House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 015 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Tuesday, November 16, 2004

Chair

Mr. Massimo Pacetti

Standing Committee on Finance

Tuesday, November 16, 2004

● (1535)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good afternoon. I'll call the meeting to order.

Before we begin, I would just let the members and the minister know that we have votes at 5:45, so we have to be out of here by 5:30.

I want to thank the minister for making himself available, and the people from his department. I guess you'll have an opening statement for us, so the floor is yours.

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

Let me begin by introducing the people who are with me. I think all members of the committee are familiar with Paul-Henri Lapointe. Paul has been assistant deputy minister for a good many appearances before this committee and is particularly preoccupied with our economic forecasts and fiscal projections. Also with me is perhaps a new face, the new Deputy Minister of Finance, Ian Bennett. Mr. Bennett has been in the public service of Canada for many years, including in the Department of Finance, but most recently for the last number of years he has been the Canadian representative at the International Monetary Fund in Washington. He took up his duties as the new Deputy Minister of Finance 24 hours ago, so he's brand new on the job.

Mr. Chairman and members of the House of Commons Standing Committee on Finance, I'm pleased to be back before the committee once again, this time to present the fall 2004 economic and fiscal update.

[*Translation*]

I appreciate this opportunity to discuss the government's assessment of where our country is headed in the next five years, based upon what we have accomplished to date,

[*English*]

In brief, Canada's impressive social and economic progress over this past decade, including a world-calibre and history-making fiscal performance, should fuel genuine optimism about what lies ahead.

[*Translation*]

Because Canadians had the collective courage to make some tough choices back in the mid 1990s and because we have had the discipline to stay on our fiscal course ever since, we are now reaping significant economic and social dividends.

[*English*]

Canadians are among only a very few in the world who now have the fiscal freedom to consider how best to allocate successive budgetary surpluses. Ten years ago the debate was about something quite different: it was about whether the annual federal deficit would be $43 billion, or maybe just $34 billion, and how much that burden would further suffocate jobs and growth. Many other countries are still struggling with stubborn deficits and escalating debt, including all of our partners in the G-7 group of nations—all except Canada.

I will never hesitate to defend and celebrate the underlying principles and the operating behaviour that have produced the best fiscal record of any government since Confederation and the strongest fiscal position among the world's leading economies. That includes seven consecutive surplus budgets; $61 billion in reduced federal debt; $3 billion saved each and every year on debt servicing costs; consistently low interest rates; more than $100 billion in cumulative tax cuts; and tax cuts in every budget since 1996, with a primary focus on middle- and low-income families; 10 consecutive reductions in employment insurance premiums; and more than $200 billion for investments in Canadians' highest social and economic priorities, like health care and equalization, the well-being of children and families, learning, skills and innovation, affordable housing, community infrastructure, and the environment.

Sometimes, after initial goals have been attained, it is easy to forget how far we had to come to reach them or why it was so crucial to do so. In fact, what Canada has accomplished economically, fiscally, and socially over this past decade is nothing short of astonishing—and the best is yet to come. While our progress thus far is gratifying, it is even more important as an enabler for what we still seek to achieve. In short, our fiscal responsibility has made our social and economic ambitions possible.

[*Translation*]

The most recent Speech from the Throne made out our agenda, noting—to begin with—two flagship achievements for Canada in just the past two months.

First, in September, the $41 billion, 10-year agreement with provinces and territories to bolster their health care.

All governments have signed on. It includes key elements of systemic reform and the best terms ever for reporting and accountability. By meeting and surpassing every financial standard identified in the landmark report of Commissioner Roy Romanow, it turns the corner on the annual intergovernmental feud about health funding.

● (1540)

[*English*]

The health accord puts everyone's focus where it should be, on shortening waiting times; getting more health care professionals and better equipment; improving primary care, home care, and drug coverage; better services in the north and for aboriginal people; more health research and innovation; and improved public health and wellness.

[*Translation*]

Secondly, in October, to help alleviate fiscal disparities among provinces and territories—where the real “fiscal imbalance” exists—we launched the most far-reaching improvements in the equalization system since it first began in 1957.

Through two years of transition arrangements, which have already been agreed upon among first ministers, the available federal funding to assist Canada's less wealthy jurisdictions will rise initially to match the highest level equalization has ever generated, and then it will continue to grow at an annual rate of 3.5%. Territorial financing will benefit in similar fashion.

[*English*]

The best expert advice about future distribution issues will be sought with provincial and territorial collaboration, with a new approach and incremental federal funding for equalization of about $33 billion over ten years. We are directly addressing prime provincial and territorial concerns about clarity, predictability, and adequacy. In the timeframe covered by today's economic update, federal equalization payments to needy provinces will increase by some 42%.

We will also continue to work diligently and in good faith on specific related issues affecting Nova Scotia and Newfoundland and Labrador, the two provinces with offshore oil and gas revenues. That work is ongoing.

Beyond these upfront agenda items, the government is also focused upon its other key commitments to Canadians, including high-quality, universal, affordable, and developmental child care; a powerful new deal for cities and communities, including a share of the federal excise tax on gasoline; enhanced support for seniors, the disabled, and their caregivers; meaningful action on the disparities that impede opportunities for aboriginal Canadians; the protection of our rich, natural environment; meeting the imperatives of national defence and national security; and ensuring Canada a place of respect and influence in global affairs.

As the throne speech emphasized, such an ambitious agenda must be founded upon a robust, competitive, and innovative economy, growing and thriving in a knowledge-based, technology-driven, and highly skilled world, and it must be rooted in fiscal policy that is prudent and disciplined.

For 27 years, prior to 1997, Canada was caught in a vicious circle of large, chronic deficits and rising debt, leading to high interest rates, high taxes, sluggish economic growth, and lost jobs, leading in turn to more deficits and even higher debt, and on and on it went. With both the federal government and all the provinces in deficit positions, Canada chalked up the second-highest total government debt-to-GDP ratio among the G-7. Just servicing the federal debt alone was soaking up 38¢ out of every dollar the Government of Canada took in. It was hard to deal with the things that mattered the most to Canadians when creditors had first claim on more than a third of government revenues.

The situation was unsustainable. Canada needed to change course, and together we did. It demanded some tough decisions, and we would not have succeeded without the remarkable support of citizens and taxpayers. Step by step, we made progress. The federal books were balanced in 1997. Canada's debt-to-GDP ratio began to improve, relying not just on economic growth but also actual debt reduction.

On a total government basis, we moved ahead of Japan in 1999; ahead of Germany in 2001; ahead of France in 2002; ahead of the United States in 2003; and now, according to the OECD, we are about to overtake the United Kingdom for top spot. With seven consecutive federal surpluses now under our belts, the old vicious circle of economic failure has been replaced by a virtuous circle of sustained economic success, further declining debt, a solid credit rating, low interest rates, lower taxes, remarkable economic growth, and the best employment record in the G-7.

● (1545)

[*Translation*]

And the result is more than just bragging rights. It translates into tangible benefits for Canadians.

For example, in addition to funding major social and economic investments, tax cuts and debt reductions since 1977, our robust fiscal position has also enabled Canada to deal with some nasty external surprises “like the sudden impact of security threats, the SARS outbreak and BSE”, without being driven of our fiscal track and back into the red.

[*English*]

A triple-A Canadian credit rating means lower costs every day for all Canadian borrowers. That means all levels of government, but also consumers buying homes and cars, small business owners investing in their enterprises, and farmers paying off their operating loans. And significantly, since Canada moved into a surplus budget position, we have ranked first in the G-7 for growth in living standards. In fact, the average standard of living of Canadians has increased more in the past 7 years than in the previous 17.

It behooves us to acknowledge, though, that the fruits of a virtuous circle of economic success are not preordained. There is nothing automatic about it. To continue to benefit from the new paradigm, we need to continue to respect its principles: living within our means, planning carefully, behaving prudently, staying consistently in the black. Accordingly, our commitment is to balance budgets—or better—year after year, using the average of independent private sector forecasters to set our fiscal framework, setting aside an annual contingency reserve of $3 billion, and providing an extra measure of economic prudence on top.

I will continue, Mr. Chairman, to look to this committee to help ensure that in the midst of all of the pressures that we all feel in a minority situation, we do not erode the fundamentals that have brought us such a long way forward since 1997. We here together must be the defenders of the fiscal integrity that Canadians have so carefully and meticulously built. No one would want it to be squandered.

I know that this committee agrees with the point that government spending plans must be based on the money that we know we have and not on what we just hope to have. Wishful thinking causes deficits, as many other countries around the world today know only too well.

With respect to our $9.1 billion surplus last year, surely that was a good thing, light-years better than the opposite alternative that so often persisted in previous governments. Paying down debt is nothing to apologize for. The vast majority of Canadians support it. It means that by one small step, we stop taking from our kids. By one small step, we strengthen our chances of beating the unexpected.

Still, Mr. Chairman, I share this committee's desire to have more and better financial information available earlier so that the best informed, deliberate decisions can be made about how to dedicate available resources. Economic modelling and fiscal forecasting are far from exact sciences, but inherent uncertainties notwithstanding, we need to work very hard to make our data and analyses as precise and transparent as humanly possible. The way we go about our projections has been lauded by international observers, but we still want to do better.

To that end, I have announced a comprehensive review of how we do our economic and fiscal forecasting, under the able direction of Dr. Tim O'Neill, chief economist and executive vice-president of the BMO Financial Group. That review will, among other things, compare the average private sector economic forecasts used in previous budgets with the actual outcomes. It will also compare the fiscal projections presented in past budgets with actual results and assess the reasons for any discrepancies. It will evaluate the changes that have been made over the past decade to the forecasting process, to assess their impact on the accuracy of results.

As part of the overall review, I've also asked the International Monetary Fund to compare our Canadian practices and experiences with those of other countries, to ensure that the systems we use and the methods we employ are the very best in the world. The IMF will review how Canada's fiscal environment compares to that of other countries, including the structure of revenues and spending, as well as the fiscal rules and targets. It will compare our forecasting process to that of other nations and provide statistical analysis of the quality of our forecasts as well as the other factors that might affect that quality. The results of the IMF analysis will be shared with Dr. O'Neill and will contribute to his own review, which in turn will be submitted to this committee for your careful consideration.

● (1550)

[*Translation*]

Also on the topic of improving how we do things, I am pleased to report to this committee that several of the operational initiatives that I mentioned in the budget last March are now under way.

The office of the comptroller general of Canada is up and running under the distinguished leadership of Mr. Charles-Antoine St-Jean “formerly of Gemini”. As promised, we are also bolstering the internal audit function across government, improving real-time information systems and enhancing the automatic disclosure of contracting activities.

[*English*]

With respect to the government-wide expenditure review process, that effort, under the leadership of my cabinet colleague, the Honourable John McCallum, is well advanced, rigorously examining all the ways in which the Government of Canada spends money. Expenditure review is not about cutting, it's about reallocation. We are testing for excellence and for relevance, looking for areas in which existing spending can be rejigged to shift money from lower to higher priorities, to get more value, to address the new and emerging needs of today and tomorrow instead of just duplicating the way things were done 15 or 20 years ago. It's about finding fiscal space from within. Minister McCallum's goal is to find some $12 billion of such internal fiscal space over a five-year timeframe.

Before turning to the economic outlook for Canada, let me touch now just briefly on the international environment in which we find ourselves.

Overall, the global economic outlook is more positive and more evenly balanced today than it was six or eight months ago. The IMF expects world GDP growth to accelerate to 5% in 2004. That's the highest rate in nearly 30 years. Next year, growth is projected to average 4.3%.

The economic situation in Japan improved markedly in 2004, thanks to strong demand in China and healthy business investment. China's surging growth has also helped stimulate activity in other Asian countries, such as Korea and Singapore, while spurring strong demand for Canadian and other worldwide resources.

In Europe, the recovery is gaining a firmer footing, but it remains uneven.

In the United States, growth slowed in the second quarter of 2004, but advance estimates indicate that the American economy picked up again in the third quarter. These fluctuations in growth have largely stemmed from swings in U.S. consumer spending, while business investment in the United States has posted strong gains throughout 2004. Private sector forecasters now expect the U.S. economy to grow by 4.4% in 2004 and by 3.5% next year. For a trading nation such as ours, continued economic strength in our major export markets, particularly the United States, is obviously vitally important to our future prospects.

Let me turn now to a description of recent economic developments here in Canada. A year ago, as we prepared our economic and fiscal forecasts in November of 2003, we were bedevilled by the consequences of several major shocks that had hit Canadians throughout that year: the SARS outbreak, a major power blackout in Ontario, borders closed to our cattle and beef exports as a result of a single case of BSE in Alberta, massive forest fires in British Columbia, a devastating hurricane across Atlantic Canada, and the accelerating challenge for exporters of a soaring dollar that had appreciated some 20% against the U.S. dollar in a very short span of time—all in all, Mr. Chairman, a set of trying circumstances filled with downside risks.

Most private sector forecasters concluded that the economy would take a substantial hit. Indeed, when the figures were all in for 2003, they showed our growth slipped to only 2%. Since then, however, Canada rebounded strongly, with GDP growth close to 3.4% in the first half of 2004, much better than was evident at the time of my budget in March.

Significantly, this strong economic performance also produced a dramatic improvement in the labour market, which has generated nearly 400,000 new jobs since it started to grow again in August of 2003. This is a remarkable pace for job creation, more than 25% higher than in the previous 14 months.

Overall, the unemployment rate has fallen from 8% in August of 2003 to 7.1% in October of this year, while the share of the working-age population with a job has now reached an all-time high.

● (1555)

[*Translation*]

A healthy labour market helps to bolster consumer confidence, which, together with historically low interest rates, fuels strong consumer spending.

Business confidence, too, has been strong as reflected in increased investments in new machinery and equipment, which rose by nearly 9% during the past year.

[*English*]

Exports recovered well from the rapid rise of the Canadian dollar in 2003, a testimony to the resiliency and the resourcefulness of Canadian companies. Indeed, exports grew at an annual rate of over 21% in the second quarter of this year, the third straight quarter of solid growth. Together with a significant rise in commodity prices, Canada's export growth led to an increase in the current account surplus to $42 billion in the second quarter, the second-highest ever.

As a result, Mr. Chairman—and I think this is a particularly important point—Canada's net foreign indebtedness now stands at 13.7% of GDP, down from a peak of nearly 45% in 1993. It's now at the lowest level in almost half a century.

[*Translation*]

This means more money in the hands of Canadians and less in the hands of foreign creditors.

Because Canada's fiscal house was in order and our underlying fundamentals were strong, we were able to get through last year's economic shock and rebound more successfully than many of the experts had dared to expect.

Let me turn now from the current state of the economy to what lies ahead.

Once, again, the Finance department has surveyed private sector economists to obtain their outlook for the Canadian economy.

● (1600)

[*English*]

According to those private sector forecasts, Canada will enjoy stronger growth in both 2004 and 2005. On average, they expect growth of 3% in 2004, up from the 2.7% they predicted at the time of the last budget. For next year, 2005, they are forecasting that growth will reach 3.2%, which is close to the 3.3% reported in Budget 2004. These projections, Mr. Chairman, again speak to Canada's remarkable resiliency and strength. But as always, there are risks and uncertainties that could affect the forecasts. After all, forecasts tell us what can happen; they do not determine what will happen.

While it appears that exporters adjusted well to the Canadian dollar in 2003, it is not clear how the 10¢ increase since May of this year will further affect the economy. Furthermore, it is very difficult to predict where the dollar will go next. In the near term, this uncertainty about the direction of the Canadian dollar, as well as the magnitude and the timing of the resulting impacts, imposes a significant risk to the outlook for growth.

In addition, higher oil prices could lower consumer demand both here and in the United States, as high energy prices constrain the purchasing power of consumers. Lower consumer demand, in turn, could have a negative effect on growth in the short term. On the other hand, higher oil prices stimulate new investment and production in the Canadian energy sector, which will contribute to growth over time. So the impact of high world oil prices is mixed for Canada.

[*Translation*]

Looking further down the road, the U.S. fiscal deficit could put upward pressure on interest rates and that could slow growth in our largest and most important export market.

Moreover, the geopolitical risks posed by uncertain international situations could affect our forecasts in ways that cannot presently be foreseen or quantified.

[*English*]

All of these unknowns again speak to the need for prudent fiscal planning, for staying on course and staying in the black. This we will do, implementing the agenda set out in the Speech from the Throne as quickly as our resources will allow, while carefully and deliberately building the economic strength that makes possible everything else Canadians want to do.

Let me turn now to the fiscal outlook. In developing these projections, we have continued to rely upon the independent analysis and advice of leading private sector economists. I met personally with a group of fifteen of them, representing all regions of the country, to discuss their forecasts and to ensure that we are using the very best possible economic assumptions in our planning.

As in the past, we have asked four of the leading econometric modelling firms in this country to use these agreed upon economic assumptions to generate five-year fiscal projections. This year, as you can see from the material we've distributed, we are increasing the transparency of our process by publishing for the first time the individual results of the four econometric models, rather than simply presenting the overall average, as has been the practice in the past, so you can see the breakdown and the range.

I should also point out that these projections are prepared originally on a national accounts basis, which is the common statistical approach used by the OECD for international comparisons. Again for transparency, we're also providing this year details on how the national account forecasts are translated into a public accounts format, which is how our budgets are presented, of course.

These projections were prepared before taking into account the cost of the most recent intergovernmental accord on health care, the new framework for equalization and territorial financing, as well as other spending decisions since the last budget, such as incremental funding in the fight against our BSE problem.

The cost of the health accord and equalization and territorial financing together amount to $3.6 billion this year, $4.8 billion in 2005-06, rising to $6.7 billion by 2009-10, for a cumulative total of $33 billion over the six-year period. After subtracting the cost of our new commitments, and after providing $3 billion for our usual contingency reserve and then additional prudence, the budget balance for planning purposes shows the following: a surplus of $5.9 billion this year, then smaller but positive balances of $500 million in 2005-06 and $900 million in 2006-07, with the surplus rising to $3.2 billion in 2007-08, $7.5 billion in 2008-09, and $11.5 billion in 2009-10, for a cumulative total of $29.5 billion over that six-year period.

● (1605)

[*Translation*]

I should point out that these figures do not include any potential savings from the expenditure review process currently under way. I hope this exercise would be largely completed in time for the next budget, but until savings have been clearly identified, it would not be prudent to assume them in the prospective surpluses for the purpose of budget planning.

[*English*]

I also want to note that the $5.9 billion surplus expected this year reflects a number of special factors, including the $2.6 billion net proceeds realized from the very successful sale of the government's stake in Petro-Canada; lower debt charges due to lower interest rates in 2004; and the release of the $1 billion of economic prudence that had been set aside in Budget 2004 for this year.

[*Translation*]

Mr. Chairman, this country has come a long way in overcoming the legacies of the past but there is too much that remains to be done to prepare ourselves for the challenges of the future. One such challenge is the impending impact of an aging population.

Here in Canada, the real force of this demographic trend will hit when the big babyboomer generation begins to retire around 2010—a little over five years from now. This will have a significant effect on our workforce.

[*English*]

At the present time, there are more than five people of working age in Canada for every person of retirement age. Within the next fifteen years, that ratio will fall to four working people compared to those 65 years of age and older, and the ratio will keep falling until it's ultimately cut in half.

This huge demographic development will have at least two profound effects on our society. First, there will obviously be greater demand for social programs, particularly health care and public pensions. The Government of Canada has already taken significant steps to address both of these issues. As I mentioned earlier, we have reached an historic and far-reaching agreement on health care with all the provinces and territories. The agreement helps to provide the wherewithal to ensure that all Canadians will have access to the high-quality health services they need, when they need them.

Again by working with the provinces, we've also revamped the Canada Pension Plan, so it is now actuarially sound for at least the next half century, making Canada one of the very few countries in the world with a rock solid public pension system.

And as noted, we have substantially reduced the level of federal debt. Instead of paying 38¢ out of every dollar of revenue collected just to carry the debt, today we pay about 19¢, and if we're successful in meeting our objective of a debt-to-GDP ratio of 25% within ten years, our debt cost will fall to about 12¢, or roughly one-third of what it was just eight years ago.

It's imperative that the debt burden be kept on a steady downward track, because even with all of the progress we've made over the last ten years, annual debt servicing costs are still the largest single expense item of the Government of Canada, close to what we spend on seniors' benefits and EI combined. By continuing to reduce the debt burden, we will build our flexibility to meet emerging demographic pressures in the future. Paying down debt today means more money for social programs needed tomorrow.

The second major impact of an aging population—that is, the declining proportion of that population that is in the workforce—means we will rely more and more on increasing productivity in order to ensure a continuing rise in our standard of living. Moreover, in the face of rising competition from countries such as India and China, it is imperative that Canada meet its productivity challenge. That is why, in the Speech from the Throne, we presented an agenda aimed at making our economy more productive and more competitive, the kind of 21st century economy that generates the wealth this nation will need and the kinds of well-paying jobs our people deserve.

It starts with our human resources, investing in knowledge and learning, from basic literacy requirements to highly sophisticated workplace skills. It includes the faster and more successful integration of new Canadians into the workforce and strategic attention to opportunities for aboriginal peoples.

We will build on our highly successful innovation agenda to advance Canadian excellence in scientific research and new technology development. Investing in both the discovery of new ideas and in their commercialization in the real marketplace fuels an upward spiral of brain power and productivity. The president of the Association of Universities and Colleges of Canada has described our multifaceted innovation agenda as nothing short of a new, 21st century national dream for Canada's future, and we must keep up our momentum.

We must also improve Canada's competitiveness by making our regulatory systems more efficient, transparent, and predictable, by re-energizing the drive toward less inhibited interprovincial commerce; by bolstering the strength and the efficiency of Canadian capital markets; by maintaining Canada's competitive tax system; by continuing to invest in sustainable, high-quality public infrastructure; and by promoting trade and investment, including a determined fight for legitimate market access on behalf of Canadian producers of cattle and beef, softwood lumber, and wheat.

And underpinning every aspect of our economic plans and our social objectives is an unshakable dedication to careful prudence in how we plan and manage, coupled with a genuine sense of fairness and inclusion in how we balance all the competing demands.

● (1610)

[*Translation*]

In the coming weeks, I will be consulting with Canadians on their priorities for the next budget and on the important choices we all must make in a world of limited resources.

I know this committee is also pursuing its own pre-budget consultations. I look forward to your report and recommendations.

[*English*]

I would appreciate the committee's advice, specifically with respect to the following issues. First, how should the government allocate any available surplus among such important but competing priorities as economic programs, social programs, tax cuts, and debt reduction? What considerations should guide the choice among those options?

Second, with respect to the items mentioned in the Speech from the Throne to enhance Canada's productivity and competitiveness in a global economy, what early steps could be taken in the next budget to best advance those goals?

[*Translation*]

Third, in the context of the challenges that an aging population will present in the years to come, what additional steps should the Government of Canada be taking now to prepare our economy for this significant change in democraphics.

Fourth, as I indicated, the projections for the surplus presented in this update include 3$ billion contingency reserve as well as an additional economic prudence measures to provide a cushion against going back into deficit. What level of prudence does this committee feel should be included in the upcoming budget?

● (1615)

[*English*]

Fifth—and this final question is more about process—how can this committee continue to contribute to fiscally responsible and coherent decision-making in the particularly delicate context of a minority Parliament? There are, as we all know, accumulating pressures for specific new program expenditures and ad hoc tax reductions. If all were agreed to, one by one, they would quickly consume any available surplus and push the government back into deficit. What can be done procedurally to ensure that all such proposed measures are examined objectively and in the necessary context of all the other priorities for possible budget action?

Mr. Chairman, as you and this committee consider these questions and others, you can do so on solid economic ground. The debilitating, vicious circle of bygone years has been replaced by a virtuous circle of economic success that we can now reinforce and enhance. It is all a matter of never taking our progress for granted; never assuming that we achieve the strength we enjoy today by just happenstance; and never getting careless with the principles of fiscal responsibility.

This committee has always been a champion of those principles. With your ongoing discipline, judgment, and hard work, collectively we can make certain that Canadians continue to be global leaders for economic strength, for social progress, and for fiscal performance.

[*Translation*]

Thank you, Mr. Chairman.

[*English*]

Thank you for your attention.

The Chair: Thank you, Minister Goodale.

I'd just like to remind members that we have limited time, until 5:30 p.m., so please respect the time limit. The first round will be for seven minutes. After that it will be for five minutes.

We're going to start with Mr. Solberg.

[*Translation*]

And then Mr. Loubier will have the floor.

[*English*]

Mr. Monte Solberg (Medicine Hat, CPC): Thank you, Mr. Chairman.

Minister, thank you very much for your presentation.

You said in your presentation that you hoped the minority government would not somehow threaten Canada's economic fundamentals. I hope you're not suggesting for a second that deceiving the public about the size of the surplus is one of the government's economic fundamentals, because I want to argue, Minister, that this money belongs to the taxpayers. They deserve to have the truth when it comes to the debate about where this money should be spent. It's their money. I want to argue that over the last number of years the government has not respected their obligation to tell Canadians the truth, the whole truth, and nothing but the truth about the size of the surplus. Let me run through some facts.

Last year, the government projected a surplus for 2003-04 of $4 billion. Then they said it was going to be $3.5 billion. Then they said it was going to be $1.9 billion. It came in at $9.1 billion. This is part of a seven-year pattern, Minister, where the government was out not by a little bit but by, in a cumulative way, tens of billions of dollars. Canadians were cut out of the debate about how to spend that money.

Now you're telling us this year that you've got religion on projections and we're going to have a surplus of just about $10 billion—$5.9 billion, plus $3 billion, plus $1 billion for prudence, if I read you correctly. What you're saying, by the way, is that last year's surplus of $9.1 billion included the contingency reserve. This year you said it's $5.9 billion, but you weren't including contingency reserve or prudence. I think it's important, if we're going to be clear, that we use the same way of talking about surpluses so we all know really how big the surpluses are. By the way, over six years this is a $61 billion surplus and $73 billion if you count the reallocation. So it's a huge amount of money.

The next point I want to make is that when you talked about private sector forecasters, what you didn't say is that while they forecast some expenditures and revenues, they don't forecast the expenditures on government operations. I want to argue this is where the government has been getting a lot of these big surpluses, because the government has maintained the ability to set those expenditure levels. They always budget far more than they actually have plans to spend, and they end up with a structural surplus on the expenditure side. I hope that won't be the government's mode of operation in the future.

Last year, we know that economic data showed that revenues were improving through the course of the year. We know that the national accounts showed that the government was padding expenditures to the tune of $2 billion, not including the spending spree that went on at the end of the year—so it was more than $2 billion. I want to argue that as a result of getting caught with this $9.1 billion surplus, you're now having to admit that you have these big surpluses going forward and you have to be up front with people.

I also want to argue that the manipulation is continuing, because you've just told us, Minister, that you want our input on this, but the Prime Minister said today the debate is over. He's already decided there will not be any tax relief any time soon. That's what he said coming out of cabinet today. If that's the case, why are we here today? Why are we holding pre-budget hearings to hear from Canadians about their priorities when the Prime Minister has already decided how these surpluses are going to be spent going forward?

I'm going to simply wrap up by asking a question. You're free, obviously, to respond to what I've said. But I ask you, what has changed between last year and this year, in your own calculations, that allows you to come up with a surplus figure that is far more realistic and far more in line with what other people have been forecasting for this year? If in fact you've changed something, isn't that really an admission that in the past you were doing things that were causing the public to be deceived about the true size of the surplus?

● (1620)

Hon. Ralph Goodale: No, Mr. Solberg, I have to say that I disagree with your conclusion. Understand where today's numbers come from. The numbers are based on the best advice from the private sector economists. It's a fully transparent process. Those economists are all in the public domain, as you know, from Scotia Capital, the Bank of Montreal, Global Insight, the Conference Board, the University of Toronto, and on it goes—the 15 or 20 best in the country who put together this arithmetic. They've done it for us this year; they've done it for us in previous years.

The thing that changed during the course of this year was a remarkably strong performance by the Canadian economy—an economy that was thought a year ago to be in serious trouble because of things like SARS, BSE, the acceleration of the Canadian dollar, and so forth. All of the forecasters were saying that all of the risk was on the downside. One of them, in fact, forecasted a deficit in the process last year. So the danger was on the downside.

The difference this year is that because of the fiscal fundamentals that have been put into place and the strength and resiliency of Canadian entrepreneurs, the Canadian economy has sailed through many of those difficulties, not unscathed, but it has sailed through remarkably well. It has produced levels of economic growth and performance that none of the experts—not at the federal level or the provincial level, not in the public sector or the private sector, not among the academics, not in government or opposition—would have predicted possible when looking at the numbers six, eight, or twelve months ago.

Mr. Monte Solberg: But that is actually not the case.

● (1625)

Hon. Ralph Goodale: It is the case.

Mr. Monte Solberg: There were many private sector economists who, over the course of last year, updated where they thought the surplus was going to be.

Hon. Ralph Goodale: They updated it with the national accounts that became available at the end of August.

Mr. Monte Solberg: You didn't update it.

Hon. Ralph Goodale: Yes, we did.

Mr. Monte Solberg: You denied, until August, that there was going to be a much bigger surplus than there ended up being.

Hon. Ralph Goodale: And that's when the information became available, Mr. Solberg.

Mr. Monte Solberg: Everyone else saw it, but you didn't.

Hon. Ralph Goodale: No, they did not.

Mr. Monte Solberg: They did so.

Hon. Ralph Goodale: No, they did not.

The Chair: Okay.

Hon. Ralph Goodale: The evidence became available in August, and that's when everybody's opinion began to change. As a matter of fact, some of them continued to be more pessimistic than we were, even after the statistics were released in August. We led the parade in changing the attitude.

The Chair: Thank you, Minister Goodale.

Monsieur Loubier.

[*Translation*]

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

Minister, I am totally exasperated by your attitude and remarks. I was listening to you just now and felt like I was hearing the Minister of Finance from seven years ago, who is now the prime minister, or Mr. Manley. I listened to you, and it's exactly the same scenario. Furthermore, you're telling us that budget forecasting process in Canada is the envy of the entire world. Apparently it has been lauded, to use your words, by international observers. When are you going to stop pulling our legs?

I look at your forecasts too. It's the same thing. You forecast a surplus of $1.9 billion on March 31, 2004, and now you are up to $9.1 billion. In six months, you went from $4 billion to $12.8 billion before the contingency reserve and commitments. I also see that you have left out lots of things. I am now convinced that you did it deliberately, because this masquerade has been going on now for seven years. There is no talk here of the whole McCallum reform, which is going to free up $12 billion over the next five years. You also fiddle with the figures to have a contingency reserve plus an economic prudence reserve. Soon there will be a ministerial anxiety reserve, because that is where we are headed. So much so that in the next couple of years, those reserves will amount to much more than the surplus, or what you call the surplus for planning purposes.

You don't have a transparency problem, minister, you have a credibility problem. No one believes you anymore. My conservative colleague is actually right. Six or seven months before March 31, 2004, it was easy to see that the surplus would largely exceed $1.9 billion. Economists saw it and so did we. We stuck closer to reality.

I am also wondering, minister, how you feel about having gathered a surplus of $61 billion over seven years in a row that you have shielded from public debate. There has been no debate on this. You have used the surplus as you saw fit: You applied it to accumulated debt. You held no debate on these numbers and you are getting ready to do exactly the same thing in the next few years. Once again, you are going to apply your contingency reserve and economic prudence to the debt without any debate about the surplus. It's time for that to stop.

Here is my first question. Wouldn't an independent forecasting office, like the one they have in the United States, improve your credibility? We haven't been too impressed with what you have done. In the past, we have heard a lot of big talk. It would be an independent office of forecasters who would have access to all of your numbers on government operations and tax revenues.

Secondly, we are merely heading toward a sizeable surplus on March 31, 2005, which will probably be greater than what you have told us. Is it not time you accepted the auditor general's suggestion to enact legislation on the allocation of foreseen and unforeseen surpluses, the contingency reserve, economic prudence and the surplus for planning purposes? The legislation would require you to use part of the surplus to pay down the debt, but also to use the lion's share of that surplus to meet priority needs like employment insurance, for example, which you continue to deny has problems and which has claimed several victims in the past seven years.

Those are my two questions. I have a third; it has to do with the fiscal imbalance, which you also persist in denying.

[*English*]

Hon. Ralph Goodale: Mr. Chairman, first of all, on the suggestion that all of the flexibility has gone on the debt, the fact is there has been a balanced approach. Sixty-one billion dollars has been devoted to debt paydown since we balanced the books in 1997. We have implemented more than $100 billion—

[*Translation*]

Mr. Yvan Loubier: Minister, it's not a reserve or a balanced budget. It's a surplus budget. It's been that way for seven years, and you have been hiding it from the public.

The Chair: Just a minute, Mr. Loubier.

● (1630)

Mr. Yvan Loubier: Just a minute, Mr. Chairman. You can't get away with saying whatever you like.

The Chair: Give him a chance to answer.

Mr. Yvan Loubier: Like you said, there was SARS, mad cow, the dollar, etc., but despite all that, we went from a forecast surplus of $1.9 billion to a surplus of $9.1 billion. Come off it! You've got to quit giving us such a scare.

Le président: Mr. Loubier, please give him two seconds to answer.

[*English*]

Hon. Ralph Goodale: Mr. Loubier, the fact of the matter is that you're just factually incorrect. There has been $100 billion in tax cuts, $61 billion in reduced debt, and over $200 billion dedicated to the social and economic priorities of Canadians, including the most recent investments we've made in health care and equalization. So it has not all gone toward the debt.

But on the issue of the debt, Mr. Chairman, Canadians believe sensible debt paydown is a good thing to do. It saves money every time you do it, Mr. Chairman—$300 billion per year so far. It helps keep interest rates low, and that means money saved for every Canadian when they're paying less on what they have to borrow. It means alleviating the mortgage we've imposed upon the future of our children, and it means we'll be able to afford the social programs we'll need when the baby boomers retire, and that's in only five or six years from now.

In terms of why our surplus number is better now compared with the time of the budget, it is because the phenomenon of the late spring and early summer, which became available in the statistics in August, is fortunately continuing, and that is the remarkably strong Canadian economic growth and a somewhat higher inflation rate. You combine those two things to get nominal GDP, and that means a significantly larger tax base, about $29 billion higher, than was obvious at the beginning of the year.

[*Translation*]

Mr. Yvan Loubier: Minister, after seven years of lies about the size of the surplus, why should we believe you today? Today, you're telling us the truth. How is it that we and other economists were able to gage the surplus fairly accurately, with an average margin of error of between 3 and 6%, in recent years, and you were not? You erred by almost 500% in the last budget. Why should we believe you today, when you present us with your forecast?

[*English*]

Hon. Ralph Goodale: Mr. Loubier, if you want to resort to personal views, that is your choice; it's not the way I operate. I intend to answer all the questions and provide the committee with the very best information I have available, and I will not accept the allegation that I have lied on any occasion to anybody.

The Chair: Madam Wasylycia-Leis, and then Ms. Minna.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson, and thank you, Mr. Goodale, for your presentation today.

There is reason for all of us to be anxious and frustrated with the presentation today. In fact, it seems to us that the way you twisted the numbers and presented the numbers to suit your agenda makes it hard to accept the sincerity of your presentation. When you try to present to Canadians that there is a $500 million projected surplus for 2005-06, it's hard to understand what you're really trying to do, when in fact by your own calculations, and if you're honest with the Canadian public, it is much higher than that, because you're now conveniently excluding contingency and prudence and being straightforward with Canadians about what is available in terms of surplus dollars.

That's the essence of this debate. Canadians are frustrated with the fact that for five budget years you've been out by $61 billion. Today you present us with figures that I think are probably short about $30 billion in terms of the actual surplus we're dealing with for this timeframe.

What is needed from you today is simply to say what is the real surplus available to Canadians to be decided by Parliament in terms of the priorities of the day. We can have all kinds of debates about tax cuts and debt repayment and spending, but what we need from you today is an absolutely accurate forecast for each of at least the three forthcoming years. And f you can update us right through until 2009-10, that would be great, but the first would be a good start.

Hon. Ralph Goodale: Ms. Wasylycia-Leis, that information is all in the material that has been tabled with the committee today.

Let me zero right in on the year you referred to, next year, when we're forecasting that there is about $500 million worth of flexibility. There are essentially four deductions made to get to that number. One is the $3 billion contingency reserve. The other is the provision for prudence at $1 billion for next year. The other is the provision we've made for the expenditure commitments that have already been made. That includes, primarily, the health care agreement with the provinces, the equalization agreement with the provinces, plus three or four smaller items, the most important of which is incremental funding to deal with the BSE problem, the additional money to combat AIDS in Canada, and so forth.

In saying $500 million, my objective is to be very candid with Canadians and to say that the margin I've just referred to has been earmarked for these already existing commitments. If we're not going to keep those commitments, then we're in the process of breaking some pretty important promises.

I don't think you would argue that we should in any way back off from the commitments on health care or equalization—those are firm—nor should we terminate our commitment on the fight against AIDS or the fight against BSE or the other things. I think what you're interested in is the prudence margin that's built in there. Now, $3 billion is the normal contingency reserve that would, if it's not needed, go to debt reduction. There's $1 billion for extra prudence that if by this time next year is not needed for the prudence cushion will be released, as this year, to become available to meet the priorities of Canadians.

So actually the way the numbers are presented are intended to do exactly what you've asked.

● (1635)

Ms. Judy Wasylycia-Leis: What I'm saying to you is I don't know if we can believe your numbers. You've been out for so many years. Now you come to us with another razor-thin surplus after we've seen the forecasting by the alternative federal budget and we've looked at some of the accurate forecasts around us. You've come to us again with your usual program to try to scare Canadians into thinking there is less money available and therefore we're going to all have to tighten our belts.

I would suggest to you, Mr. Minister, that in fact it's time to put the whole surplus on the table and let Canadians decide. I think you need—you asked for this at the beginning—to actually allow this committee to do its job, which means to actually look at all the facts available and all the numbers available and to give you advice about what Canadians' priorities are. We can't do that if you keep trying to slant the results, bias the figures, and scare Canadians into something...create another bogeyman. I think that's what you're doing today, creating another bogeyman.

Hon. Ralph Goodale: Judy, not at all.

If I came to the committee and said we have $5 billion or $10 billion worth of flexibility next year… By the way, we've promised $4.8 billion for health care and equalization, but we can take that away and pretend the commitment was never made. I don't think that would be being straight with Canadians. The objective here is to be very precise about the commitments that are on the table for health care, equalization, the fight against BSE, health concerns like AIDS—to lay that all out so people know exactly what commitments have been made and then what flexibility is left.

Ms. Judy Wasylycia-Leis: Would it be fair to say that in the numbers you've presented on page 11 of your speech, if you add to that the prudence money and the contingency fund, for this period of time we're not looking at $29.5 billion in surplus but about $52 billion in surplus? Would that be accurate?

Hon. Ralph Goodale: I'd want to add up the numbers, but we'll do that and just make sure we're talking about the same specific columns. You haven't been very specific about what things you wanted to add back in. I take it you're saying ignore prudence, ignore contingency—

Ms. Judy Wasylycia-Leis: Not ignore it, but we treat it all as surplus.

Hon. Ralph Goodale: — for now; don't count it.

Ms. Judy Wasylycia-Leis: Then we can decide. We can give you advice in terms of what's prudent.

Hon. Ralph Goodale: Indeed, one of the questions I asked at the end of my remarks was, what is appropriate in terms of prudence? Would you feel comfortable with less, with more?

● (1640)

Ms. Judy Wasylycia-Leis: You have already slanted it. You have already taken the prudence, as you define it—

Hon. Ralph Goodale: But I asked you the question.

Ms. Judy Wasylycia-Leis: —and the contingency and left this number out there for us and Canadians, $500 million in surplus money for next year. That doesn't fit with this stuff, and that's what we need to have on the table.

Hon. Ralph Goodale: We can have that discussion here, and I welcome it.

The Chair: Mr. Goodale, can you answer that quickly?

Hon. Ralph Goodale: I welcome the debate about those kinds of issues to see how well those arguments stand up against, for example, the people who would say it's very important to have a contingency reserve to make sure you don't in fact fall back into deficit again because, say, the dollar takes another 5¢ upward increase and that really begins to cut into exports. We need to have that discussion, and I'm happy to have it.

The Chair: Thank you.

Ms. Minna.

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

Welcome, Minister, and welcome to the new deputy minister.

I want to clarify something before I go on to my two questions to follow up on Ms. Wasylycia-Leis's comments. That is, for 2005 and 2006, the $900 million and the $500 million, what you're seeing is that the $4 billion—$1 billion for prudence and $3 billion for contingency—in essence is not in that figure. If you were to add that, it would be $4.5 billion. To clarify, is that what we're talking about for 2005 and 2006, where it says $500 million?

Hon. Ralph Goodale: To be absolutely clear, Ms. Minna, I will ask Mr. Lapointe to actually find the chart in the annex that would lay out the—

Hon. Maria Minna: While he's looking at that, since you've already removed that, that's what we're talking about.

Hon. Ralph Goodale: Yes.

Hon. Maria Minna: We're talking about $4 billion for 2005 and 2006 that can go to debt or possibly be invested other ways. Is that what we're talking about, basically?

Hon. Ralph Goodale: Just repeat your point again. How much?

Hon. Maria Minna: Four billion dollars for 2005 and 2006.

Hon. Ralph Goodale: That would be the total prudence package, $3 billion of which is contingency reserve and $1 billion is the extra prudence. You have it right.

Hon. Maria Minna: The point being made here, and I think some colleagues have made this, is that the $3 billion, rather than automatically going to debt, ought to be discussed as to whether it goes to debt or whether we invest it in some other ways. That's really the debate here.

Hon. Ralph Goodale: Ms. Minna, we're six months or so from the end of the fiscal year. There will be further economic numbers and further projections that come forward. As we get toward the final part of the year, final decisions need to be made. I've asked the committee to conduct its normal consultations with respect to the budget. I will be very interested to see what advice is forthcoming about the proper allocation of any flexibility we have between programs, debt reduction, taxes, and other options that we can pursue.

I hope that rather than have accusations flying back and forth, we can actually have an intelligent, reasoned discussion about what the proper priorities ought to be.

Hon. Maria Minna: I'd like to go to that now, if I could, for a second. I want to look at three areas.

One of the questions that keeps coming up, and which was in the Speech from the Throne, is the issue of productivity. To some degree, my take on productivity has been for some time—and I just want your input on this—that in addition to tax cuts, which seem to crop up all the time in a lot of our hearings, there is also the issue of investment in innovation, research, and infrastructure. Our social infrastructure, which goes to our productivity, deals with housing, child care, environment, and culture. Culture and the environment are huge producing job areas for the future, especially if we're going to get on with greening our country. These are areas that increase our economic output tremendously. That would go to our productivity.

In your projections of spending, in addition to what advice you would get from this committee, are you looking at spending 50-50 if there is any debt reduction or any tax cuts discussion—I'll give you my opinion on that in a second—with respect to investing in early education and training because that goes very much to productivity? You may not garner it today but you will get it ten years from now in productivity as well as health care costs and in investment. How high a priority is that whole package to deal with productivity?

● (1645)

Hon. Ralph Goodale: When I was consulting with the group of 15 private sector economists, I asked them a number of questions about productivity. Some of them argued for either general or specific tax reductions as a way to improve productivity, but it was interesting that the discussion ranged quite far afield. Some of them talked about education and skills, about the issue of foreign credentials and their proper recognition of that, about inclusion of aboriginal people, a big chunk of a potential workforce that's not fully involved in the Canadian economy, about immigration settlement. They talked about the innovation agenda, commercialization of our brain power, they talked about infrastructure, they talked about an efficient, functioning border with the United States and the physical crossing points, and they talked about interprovincial trade barriers. All those things are part of the productivity mix, and as the throne speech indicated, we need to be attuned to improvements in all those fields.

Going into the preparation of the budget, I don't at this stage have any rigid formula in mind, so much for programs, so much for tax cuts, so much for debt reduction, apart from the contingency reserve per se—

Hon. Maria Minna: You might be interested, Minister, to note that one of our presenters when we had the Fraser Institute, C.D. Howe, and a number of other think tanks that had done some recent polling said, “I have to admit that there's no interest in tax cuts even in Alberta.” I think you might find that interesting.

I'll move to another issue that is tied to productivity and to our labour force, the demographic changes coming up as the baby boomers start to retire. What kind of discussion is going on at the moment on how we maintain the ratio of the labour force to the number of seniors by looking at increased immigration, thereby increasing the assistance that is required, the investment, for immigrants who come here? Right now we have a lot of immigrants who are not in the labour force, but are underemployed tremendously. You mentioned credentials, but there are a lot of other issues at stake. How are we addressing that whole demographic issue? Are you also looking at pension reform? Is there something that needs to be examined by this committee or some other committees with relation to the realities of that age group?

Hon. Ralph Goodale: To respond to your first point about the priorities going forward, I would simply repeat what I said in my remarks, that the throne speech lays out the government's proposals for moving forward, and beyond health care and equalization, it's child care and the new deal for cities and those other various things that are on that very well-established list. That's the government's go-forward plan. It includes, obviously, measures that are intended to improve the competitiveness and the productivity of the Canadian economy, because they underpin everything else we want to achieve.

With respect to the demographic change that's coming, it is huge and has many implications for our social programs and for our tax base. We have to have a very proactive agenda on the greater inclusion of new Canadians, on more successful and more timely immigrant settlement programs, and on the greater inclusion of aboriginal Canadians, who are in far too many cases marginalized from the mainstream of the Canadian economy.

The Chair: Thank you, Mr. Goodale.

Ms. Ambrose.

● (1650)

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chairman. I'd like to welcome the finance minister back to the committee.

I have a question on equalization for you. I'm glad to hear that you're at the table negotiating with the provinces, and I wish you well on that. For the sake of Atlantic Canadians, I hope you are able to reach a deal in the near future. As Atlantic Canadians know very well, and more recently all Canadians have come to learn, the Prime Minister made a commitment to give Newfoundland and Nova Scotia 100% of their offshore oil revenues, outside equalization, in early June during the federal election. Recently the premiers of both Newfoundland and Nova Scotia have commented that the commitment the Prime Minister made during the election to Atlantic Canadians is one of their best shots at economic success for the future. Given the positive economic benefit of allowing provinces to keep their resource revenues outside equalization, I have a very simple yes or no question for you. I'd like you to clarify your position on how to deal with non-renewable resource revenue within the equalization formula. Specifically, do you support excluding non-renewable resource revenue from the equalization formula? In other words, do you support the Prime Minister's commitment made during the federal election to give Nova Scotia and Newfoundland 100% of their offshore oil resource revenues, without a cap and outside the equalization formula?

Hon. Ralph Goodale: I dearly wish I could answer that question with one word, but it has so many layers of conditions on it, I'm afraid I'll have to peel it down a bit. There have been for the last number of years significant questions raised by various provinces about the appropriate treatment of non-renewable natural resources within the formula. Different provinces have different perspectives on that.

Ms. Rona Ambrose: I'm fully aware of the provinces' position on this. I'm wondering what your position is. Do you think it should be excluded or included?

Hon. Ralph Goodale: Let me just answer the question, because it has to do with complete understanding and with equity.

Newfoundland, for example, would make an argument for the complete exclusion of natural resources. A province just across the way, New Brunswick, would make exactly the opposite argument.

Ms. Rona Ambrose: That's true, but the commitment the Prime Minister made was to Newfoundland and Nova Scotia. They believe it should be excluded. So I'm just wondering if you support the Prime Minister's commitment to Newfoundland.

Hon. Ralph Goodale: What we're talking about is making a special arrangement to recognize the special circumstances of these two provinces, which is a different proposition from removing natural resources in their entirety from the equalization formula.

Ms. Rona Ambrose: Fair enough.

Hon. Ralph Goodale: That was the distinction I was trying to make between the specific needs of Newfoundland and Nova Scotia and the big question of the functioning of the equalization formula. The big question is going to an independent panel of experts jointly appointed by the federal government and the provinces. On the specific question with respect to Nova Scotia and Newfoundland, we have obligations to keep, and we're working right now to keep them in a way that satisfies those two provinces.

Ms. Rona Ambrose: You're right, one is a broader policy question, but specifically on the commitment that was made, in light of Newfoundland's wanting to exclude non-renewable resource revenue from the equalization formula in the deal that was promised to them, do you support that?

Hon. Ralph Goodale: We are working exactly to honour what the Prime Minister discussed with Premier Williams and what was subsequently discussed with Premier Hamm. That involves ensuring that these provinces have the wherewithal to enjoy the full benefit of their natural resources, and to do so in a way that is fair and equitable to all Canadians. Those are the points that were discussed between the Prime Minister and the two premiers last week; those are the points I covered in conversation with my ministerial counterparts on Friday. We continue to work at it. I think with goodwill, rather than trying to politicize the issue, we can find a solution here that works very well for those two provinces and works for all other Canadians, because every other province is watching very carefully.

Ms. Rona Ambrose: I appreciate that, but with all due respect, the politicization of a very important issue to the provinces of Newfoundland and Nova Scotia happened during the election. This is about their economic future. The politicization happened because of the Prime Minister's commitment to something that he is not able to now fulfill.

Hon. Ralph Goodale: All of the provinces, quite frankly, I think almost without exception, took the opportunity of the federal campaign to raise issues where they wanted to achieve a focus and progress and momentum. That is a natural part of the democratic process. I think whether it's a federal process or a provincial process, democracy works. When election campaigns come along, premiers raise issues, Prime Ministers raise issues, individual citizens raise issues, and voters decide.

Ms. Rona Ambrose: With all due respect, voters did decide that this was a huge issue for Atlantic Canadians. They may have cast their ballots because of this. So I urge you to actually follow through on your commitment to those provinces.

Hon. Ralph Goodale: The commitment was made, and the commitment, as understood between the premier and the Prime Minister, is certainly what we intend to fulfill.

The Chair: Thank you, Ms. Ambrose.

[*Translation*]

Mr. Loubier, you are going to take the full time, right? Okay.

● (1655)

[*English*]

Then it's going to be Mr. Bell.

[*Translation*]

Go ahead, you have five minutes.

Mr. Yvan Loubier: Thank you.

Minister, I have four questions for you and I would ask you to answer them by yes or no.

First, given that you have no credibility when it comes to forecasting and that you have been stringing people along for seven years with your surplus forecasts, would you agree, yes or no, to the establishment of a forecasting office independent from government that, like its American counterpart, would provide us with credible forecasts?

Second, would you agree to implement the auditor general's recommendation, by tabling, by March 31, 2005, legislation on allocating the planned and unforeseen surpluses in your numerous reserves, as well as surpluses for planning purposes, in order to define the amount that you are going to apply to the debt, but also the amounts that you are going to allocate to Canadians' other priorities, including improvements to employment insurance?

Third, you have accumulated more contingency reserves in five years than surpluses for planning purposes. That's quite telling. In the past, you applied the entire surplus to the debt, and the same thing is going to happen in the next few years with forecasts like that. Given the surpluses accumulated over seven years and what is going to happen in the next few years, with an even greater surplus than you have forecast, are you not willing to admit that there is a flagrant fiscal imbalance between the two orders of government that has to be fixed because it's getting disgusting?

[*English*]

Hon. Ralph Goodale: Monsieur Loubier, did you say three questions or four?

[*Translation*]

Mr. Yvan Loubier: I asked three questions. They had to do with an independent forecasting office, legislation on the allocation of surpluses and fiscal imbalance. I may ask a fourth if you leave me enough time. I am asking you to answer yes or no.

[*English*]

Hon. Ralph Goodale: Okay, on the first one, the idea of an independent budget office, I'm certainly prepared to look at alternatives for improving the timeliness and the accuracy of fiscal forecasting.

[*Translation*]

Mr. Yvan Loubier: Okay. Now, what about legislation on the allocation of surpluses.

[*English*]

Hon. Ralph Goodale: On that point, though, I would just make the caveat that changing the structure does not necessarily guarantee accuracy, and we've seen that with some experience in other countries. But I'm prepared to look at the options.

[*Translation*]

Mr. Yvan Loubier: Okay. Now tell me whether, yes or no, you are willing to table legislation on allocating surpluses to the debt and to other priorities of Canadians, including improvements to EI.

[*English*]

Hon. Ralph Goodale: I've heard the suggestion of the allocation legislation, Monsieur Loubier, and in some ways in the past the government has already utilized that technique in the way that we've established funding at the end of the year for science—

Mr. Yvan Loubier: No, a bill to allocate the surplus—

Hon. Ralph Goodale: By legislation, yes. That has been done in the past in the creation of some funding mechanisms—for example, for science and technology.

Again, I say that I'm prepared to consider the options, but I would caution against locking yourselves into too much rigidity and therefore actually stymying the objectives you seek to achieve. Let's examine the options together, but we need to be careful about jumping to conclusions too quickly.

On the point about—

Mr. Yvan Loubier: Fiscal imbalance.

Hon. Ralph Goodale: — as you said, a flagrant fiscal imbalance, there are obviously fiscal disparities among provinces and territories, but with the greatest of respect, I do not agree with the concept of a vertical fiscal imbalance in Canada. I believe each level of government has its responsibilities to discharge, and we're all working hard to do that.

[*Translation*]

Mr. Yvan Loubier: I have one last question for you on that, because we now have your answers.

Where is the planned $12 billion from Mr. McCallum's rationalization of government over the next five years? Where does that fit into the picture? That will provide more flexibility. If you take money out of one place, it is because this money is available. Where does that fit into your planning?

● (1700)

[*English*]

Hon. Ralph Goodale: I specifically said in my remarks, Monsieur Loubier, that I have not allocated the $12 billion, because we don't have—

[*Translation*]

Mr. Yvan Loubier: Okay. So $12 billion is going to be added to the surplus that you forecast and that you have already underestimated.

I have another question for you about that. How is it that your total reserves for contingencies, prudence and ministerial anxiety, which have been shielded from public debate, will reach $31.5 billion in the next few years, which you're going to apply to the debt, as you have historically done, when there's a 29.5 surplus for planning purposes? So there is more in your anxiety reserve than in your surplus for planning purposes.

Explain that to me. How did you get into this situation?

[*English*]

The Chair: Just quickly, please.

Hon. Ralph Goodale: You're using an acronym, Monsieur Loubier, and I would want to check the record to be exactly sure of the number you're referring to. The fact of the matter is we set up a $3 billion—

[*Translation*]

Mr. Yvan Loubier: Just a minute. When you calculate...

[*English*]

Hon. Ralph Goodale: Monsieur Loubier, with the greatest of respect, if you want just to create noise, then keep interrupting.

Mr. Yvan Loubier: You need a calculator.

Hon. Ralph Goodale: I would rather have a rational discussion with people of goodwill and good intent than just a constant hassle.

The fact of the matter is we set up a contingency reserve of $3 billion per year. If that contingency reserve is not required for the purposes of maintaining the budget balance, then it goes against debt.

[*Translation*]

Mr. Yvan Loubier: Minister, take a calculator and add up your contingency reserves, and your surpluses...

[*English*]

The Chair: Thank you, Mr. Goodale.

Mr. Bell.

Hon. Ralph Goodale: Mr. Loubier, I will not engage in your voodoo economics. I prefer to deal in hard facts.

The Chair: Mr. Goodale, we're over the time. I really want to stick to the time.

Mr. Bell.

Mr. Don Bell (North Vancouver, Lib.): Mr. Minister, thank you very much. I'm generally pleased with what I hear in terms of the direction you're going in. Certainly we have heard from presenters through our consultation meetings. They've given us a variety of messages.

They've talked about—and it's a range, as you can appreciate—tax cuts, both personal and business. They want us to pursue economic stimulator activities and increase programs in health, education, philanthropy, and social areas. These, of course, work at cross-purposes sometimes. I think the underlying message, among others, is that they want to see transparency; they want to regain confidence and accountability in terms of the fiscal projections and the planning.

I note you're bolstering the internal audit function, and I noted your private sector comparisons in terms of your economic and fiscal forecasting. I think these are major steps in the right direction.

I guess a question I asked one of the presenters we had was this issue about using the surplus for debt reduction or using it for tax reduction. I made reference to the fact that most fiscal advisers, most bankers, will tell people when they come across extra money in their personal life to pay down the mortgage, pay down the credit cards—and have something for yourself as well; take a portion.

I note from the presentation that debt charges are still the largest single cost. You make the point that they're equal to the cost of seniors' benefits and EI combined, and that this lower debt will give us more flexibility.

I'll try to give you two or three questions quickly. One is on the rationale for the government, prior to my being here, having come up with the 25% target. I'd just like to know, why not 35% or 40%? Why not 10% or 12%? Where did the 25% figure over the next 10 years for the GDP come from? I know it represents a change of somewhere around 20¢ of each revenue dollar right now in terms of debt. If that 25% figure is used, it would take us down to somewhere around 12¢, or 12%.

Hon. Ralph Goodale: Mr. Bell, when we started, the amount that was consumed in servicing the debt was about 38¢ or 39¢ out of every revenue dollar of the Government of Canada. Because of debt reduction, it's now about 19¢. So we brought it down from roughly 39¢ to 19¢. If we achieve the debt-to-GDP ratio of 25%, that will take it down to 12¢. So it's a very large improvement.

The 25% is a historic figure. It was derived as sort of the benchmark in about the 1970s of where the debt-to-GDP ratio was, and then obviously it escalated very rapidly over the course of the 1970s, the 1980s, and the 1990s to get to a very huge figure. It peaked out at 68.5%, if I remember correctly, in about 1994 or 1995. We've brought it down since. Our objective is to get it down within the next decade to 25%. That would return, then, debt-to-GDP ratio to its historical levels, where it was at in about the mid-1970s.

● (1705)

Mr. Don Bell: To follow up on that, I understand some of the issues we heard from the presenters were about capital cost allowance and reductions in the capital taxes and the suggestion in the past that these would have the greatest potential positive impact on our economic efficiency. How does that relate to personal or corporate reductions generally?

The other question I have...knowing my time will run out, I guess want to make a reference. I have a letter. We've tried to do things for municipalities. As government, we've addressed the health, education, and cities agendas that we've talked about, the cities and communities agendas. I know we have forgiven the entire GST to municipalities out of the MUSH category—municipalities, universities, schools, and hospitals.

I have a letter from the school board in my riding here saying they strongly urge the federal government to enact changes to the current GST laws to exempt all school districts in Canada from GST on school district goods and services. By comparison, we don't charge GST on children's books and clothing. Why wouldn't we extend that to the school system? If we're trying, in fact, to provide the assistance—and we've recognized the crisis they're in—why wouldn't we extend that GST as well in your projections?

The Chair: Quickly, please.

Hon. Ralph Goodale: Mr. Bell, I understand the equity argument that's involved here. We have taken the decisions in the past to support these various sectors in different ways. To a certain extent there is a GST rebate across the board for all of them, but of varying amounts. In the case of municipalities it is now 100%. In the case of the others it's not 100%, but it's still a significant percentage.

What we have chosen to do in relation to the other components of the MUSH sector... for municipalities, the new deal for cities is rolling ahead, including the GST rebate and the sharing of the gas tax and so forth. For the other portions, universities, schools, and hospitals, for example, we've just concluded an agreement with the provinces that will see $41 billion invested by the Government of Canada in the health care sector over the next decade. That's on top of about $36 billion per year that we invest right now. In the case of education, and post-secondary education in particular, and innovation, we have to date invested about $12 billion in that sector, and I have no doubt that we will continue to invest.

There are different tools being employed in different ways to support all of these worthy initiatives, and it's not a case of one size fits all, but if you make the point that universities, schools, and hospitals are important to the quality of life of Canadians, just as are municipalities… We are trying to address all of the letters, MUSH—municipalities, universities, schools, and hospitals—but we're doing it with different techniques in each case. It's not the same technique in every case.

The Chair: Thank you.

Mr. Pallister, and then we will have Mr. Bains, and then Ms. Wasylycia-Leis again.

Go ahead.

Mr. Brian Pallister (Portage—Lisgar, CPC): Mr. Minister, I'm struck by the ironic nature of your virtuous circles, but of course when trying to spin, what's better than a circle, I suppose.

The fact of the matter is that your surpluses are at least half due to the overcharge on employment insurance, although it's not acknowledged in any of these documents, of course. The fact of the matter is what you call virtue, I don't think many of the small business people across Canada would call virtue at all. I don't think working families who have been overtaxed by the most regressive means to the approximate level of about $6,000 per household would consider your tactic of deliberately keeping employment insurance premiums elevated—in defiance of your chief actuary's recommendations—a virtuous tactic. They would consider it something quite different from that. They might consider it a shameful runaround or a merry-go-round of some deceit, sir.

I question that. There is nothing virtuous about that. You have taken a very self-congratulatory tone, but you have not acknowledged the contribution made by working people across the country to the glorified numbers you present today. I think that should be acknowledged and that respect should be shown.

That being said, I will raise a point on the revenue side because that is my responsibility, and in part at least it's yours too. The need for our numbers here, as ill-equipped as it seems we are to project them accurately, to reflect accurate revenue streams is obvious. The need for those revenue streams to be generated in a fair way from Canadians is also obvious. The revenue minister mused recently about his intention to go after some of these tax havens that have been used, but I've heard that before. I think you have too. I've heard it from our Prime Minister, but it didn't happen then and it hasn't happened since. I am very concerned with musing about going after tax havens having been done in the past, but I am more concerned about it being done now.

The fact of the matter is that tax leakage due to havens is increasing. From studies I've seen, it's increasing as a problem in this country, and it seems to me quite a contrast between the treatment we give working Canadians with an inflated EI premium over the last decade that rips them off, frankly, and is used more as a cash cow by your government than legitimately. Contrast the way people in the middle- and low-income brackets and small businesses are treated to the way in which Canadian companies who choose to locate offshore and utilize loopholes that are there, such as the Prime Minister's own company, his family's own company. That contrast is stark. The fact is that many Canadians do not feel the system is fair, and that's a serious problem.

I'm asking you, given the musings of the Revenue Canada minister that this is a problem—and we should all acknowledge it is—can you outline for me what specific plans you have to address the clear double standard between the way in which we go after working Canadians but leave alone those who choose to escape taxes in this country, ship their resources offshore, and take advantage of loopholes that have been here for far too long under your government's management, sir? What specific plans do you have to address this concern in the near future?

● (1710)

Hon. Ralph Goodale: Mr. Pallister, to start with your first point about employment insurance rates, when we first came to office—

Mr. Brian Pallister: Sir, could I ask you to address my second question first? Thank you.

Hon. Ralph Goodale: I'd be happy to. I'd like to get to both of them because they're both important.

On the issue of tax havens, there were steps taken in the mid-1990s to begin to close the access to some of those havens, particularly at that time in places where there was no tax treaty in existence between Canada and the other country. So there were steps taken to bring closure to some of those.

It's a more difficult proposition, however, in those jurisdictions where there is an existing tax treaty. That should not, though, deter us from working on the issue. I think perhaps, as you and I have discussed in the past, one of the most insidious situations is where the foreign country has a tax regime available only to foreign countries and not available to taxpaying citizens in that foreign country—in other words, the so-called ring-fenced regime that is purely a technique to avoid the tax rules of both our country and that other country.

I have raised this issue at the IMF. I've raised it at the G-7. I've raised it specifically with John Snow, the Secretary of the Treasury in the United States, because I think there needs to be a concerted international effort here. Mr. McCallum and Revenue Canada are dealing with their counterpart collection agencies in other countries. We are trying to devise a coordinated, international front to deal with this consistently so that we in fact have a worldwide effort rather than just a series of one-offs that may or may not work.

Mr. Brian Pallister: How does that strategy differ, sir, from the strategy enunciated by the Prime Minister 10 years ago? How does that strategy assure us of any action being taken?

Hon. Ralph Goodale: With the greatest of respect, Mr. Pallister, the Prime Minister, when he was Minister of Finance, began the process of action on tax havens.

Mr. Brian Pallister: He also began the process, sir, of moving his own assets to a... [*Inaudible—Editor*]…

Hon. Ralph Goodale: No, in fact that's just factually incorrect. That is factually untrue.

The Chair: Thank you.

● (1715)

Hon. Ralph Goodale: No, it is factually untrue.

The Chair: Can we address the questions? We are doing really well on time, but we're going over here and I still have a few speakers I want to get through.

Mr. Bains, and then Judy again.

Hon. Ralph Goodale: I do want to come back to the EI answer.

The Chair: I may ask that question.

Mr. Navdeep Bains (Mississauga—Brampton South, Lib.): First of all, I'd like to thank you, Minister, and I'd like to welcome the deputy minister as well. I know that we've heard some remarks here and some people have shown a dissatisfaction, but personally, as a Canadian, I'm very proud of our fiscal success story. I think it's important that we've shown a strong balance. That approach is clearly apparent with the virtuous cycle.

I think we need to start off with that. That cycle really started off with the seven surpluses and declining the debt burden, which enables us now to really invest in reducing taxes. I think that can't be underestimated. That cannot be undermined. I think it's important that we recognize that there has been a tax reduction of about $100 billion, which is a substantial amount.

This is coupled with the fact that we've made sound investments, $200 billion in investments. Recently I was at Ford where we announced an investment in the auto sector. That's a sound investment as well, which has enabled us now to create thousands of jobs, 400,000 based on the information that has been provided to us.

I have a fundamental disagreement with my Conservative colleague, where he says that reducing the debt is not a priority. I believe it is. We have a priority, an obligation to future generations to reduce the debt so they are able to live comfortably and retire comfortably. I think that's where the fundamental difference occurs between what I feel and believe and what the opposition has said here today.

But I think it's important to recognize two points on which I want clarification from you, Minister. The first is that there was this whole notion of expenditure review that was discussed. That is something I think people need to be clear about. That has nothing to do with the surpluses. That has to do with prioritizing our expenditures, correct?

Hon. Ralph Goodale: It can relate to both, Mr. Bains.

Mr. Navdeep Bains: Will that help with our surpluses? Will that money go toward surpluses, or is that just simply an internal exercise to reduce costs from low priorities to high priorities?

Hon. Ralph Goodale: The primary purpose of expenditure review is not to cut; it's to reallocate.

Mr. Navdeep Bains: That's what I was trying to get at, that the money will not actually go to reducing any expenditures, so therefore it doesn't contribute to our surplus.

Hon. Ralph Goodale: The intention is it would be recycled within government, finding fiscal flexibility within existing expenditure patterns without reaching outside and asking taxpayers to do more.

Mr. Navdeep Bains: To follow up, when we have the contingency amounts, say $3 billion, and notwithstanding any major issues, will that money go in turn to reducing our debt?

Hon. Ralph Goodale: The $3 billion, yes. That's the plan.

Mr. Navdeep Bains: The $3 billion.

Say we have amounts exceeding that—and I know you mentioned that according to GAP, that money has to go again to reducing the debt—is that something that can be changed or is that something that's entrenched in the regs?

Hon. Ralph Goodale: That's something that I'm certainly prepared to examine. It's unfortunate that Mr. Loubier's approach to this issue is so negative and so belligerent, quite frankly, because I think there's a serious point to deal with here, which you've raised in a far more constructive fashion.

The contingency reserve is intended to pay down debt.

Mr. Navdeep Bains: Correct.

Hon. Ralph Goodale: The flexibility that we have over and above the contingency reserve is a matter upon which parliamentarians can have a very constructive discussion as to how much would go to economic programs, how much would go to social programs, and how much might be used for tax reduction. The key thing is putting yourself in the position that you have the legal authority to make those spending decisions before the end of the fiscal year.

There are various techniques by which that can be accomplished, and I think we need to have a rational discussion, not hysterical accusations, about how all of us can contribute to that decision-making process in a thoughtful and timely way before the end of the fiscal year.

Mr. Navdeep Bains: I think that's the point I wanted to make. I do agree that we need to focus on some of the priorities of Canadians—

Hon. Ralph Goodale: Exactly.

Mr. Navdeep Bains: — on the additional moneys that do exist. We should have that discussion and examine changes to rules that would allow us to do that. So that's a very important issue.

My last remark, before my turn is up, is that you mentioned a very important fact, that 13.7% is our net foreign debt percentage overall. How does that compare with G-7 nations? I know that was just a Canadian chart we saw, but how do we compare with other G-7 nations?

Hon. Ralph Goodale: Mr. Chairman, if I could, I would like to collect those statistics and bring them back to the committee.

I can tell you that if you dip back to the early 1990s, there was debate about Canada's position, for example, compared with Italy. It appeared that Italy was actually more heavily indebted than Canada, yet the IMF was expressing more concern about Canada than it was about Italy. The essential difference between the two debt situations was that most of the Italian debt was domestic and a big chunk of the Canadian debt was foreign debt. So it is a key point in terms of how much you're obligated outside of your own financial system—and I will get the international comparisons and bring them back to the committee.

● (1720)

The Chair: Thank you. Could you send those through the clerk, please?

Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you very much, Mr. Chairperson.

Mr. Minister, you may accuse me of being belligerent and aggressive as well, but I'm afraid I have a hard time accepting your numbers and your logic. I just heard you say to my colleague that the true purpose of the contingency fund is to pay down the debt. A minute ago you talked about contingency in terms of prudence and emergency issues. This is precisely why we need accurate numbers about the total surplus so that we can then seriously deliberate on the allocation of those resources, and so that Canadians have a say in the allocation of those resources.

So I want to ask you, since we're going to keep arguing about how much of this is spin and how much is fudged forecast, will you just agree to support the idea of an independent budget office for Parliament? Don't give me the stuff about Mr. O'Neill and don't tell me about the IMF. Just say yes or no. Will you support the idea of an independent budget office?

Hon. Ralph Goodale: At this stage, Judy, I'm not in a position to answer that question. I see some merit in some of the concept, but I also see some downsides.

Ms. Judy Wasylycia-Leis: Okay. If our committee recommends it, will you support our committee?

Hon. Ralph Goodale: I want to see what Mr. O'Neill has to recommend. His recommendations will come back to this committee; this committee will give them full consideration, I'm sure.

I hope, though, Judy, you won't restrict yourself to that technique only. There may be other ways to make sure that you and other parliamentarians have access to the detail you need. So I'd invite you to think about all of the options.

Ms. Judy Wasylycia-Leis: We'll look at all the options. All I know is that we have to get away from the one-sided presentations we're getting from you and your department. It's a lot of gloss, flat screens, and all the rest, but I really think you sold us a bill of goods today. We're no closer now to actually being able to tell Canadians what the surplus is than we were before you came into the room.

Hon. Ralph Goodale: Yes, you are.

Ms. Judy Wasylycia-Leis: I think you haven't been absolutely forthcoming with this committee.

I want to ask you two other questions. One has to do with the notion of the debt-to-GDP ratio being reduced to 25%. Again, in your report you make it sound like Canada is so bad. Well, Canada is ahead of four, almost five, G-7 nations in terms of debt-to-GDP ratio.

Is this not good enough? How are we doing against our trading partners? Why don't you just put this in context—

Hon. Ralph Goodale: I did.

Ms. Judy Wasylycia-Leis: — and allow for a balanced approach in terms of reducing our debt, as opposed to what you just said, that we're going to set aside this contingency, can't touch it for anything, can't know about it, and it's going to go against the debt?

That's not exactly transparency or accountability to Canadians.

Hon. Ralph Goodale: Judy, there are two things about the way the numbers are presented. First, all of the detail you mentioned in this and previous questions, where you wanted specific detail about specific items, is there in the presentation. We've broken it down—

Ms. Judy Wasylycia-Leis: And glossed it over and spun it out.

Hon. Ralph Goodale: No, no—

Ms. Judy Wasylycia-Leis: Yes.

Hon. Ralph Goodale: With the greatest of respect—

Ms. Judy Wasylycia-Leis: When you say $500 million surplus for next year, that's spinning.

Hon. Ralph Goodale: —let's have a constructive discussion rather than just a hassle. I'm prepared to have a very rational dialogue with you about the detail, but the fact of the matter is that the committee will not be able to accomplish the worthy objective of having sensible discussion and dialogue with the constant refusal to listen to the other person's point of view.

Ms. Judy Wasylycia-Leis: That's why I'm just asking for independent advice, so that we can have that objective discussion, because we can't have it now; we can't have it now.

Hon. Ralph Goodale: As I've said, let's consider every means by which that advice can be achieved—and remember, including where that advice comes from now.

Ms. Judy Wasylycia-Leis: The reason I'm so insistent on this is that there are huge needs among Canadians.

● (1725)

Hon. Ralph Goodale: Yes, there are.

Ms. Judy Wasylycia-Leis: In this fancy report you don't even mention, for example, Kyoto and climate change. You don't mention rising tuitions. The national dream of Canadian students is turning out to be the national nightmare.

I want to have a way for Canadians to see what the real surplus is, to be able to fight for their issues, not to see all this money go against tax cuts and repayment to the debt, which is something the banks are pushing for. I want to see this golden opportunity, with this unprecedented surplus, being put to use in terms of Canadians who are struggling to survive and want to make a difference.

You're not allowing us to do that, and I think we deserve to have the information so that we can have the proper debate and we can make good choices for Canadians.

The Chair: Thirty seconds, please.

Hon. Ralph Goodale: Judy, I'm absolutely allowing you to do that. And it's not up to me to allow it; parliamentarians have their own inalienable rights.

The point is that we would not be having this discussion today if we hadn't followed the prudent planning practices over the last decade that have created the circumstances in which surpluses are now possible. No other country in the G-7 can have that discussion, because they're all in deficit and running bigger debts.

Ms. Judy Wasylycia-Leis: We didn't either. It all went against the debt, $61 billion against the debt—

Hon. Ralph Goodale: Judy—

Ms. Judy Wasylycia-Leis: — because you didn't allow us to have the discussion.

Hon. Ralph Goodale: — do you want to have a rational discussion or just a hassle?

Ms. Judy Wasylycia-Leis: I certainly would like a rational discussion and not let you just take that money, and in the wink of an eye it disappears.

Hon. Ralph Goodale: I'm very happy to have the discussion, but not just a wild argument.

The Chair: We have three minutes left for Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

Thank you, Minister. I appreciate your appearance here, and I appreciate your putting up with this sustained attack on your credibility. I think members need to be reminded that we've gone through four elections. The first election canned, shall we say, fiscal insanity in this country and returned us to a government. Then we paid electorally for those hard decisions that were taken in 1997. In 2000 the Canadian people thought we'd done a good job and restored that cushion. Probably we're still here because we represent a measure of fiscal sanity. That's one point on credibility.

The second point on credibility is the market itself. I know your officials have been kind of underworked here today. Nevertheless, it would be interesting to know, and possibly you can analyze this, what the difference is between our current triple-A credit rating and the virtual junk bond status that Canadian securities had in 1993. I think probably the biggest level of credibility is what the market says.

As well, you'll recollect the previous Prime Minister's frustrations with the Canadian dollar when he talked about the people in red suspenders discounting the dollar unfairly, with a member of the opposition asking questions about why the Canadian dollar was locked in the basement. Well, they don't ask that question anymore, and I would say it has everything to do with credibility.

I would be interested in any observations you could make, Minister, with respect to the cost of our debt. I know you're very circumspect about the dollar itself, but surely to goodness the market has said that the Canadian economy is in terrific shape, notwithstanding what the opposition says.

Hon. Ralph Goodale: Mr. McKay, certainly a triple-A credit rating, which has now been restored to Canada by all of the rating agencies, is very strong testimony that we've emerged from a difficult period, and we've done so very successfully. We lost that rating seven or eight years ago. It took a long time to get it back.

That makes a huge difference, not just to the Government of Canada; the triple-A rating for the Government of Canada effectively establishes the rating for the whole country. It's not just the Government of Canada that benefits. Every province benefits, every municipality benefits, every school board that does any borrowing benefits, individual homeowners benefit, small businesses benefit, farmers benefit—everybody who has a loan benefits. The credibility of the financial performance has gone up, and interest rates have come down as a consequence.

When you say the value of the dollar is another testimony, I think you're right. Currency values, in those circumstances where currencies float, which is our policy and has been the policy for the last 45 or 50 years, reflect the fundamentals underpinning the economy. Those fundamentals are very, very strong for Canada.

We have moved, in terms of our fiscal performance, from the bottom on most of the rankings within the G-7 to the top. I think that's a performance that Canada can be very proud of but never take for granted. Now is not the time to get slack or careless. We've had a very good run for 10 or 11 years, but it didn't happen by accident, and we have to stay vigilant.

● (1730)

The Chair: Thank you, Mr. Goodale. If I can just speak for the committee, we've been working in a full spirit of cooperation and transparency. I'm not sure if it was your addition… I want to thank you for appearing. Have a good day.

Hon. Ralph Goodale: Thank you.

The Chair: The committee is adjourned.

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

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

Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :
http://www.parl.gc.ca
