism in the U.S., which poses a growing threat to the Canadian economy. Trade barriers are also a more general problem. According to the Grain Growers of Canada, "foreign trade barriers and production and trade distorting subsidies are costing our farmers at least $1.3 billion each year. This estimate was completed before the recent United States Farm Bill increased the level of support for U.S. producers." Addressing these protectionist moves by our largest trading partner is challenging but necessary.

The Committee believes that oversight of our trade relationship with the United States must be ongoing, and there must be vigorous defence of our international trade rights. From this perspective, the Committee recommends that:

RECOMMENDATION 49

The federal government allocate sufficient resources to the management of Canada's relationship with the United States. Priorities should include adequate personnel and funding directed toward the resolution of trade disputes, and the creation and staffing of additional consular and trade offices.

CONCLUSION

As noted in the Introduction, Minister of Finance John Manley asked for the Committee's views on:

- how the government can best control expenditures;
- how the government can best focus priorities;
- how the government can best align its spending to meet the highest priorities of Canadians;
- the amount of economic prudence that should be included in the upcoming budget in order to guard against going back into deficit; and
- the policies Canadians think are needed to make Canada a magnet for investment, skilled knowledge workers and cutting-edge research and innovation.

Our report fully incorporates our views on these questions. To summarize, we reiterate the following points.

On the issue of controlling expenditures, the Committee — like a number of witnesses — believes that ongoing evaluation of programs, policies and expenditures must occur. It is only through ongoing review that the priorities of Canadians can be identified, and greater efficiencies in the delivery of desired services attained. The involvement of Canadians in the process is critical: since they are financing public services and programs through their tax dollars, they should determine the services and programs that they value.

The second issue, that of focussing on priorities, flows from our view on expenditure control. The identification of priorities can also only occur through dialogue with Canadians. In our democratic system, this dialogue occurs through periodic federal elections, the Committee's pre-budget discussion and consultation process, and the ability of constituents to share their views with Parliamentarians. The Committee's pre-budget discussions and consultations revealed that debt reduction, limited tax changes, measures to enhance productivity and innovation, health care, sustainable communities and assisting the most vulnerable in society — both at home and abroad — are priorities at this time.

In responding to the third issue, the Committee has consulted widely in an effort to determine the priorities of Canadians. Consequently, this report and our recommendations provide the federal government with a blueprint of how it can best align its spending to meet the priorities of Canadians.

The fourth issue, the amount of economic prudence that should be included in the upcoming budget, is something about which Committee members had divergent opinions with respect to the later years of the five-year plan. We do, however, wholeheartedly agree with the amounts set aside for economic prudence in the first three years. We also mirror the limited comments made by our witnesses about the need for this measure in order to ensure that a budget deficit does not occur.

Finally, Minister of Finance John Manley asked the Committee to consider the policies that Canadians believe are needed to ensure that Canada is a magnet for investment, skilled knowledge workers and cutting-edge research and innovation. With our recommendations, we have proposed measures that will make Canada an economic magnet. Prudent fiscal management will ensure that Canada is viewed as a favourable country in which to invest. Moreover, a focus on health care, the sustainability of our communities and caring for vulnerable Canadians will result in Canada being seen as an attractive country within which to live and work. They are also key contributors to the economic prosperity desired by all Canadians. Finally, our recommendations in the areas of research and development, and lifelong learning and skills development, will ensure that we are able to realize the cutting-edge research and innovation that are the foundation of economic growth in a knowledge economy.

With the implementation of these recommendations, Canada will be viewed worldwide as the Northern Tiger, and Canadians — as a consequence of our economic prosperity — will enjoy the quality of living that they expect and deserve.

LIST OF RECOMMENDATIONS

RECOMMENDATION 1

The federal government continue to implement the five-year tax reduction plan announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. (p. 36)

RECOMMENDATION 2

The federal government continue to focus on a balanced budget, with any surplus used to pay down its market debt. The government should consider the extent to which savings realized as a consequence of lower debt-interest costs should be spent on existing or new programs that have been identified as priorities for Canadians. Moreover, the government should undertake an ongoing review of federal expenditures with a view to monitoring continuously the activities that are priorities for Canadians in order that appropriate reallocation of spending occurs. Finally, spending increases should be limited to the rate of inflation and population growth. (p. 38)

RECOMMENDATION 3

The federal government consider further personal income tax rate reductions as a source of economic stimulus and for reasons of competitiveness, as resources permit. (p. 42)

RECOMMENDATION 4

The Department of Finance report to Parliament annually on the extent to which corporate rates of taxation in Canada are competitive with rates in the G-7 nations, especially the United States. (p. 45)

RECOMMENDATION 5

The federal government eliminate the capital tax in the next federal budget. (p. 47)

RECOMMENDATION 6

The federal government, in the next budget, raise Registered Retirement Savings Plan and Registered Pension Plan contribution limits to $19,000 in order to allow those in the top income tax bracket to shelter 18% of earnings. Moreover, contribution limits should be

raised in accordance with the inflation rate beginning immediately. (p. 50)

RECOMMENDATION 7

The federal government increase the Canada Education Savings Grant contribution for low- and middle-income families to 30% of the first $1,000 contributed annually to a Registered Education Savings Plan. Moreover, the *Income Tax Act* should be amended to permit the provinces and territories to set up contribution programs similar to the Canada Education Savings Grant. Finally, the government should amend the *Bankruptcy Act* to provide protection for Registered Education Savings Plan funds. (p. 50-51)

RECOMMENDATION 8

The federal government reduce the Employment Insurance premium rate. Moreover, the government should immediately commence a public consultation process regarding the setting of the premium rate, with additional rate reductions considered in accordance with the new premium rate-setting process following the consultation process. The rate should be set to ensure, to the extent possible, sufficient revenues to cover program costs and fund an appropriate reserve that would enable relative stability in the rate over the business cycle. (p. 52)

RECOMMENDATION 9

The federal government amend the *Employment Insurance Act* to create a yearly basic exemption. The amount of the exemption should be determined following consultation with stakeholders. This change should occur concurrently with a reduction in Employment Insurance premium rates. (p. 54)

RECOMMENDATION 10

The federal government, as a priority, undertake a comprehensive review of capital cost allowance rates to ensure that they accurately reflect the pace of technological change, the ever-shortening economic life of many pieces of modern machinery and competitiveness concerns. (p. 55)

RECOMMENDATION 11

The federal government lower the federal excise tax rate applicable to small breweries to achieve parity with rates in the United States. (p. 56)

RECOMMENDATION 12

The federal government, in the next budget, consider changes to the size and manner of calculation of the Air Travellers Security Charge. The government should have regard for the consensus reached in the public consultation process and the actual costs of providing air security. Moreover, a mechanism should be established for ongoing review of the manner of calculation and amount of the charge in order to ensure that revenues collected are just sufficient to cover the reasonable costs of air security. (p. 58)

RECOMMENDATION 13

The federal government increase funds for the federal granting councils and, in so doing, ensure that the Social Sciences and Humanities Research Council of Canada receives an appropriate share of the allocation. Moreover, the federal granting councils and the Canada Foundation for Innovation should consider the concerns of smaller universities and colleges when disbursing funds, and should ensure that they do not face discrimination. (p. 64)

RECOMMENDATION 14

The federal government, in the next budget, provide a permanent program for financing the indirect costs of federally funded research. (p. 65)

RECOMMENDATION 15

A permanent program financing 40% of the indirect costs of federally funded research be implemented in the next budget. (p. 65)

RECOMMENDATION 16

The federal government simplify the process by which firms access the Scientific Research and Experimental Development investment tax credit. Moreover, a change should be made that would allow the credit to be better utilized by a company during periods that are not profitable so as to act as a continuing incentive to invest in research and development. (p. 66)

RECOMMENDATION 17

The federal government create a commercialization office within Industry Canada. The mandate of this office would be efforts leading to the commercialization of research undertaken in Canada. (p. 67)

RECOMMENDATION 18

The federal government ensure that the rights embodied in patent and copyright protections are vigorously defended. (p. 68)

RECOMMENDATION 19

The federal government develop a mechanism by which existing and future policies and programs would be assessed to determine their impact on productivity and the incentive to undertake research and development in Canada. Particular attention should be paid to the impact of regulations in these areas. (p. 69)

RECOMMENDATION 20

The federal government expand funding for the National Literacy Secretariat and increase its role in supporting English/French as a second language. (p. 71)

RECOMMENDATION 21

The federal government re-evaluate the criteria for its student debt relief initiatives to determine if they are too stringent. Consideration should also be given to expanding student loan limits to assist students in financing rising tuition fees. (p. 73)

RECOMMENDATION 22

The federal government work with the provinces, territories and relevant professional associations to make it easier for foreign workers with the necessary level of expertise to practice their trade in Canada. (p. 74)

RECOMMENDATION 23

The federal government immediately implement any changes necessary to ensure that recognized refugees are treated in the same manner as Canadian citizens and permanent residents for purposes of qualification for student loans. (p. 75)

RECOMMENDATION 24

The federal government meet with the provinces and territories with a view to developing accountability and transparency mechanisms related to the expenditure of funds on post-secondary education by both levels of government. (p. 76)

RECOMMENDATION 25

The federal government work with provincial and territorial governments, and other stakeholders, to ensure that the Canadian healthcare system of the future respects the following principles:

(a) public funding at an appropriate level;

(b) an approach to service delivery that recognizes the role of prevention, pharmacare and homecare, and that is sensitive to the needs of Canadians experiencing a wide range of illnesses;

(c) mechanisms to ensure accountability and transparency at every level of spending; and

(d) continued support and increased funding for the Canadian Institutes of Health Research.

Moreover, as resources permit, the government should consider the one-time funding of initiatives that would yield significant benefits for relatively little cost. (p. 84)

RECOMMENDATION 26

The federal government adopt the proposal made by the Prime Minister's Caucus Task Force on Urban Issues for the creation of an "urban lens" that would require federal government departments to consider the implications of major government policies on urban communities. Moreover, the government should consider the creation of an urban counterpart to the Rural Secretariat and the Canadian Rural Partnership within Industry Canada. (p. 88)

RECOMMENDATION 27

The federal government ensure that adequate attention is paid to the needs of rural and remote communities. Moreover, the government should focus resources on working with remote communities in Northern Canada to advance their economic development efforts. (p. 90)

RECOMMENDATION 28

The federal government, along with other stakeholders, expeditiously develop and implement a long-term, adequately funded infrastructure plan, with an initial focus on transportation and water and sewage deficiencies. (p. 92)

RECOMMENDATION 29

The federal government ensure that the infrastructure plan developed in collaboration with stakeholders incorporate an allocation mechanism that is not limited to population but recognizes the unique strategic and development needs of communities. Moreover, economic development and need, rather than a strictly per capita funding formula, should determine the level of funding allocated to rural and Northern communities. (p. 92)

RECOMMENDATION 30

The federal government meet with stakeholders in order to develop a plan for brownfield redevelopment. Consideration should be given to tax incentives, loans, grants and mortgage guarantees, with such initiatives funded through a reallocation of existing government expenditures. (p. 95-96)

RECOMMENDATION 31

The federal government take immediate action to ensure the sustainability of our Great Lakes. (p. 96)

RECOMMENDATION 32

The federal government examine the policies and measures needed to promote the development and use of alternative sources of energy. (p. 96)

RECOMMENDATION 33

The federal government meet with stakeholders expeditiously, with a view to reaching sectoral agreements for the implementation of greenhouse gas emission reduction targets. In implementing the measures that will be adopted to reduce greenhouse gas emissions, the government must take all necessary steps to protect and enhance investment levels, economic activity and employment in Canada. (p. 96)

RECOMMENDATION 34

The federal government amend the *Income Tax Act* to eliminate the capital gains inclusion rate applied to donations of publicly traded securities to charitable organizations, including private foundations. (P. 99)

RECOMMENDATION 35

The federal government study the feasibility of extending the provisions regarding the capital gains inclusion rate applied to donations of publicly traded securities to donations of real estate and of land. This study should be undertaken with a view to phasing in the application of the change when feasible. (p. 99)

RECOMMENDATION 36

The federal government encourage active dialogue between relevant departments and the voluntary sector regarding how the sector might best participate in the policy-making process without risking their charitable status. (p. 99)

RECOMMENDATION 37

The federal government allocate appropriate resources to maintain Canada's stock of historical buildings and to fund Canadian museums. (p. 102)

RECOMMENDATION 38

The federal government continue to support the Canadian Tourism Commission. (p. 102)

RECOMMENDATION 39

The federal government review existing expenditures in the area of housing and homelessness with a view to reallocating funds in order to increase support for the National Homeless Initiative. (p. 107)

RECOMMENDATION 40

The federal government work with the Canada Mortgage and Housing Corporation to increase the affordable housing stock in Canada. (p. 107)

RECOMMENDATION 41

The federal government establish mechanisms to ensure accountability and transparency with respect to the expenditure of funds allocated to the alleviation of housing problems and homelessness in Canada. (p. 107)

RECOMMENDATION 42

The federal government continue to increase incrementally the National Child Benefit. Moreover, the government should ensure the existence of mechanisms to make certain that monies are spent appropriately, with accountability and transparency. (p. 111)

RECOMMENDATION 43

The federal government, along with provincial and territorial governments, recognize the urgent need for affordable, high-quality child care in Canada, and take actions to alleviate this problem. (p. 112)

RECOMMENDATION 44

The federal government implement programs that adequately address the governance, health, education and other infrastructure needs of Aboriginal Canadians. These programs should contain sufficient flexibility to meet the divergent needs of Aboriginal Canadians. As well, any future infrastructure initiatives announced by the government should contain an allocation targeted to Aboriginal communities, but not based strictly on population. (p. 116)

RECOMMENDATION 45

The federal government study the feasibility of a refundable disability tax credit, enhanced tax assistance to disabled Canadians and their caregivers, and options for providing enhanced labour market supports to disabled Canadians. Moreover, the government should consult with organizations representing those with a disability regarding a federal/provincial/territorial National Disability Strategy and a Labour Market Agreement. (p. 118)

RECOMMENDATION 46

The federal government initiate a public consultation process on the changes that are needed to the three pillars of Canada's retirement income system: Old Age Security/Guaranteed Income Supplement/

Allowance/Allowance for the Survivor; the Canada Pension Plan; and Registered Retirement Savings Plans/Registered Pension Plans. In the short term, and pending the completion of the review, the government should consider increasing the amount of the Guaranteed Income Supplement to assist those seniors most in need. (p. 119)

RECOMMENDATION 47

The federal government incrementally increase the foreign aid budget until it reaches 0.7% of Canada's Gross Domestic Product. A timetable for achievement of this goal should be developed. (p. 120)

RECOMMENDATION 48

The federal government provide an increase in funding to the Department of National Defence to meet the most urgent needs. The government should also immediately initiate a defence and foreign policy review, with a re-examination of funding requirements occurring at the conclusion of the review and mindful of the priority to avoid a budget deficit. Funding should also be allocated to ensure a Coast Guard presence in Canadian waters. (p. 121)

RECOMMENDATION 49

The federal government allocate sufficient resources to the management of Canada's relationship with the United States. Priorities should include adequate personnel and funding directed toward the resolution of trade disputes, and the creation and staffing of additional consular and trade offices. (p. 122)

APPENDIX A

Members of Parliament

Who Held Townhall Meetings on Pre-budget Consultations

Hon. Jean Augustine, M.P.	Etobicoke—Lakeshore, Ontario
Sue Barnes, M.P.	London West, Ontario
Carolyn Bennett, M.P.	St. Paul’s, Ontario
Paul Bonwick, M.P.	Simcoe—Grey, Ontario
Sarmite Bulte, M.P.	Parkdale—High Park, Ontario
Joe Fontana, M.P.	London North Centre, Ontario
Hon. Gar Knutson, M.P.	Elgin—Middlesex—London, Ontario
Judi Longfield, M.P.	Whitby—Ajax, Ontario
Hon. John Manley, M.P.	Ottawa—South, Ontario
Hon. Andy Mitchell, M.P.	Parry Sound—Muskoka, Ontario
Shawn Murphy, M.P.	Hillsborough, P.E.I.
Pat O’Brien, M.P.	London—Fanshawe, Ontario
Pierre Paquette, M.P.	Joliette, Québec
Hon. Andy Scott, M.P.	Fredericton, New Brunswick
Hon. Jane Stewart, M.P.	Brant, Ontario
Bryon Wilfert, M.P.	Oak Ridges, Ontario

APPENDIX B
LIST OF WITNESSES

37th Parliament — 1st Session

TUESDAY, APRIL 23, 2002
(OTTAWA, ONTARIO)
Meeting No. 91

“Conseil du patronat du Québec”

Gilles Taillon, President

Canadian Chamber of Commerce (The)

Nancy Hughes Anthony, President and Chief Executive Officer
Michael Murphy, Senior Vice-President, Policy

Canadian Council of Chief Executives

Thomas d’Aquino, President and Chief Executive Officer
Sam Boutziouvis, Vice-President, Policy and Senior Economic Adviser

Canadian Federation of Independent Business

Garth Whyte, Executive Vice-President
André Piché, Director, National Affairs

Canadian Manufacturers and Exporters

Jayson Myers, Senior Vice-President and Chief Economist

TUESDAY, APRIL 30, 2002
(OTTAWA, ONTARIO)
Meeting No. 95

As Individuals

Herbert Grubel
Jack Mintz
Mario Seccareccia
Thomas Courchene

THURSDAY, MAY 2, 2002
(OTTAWA, ONTARIO)
Meeting No. 97

Association of Yukon Communities

Glen Everitt, President

Inuit Tapiriit Kanatami of Canada

Whit Fraser, Political Adviser

Inuit Women’s Association

Veronica Dewar, President

Northwest Territories Municipal Association

Winnie Cadieux, Director

Nunavut Association of Municipalities

Keith Peterson, President

TUESDAY, MAY 7, 2002
(OTTAWA, ONTARIO)
Meeting No. 98

Canadian Nature Federation

Christie Spence, Co-manager, Wildlands Campaign

Clean Air Renewable Energy Coalition

Mark Rudolph, Coalition Consultant Coordinator
Monika Siegmund, Senior Tax Adviser, Shell Canada

Federation of Canadian Municipalities

Jack Layton, President

Green Budget Coalition

Julie Gelfand, Chair
Joan Kuyek, National Coordinator, Mining Watch Canada
Sara Wilson, Program Manager

Sierra Club of Canada

John Bennett, Director, Energy and Atmosphere Campaign

THURSDAY, MAY 9, 2002
(OTTAWA, ONTARIO)
Meeting No. 100

Air Line Pilots Association, International

Dan Adamus, Chair, Government Affairs Committee
Gail Misra, Legal Counsel

Canadian Labour Congress

Pierre Laliberté, Senior Economist

Canadian Union of Public Employees

Jane Stinson, Director, Research Branch

Confederation of National Trade Unions (CSN)

François Bélanger, Economist
Vincent Dagenais, Assistant to the Executive Committee

TUESDAY, MAY 21, 2002
(OTTAWA, ONTARIO)
Meeting No. 101

Canada's Association for the Fifty-Plus

William Gleberzon, Associate Executive Director
Rolf Calhoun, Ottawa Representative

Canadian Council on Social Development

Lori Harrop, Director, Public Affairs
Andrew Jackson, Director of Research

Canadian Ethnocultural Council

Art Hagopian, President
Anna Chiappa, Executive Director

Council of Canadians with Disabilities

Laurie Beachell, National Coordinator
Mary Ennis, Vice-President

National Council of Welfare

Sheila Regehr, Director

THURSDAY, MAY 23, 2002
(OTTAWA, ONTARIO)
Meeting No. 103

Canada West Foundation

Loleen Berdahl, Acting President and Chief Executive Officer

Federation of Canadian Municipalities

James Knight, Chief Executive Director
Jack Layton, President

Fraser Institute

Fred McMahon, Director, Centre for Globalization

As an Individual

Enid Slack

TUESDAY, MAY 28, 2002
(OTTAWA, ONTARIO)
Meeting No. 104

Association of Universities and Colleges of Canada

Robert J. Giroux, President
Robert Lacroix, Chairman, Board of Directors and "Recteur", University of Montreal

Canada Foundation for Innovation

David Strangway, President and Chief Executive Officer
Carmen Charette, Senior Vice-President

Canadian Alliance of Student Associations

Robert South, Government Relations Coordinator

Canadian Institutes of Health Research

Alan Bernstein, President

National Research Council Canada

Arthur Carty, President

Natural Sciences and Engineering Research Council of Canada

Thomas Brzustowski, President

Social Sciences and Humanities Research Council of Canada

Janet Halliwell, Executive Vice-President

THURSDAY, MAY 30, 2002
(OTTAWA, ONTARIO)
Meeting No. 107

Air Transport Association of Canada

J. Clifford Mackay, President and Chief Executive Officer
Warren Everson, Vice-President, Policy and Strategic Planning

Canadian Trucking Alliance

David Bradley, Chief Executive Officer
Ron Lennox, Vice-President, Regulatory Affairs

Railway Association of Canada

Bruce Burrows, Vice-President, Public Affairs, Government Relations
Chris Jones, Director, Government Relations

Shipping Federation of Canada (The)

Ivan Lantz, Interim President, Director, Maritime Operations
Anne Legars, Director, Policy and Government Affairs
Mario Minotti, Director, Economic Analysis

TUESDAY, JUNE 4, 2002
(OTTAWA, ONTARIO)
Meeting No. 108

Statistics Canada

Doug Norris, Director General, Census and Demographic Statistics

WEDNESDAY, JUNE 5, 2002
(OTTAWA, ONTARIO)
Meeting No. 109

Association of Canadian Travel Agents

Marc-André Charlebois, President

Canadian Film and Television Production Association

Elizabeth McDonald, President and Chief Executive Officer
Neil Bregman, President, Sound Venture Productions

Hotel Association of Canada

Anthony Pollard, President

THURSDAY, JUNE 6, 2002
(OTTAWA, ONTARIO)
Meeting No. 110

Aerospace Industries Association of Canada

Peter Smith, President
Peter Boag, Vice-President, Strategic Planning and Communications

Canadian Construction Association

Michael Atkinson, President
Jeff Morrison, Director of Communications

Canadian Home Builders' Association

Greg Christenson, President
John Kenward, Chief Operating Officer
David Wassmansdorf, Member of the Executive Board
Mary Lawson, Member of the Executive Board

37th Parliament — 2nd Session

TUESDAY, OCTOBER 22, 2002
(OTTAWA, ONTARIO)
Meeting No. 2

Alliance to End Homelessness

Maura Volante, Coordinator

Association of Consulting Engineers of Canada

Claude-Paul Boivin, President
Pierre Shoiry, Chair, Board of Directors and President, Genivar

Association of Fundraising Professionals

Rob Peacock, President

Building and Construction Trades Department

Robert Blakely, Director of Canadian Affairs

Canadian Animal Health Institute

Jean Szkotnicki, President

Canadian Consortium for Research

Paul Ledwell, Chairperson
Paul Jones, Member

Canadian Real Estate Association

Pierre Beauchamp, Chief Executive Officer
Gregory Klump, Senior Economist

Coalition to Renew Canada's Infrastructure

Jim Facette, President

Co-operative Housing Federation of Canada

Mark Goldblatt, Senior Consultant

Ottawa Centre for Research and Innovation

Jeffrey Dale, President and Chief Executive Officer
Chris Henderson, Chair

TUESDAY, OCTOBER 22, 2002
(OTTAWA, ONTARIO)
Meeting No. 3

Canadian Alliance for Children's Healthcare

Jean-Victor Wittenberg, President

Canadian Healthcare Association

Sharon Sholzberg-Gray, President and Chief Executive Officer
Kathryn Tregunna, Director, Policy Development

Canadian Medical Association

Dana Hanson, President
William Tholl, Secretary General and Chief Executive Officer

Council for Health Research in Canada

Helen Ghent, Chair
John Hylton, Executive Director

THURSDAY, OCTOBER 24, 2002
(OTTAWA, ONTARIO)
Meeting No. 5

Canadian Advanced Technology Alliance

David Paterson, National Director, Public Affairs

Canadian Association of Research Libraries

Paul Wiens, University Librarian, Queen's University

Canadian Council of Professional Engineers

Marie Lemay, Chief Executive Officer

Canadian Federation for Promoting Family Values

Michael Gorman, President

Canadian Federation for the Humanities and Social Sciences

Patricia Clements, President
Paul Ledwell, Executive Director

Canadian Foundation for Climate and Atmospheric Sciences

Gordon McBean, Chair, Board of Trustees
Tim Aston, Science Officer

Canadian Teachers' Federation

Harvey Weiner, Deputy Secretary General

Canadian Urban Transit Association

Eric Gillespie, Chair, St. Catharines Transit Commission
Michael Roschlau, President and Chief Executive Officer

International Association of Fire Fighters

Jim Lee, Assistant to the General President, Canadian Office

National Children's Alliance

Dianne Bascombe, Director, National Children's Alliance and Social Policy Issues
Dawn Walker, Executive Director, Canadian Institute of Child Health

National Professional Association Coalition on Tuition

Andrew Jones, Member

National Round Table on the Environment and the Economy

David McGuinty, President and Chief Executive Officer
Jean Bélanger, Chair, Ecological Fiscal Reform

Ottawa Centre for Research and Innovation

Jeffrey Dale, President and Chief Executive Officer
Mike Darch, Special Adviser to the President, Ottawa Economic Development — Division of OCRI

THURSDAY, OCTOBER 24, 2002
(OTTAWA, ONTARIO)
Meeting No. 6

Canadian Conference of the Arts

Megan Williams, National Director
Philippa Borgal, Associate Director

Canadian Library Association

Don Butcher, Executive Director
Leacy O'Callaghan-O'Brien, Communication Director, Canadian National Site Licensing Project

Canadian National Institute for the Blind

Fran Cutler, National Chair
Cathy Moore, Director, Consumer and Government Relations

Community Foundations of Canada

Monica Patten, President and Chief Executive Officer

Philanthropic Foundations Canada

Hilary Pearson, President and Chief Executive Officer

Voluntary Sector Forum

Shauna Sylvester, Member
Laurie Rektor

MONDAY, OCTOBER 28, 2002 (OTTAWA, ONTARIO) Meeting No. 7

Action Canada for Population and Development

Johanne Fillion, Director, Communications
Zonibel Woods, Director, Government Relations

Canada's Research-Based Pharmaceutical Companies

Murray Elston, President
John Stewart, Executive Vice-President and General Manager, Purdue Pharma and Incoming Chair of R&D

Canadian Chemical Producers' Association

Richard Paton, President and Chief Executive Officer
David Shearing, Senior Manager, Business and Economics

Canadian Dental Hygienists Association

Susan Ziebarth, Executive Director
Judy Lux, Health Policy Communications Specialist

Computing Technology Industry Association of Canada

Alan Young, Vice-President

Environmental Technologies Innovation Canada

Al McDowell, Executive Director
Jack Pasternak, Executive Director

Information Technology Association of Canada

Norine Heselton, Vice-President, Policy
Graham Hoey, Ernst & Young LLP

Inuit Tapiriit Kanatami of Canada

Jose Kusugak, President

TUESDAY, OCTOBER 29, 2002 (OTTAWA, ONTARIO) Meeting No. 8

Association of Universities and Colleges of Canada

Robert J. Giroux, President

Canadian Electricity Association

Hans Konow, President and Chief Executive Officer
Roy G. Staveley, Senior Vice-President, Public Affairs and Environment

Canadian Lightweight Materials Research Initiative

William Harney, Director of New Product Development — Magna International
M. J. Wheeler, Chairman, Industry Steering Committee

Canadian Printing Industries Association

Pierre Boucher, President
Jeff Ekstein, Chairman, Government Affairs Committee

Conference of Defence Associations

Richard Evraire, Lt-Gen. (Retired), Chairman
Alain Pellerin, Colonel (Retired), Executive Director

Getting Landed Project

Andrew Brouwer, Policy Advocate
Harry Kits, Executive Director

Graduate Students Association

Bruce Wuetherick, President

Ottawa Child Poverty Action Group

Christina Marchant, Chair
Adje Van de Sande, Professor, Carleton University

T-Base Communications Inc.

Sharlyn Ayotte, Chair
Jillian Deevy, Manager, Accessibility Compliance Evaluation Services

Women Warriors of Sahtu

Cece McCauley, Chief

As an Individual

Wayne Burroughs

WEDNESDAY, OCTOBER 30, 2002 (HALIFAX, NOVA SCOTIA) Meeting No. 9

Association of Nova Scotia University Teachers

Chris Ferns, President

Child Care Advocacy Association of Canada

Margie Vigneault, Nova Scotia Representative

Federation of New Brunswick Faculty Associations

Desmond Morley, Executive Director

Financial Executives Institute of Canada

Barry Gorman, Professor, Tax Committee
Michael Murphy, President

Metropolitan Halifax Chamber of Commerce

Peter Brown, Chair of Federal Finance Committee
Jeff Sommerville, Chief of the Board

Nova Scotia Association of Health Organizations

Robert Cook, President
Helen Patriquin, Chief Liaison Officer

Nova Scotia School Boards Association

Jeanne Doucette, First Vice-President
Mary Jess MacDonald, First Vice-President

Union of Canadian Transportation Employees

John Fox, Regional Representative

As an Individual

Paul O'Hara

WEDNESDAY, OCTOBER 30, 2002 (HALIFAX, NOVA SCOTIA) Meeting No. 10

Department of Finance

John Manley, Minister

THURSDAY, OCTOBER 31, 2002 (OTTAWA, ONTARIO) Meeting No. 11

Canadian Association of Mutual Insurance Companies

Normand Lafrenière, President
Carrol Lambert, Chair

Canadian Bankers Association

Peter Currie, Vice-Chairman and Chief Financial Officer, RBC Financial Group
Kelly Shaughnessy, Vice-President, Banking Operations

Canadian Life and Health Insurance Association Inc.

Mark Daniels, President
James Witol, Vice-President, Taxation and Research

Certified General Accountants' Association of Canada

Everett Colby, Chair, Taxation Policy Committee

Insurance Brokers Association of Canada

Ginny Bannerman, Chair of the Board
Francesca Iacurto, Director, Public Affairs

Insurance Bureau of Canada

Stanley Griffin, President and Chief Executive Officer
Paul Kovacs, Senior Vice-President, Policy Development and Chief Economist

THURSDAY, OCTOBER 31, 2002 (OTTAWA, ONTARIO) Meeting No. 12

"Conseil du patronat du Québec"

Gilles Taillon, President

Canadian Dental Association

Tom Breneman, President
Andrew Jones, Director, Corporate and Government Relations

Canadian Executive Council on Addictions

Dan Reist, Treasurer

Canadian Federation of Independent Business

Garth Whyte, Executive Vice-President
André Piché, Director, National Affairs

Canadian Manufacturers and Exporters

Jayson Myers, Senior Vice-President and Chief Economist

Mining Association of Canada

Gordon Peeling, President and Chief Executive Officer
Dan Paszkowski, Vice-President, Economic Affairs

Mood Disorders Society of Canada

Phil Upshall, President
Rémi Quirion, Scientific Director, Institute of Neurosciences, Mental Health and Addictions

Natural Sciences and Engineering Research Council of Canada

Thomas Brzustowski, President

Retirement Income Coalition

Malcolm Hamilton, Partner, William Mercer Ltd.
C. A. Pielsticker, Chair

MONDAY, NOVEMBER 4, 2002 (TORONTO, ONTARIO) Meeting No. 13

Association of Canadian Airport Duty Free Operators

André Bergeron, Executive Director
Kathy Kendall, The Nuance Group (Canada)
Remo Mancini, Canadian Transit Company

Campaign 2000

Laurel Rothman, National Coordinator

Campaign for Stable Funding of Adult ESL Classes

Graham Hollings, Coordinator
Prasanna Hettiarachchi, Former Adult ESL Student

Canadian Association of Insurance and Financial Advisers

William Strain, Chair, Taxation, Conference for Advanced Life Underwriting
David Thibaudeau, President and Chief Executive Officer

Canadian Centre for Philanthropy

Gordon Floyd, Vice-President of Public Affairs

Canadian Ecumenical Justice Initiatives (KAIROS)

Pat Steenberg, Executive Director
Dennis Howlett, Team Leader, Canadian Justice

Canadian Restaurant and Food Services Association

Joyce Reynolds, Senior Vice-President, Government Affairs
Don Maunders, Vice-President, ABW Food Services Inc.

CropLife Canada

Charles D. Milne, Vice-President, Government Affairs

Escarpment Biosphere Foundation

Robert Barnett, Executive Director

Hospital for Sick Children Foundation

Malcolm Burrows, Director, Development and Gift Planning

Multi-Employer Benefit Plan Council of Canada

Mel Norton, Member of the Board of Directors

Toronto Board of Trade

Elyse Allan, President and Chief Executive Officer
Terri Lohnes, Senior Economist and Policy Adviser

Union of Canadian Transportation Employees

Geoff Fortier, Representative

University of Toronto

Peter Munsche, Assistant Vice-President, Technology Transfer Research and International Relations
Carolyn Tuohy, Interim Vice-President, Research and International Relations, Vice-President, Policy Development and Associate Provost

As Individuals

David Cross
Joseph Polito

MONDAY, NOVEMBER 4, 2002
(VANCOUVER, BRITISH COLUMBIA)
Meeting No. 14

Canadian Association of Student Financial Aid Administrators

Jennifer Orum, National Board Member, Financial Aid and Awards, University of Victoria

David Suzuki Foundation

Jim Fulton, Executive Director
Gerry Scott, Director, Climate Change
Dermot Foley, Policy Analyst, Climate Change and Energy

Fuel Cells Canada

Ron Britton, President and Chief Executive Officer
Christopher Curtis, Vice-President

Greater Vancouver Gateway Council

R.V. Wilds, Managing Director
Brad Eshleman, Member of the Board

Indian Taxation Advisory Board

Clarence (Manny) Jules, Chair

Parents for Child Care

Necole Anderson, Steering Committee Member

Vancouver Aquarium Marine Science Centre

John Nightingale, President

Vancouver Board of Trade

Janette Pantry, Director
Dave Park, Assistant Managing Director and Chief Economist

TUESDAY, NOVEMBER 5, 2002
(TORONTO, ONTARIO)
Meeting No. 15

Canadian Association of Fire Chiefs

Donald F. Warden, Chairman, Government Affairs Committee

Canadian Association of Not-for-Profit RESP Dealers

Peter Lewis, Vice-President, Administration, Canadian Scholarship Trust
Paul Renaud, Vice-President, Corporate Affairs
Ray Riley, Vice-President, Sales

Canadian Automobile Dealers Association

Richard Gauthier, President

Canadian Generic Pharmaceutical Association

Jim Keon, President

Canadian Pensioners Concerned Incorporated

Gerda Kaegi, President, National Association
Mae Harman, Chair, Economic Issues Committee

Canadian Professional Sales Association

Terry Ruffel, President

Citizens for Public Justice

Greg deGroot-Maggetti, Coordinator, Socio-economic Concerns

Conservation Ontario (Newmarket)

George Brathwaite, Vice-Chair
Richard Hunter, General Manager
Craig Mather, Chief Administrative Officer

Ontario Chamber of Commerce

Leonard Crispino, President and Chief Operating Officer
Atul Sharma, Vice-President, Policy Development and Chief Economist
Mary Webb, Board Member

World Wildlife Fund Canada

Pete Ewins, Conservation Director

TUESDAY, NOVEMBER 5, 2002
(VANCOUVER, BRITISH COLUMBIA)
Meeting No. 16

Canadian Association of Gift Planners

Janice Loomer Margolis, Communications Manager, Government Relations Committee

City of Vancouver

Philip Owen, Mayor

Coalition of Child Care Advocates of British Columbia

Sheila Davidson

Greater Vancouver Transportation Authority

Doug McCallum, Chair, Mayor of Surrey
Robert Paddon, Vice-President, Corporate and Public Affairs

Houston Friendship Centre Society

Penny Perlotto, Executive Director
Carl Mashon, Senior Program Manager

Nunavut Association of Municipalities

Keith Peterson, President
David General, Chief Executive Officer

Pacific Coastal Airlines Limited

Quentin Smith, President
Daryl Smith, Chief Executive Officer
Dave Menzies, Operations Manager, Hawk Air

Triumf

Jean-Michel Poutissou, Associate Director

University of British Columbia

Allan Tupper, Associate Vice-President, Government Relations

TUESDAY, NOVEMBER 5, 2002 (TORONTO, ONTARIO) Meeting No. 17

ALS Society of Canada

Teresa Riverso, President, Metro Toronto and Area and Member of Board of Directors
Susan Graham Walker, Director of Communications and Program
Audrey McKinnon, Caregiver

Association for the Abolition of Capital Taxes

David Penney, General Director, Tax, General Motors of Canada Ltd.
Satya Poddar, National Director, Tax Policy Services, Ernst & Young

Canadian Chamber of Commerce (The)

Michael Murphy, Senior Vice-President, Policy
Tina Kremmidas, Senior Economist

Canadian Nurses Association

Robert Calnan, President
Lucille Auffrey, Executive Director

Canadian Retail Building Supply Council

David Campbell, President, Canadian Lumber and Building Materials Association of Ontario

Canadian Retail Hardware Association

Robert Elliott, President

GO Transit

Frances Chung, Director, Financial Services

Greater Toronto Home Builders' Association

Sheldon Libfield, President
Mark Parsons, Member of the Executive

Hospital for Sick Children

Manuel Buchwald, Chief of Research
Cyndy DeGiusti, Chief of Public Affairs

Investment Dealers Association of Canada

Joseph Oliver, President and Chief Executive Officer
Ian Russell, Senior Vice-President, Industry Relations and Representation
Jon Cockerline, Director, Capital Markets

Investment Funds Institute of Canada

Thomas Hockin, President and Chief Executive Officer
John Mountain, Vice-President

Urban Development Institute/Ontario

Paul Mondell, President, UDI Canada
Neil H. Rodgers, President, UDI Ontario

WEDNESDAY, NOVEMBER 6, 2002 (TORONTO, ONTARIO) Meeting No. 18

Association of Canadian Pension Management

Ian Markham, Vice-Chair, Advocacy and Government Relations Committee

Campaign Against Child Poverty

Caroline Di Giovanni, Director, Public Affairs, Catholic Children's Aid Society
Jacquie Maund, Coordinator
Gerald Vandezande, Spokesperson

Canada's Association for the Fifty-Plus

Judy Cutler, Director, Communications
William Gleberzon, Associate Executive Director

Canadian Association for Community Living

Michael Bach, Executive Vice-President

Canadian Federation of Apartment Associations

Vince Brescia

City of Hamilton

Luciano Piccioni, Business Development Consultant, Brownfields Coordinator

Direct Sellers Association

W. Jack Millar, Senior Partner, Millar Wyslobicky Kreklewetz

National Council of Women of Canada

Catharine Laidlaw-Sly, President

National Housing and Homeless Network

Michael Shapcott, Co-Chair

Ontario Hospital Association

David MacKinnon, President and Chief Executive Officer
Leo Steven, Chair, Board of Directors

Toronto Disaster Relief Committee

Cathy Crowe, Steering Committee Member

Writers' Union of Canada

Barry Grills, Chair
Deborah Windsor, Executive Director

WEDNESDAY, NOVEMBER 6, 2002
(CALGARY, ALBERTA)
Meeting No. 19

Alberta Real Estate Association

Les Higa, President-Elect
Janet Poyen, Manager, Member Services

Canadian Association of Petroleum Producers

John Richels, Vice-Chair, President and Chief Executive Officer of Devon Canada Corporation
Greg Stringham, Vice-President, Markets and Fiscal Policy

Canadian Mental Health Association

Bill Gaudette, President

Canadian Worker Co-operative Federation

Hazel Corcoran, Executive Director

City of Calgary

David Bronconnier, Mayor

Clean Air Renewable Energy Coalition

Marlie Burtt, Director, Tax, Suncor Energy Inc. Calgary
Paula McGarrigle, Manager, Renewables, Shell Canada Limited
Andrew Pape-Salmon, Director, Sustainable Energy, Pembina Institute, Vancouver

Confederation of Alberta Faculty Associations

Jeremy Mouat, President

Tax Executives Institute, Inc.

J.A. (Drew) Glennie, General Manager, Tax and Insurance, Shell Canada Limited

WestJet Airlines

Bill Lambertin, Vice-President, Sales and Marketing

As individuals

Beverley Smith
Eric Cordeiro

WEDNESDAY, NOVEMBER 6, 2002
(TORONTO, ONTARIO)
Meeting No. 20

ATS Automation Tooling Systems Inc.

Milfred Hammerbacher, President, Speral Solar Power Inc.

Canadian Cancer Society

Julie White, Chief Executive Officer

Canadian Housing and Renewal Association

John Metson, President
Reid Rossi, Executive Director

Canadian Institute of Public and Private Real Estate Companies

Ian Bacque, Director, Government Relations

Canadian Tooling and Machining Association

James D. Bowman, Vice-President
Robert Cattle, Director

Evergreen Commons Grounds

Stewart Chisholm, Manager, Capacity Building and Education
Barbara Heidenreich, Manager, Land Trust

Health Charities Council of Canada

Chris Higgins, Director
Fiona Chapman, Executive Member

Heart and Stroke Foundation of Canada

Carolyn Brooks, President
Sally Brown, Executive Director and Chief Executive Officer

Multiple Sclerosis Society of Canada

Deanna Groetzinger, Vice-President, Communications

Nature Conservancy Canada

John Lounds, President
Thea Silver, Director, Government Relations

Ontario Coalition for Better Child Care Network

Cheryl DeGras, Executive Director
Kira Heineck, Public Education Coordinator

Ontario Non-Profit Housing Association

Robin Campbell, Executive Director

As an Individual

Donald Johnson

THURSDAY, NOVEMBER 7, 2002 (MONTREAL, QUEBEC) Meeting No. 21

“Centre canadien d’études et de coopération internationales”

Amir Khadir, Chairman of the Board, Suco
Claude Perras, Acting Director General

“Université du Québec à Montréal”

Guy Berthiaume, “vice-recteur adjoint et chef de cabinet du recteur”
Denise Pelletier, “directrice du cabinet et vice-présidente aux communications externes”

Association of Canadian Community Colleges

Gerald Brown, President

Canadian Association of Railway Suppliers

Frank Trotter, President
Gordon Patterson, Director

Canadian Association of University Teachers

James Turk, Executive Director

Canadian Factors Association

Michel Gratton, President, Brome Financial
Mathiew Levinson, Vice-President, MONTCAP Financial Corporation

Canadian Federation of Students

Ian Boyko, National Chairperson

Go for Green

Francine Godin, Executive Director
Steve Grundy, Director of Development

Heritage Canada Foundation

Brian P. Anthony, Executive Director

Sport Matters Group

Joan Duncan, President, Commonwealth Games
Victor Lachance, Senior Leader

THURSDAY, NOVEMBER 7, 2002 (SASKATOON, SASKATCHEWAN) Meeting No. 22

Canadian Dehydrators Association and Canadian Hay Association

Warren Pridham, President
Dale Pulkinen, Executive Director

Canadian Federation of Agriculture

Marvin Shauf, 2nd Vice-President

Canadian Fertilizer Institute

Garth Moore, President, Potash Corporation of Saskatchewan
Karen Rowbottom, Chair, Working Group, Agrium

Canadian School Boards Association

Gary Shaddock, President
Monique Bélanger, Director, Policy and Projects

Northern Alberta Institute of Technology

W.A. (Sam) Shaw, President
Bill Janzen, Vice-President, Finance and Administration

Saskatchewan Agrivision Corporation

C.M. Wiliams, President
Al Scholz, Executive Director

Saskatchewan Chamber of Commerce

Norm Halldorson, Chairperson, Finance Committee

Saskatchewan School Trustees Association

John Nikolejsin, President
Craig Melvin, Executive Director

Trans-Canada #1 West Association

Frank Abdou, Board Member

University of Regina

Jim Tomkins, Vice-President, Administration

University of Saskatchewan

Peter McKinnon, President

As Individuals

John McConnell
Kebrom Haimanot

THURSDAY, NOVEMBER 7, 2002 (SASKATOON, SASKATCHEWAN) Meeting No. 23

Chakastaypasin Band of the Cree Nation

Sol Sanderson

Métis National Council

Gerald Morin, President
Lorna Dolken, Vice-President, Métis Nation/Saskatchewan

Northern Development Board

Max Morin, Co-Chair
Barrie Bergsma, Business Consultant

Northern Lights School Division

Tina Anderson, Chairperson, Board of Education
Ralph Pilz, Director, Education

Northern Teacher Education Program

Bruce Ruelling, Chairman
Elie Fleury, Director

Saskatchewan Early Childhood Association

Sue Delanoy
Bev Drew

THURSDAY, NOVEMBER 7, 2002 (MONTREAL, QUEBEC) Meeting No. 24

Canadian Council of Chief Executives

Thomas d'Aquino, President and Chief Executive Officer
Sam Boutziouvis, Vice-President, Policy and Senior Economic Adviser
David Stewart-Patterson, Senior Vice-President, Policy

Canadian Museums Association

Francine Brousseau, President
John McAvity, Executive Director

Federation of Canadian Municipalities

John Schmal, President
James Knight, Chief Executive Officer
David Cohen, Director, Economic and Social Policy

Partnership Group in Science and Engineering

Denis St-Onge, Past Chair

Tourism Industry Association of Canada

Randall Williams, President and Chief Executive Officer

FRIDAY, NOVEMBER 8, 2002 (MONTREAL, QUEBEC) Meeting No. 25

"Coalition pour le renouvellement des infrastructures du Québec"

Gilles Vaillancourt, President and Mayor of Laval
Marc Couture, "BPR Groupe-Conseil"

"Conseil national des cycles supérieurs"

France St-Onge, President

"Fédération étudiante universitaire du Québec"

Nicolas Brisson, President
Benoît Riopel, Vice-President

Canadian Council of Regional Breweries

Bob King, President, Big Rock Brewery
Laura Urtnowski, President, "Les Brasseurs du Nord Inc."
J. Kevin Meens, Executive Vice-President, Marketing, Brick Brewing Company Limited
Pierre Paquin, General Manager

Canadian Institute of Chartered Accountants

Pierre Brunet, Chair, Board of Directors

Canadian Taxpayers' Federation

Walter Robinson, Federal Director

Cement Association of Canada

Michael Giroux, Vice-President, Headquarters
Claude Pigeon, Vice-President, Quebec Region

Forest Products Association of Canada

Louise Desjardins, Director, Taxation
Paul Lansbergen, Director, Taxation and Business Issues

National Task Force to Promote Employer-Provided Tax-Exempt Transit Benefits

Donna-Lynn Ahee, Project Manager
Amelia Shaw, Manager, Public Affairs, Canadian Urban Transit Association

Results Canada

Jean-Michel Laurin, Volunteer

Union of Canadian Transportation Employees

Richard Côté, Regional Vice-President

FRIDAY, NOVEMBER 8, 2002 (WINNIPEG, MANITOBA) Meeting No. 26

Association of Community Living

Dale Kendel, Executive Director

Association of Manitoba Municipalities

Stuart Briese, President
Garry Wasylowski, Vice-President

Canadian Community Economic Development Network

Garry Loewen, Co-Chair, Policy Committee

CanWest Global Communication Corp.

Geoffrey Elliott, Vice-President

Child Care Advocacy Association of Canada

Debra Mayer, Director, Manitoba Division

Congress of Union Retirees of Canada

Al Cerilli, President, Manitoba Federation of Union Retirees

Manitoba Child Care Association

Don Giesbrecht, President
Pat Wege, Executive Director

Manitoba Organization of Faculty Associations

James Clark, President

Manitoba Schizophrenia Society — Lifelinks

Verne McComas, Coordinator

North-South Institute

Roy Culpeper, President

Winnipeg Real Estate Board

Kenneth Clark
Peter Squire

FRIDAY, NOVEMBER 8, 2002 (WINNIPEG, MANITOBA) Meeting No. 27

Assembly of First Nations

Perry Bellegarde, Saskatchewan Vice-Chief
Richard Powless, Special Adviser

Métis National Council of Women

Sheila Genaille, President
Joyce Gus, Director

National Aboriginal Voluntary Organization

Damon Johnston, Co-Chair
Wayne Helgason, Board Member

Native Women's Association of Canada

Terri Brown, President
Sherry Lewis, Chair, Finance

APPENDIX C
LIST OF SUBMISSIONS

Action Canada for Population and Development

Air Canada

Air Line Pilots Association, International

Air Transport Association of Canada

Alberta Association of Municipal Districts and Counties

Alberta Real Estate Association

Alliance to End Homelessness

ALS Society of Canada

Assembly of First Nations

Association for the Abolition of Capital Taxes

Association of Canadian Academic Healthcare Organizations

Association of Canadian Airport Duty Free Operators

Association of Canadian Community Colleges

Association of Canadian Pension Management

Association of Canadian Travel Agents

Association of Consulting Engineers of Canada

Association of Fundraising Professionals

Association of Manitoba Municipalities

Association of Nova Scotia University Teachers

Association of Universities and Colleges of Canada

ATS Automation Tooling Systems Inc.

BCE — Bell Canada Enterprises

Better Environmentally Sound Transportation

BIOTECanada

Brewers Association of Canada

Building and Construction Trades Department

Caledon Institute of Social Policy

Campaign 2000

Campaign Against Child Poverty

Campaign for Stable Funding of Adult ESL Classes

Canada Council-United Brotherhood of Carpenters and Joiners of America

Canada Foundation for Innovation

Canada West Foundation

Canada's Association for the Fifty-Plus

Canada's Research-Based Pharmaceutical Companies

Canadian Advanced Technology Alliance

Canadian Alliance for Children’s Healthcare

Canadian Alliance of Student Associations

Canadian Animal Health Institute

Canadian Arts Summit

Canadian Association for Community Living

Canadian Association of Fire Chiefs

Canadian Association of Gift Planners

Canadian Association of Insurance and Financial Advisors

Canadian Association of Mutual Insurance Companies

Canadian Association of Not-for-Profit RESP Dealers

Canadian Association of Petroleum Producers

Canadian Association of Railway Suppliers

Canadian Association of Research Libraries

Canadian Association of Student Financial Aid Administrators

Canadian Association of University Teachers

Canadian Automobile Dealers Association

Canadian Bankers Association

Canadian Cancer Society

Canadian CED Network

Canadian Centre for Philanthropy

Canadian Chamber of Commerce (The)

Canadian Chemical Producers' Association

Canadian Community Economic Development Network

Canadian Conference of the Arts

Canadian Consortium for Research

Canadian Construction Association

Canadian Council of Chief Executives

Canadian Council of Regional Breweries

Canadian Defence Industries Association

Canadian Dehydrators Association and Canadian Hay Association

Canadian Dental Association

Canadian Dental Hygienists Association

Canadian Ecumenical Justice Initiatives (KAIROS)

Canadian Electricity Association

Canadian Ethnocultural Council

Canadian Federation for Promoting Family Values

Canadian Federation for the Humanities and Social Sciences

Canadian Federation of Agriculture

Canadian Federation of Apartment Associates

Canadian Federation of Independent Business

Canadian Federation of Students

Canadian Fertilizer Institute

Canadian Film and Television Production Association

Canadian Foundation for Climate and Atmospheric Sciences

Canadian Generic Pharmaceutical Association

Canadian Hardware and Housewares Manufacturers Association

Canadian Healthcare Association

Canadian Home Builders' Association

Canadian Housing and Renewal Association

Canadian Institute of Chartered Accountants

Canadian Institute of Public and Private Real Estate Companies

Canadian Institutes of Health Research

Canadian Library Association

Canadian Life and Health Insurance Association Inc.

Canadian Lightweight Materials Research Initiative

Canadian Manufacturers and Exporters

Canadian Medical Association

Canadian Mental Health Association

Canadian Museums Association

Canadian National Institute for the Blind

Canadian Nature Federation

Canadian Nurses Association

Canadian Pensioners Concerned Incorporated

Canadian Printing Industries Association

Canadian Professional Sales Association

Canadian Real Estate Association

Canadian Resource Centre for Victims of Crime

Canadian Restaurant and Food Services Association

Canadian Retail Hardware Association

Canadian School Boards Association

Canadian Taxpayers' Federation

Canadian Teachers' Federation

Canadian Tooling and Machining Association

Canadian Trucking Alliance

Canadian Union of Public Employees

Canadian Urban Transit Association

Canadian Vehicle Manufacturers' Association

Canadian Worker Co-operative Federation

CanWest Global Communications Corp.

Cement Association of Canada

“Centre canadien d’études et de coopération internationales”

Certified Management Accountants of Canada

Chakastaypasin Band of the Cree Nation

Child Care Advocacy Association of Canada

Citizens for Public Justice

City of Calgary

City of Hamilton

City of Vancouver

Clean Air Renewable Energy Coalition

Coalition for Active Living

Coalition of Child Care Advocates of B.C.

“Coalition pour le renouvellement des infrastructures du Québec”

Coalition to Renew Canada’s Infrastructure

Community Foundations of Canada

Computing Technology Industry Association of Canada (COMPTIA)

Confederation of Alberta Faculty Associations

Confederation of National Trade Unions (CSN)

Conference of Defence Associations

Congress of Union Retirees of Canada

“Conseil du patronat du Québec”

“Conseil national des cycles supérieurs”

Conservation Ontario (Newmarket)

Co-operative Housing Federation of Canada

Eric Cordeiro

Council for Business and the Arts in Canada

Council for Health Research in Canada

Council of Canadians with Disabilities

Thomas Courchene

Credit Union Central of Canada

CropLife Canada

David Cross

David Suzuki Foundation

Direct Sellers Association

Employee Share Ownership Plan Association

Environmental Technologies Innovation Canada (ETIC)

Escarpment Biosphere Foundation

Evergreen Commons Grounds

“Fédération étudiante universitaire du Québec”

Federation of Canadian Municipalities

Federation of New Brunswick Faculty Associations

Financial Executives Institute Canada

Forest Products Association of Canada

Fuel Cells Canada

Global Thermoelectric Inc.

Go for Green

GO Transit

Grain Growers of Canada

Greater Toronto Home Builders' Association

Greater Vancouver Gateway Council

Greater Vancouver Transportation Authority

Green Budget Coalition

Herbert Grubel

Hamilton Chamber of Commerce

Health Charities Council of Canada

Heart and Stroke Foundation of Canada

John Helliwell

Heritage Canada Foundation

Horse Racing Tax Alliance of Canada

Hospital for Sick Children

Hotel Association of Canada

Houston Friendship Centre Society

Indian Taxation Advisory Board

Information Technology Association of Canada

Insurance Brokers Association of Canada

Insurance Bureau of Canada

Interim Northern Development Board

International Association of Fire Fighters

Inuit Tapiriit Kanatami of Canada

Inuit Women's Association

Investment Dealers Association of Canada

Investment Funds Institute of Canada

Donald Johnson

David Laidler

Manitoba Child Care Association

Manitoba Organization of Faculty Associations

Manitoba Schizophrenia Society— Lifelinks

Métis National Council

Métis National Council of Women

Metropolitan Halifax Chamber of Commerce

Mining Association of Canada

Jack Mintz

Mood Disorders Society of Canada

Movement for Canadian Literacy

Multi-Employer Benefit Plan Council of Canada

Multiple Sclerosis Society of Canada

National Aboriginal Voluntary Organization

National Children's Alliance

National Council of Welfare

National Council of Women of Canada

National Housing and Homeless Network

National Professional Association Coalition on Tuition

National Research Council Canada

National Round Table on the Environment and the Economy

National Task Force to Promote Employer-Provided Tax-Exempt Transit Benefits

Native Women's Association of Canada

Natural Sciences and Engineering Research Council of Canada

Nature Conservancy Canada

Nepean Housing Corporation

Northern Alberta Institute of Technology

Northern Development Board

Northern Lights School Division

Northern Teacher Education Program

North-South Institute

Northwest Territories Municipal Association

Nova Scotia Association of Health Organizations

Nova Scotia School Boards Association

Nunavut Association of Municipalities

Ontario Association for Community Living

Ontario Chamber of Commerce

Ontario Coalition for Better Child Care Network

Ontario Hospital Association

Ontario Non-Profit Housing Association

Ottawa Centre for Research and Innovation

Ottawa Child Poverty Action Group

Pacific Coastal Airlines Limited

Parents for Child Care

Partnership Group for Science and Engineering

Philanthropic Foundations Canada

Joseph Polito

Railway Association of Canada

Results Canada

Retirement Income Coalition

Saskatchewan Agrivision Corporation

Saskatchewan Chamber of Commerce

Saskatchewan Early Childhood Association

Saskatchewan School Trustees Association

Mario Seccareccia

Shipping Federation of Canada (The)

Enid Slack

Beverley Smith

Social Sciences and Humanities Research Council of Canada

Sport Matters Group

Statistics Canada

Tax Executives Institute, Inc.

T-Base Communications Inc.

Tenants Rights Action Coalition

Toronto Board of Trade

Tourism Industry Association of Canada

Trans-Canada #1 West Association

Trilennium Mentors Ltd.

Triumf

Union of Canadian Transportation Employees

"Université du Québec à Montréal"

University of British Columbia

University of Regina

University of Toronto

Urban Development Institute/Ontario

Vancouver Aquarium Marine Science Centre

Vancouver Board of Trade

Voluntary Sector Initiative Secretariat

WestJet Airlines

Winnipeg Real Estate Board

Women Warriors of Sahtu

World Wildlife Fund Canada

Writers' Union of Canada

A copy of the relevant Minutes of Proceedings (*Meeting No. 28*) is tabled.

Respectfully submitted,

Sue Barnes, M.P.
Chair

Canadian Alliance Supplementary Opinion
November 22, 2002

The Canadian Alliance concurs with many of the recommendations in the Pre-Budget Report of the House of Commons Standing Committee on Finance, "Canada: People, Places and Priorities." The Canadian Alliance recognizes that fundamentally, Canadians want an increase in our standard of living and a reversal of our long-term economic decline. Unfortunately, we do not feel that these priorities were adequately reflected in either last year's Budget or this Report.

Last year, the Canadian Alliance Supplementary Report warned the government of the need to control expenditures to allow for further tax relief and debt payments. As Budget 2001 did not make these issues a priority, we feel compelled to raise them again.

Furthermore, this year's Throne Speech increased the pressure to spend with its many promises for new programs. Private forecasts have estimated the aggregate bill for these new spending programs at an additional $37.5 billion over eight years and this does not include the costs of climate change commitments. Unfortunately, the Throne Speech hardly mentioned the need for further tax reduction and reform, and instead stated that the government will maintain its commitment to fair and competitive taxes. The Canadian Alliance argues that Canadian taxes are neither fair nor competitive.

It is against this backdrop that the Canadian Alliance feels compelled to submit a supplemental report. At a time when health care, security issues and taxation continue to be at the forefront of Canadian concerns, the Canadian Alliance insists that the federal government must not be distracted by costly and misguided legacy dreams.

We believe that these are the issues requiring attention:

- Government Spending
- Taxes and Tax Burden
- Ongoing Productivity and Competitiveness Concerns
- Debt Burden

Spending

The Canadian Alliance strongly supports Recommendation 2, which calls for a balanced budget, a cap of roughly 3% on increased spending (to keep it in line with the growth of population and inflation), paying down market debt and an ongoing review of federal expenditures. These have all been long-standing Canadian Alliance policies.

However, these recommendations can only work if they are carried out, which has not been the case to date. The significance of Recommendation 2 pales when one considers the government's recent increases in federal spending. We note the concerns expressed by the Canadian Chamber of Commerce about the increased government spending levels:

> *In the view of our members, this ... creates a very dangerous precedent. If we look at the cumulative government spending, since the deficit was eliminated — very few years ago, in 1997-98 — that increase is almost 25%.*
>
> Nancy Hughes Anthony, President & CEO Canadian Chamber of Commerce — April 23, 2002

The Canadian Alliance strongly urges the federal government to discontinue its new spending spree. We agree with C.D Howe Economist Jack Mintz when he said:

> *Those who believe governments have inadequate revenues to spend on critical public services have it wrong. The problem is that governments misallocate tax dollars by designing ineffective public programs. For example, in 1999, Canada spent almost the same as the United States on health, education, and protection, about 16% of GDP — by the way, protection includes defence and law and order.... However, Canada spent almost 25% of GDP on other programs and debt carrying charges, while the U.S. only spends about 15% of GDP on similar expenditures.*
>
> Jack Mintz April 30, 2002

Rather than increasing its spending every year, as new priorities are identified, the Canadian Alliance recommends that the federal government show leadership and make the required spending cuts from lower priority areas so that the overall federal spending envelope does not grow faster than population and inflation.

Taxes & Tax Burden

Our tax burden in Canada remains too high. Even after implementing the tax changes announced in Budget 2000, Canada will still have personal and corporate tax burdens far above the OECD average. Moreover, our overall tax burden remains over 10% higher than the United States. Currently, federal revenues remain at about 16% of GDP and are slightly higher now than they were in the mid-1990s.

> *Total revenues for all governments, netting out transfers, have only fallen from 41% [of GDP] in 1996 to 40.1% in 2002. It will be disappointing for Canadians to learn that this overall tax burden has not fallen that much.*
>
> Dale Orr: "Tax Burden and Debt Burden: How Are We Doing," DRI-WEFA, spring 2002.

The Canadian Alliance notes that Canada's tax burden will increase even further in 2003 through payroll taxes, as the Canada Pension Plan premiums are set to increase a further 0.5%, which works out to $964 million out of the pockets of Canadian employers and employees.

> *So when I ask our operators about what they need to hire more young people, they're very clear. They say "Make it less expensive for me to hire that person, and I'll add them tomorrow." They look at payroll taxes as a particularly expensive barrier to hiring more staff. As labour gets more expensive, they look for ways to drive more hours out of the workweek.*
>
> Mr. Don Maunders, Vice-President, Canadian Restaurant and Foodservices Association, November 4, 2002

The Canadian Alliance reiterates our call for the elimination of the capital tax. We note that the Finance Committee has once again recommended this move, but we urge the federal government to immediately commit to rid Canada of this damaging tax on productivity and investment.

Recommendation 4 on corporate taxes is somewhat disheartening, as the goal appears to be guarding against an "unacceptable divergence" with U.S. rates. Time and again, many witnesses before the Committee stressed the importance of creating a Canadian tax advantage, rather than attempting to keep up with our southern neighbour.

> *...the goal of tax policy should be clear. Competitiveness and taxation is not just a matter of playing catch-up with the neighbours. Rather, Canada should be trying to create a meaningful advantage over its major competitors.*
>
> Thomas d'Aquino, President and CEO of the Canadian Council of Chief Executives, April 23, 2002

Lastly, the Canadian Alliance recommends that the federal corporate income tax rate on profits from the resource sector be brought in line with other sectors.

Ongoing Productivity & Competitiveness Concerns

The Canadian Alliance is deeply concerned with the Report's attempt to play down Canada's problems with productivity and international competitiveness. Many witnesses expressed concern that the productivity gap between Canada and the United States remains wide and continues to grow.

The Report, however, appears to suggest that revised data has shown that the gap between the Canada and the U.S. is smaller than previously thought. There is a well-documented 30-year decline in Canada's standard of living that can hardly be made up by revising data. Unfortunately, this is typical of the Liberals' denial of the role public policy has played in Canada's long-term economic decline.

According to the Global Competitiveness Report 2002-03, Canada tumbled five notches to eighth spot among the most competitive economies in the world — its worst ranking since 1996. Meanwhile, even with the current U.S. economic troubles, the Americans managed to improve their productivity by 4% in the last quarter.

> *The gap in productivity performance between Canada and the United States continues to grow. Productivity is a measure of the wealth-creating capacity of an economy. It's also a measure of return on investment. Our lagging productivity performance is therefore not only an indication that the real incomes of Canadians are falling in relative terms to those of the United States, but is also a reason why Canada's share of foreign direct and portfolio investment is declining, and why the Canadian dollar, in spite of all efforts aimed at improving fiscal and monetary fundamentals in this country, continues to depreciate against its U.S. counterpart.*
>
> Jayson Myers, Vice President and Chief Economist of the Canadian Manufacturers and Exporters, April 23, 2002.

The most troubling matter is the government's long-standing refusal to acknowledge the failure of its own policies to encourage innovation and productivity. Liberal members who comprise the majority of the Committee do not recognize the role that successive Liberal governments have played in hindering Canadian economic progress and development. This state of denial is negatively impacting on Canada's standard of living, which is currently 30% lower than our American neighbours.

Debt Burden

The Canadian Alliance believes that it is vitally important to control overall spending in order to accelerate debt repayment. Although our debt to GDP ratio has improved, our debt burden still remains very high and the interest costs to cover that debt continues to be a drag on Canadians.

> *Debt is currently at an unmanageable level in relation to the GDP. It's taking 23 cents of every tax dollar to pay the interest. That has to be brought down to a more manageable level going forward....We're certainly encouraged by the level of debt repayment that has occurred over the last few years, and a commitment, even on a five-year timeframe, in the order of magnitude we've seen over the last few years would be a step in the right direction, to have it up in that $5 billion to $10 billion a year committed repayment level.*
>
> *Mr. William Strain,* Chair, Taxation, Conference for Advanced Life Underwriting (CALU), Canadian Association of Insurance and Financial Advisors, November 4, 2002

As the Report notes, reducing our debt will result in a permanent fiscal dividend, which can be used for strategic investments in other areas, like defence or health care, and future tax relief. To that end, the Canadian Alliance recommends that planned debt repayment be a specific item within the Budget and not left to chance at year-end.

Conclusion

Canada has untapped potential for growth, but Canadians need the proper environment to nurture our prosperity. The Canadian Alliance is confident that Canada can regain our prosperity and competitiveness. However, strong government leadership is required to provide crucial fiscal responsibility. Canadians deserve a significant reduction in taxes and prudent management of government departments.

It is up to this government, however, to put these priorities into action in the upcoming Budget.

Dick Harris, M.P. & Vice Chair
Charlie Penson M.P. & Chief Finance Critic
Rahim Jaffer, M.P.
Rick Casson, M.P.

BLOC QUÉBÉCOIS DISSENTING OPINION

Report of the Standing Committee on Finance

The Bloc Québécois cannot in any way endorse the report by the Liberal majority, because its overall orientation does not reflect the needs and concerns of the people of Québec and Canada. It contains no measure to top up transfers to the provinces for health, education or assistance to seniors. Only two of the Bloc Québécois's recommendations have been included in the report. Of these, the one dealing with the disability tax credit has been stripped of any mention of the problem of access to the credit. The Bloc Québécois is however pleased that its recommendation on reducing the excise tax on microbreweries has been retained. If at first glance some of the Liberal majority's recommendations strike us as acceptable, we deplore the fact that they involve more cosmetic change and lip service than genuine willingness to respond to the social and economic realities faced by Quebeckers and Canadians.

The Report does not reflect Québec's priorities.

The budget surpluses

The Bloc Québécois very much regrets that the report makes no mention of either the underestimation or the use of the federal budget surpluses. We note that Finance Minister John Manley is continuing with the shell game practised by his predecessor, Paul Martin, when it comes to any genuine estimates of the value of the federal government's budget surpluses. It should be recalled there was a discrepancy of over $65 billion between the Liberal government's forecasts and the actual value of the surpluses since 1997. Since then, the federal government has paid down the national debt by more than $45 billion without any public debate, which is undemocratic. According to the Bloc Québécois's projections, the federal government will next year have available to it a budget surplus of $10.4 billion. Over the next three years, the federal surpluses will reach a minimum of $33 billion. If the economic slowdown comes to an end, the surpluses could reach $47 billion.

According to the Conference Board, the federal government is going to be squirreling away more and more of its future budget surpluses, while Québec and the provinces accumulate larger and larger deficits. Given its spending needs, Ottawa is collecting far too much tax.

The fiscal imbalance

With surpluses estimated at $10.4 billion for the current year, the federal government has the means at its disposal to correct the fiscal imbalance partially right now. The Bloc Québécois estimates that $5 billion should be transferred to Québec and the provinces in the form of tax points or a transfer of a portion of the GST, starting with the 2002-03 fiscal year. Over the next three years, Ottawa could transfer a minimum of $15.5 billion, including $3.7 billion to Québec, without any risk of running a deficit.

If nothing is done, the federal government will continue to make use of its accumulated surpluses to invade areas of jurisdiction belonging to Québec and the provinces. For example, between 1997 and 2000, Ottawa spent more than $15 billion in areas that do not come under its jurisdiction, thereby causing a proliferation of waste, duplication and chicanery.

The other consequence of the fiscal imbalance is that Québec is being financially suffocated. Taxes paid by residents of Québec go largely to Ottawa, while their needs are here at home: health care, education, anti-poverty measures, day care, road maintenance and construction. The Québec government cannot increase taxes to meet the needs of the people of Québec**. The solution lies elsewhere: the federal government must transfer to the Québec government the supplementary fiscal capacity that will enable it to invest where the needs are most pressing.**

Employment insurance

For several years now, the Liberal government has been poking its fingers into the employment insurance fund, at the expense of the workers. The Bloc Québécois considers that contributions paid by employers and workers should come back to them, and to that end it is proposing that the fund be administered jointly by representatives of the contributors. With an independent fund, the federal surplus would decrease by nearly $3 billion a year. A fund of this kind would also make it possible to negotiate rapidly with the Québec government the introduction in Québec (where population growth is lower than in Canada) of a made-in-Québec parental leave program. There is also the serious problem of workers who find themselves unemployed and often unable to get another job because of their age. **The Bloc Québécois recommends that the Program for Older Worker Adjustment (POWA) be re-established**.

Other measures

At the end of the day, the federal government will have $1.4 billion for other measures, such as infrastructures, the environment, foreign aid, the airport security tax, abolition of the GST on books, and prudent economic management.

Infrastructures

The time has come to reinvest in infrastructures like roads and water mains that benefit the whole community. A joint infrastructure program with the governments of Québec and the provinces, controlled by them, would make possible considerable progress in this regard. **The Bloc Québécois is proposing a five-year program with federal funding of $500 million a year.**

The environment

With ratification of the Kyoto Protocol on the horizon, Ottawa must offer incentive programs to the renewable energy industry. The Bloc Québécois is proposing a support program for industries that use or generate renewable forms of energy, in particular wind power, for a five-year period. Significant federal investment in renewable energy could make it possible to create 15,000 jobs in Québec. The Bloc Québécois is also calling for the introduction of a tax credit for users of public transit. These measures would cost $500 million a year. **The Bloc Québécois insists that the Climate Change Action Fund be divided up on a pro rata basis according to population. At the present time, Québec receives only 8.8% of the money from the Fund, even though it has almost 25% of Canada's population.**

Foreign aid

In its recommendation on foreign aid, the Liberal majority does not propose any timetable for achieving the aid target of 0.7% of GDP.

We note that among the 4.6 billion people living in developing countries, almost:

- 800 million do not get enough to eat
- 850 million cannot read or write
- one billion have no access to drinking water
- 2.4 billion have no access to basic sanitary services
- 11 million children die every year of preventable causes

The Bloc Québécois recommends that the federal government keep its promises on foreign aid and achieve the international objective of 0.7% of GDP by 2010-11.

Airport security tax

In the wake of the events of September 11, 2001, the federal government felt under pressure to improve security at airports. To do this, it decided to finance new security measures through a tax imposed on users of air transportation. When the tax was imposed, the Finance Minister and his Secretary of State admitted that they had not done any impact studies. Several months later, the number of users of air transportation had dropped significantly. **Since the costs linked to the security of air transportation should be financed out of the government's general revenue, as are all other important aspects of national security, the Bloc Québécois recommends that the airport security tax be abolished.**

Abolition of the GST on books

Access to knowledge is so vitally important in a world where the knowledge-based economy predominates, that it seems self-evident that the federal government should imitate a progressive measure already adopted by the Québec government and abolish the GST on books. **The Bloc Québécois recommends the abolition of the GST on books.**

Economic prudence

In looking at the Finance Minister's estimates, it becomes obvious that not only is he using the same strategies as his predecessor, but also that he is finding new ways of hiding his surpluses better, in particular by setting up a new "economic prudence" reserve. The Minister was not able to explain to us the difference between a contingency reserve and an economic prudence reserve. If the economic slowdown ends in the United States, the Bloc Québécois anticipates that the federal surplus could reach $14 billion, thereby making it possible to introduce other measures, including debt reduction.

NDP Dissenting Opinion to the Standing Committee on Finance

The Peoples' Priorities

Lorne Nystrom, NDP Finance Critic

Yvon Godin, NDP Critic for Employment Insurance, Training, Small business, and Official Languages

November 2002

The Peoples' Priorities

> "**When asked to choose their most desired tax policy change, most witnesses identified other priorities."**
>
> Peoples, Places and Priorities, Pre-Budget Report of the **Standing Committee on Finance, November 2002**

Hello Ottawa! Is Anybody Listening?

Every year, Canadians hear the same song from their Finance Minister — Canada has the greatest economy in the western world — but we can't afford to do anything. Two years ago, when the government was projecting a surplus of some $95 billion over five years — they put $100 billion into tax cuts. Today, with a projected surplus of $70 billion over the next five years, they want to keep on cutting taxes — but restrict spending to money they can "reallocate" from existing programs.

The majority on this Committee has embraced without question the official fiction that the federal budget has no room for important spending initiatives — and is totally blind to the reality that when it comes to figuring out its expected budget balance every year, the Finance department can't count. In every single year since it was elected in 1993, the government has exceeded its projection on the budget balance to a cumulative total of $80 billion. Or, to put it simply, the Finance Minister is out — on average — by $10 billion a year.

To most Canadians there are two sides to a budget balance — there's what comes in, and what goes out. If you keep cutting what you bring in, pretty soon you can't afford the roof over your head, and you're on the street. In Canada today, that's a pretty mean street.

- The government closes down the cod fishery — but not a single extra penny of the excess $45 billion they collected over the past seven years from workers through EI premiums is to be directed to help those workers and communities who have just lost their livelihood. That money's gone.

- The whole country finally catches on to the idea that the most important debt we can pay off is the one we owe our children — to make sure that every child in Canada has the same chance to reach his or her potential. But the reality is that the age group most likely to experience long-term poverty is children from birth to 6 years of age.

- Homelessness is a national disgrace. In the nation's capital, one of the richest cities in the country, the average number of shelter users on any given night is 961 people. The majority report states that "According to the government, the homelessness strategy has to date assisted in the construction or renovation of

> 5,600 beds for overnight or transitional housing and 164 food banks and soup kitchens." Not homes — beds. Beds and soup kitchens!

And the majority thinks we need more tax cuts? Of the 51 recommendations in the Report, 14 are for further tax cuts.

For health care, priority #1 for 93% of Canadians, there is but one recommendation. The Report notes in the main body that "Canadians overwhelmingly support the public health care system" and "increased and stable funding of health care is needed," and "public health care should be broadened to pharmacare and homecare". Even the Ontario Chamber of Commerce was critical of privatization, because it "moves costs around without necessarily reducing them". Nice affirmations — but the one timid recommendation on health care says nothing about halting privatization, and the only dollar increase it argues for is to go the Canadian Institutes for Health Research. Affirmations alone are empty. Health care needs a transfusion of cash; they want to put spending in a straitjacket.

The Auditor General pointed out the fallacy in the government's argument about using the surplus to pay down the debt. She told Canadians the surplus for the year does not automatically go to pay down the debt. "There is neither any law nor accounting rule that requires this. Following the terrorist attacks in the US, the federal government abandoned economic prudence altogether and reduced the contingency reserve to $1.5 billion."

The Canada Customs and Revenue Agency, tax collectors for the government, also reported recently on where the government could find more money. Last year, it reported $16 billion in unpaid taxes — or double the amount of last year's surplus. Where is the slippage? Not from ordinary Canadians on wages and salaries, 98% of whom pay up promptly. It's the 20% "risk of non-compliance" in the corporate sector that is to blame. Are they to pay up? Not likely.

With the war on the deficit, Canadians recognized that when a government sets targets, it is making a commitment. The Majority report sets just one target, and the Everest of its ambition is to ensure we cut tax rates for corporations to lower levels than the US. The Committee reports that "without further changes, Canadian corporate tax rates will fall below the US by 2003, and will be 5 percentage points less by 2005." Somehow that's not good enough for the majority. They want an annual review to see that our tax rates don't get out of line with Washington.

The strongest wording in the recommendations is reserved for protection of patents. The chief beneficiary? — the most profitable corporations in the world, the multinational pharmaceutical industry. The Committee wants to ensure their rights are "vigorously defended." Forget that rising drug prices charged by multinational drug companies are the biggest driver in rising health care costs in Canada. Somehow the Committee can't connect those dots.

Canadians can. In their overwhelming support for health care as the pinnacle issue — with access for all at the top of their list of concerns — Canadians have made the point across this country that they see the Canadian system as not just fairer but more efficient and cost effective than the American private system. Canadians intuitively recognize the connection between equality and efficiency. They see the connections between sound investment in the early stages of a child's life and a healthy and vibrant economy. They see the connection between clean air, clean water, national parks and the quality of their lives. They see that talking about Climate Change is talking about business opportunities and innovation. They see that keeping our health care system public gives us a competitive advantage over the Americans who pay much more for so much less.

What we need is to set targets for Canadians, and the best and the brightest will take up the challenge.

The NDP's priorities and targets are Canadian priorities:

Health Care

The government should take immediate steps to

- inject enough new money into the system to bring the federal cash transfers to 25% of public health care spending and ensure that federal cash transfers are not eroded by inflation
- implement national home care and pharmacare.
- halt the shift to private, for profit medicine in Canada
- enhance programs for health promotion and disease prevention
- Provide new investment to train, attract, and keep nurses in this country as well as doctors.
- ensure that Canada's health care system is protected in international trade deals

Secure Future for All of our Kids

The 2003 Budget should launch a five-year social investment plan for Canada's children aimed at making significant reductions in the level and depth of child poverty, and endowing every child with the conditions for healthy development, and giving the working poor the means to provide for their families. We need an immediate federal financial commitment to

- early childhood care, development and education;
- a major improvement to the National Child Benefit for all low income families, including those on social assistance, with a target to move to $4200 per child.

Prairie Farm Families

Ongoing US trade harassment of our wheat farmers is just the latest new pressure on Prairie farmers. Experts agree that there is room, within the confines of WTO rules to increase farm support significantly without running afoul of the WTO. An immediate increase in federal support to farmers through the NISA is urgently needed

Housing and Homelessness

In the 2003 federal budget, the government should finally adopt a National Affordable Housing Strategy which recognizes housing as a basic right, and commits an additional 1% of total program spending on housing.

Post-Secondary Education

Without leadership we are heading towards an admission policy based on wealth. Under current rules only 1 student in 24 is getting debt relief. Canada needs to

- Restore a comprehensive system of grants based on need.
- Allocate funds specifically to education and work with the provinces to reduce and gradually eliminate tuition fees.
- Maintain the government's rightful role as non-profit loan administrator.
- Expand and improve debt relief for students.
- Eliminate all taxes on scholarships, grants and bursaries

Unemployment Insurance

New Democrats want to see EI funds separated from government accounts, and used to improve benefits for Canada's unemployed. We would

- ease entrance requirements,
- raise the benefit level to 66%

- eliminate discriminatory features that leave 60% of the unemployed overall, 70% of unemployed women, and 85% of young people out of the system entirely

- provide special assistance for communities in dire need, such as the communities in Newfoundland devastated by the closure of the cod fishery.

The Environment and Infrastructure

Long term health and productivity of the economy depend on reversing two decades of neglect of our physical infrastructure. New Democrats support providing sufficient resources to ensure that we:

- move immediately to ratify Kyoto and meet our commitments with respect to climate change, with a priority on building retrofits and major new investments in public transit.

- commit stable long-term funding in the upcoming budget for investments in upgrading core infrastructure

- protect and improve air and water quality,

- clean up contaminated and toxic waste sites,

- expand Canada's National Parks

Disablility Tax Credit

The government should move to develop a comprehensive program to level the playing field for Canadians with disabilities, by acting on the unanimous recommendations of the committee report "Getting It Right for Canadians: The Disability Tax Credit"; in particular the recommendations calling for changes to the eligibility requirements of the Disability Tax Credit so that they will incorporate in a more humane and compassionate manner the real life circumstances of persons with disabilities, and withdraw the proposed changes to the Disability Tax Credit, released on August 30th, 2002.

International Development Assistance

- New Democrats support the plan to improve aid targeting and rebuild ODA to 0.35% of GNP by 2005/06.

- New Democrats recommend that additional funds be directed immediately to international assistance, not including the funds set aside for debt cancellation in 2000-2001.

- Canada should set and meet its long stated target of .7% of GNP for Official Development Assistance.

Defence and Security:

New Democrats support our forces and their families, stationed overseas and living on bases at home. In the February budget, the government must focus first on improving the lives of soldiers and their families and second, on updating equipment which will not further endanger our soldier’s lives.

Turning the Northern Kitten into a Northern Tiger

Supplementary Opinion
Progressive Conservative Party of Canada

Canada has all of the ingredients, save one, to truly turn itself into an economic northern tiger. As a nation, we have the resources, the people, and the knowledge to turn Canada into a world leader. However, the one missing ingredient is federal leadership. Leadership is required to enhance and implement a bold agenda to strengthen the standard of living of every Canadian.

The Progressive Conservative Party believes that bold action should be taken to strengthen productivity and ultimately improve the Canadian standard of living.

Canada's effective corporate tax rates are among the highest in the OECD. This creates a competitive disadvantage between Canada and our international competitors. In today's global economy, it is clear that competitive tax rates are essential. Tax reduction combined with meaningful tax reform will help create a more prosperous Canada.

The Canadian dollar has lost 20 per cent of its value against the U.S. dollar since the Liberal government was elected in 1993. Since 35 per cent of everything Canadians consume is from the U.S., a 20 per cent reduction in the Canadian dollar's relative value represents a massive drop in the standard of living for all Canadians.

Canada's poor productivity performance has been a major contributing factor to the decline in the value of our dollar. This low productivity growth leads to a vicious cycle as our low dollar decreases the incentive to innovate and increases the cost of production enhancing tools and technology. This in turn reduces productivity further and drives our dollar lower.

> "When the *Canadian dollar* is weak the cost of capital goods is higher, since typically they are imported from the U.S. Therefore, Canadian companies will not invest as much in machinery and equipment, and we will not get the productivity growth that we otherwise would get."
>
> *Gordon Thiessen*
> *Former Governor*
> *Bank of Canada*

The weak Canadian dollar both reflects and serves to foster Canada's lagging productivity levels. Specifically, the PC Party urges the government to take action to reform Canada's antiquated tax system, reduce Canada’s regulatory burden, and strengthen Canadian productivity.

1. Tax Reform

Canada’s productivity growth has lagged behind that of other industrialized nations in recent years. Canada’s productivity growth over the past two decades has been slower than every other G7 country. We have one of the worst growth rates in the OECD. A look at the impact of innovative public policy in other countries will highlight why Canada is falling behind. Ireland, for example, has utilized aggressive tax reform to encourage knowledge-based industry. From 1988 to 1999, Ireland had a real GDP per-capita growth rate of 92 per cent. For the same period, Canada’s GDP per-capita growth was an anemic 5 per cent. By cutting taxes, especially business taxes, Ireland attracted significant levels of foreign investment. Clearly, there is a direct correlation between levels of investment and levels of productivity.

Canada has a “branding” problem in the international investment community. Branding is especially important as today’s capital is highly mobile. Capital can move unimpeded to friendlier jurisdictions. Investors do not feel Canada provides the best investment opportunities. Even Canadians look elsewhere for investment and employment opportunities. Perception is reality. Canada can only alter the opinion of foreign investors through significant improvement of the real and perceived business environment. Small incremental changes will go unnoticed by investors. Bold tax reform would symbolically and substantively help improve Canada’s future prospects in the new economy.

If we are to keep and attract talent, our fiscal environment must be more competitive with our neighbours. Changing times requires a changed approach. In the past, high taxes redistributed income. Today, high taxes redistribute people. If we fail to reform our tax system, our best and brightest will continue to move elsewhere and become our competitors instead of our assets.

The PC Party believes that Canada needs productivity focused tax reform. This would include reducing high marginal tax rates, eliminating capital gains tax, eliminating capital tax, and reforming the corporate tax system.

The government should address pernicious marginal tax rates in Canada, which discourage work and pummel success.

In terms of the impact of the new economy, there is probably not a more negative tax than our capital gains tax regime. Capital gains taxes lock up capital that Canada’s growth industries sorely need. Part of the solution would be to completely eliminate capital gains tax.

We strongly support the committee's recommendation to eliminate the remaining capital gains tax for gifts of listed securities. This is the single most important step that government can take to improve funding for the charitable sector, and in doing so strengthen Canada's social support network. This is the second year the committee has made this recommendation and the minister should implement it in the next budget.

The PC Party also supports the committee's recommendation to eliminate capital taxes. The new economy depends on mobility of investment capital and human capital. With the emergence of the new economy, technology has become essential to wealth creation in Canada and the world. High taxes are a clear barrier to investment in this new economy.

The government should fully implement the corporate tax reform recommendations of the Mintz Report. Tax reduction combined with tax reform can ensure that all sectors benefit from corporate tax reform. Corporate tax reform should seek to reduce the distorting nature of our tax policy, further reduce profit insensitive taxes, and in general strive to build one of the most competitive tax systems in the world.

2. Regional Development

Ottawa collects about $380-million in corporate taxes in Atlantic Canada, an amount that is less than the budget for the Atlantic Canada Opportunities Agency (ACOA), which is $447-million. The government should consider using most of this ACOA money to eliminate federal corporate taxes in the region, leaving ACOA with enough cash to carry out useful programs, like administering the infrastructure fund and supporting innovation. Similar reforms could be implemented in other parts of Canada.

3. Regulatory Reform

Canada needs significant regulatory reform focused on productivity enhancement. Regulations are a form of hidden taxation. They raise the cost of doing business with the result that Canadians end up paying a relatively higher price for goods and services. They also kill jobs by making Canada less competitive. Small businesses have helped maintain Canadian employment levels and we owe it to them to take leadership in creating a more vibrant economic environment.

The PC Party recommends implementation of an annual "Red Tape Budget" in addition to the annual spending budget. This would afford Parliament the opportunity to debate the regulatory burden on both Canadian businesses and individuals. The regulatory budget would detail the estimated total cost of each individual regulation, including the enforcement costs to the government and the compliance costs to individual citizens and businesses. A regulatory budget would help hold governments accountable for the full costs of their regulations and could prevent the current patchwork of redundant regulation that can stifle Canadian enterprise.

Furthermore, productivity growth is stifled by the large number of regulations that Ottawa creates each year. Some estimates suggest that federal and provincial governments have passed over 100,000 regulations in the past two decades. Compliance with these regulations may have cost Canada $103 billion, that is, 10% of our $1.1 trillion annual economic output.

The Progressive Conservative Party, echoing the sentiments of many commentators, believes that ultimate productivity can improve if unnecessary and costly regulations are removed and if a prohibition is in place to on the creation of unnecessary new regulations.

The use of sunset clauses can help ensure that the *raison d'être* of a regulation is reviewed periodically. Currently, once a regulation is on the books it is there forever, even after it has ceased to provide a public benefit.

4. Parliamentary Control over Estimates

The PC Party endorses a system, as it existed prior to the late 1960s, whereby a certain number of departments selected by the Opposition would have their Estimates scrutinized by Parliament, without a time limit. This would force Ministers to defend their departmental estimates in the House of Commons, improving parliamentary scrutiny of government spending, and strengthening the role of the individual Member of Parliament.

5. Student Loan Financing

A tax credit should be introduced based on the repayment of the Canada Student Loan principal, to a maximum of 10 per cent of the principal, per year, for the first ten years after graduation provided the individual remains in Canada.

Additionally, the federal student assistance program should move to a system where student loans are repaid as a percentage of net after tax income starting the first full working year after graduation.

6. Agriculture

Between 1993 and 1999 federal agriculture program payments decreased by over $1 billion. This reduction has lead to a disintegration of current farm safety nets, which fall significantly short of meeting the basic needs of Canada's agriculture industry. The federal government's inability to properly support farmers has been compounded by serious weather related disasters, which have lead to a reduction in overall farm production and income

The PC Party supports the need to restore the $600 million delivered under the Canadian Farm Income Protection program to a dedicated Natural Disaster Relief program. Furthermore, current safety nets fail to address the negative impact of foreign subsidies on Canadian farm incomes. These subsidies costs Canadians farmers $1.3 billion a year in lost income.

There are serious problems facing Canadian farmers today and the current safety nets' inability to meet the needs of Canadian farmers requires further action. The PC Party calls for a renewed approach to provide Canadian farmers with the tools to adequately deal with the most serious threats to the industry. Additional support is required and should be one the top priorities for the federal government.

7. Military Spending

In the fiscal year 1993-1994, our national defence budget was $12 billion, but by 1998-1999 that total was down by 22% to a mere $9.4 billion. This is despite the fact that in the same period the operational tempo of our Armed Forces — the ratio of time spent by our military in deployed missions — rose almost 400%.

If we were to calculate our military spending as a percentage of our national Gross Domestic Product, a non-partisan "conservative" calculation would show that it hovers between 1.1% and 1.2% of Canada's GDP, whereas the average among NATO countries is roughly 2.1% of GDP. Thus, Canada's is the third-worst record in all of NATO — better than only Iceland and Luxembourg, two nations with populations of roughly 275,000 and 450,000 respectively.

The Conference of Defence Associations has called on the government to make an annual $2 billion increase in the defence budget in order to ensure that the Canadian Armed Forces are able to implement our national defence policy. The Council for Canadian Security in the 21st Century has similarly called for a $1.5 billion increase.

The Standing Committee on National Defence & Veterans Affairs has called for an increase from 1.1% to 1.6% of GDP over the next three years, plus an immediate investment of $4 billion. The Senate Defence Committee more recently advocated an immediate $4 billion increase to the baseline DND budget with a "future annual increases that are realistic, purpose-driven, and adjusted for inflation."

To encourage reservist service in the Canadian military, the *Income Tax Act* should be amended to exempt military reservists from paying tax on their "Class A" income. "Class A" training refers any activity other than full time work with the reserves.

As Canada expands its international commitment we will become more reliant on our reserve forces for "Homeland Defence." This exemption will provide an incentive for people to become part of the military reserves. This will need to be accompanied by new legislation protecting the jobs of reservists who are called to active duty.

The PC Party recommends that the government immediately significantly increase sustainable funding to the Canadian military.

8. Environment

The Progressive Conservative Party does not want the Canadian government to ratify Kyoto if there is no implementation plan in place derived from meaningful consultations with the provinces, industry, environmental organizations and the public at large.

The government should be encouraging sound forest management practices. The government should allow forest maintenance expenses to be deducted against income. Private woodlot operators should be provided with the same capital gains tax exemption currently available to farmers.

The federal government has created a class of depreciable capital assets specifically designed for new energy efficient or environmental friendly technologies. The government should improve the tax treatment of alternative energy sources such as biomass, biogas, fuel cells, wind power, small river hydroelectric and photovoltaic technologies as an incentive to encourage energy efficiency and the use and development of environmentally friendly energy sources. Specifically, changes to expand Class 43.1 of the Capital Cost Allowance schedule should be implemented to ensure that emerging energy efficient technologies are included.

9. Air Security Tax

The government should reconsider the wisdom of applying a dedicated security tax to one of Canada's most vulnerable industries, the struggling airline industry. Furthermore, this air tax places a disproportionate burden on discount, short-haul, and regional carriers. The government should meet the promise made by both the current and former minister of finance to review the tax by November 2002.

Therefore, the PC Party recommends that the government immediately review and reduce the amount of the air security tax. Enhanced airline security is a concern of all Canadians, not just airline passengers, and therefore the cost should not be borne strictly by air travelers.

10. National Securities Commission

Canada remains one of the few industrialized countries without a national securities regulator. The Canadian market represents only a tiny proportion of global capital markets and therefore it is nonsensical to divide our relatively small market into 13 regulatory jurisdictions.

Proponents of a national approach to securities regulation have emphasized the advantages of a more efficient capital market and reduced costs to market participants such as investment dealers, bankers, brokers and issuers. In addition to these advantages, a national securities regulator would supply big benefits to national retail investors by providing a uniform national approach as well as resources to provide improved investor protection.

Clearly, one set of rules would make it easier and less costly for issuing companies to raise capital. This would also facilitate Canadian entrepreneurs' entry into the capital market to start new businesses, commercialize recently-discovered technologies, or fuel the growth of existing businesses and, by extension, the economy. For existing issuers, streamlining the securities regulatory system would enable them to raise capital to invest in productivity-enhancing technologies. Again, this would impact favorably on Canada's overall productivity and ultimately our standard of living.

In response to public reports of corporate malfeasance in the U.S. and the resulting plummeting stock prices and current malaise, the American Congress has acted decisively by approving the Sarbanes-Oxley Act. In Canada, the government has not acted as decisively.

It is important to note that a national securities regulator does not mean a federal securities regulator. The best proposals so far include inter-provincial cooperation and the sharing of the costs and revenues. It is also important that a national regulatory framework reflect the realities of small-cap, mid-cap and large-cap markets.

A national securities commission would serve the interests of investors by reducing the costs of raising capital and increasing market efficiencies.

Therefore, the PC Party would immediately start a well-reasoned, well-informed directional policy push towards instituting a national securities commission.

Scott Brison, M.P.
PC Finance Critic

MINUTES OF PROCEEDINGS

Wednesday, November 20, 2002
(*Meeting No. 28*)

The Standing Committee on Finance met *in camera* at 3:30 p.m. this day, in Room 362, East Block, the Chair, Sue Barnes, presiding.

Members of the Committee present: Sue Barnes, Scott Brison, Roy Cullen, Nick Discepola, Albina Guarnieri, Sophia Leung, Hon. Maria Minna, Shawn Murphy, Pierre Paquette, Charlie Penson, Pauline Picard, Gary Pillitteri, Tony Valeri, Bryon Wilfert.

Acting Member present: Yvon Godin for the Hon. Lorne Nystrom.

In attendance: *From the Committee's Directorate:* Richard Dupuis, Lisa Chartier-Derouin, Committee clerks. *From the Research Branch of the Library of Parliament*: June Dewetering, Acting Principal; Blayne Haggart and Marc-André Pigeon, research officers.

Pursuant to Standing Order 83(1), the Committee considered a draft report on pre-budget discussions.

It was agreed, on division, — That the draft report be adopted, as amended, as the First Report of the Committee.

It was agreed, — That the title of the report be:

CANADA: People, Places and Priorities

It was agreed, — That the Committee append to its report, supplementary or dissenting opinions from the opposition parties provided that they are no more than four pages in length and submitted electronically to the Clerk of the Committee, no later than 5:00 o'clock p.m. on Friday, November 22, 2002.

It was agreed, — That the Chair, researchers and clerks be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

It was agreed, — That the Chair be instructed to present the First Report of the Committee to the House.

It was agreed, — That the Committee print 1500 copies of the report in English and 1000 copies in French.

It was agreed to invite witnesses on Bill C-3 next Tuesday, November 26, 2002.

It was agreed to proceed to the clause-by-clause consideration on Wednesday, November 27, 2002 at 3:30 p.m.

At 8:15 p.m., the Committee adjourned to the call of the Chair.

Richard Dupuis
Clerk of the Committee