Standing Committee on Finance

EVIDENCE

Wednesday, November 7, 2012

Chair
Mr. James Rajotte
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The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

Welcome to meeting number 91 of the Standing Committee on Finance. Our orders of the day are pursuant to the order of reference of Tuesday, October 30, 2012, our study of Bill C-45, A second Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures.

We're very pleased to have the Hon. Jim Flaherty, Minister of Finance with us this evening. We also have officials from other departments to deal with certain parts of the bill as well.

Minister, thank you for being with us this evening. I understand you have an opening statement and then we'll have questions from members.

Hon. Jim Flaherty (Minister of Finance): Thank you, Mr. Chair.

I am joined this evening by officials from various departments that are responsible for various aspects of the bill. As you know it's been referred to 10 different committees with respect to various areas of expertise.

I will begin with a few opening remarks in order to leave as much time as possible for the committee members' questions.

However, before I begin, I want to thank the chair and the members of the Standing Committee on Finance for the work they have done recently and all their work, in general.

I would like to thank the committee for its work on the annual pre-budget consultations that began earlier this fall. I know it's a great deal of work and some travel, although I understand you used conference methods more this year than before, which is laudable. I thank you for that and the savings that go with it.

Alongside my own consultations as finance minister, your committee's pre-budget outreach is a vital tool that helps ensure Canadians from coast to coast to coast that they have the opportunity to make their voices heard. Rest assured, as in previous years, that the recommendations from the finance committee's report will play a key role in informing and shaping the next federal budget.

Many of the measures included in the bill you are considering, Bill C-45, were indeed recommendations from last year's finance committee report; for example, reforms to public sector pensions, new tax incentives for renewable energy, revamping the Navigable Waters Protection Act, removing internal barriers to internal trade, and more. I encourage the committee's continued pre-budget consultation work, especially your eventual report and recommendations.

I would also like to congratulate the committee for its comprehensive work over the past year examining potential ways to increase charitable giving in Canada with new or improved tax incentives and other targeted action. I'm looking forward to receiving the committee's report and recommendations, which I understand are likely to be forthcoming in the near future. But first I urge the committee to consider and support Bill C-45, which is the bill before you, the jobs and growth act 2012, which proposes to enact many of the key measures from the budget, economic action plan 2012.

As we all know and are all too often reminded, the global recovery is fragile and global economic turbulence remains. Our largest trading partners, the United States and Europe, continue to wrestle with significant challenges and are struggling to find lasting effective solutions to their fiscal problems. While there are signs of recent progress, the problems they face have no painless solutions, no quick fixes, and as a result the global economic environment remains highly uncertain.

Not only is the global economy uncertain, it is also increasingly competitive, as Canada faces increasing competition as well as opportunities from emerging economies.

That is the reality of global economy today and the reason why our government is still completely focused on its number one priority—support and growth of the economy here, across the country.

Economic Action Plan 2012 is at the heart of that approach. This comprehensive and ambitious plan developed by our government will help Canada maintain a fairly strong position compared with the other G7 countries in the industrialized world. That strong position will enable Canada to capitalize on the current economic challenges and turn them into economic opportunities that will contribute to our long-term prosperity.
I submit to the committee that our plan is on the right track to grow our economy, something which the facts clearly demonstrate. They are facts like Canada's having the strongest record of employment growth in the entire G-7 since July 2009, with over 820,000 net new jobs created, over 90% of which are full-time and nearly 75% of which are in the private sector. They are facts like Canada's having the best fiscal position in the G-7, with the lowest debt-to-GDP ratio by far. They are facts like Canada's having the safest and soundest financial system in the world, as ranked by the World Economic Forum, for five years running. They are facts like Canada's being forecasted to be among the leaders of the industrialized world in economic growth by the OECD and the IMF in the years ahead. The list goes on and on.

Canada's economic policy stands out for all the right reasons, and the world is paying attention. As the president of the U.S. Chamber of Commerce, Tom Donohue, wrote: We've got a strong example of the positive effects of good policies even closer to home—Canada. Why has our northern neighbor recovered faster and more robustly from the global recession than nearly all other major economies? Due to a series of smart policy decisions.

—Christine Lagarde, the head of the IMF, said recently that Canada is a bit of an anomaly, that Canada is doing a lot better than other advanced economies and has a path of its own.

Of course, here in Canada we cannot be complacent. We can't allow political gridlock and instability, which all too often threaten and delay vital economic and fiscal reforms in the United States and Europe, to throw Canada off course for long-term economic growth. Post the U.S. election, I'm hopeful that further political stability in the United States will enable the administration and Congress to take the required steps needed to deal with their fiscal and economic challenges swiftly.

Similarly, Canada must move ahead and stay focused on the economy. The jobs and growth act, 2012 does exactly that. It moves ahead with important steps to build a strong economy and create jobs, steps such as extending the job-creating hiring credit for small business, promoting interprovincial trade, improving oversight of Canada's financial system, removing barriers to cross-border trade, supporting Canada's commercial aviation sector, expanding tax relief for investment in clean energy generation, and much more.

The act also introduces important measures to support families and communities by improving the registered disability savings plans, by helping Canadians save for retirement, by implementing the tax framework for pooled registered pension plans, and more.

The jobs and growth act, 2012 also builds on our government's already strong record of better respecting taxpayers' dollars by closing tax loopholes, by taking landmark action to ensure that the pension plans for federal public sector employees are sustainable, financially responsible, and fair compared to those offered in the private sector, and much more.

With that, I want to take a moment to highlight our landmark action to reform federal public sector pension plans, and as a result, to better respect Canadian taxpayers while helping to ensure that Canada's fiscal position remains sustainable in the long term. As we all know, public sector pension plans represent a significant element of the federal government's total compensation expenses, expenses which, as recent international events have shown, can weigh heavily on the long-term fiscal sustainability of a government if affordability is not the guiding principle.

As I mentioned earlier, this committee recognized that very fact in last year's pre-budget consultation report, which urged the government to take action to ensure the sustainability of public sector pensions. Unlike previous governments, which were content to ignore questions of long-term affordability for the sake of political expediency, we are taking the fiscally responsible position and putting the long-term state of Canada's finances first, even introducing landmark reforms for members of Parliament and senators pensions. Indeed, that's why the jobs and growth act, 2012 is taking necessary steps to make public sector pension plans sustainable, responsible, and fair.

We're doing this in two important ways. First, we are moving the public service pension plan to a 50-50 contribution arrangement, finally making public sector employee contributions equal to what the government contributes. Second, for employees who join the federal public service starting next year, the normal age of retirement will be raised from age 60 to age 65. These two important changes will go a long way to promoting the long-term sustainability of public sector pension plans while ensuring they are fair to Canadian taxpayers. Long overdue, these reforms to public sector pensions were necessary and part of our Conservative government's commitment to responsible financial management.

In the words of TD chief economist Craig Alexander:

The government is taking action to pursue fiscally sound policies for the long run. The increase in the qualifying age for Old Age Security, the new normal age for retirement among public sector workers and reforms to public pensions are good examples of this.

Because of such long-term responsible reforms, I urge the committee to support Bill C-45, the jobs and growth act, 2012, to help create a long-term stronger future for Canada.

With that, Mr. Chair, I invite questions from the committee.

Thank you.

The Chair: Thank you very much for your presentation, Minister Flaherty.

We will begin members' questions with Ms. Nash. I will just point out to members that if they have a certain part of the bill they wish the minister and/or officials to address, they should state that in their question.

Ms. Nash.
Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair, and welcome, Minister Flaherty.

It's good to see you back in the country. You're here tonight with a small army of officials. I think there are close to 50 of them here. That's a lot of horsepower you're bringing with you. We are dealing with a 450-page omnibus bill that amends over 60 laws and we've been pressed to look at these changes within a limited time.

You started off talking broadly about the economic context, and I wanted to ask you about that. The labour force survey for October showed that it was public sector jobs that kept employment up, even when the private sector shed 35,000 jobs. The Parliamentary Budget Officer estimates that the government's cutbacks will result in a 1% decrease in GDP by 2014.

I'm wondering if you can clarify why you're implementing more cutbacks when it seems to be the public sector that's keeping the job market afloat, and when we know that more cutbacks will be a drag on economic growth.

Hon. Jim Flaherty: First of all, just as a general caution, I'm always wary of one month's figures, or figures for two months, or even for one quarter. I think we have to look at the trend over the full year.

Over the course of the year, we'll have moderate economic growth in Canada and some significant job creation during the full fiscal year. Since the end of the recession in July 2009, Canada has led the way among the industrialized countries in job creation, and 90% of those jobs are in the private sector. This is very important. It shows the economic growth that we've been able to sustain over that time, economic growth that the European zone and the United States have not been able to maintain.

I think your question is really about balance. This is something the eurozone is struggling to achieve.

We are reducing some government expenditures and trying to focus on economic stimulus expenditures that foster job creation and economic growth. At the same time, we also have to have some measures to make sure that we continue to have at least modest economic growth. This is not easy. That's why in this bill we propose to extend the hiring credit for small business. We know it will create hundreds of thousands of jobs, because that's what it did before. That's the balance we try to achieve.

Ms. Peggy Nash: You were just in Mexico at the G-20 meeting. According to reports, there was discussion about the importance of moving away from austerity measures because they were limiting growth.

I appreciate your comments about balance, but are you concerned that you're taking Canada in a direction opposite to what's now being recommended by the G-20?

Hon. Jim Flaherty: No, as some leaders of international organizations have said, Canada is actually a model. If some of the European countries could achieve the balance that Canada has, that would be ideal for those countries. We have some economic growth, even if it's only 2% real GDP. We have controlled government expenditures and reduced deficits, and we are working on the public debt. We have reduced the size of our deficit by more than half since the large deficit that we ran during the great recession. We ran a deficit of about $58 billion, and we're now down to less than half of that. Shortly, within the medium term, we'll be balanced again while fostering economic growth. It's a difficult balancing act that other countries would like to achieve.

Ms. Peggy Nash: My concern is that over aggressiveness, in terms of balancing the budget which we're on track to have surpluses in by 2015, can stifle growth. We're concerned that the cuts may be too severe and that they are limiting the growth that we could be enjoying here in Canada.

The Chair: A brief response, Minister.

Hon. Jim Flaherty: As you'd expect, there are some who would go further in terms of spending reductions. We listened during the pre-budget consultations, the ones you did, the ones we did, and so on, and tried to hit the right balance.

We certainly don't want to reduce government spending in any sort of dramatic way because it could have the consequence you describe of dampening economic growth. That's why, in our view, we didn't do that. We made relatively modest expenditure control reductions.

The Chair: Thank you. Thank you, Ms. Nash.

We'll go to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair. Thank you, Minister. It's always great to have you here at committee.

I was elected in 2008, so I came here during challenging times. I've seen you steer the ship through very challenging times. It's been my observation that the opposition members have been more focused on counting pages than reading pages in this particular budget.

I'll use a short example. The changes to MP pensions was one line in the budget, but it was actually 22 pages in the budget implementation act. Perhaps you could make a general comment. Sometimes taking a plan and putting it into legalese, in terms of the legislation, is a bit of a comprehensive thing, but really what matters is the outcome.

Hon. Jim Flaherty: Your point is well taken.

Tax legislation tends to be lengthy and dense. A lot of people in Canada make a lot of money reading it and being expert at it, but it does have to be detailed, necessarily, because it is tax legislation. It's the government. It's Parliament exercising its jurisdiction to take money from taxpayers and use it for the government's priorities. It necessarily has to have a lot of detail.

I agree with you. The number of pages in a tax bill doesn't mean very much. We had a lot more pages a couple of years ago in a bill because there were a bunch of schedules attached to the bill that went on for hundreds of pages. It doesn't mean very much, except to tax practitioners who need to interpret it for their clients.
On the other hand, there's a lot of expertise in the Department of Finance in Ottawa. It has a very good reputation, excellent public servants. They try to get it right. It's very important they get it right in the legislation because their colleagues at the Canada Revenue Agency have to administer it. Indeed, the people at the Canada Revenue Agency have to work with Canadians and businesses. We want to be as specific and clear as we can be in dealing with tax matters, so that people understand what the rules are and what their obligations are.

Mrs. Cathy McLeod: To take it a little further, I would like to give an example that I think is probably near and dear to many of our hearts, the changes to the RDSP. Again, I'm not sure how many pages it took. It probably took a whole number of pages.

I'd like to share a story from the Fredericton Daily Gleaner about Francine St. Amand, who's coping with limited resources and who never dreamed of having enough to put away for her disabled son's future needs. After hearing about the RDSP, she committed to contributing $25 a month and any extra she could pull together. Two years later, to her amazement, the fund has reached almost $8,000, the majority made up of federal contributions. I will quote from the article:

Today she shakes her head in amazement at the savings accumulating for her son's future, and her anxiety over his future has been replaced by peace of mind.

That's a great story. I don't care how many pages it takes to get that RDSP, which we're proud of, and to make improvements. Could you talk about the changes and why we had to go that way?

Hon. Jim Flaherty: Yes. There were a few administrative issues that needed to be corrected. Again, it comes out of pre-budget consultations, some done by this committee, some done by the Department of Finance, by me and by Minister Menzies and by Shelley Glover, the parliamentary secretary, and so on.

We had a three-year review, which was mandated in the original RDSP legislation, to look at how it could be improved. That's generally a good idea. I think most members would agree that with new statutes we go back and have a look at how effective they are every few years. We did that with the RDSP. A number of recommendations came forward. They are in this bill, Bill C-45. It'll help, for example, replace the 10-year repayment rule applying to withdrawals with a proportional repayment.

That sounds like it's complicated, but it just lets more people put money back into an RDSP over a 10-year period so they don't lose some of the benefits they had. We want persons with significant disabilities or severe disabilities to be able to use money in an RDSP if they have a special need at one point, a financial need, to use it but then to replenish the fund during that period of time. That's why these amendments are here.

The RDSP initiative has done well. It has tens of thousands of plans. A number of our banks showed leadership in setting up the computer programs. They did so at a loss originally, but they did it, and other financial institutions have caught up. This is very good and I encourage people who can benefit from the plan to talk to their financial institution, their local bank branch.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you.

Welcome, Minister.

Minister, we heard from the Canadian Manufacturers and Exporters when they appeared before the committee. They said, “In terms of taxation of large companies, the negative impact of the 5% reduction in SR and ED exceeds by far all of the benefits that resulted from the corporate income tax cuts...since 2008”.

Given that Governor Carney with the Bank of Canada seems very concerned about our poor export performance and that Canada has lost 370,000 manufacturing jobs in the last seven years, is it wise to hike their effective tax rates so much at this tenuous time, as you said, in the fragile economy?

Hon. Jim Flaherty: First of all, the SR and ED program is a tax benefit to successful businesses in Canada that are doing R and D. That's what it is. We have one of the most generous R and D programs in the entire world. Our results are not among the better results in the world in terms of innovation, so we have a problem in Canada in this area, which has been fairly well known for some years. I imagine when you were in government it was known then that this was a challenge, so we asked Tom Jenkins and others as a panel to study the issue for us and make recommendations.

What we're proposing in the bill follows on Mr. Jenkins' and his panel's recommendations and that is to reduce the rate. It mainly affects large manufacturers in Canada that do a great deal of R and D. It assists some of the smaller ones. We're looking at contingency fees on SR and ED because that's an issue. We have now a savings of $400 million that we're going to use for a new venture capital fund, about which more later, but that is not—

Hon. Scott Brison: Certainly, but it is important, Minister, to recognize that the people affected by this, the people actually running these companies, are saying that these changes to SR and ED are going to have a negative impact on their capacity to invest in the kind of innovation that creates the jobs of tomorrow.

On the EI credit issue for small business, would you agree that raising EI rates for small businesses has a negative effect on job creation?

Hon. Jim Flaherty: Yes.
Hon. Scott Brison: Yesterday the CFIB admitted that, in fact, small businesses that qualify for the 2012 hiring credit will still see their EI rates go up by a full 7¢ in 2012 over what they paid last year. Would you agree with the Canadian Federation of Independent Business and support an amendment that would effectively freeze EI rates for small businesses at the 2010 level? Notwithstanding the credit, EI rates are still going up even for small businesses that qualify.

Hon. Jim Flaherty: There are two things going on here. One is we want to move EI to balance, which we will be able to do in the longer medium term and which will happen. The other thing is we want to create jobs to the extent we can through the EI system. That is why the hiring credit, which is an EI measure, is in this bill.

Hon. Scott Brison: Yes, but rates are still going up for small businesses.

Hon. Jim Flaherty: Yes, but the job creation by small business continues to be quite a bright light in the Canadian economy. I don't know what you're hearing, but what I'm hearing from small businesses is that the hiring credit really matters to them, because they can actually get one more employee. That makes a big difference to them. It's cash.

Hon. Scott Brison: With the limit being at $10,000, would you agree that it can create a perverse disincentive, in fact, for small business to perhaps hire one more employee and perhaps break that threshold, or increase pay slightly and potentially break that threshold and not qualify at all? Would you agree with the CFIB that in fact the limit ought to be increased to $15,000, so that it would broaden it [to] a larger catchment group within the small business employers? Do you believe in the principle of that?

The Chair: Could we have just a brief response, please, Minister.

Hon. Jim Flaherty: There are lots of groups that advocate many things in the field of taxation and EI. We have to make some choices and we have to place some limits on things so that we maintain our fiscal track to a balanced budget.

I tell you, the guy in Ottawa who owns the bicycle shop where I made an announcement recently, because of the hiring credit last year, hired one person he otherwise would not have hired. That's one person who had a job, who wouldn't have had a job otherwise if it hadn't been for that hiring credit. This is a very practical use of the EI system.

The Chair: Thank you.

Thank you, Mr. Brison.

We'll go to Mr. Jean, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

Thank you, Minister, for attending today. I know you have a very busy schedule.

On what Mr. Brison was saying earlier, $3.6 billion is invested in SR and ED by the federal government. Of course, that is the largest single funding program for businesses. I understand there are going to be no cuts. The Jenkins report that the government asked to be done said that they want less complicated rules, that they need to make sure people can do it and that it's more simple.

My general understanding is that any savings regarding SR and ED will be put back into direct investments. As far as this program goes, there are no cuts at all. There's just an investment possibility and maybe a change in where the money goes. Is that correct?

Hon. Jim Flaherty: That's right, and thank you for the question.

It follows on the direction of Mr. Jenkins' report. As I mentioned, $400 million as part of that pool of money is going to be used in a more direct way to assist in the creation of innovation venture capital in Canada, for which there is quite a serious need in our country, particularly for young innovative people who need a hand up, really, so they can get their innovation to market.

We have some fabulously innovative people in Canada. We have tremendous examples. We have MaRS in Toronto. We have NAIT in Alberta. There are great examples all across the country. A lot of them either sell out early, usually to Americans, or they give up because they don't have the financial wherewithal.

This isn't going to be a big government program, I can assure you, in which the government picks winners and losers. It's not going to be that, but there's going to be a sizeable amount of money, which we hope to leverage in order to assist these young entrepreneurs.

I know that some of the large manufacturers would prefer that we leave things as they are, but the government's view is that this is a better use of this pool of money.

Mr. Brian Jean: Of course, this is the biggest funding envelope the government has for businesses, so it's important to get it right.

I'm going to turn to my constituency. I'm from Fort McMurray, as you know. It's a very busy place right now. It's been extremely busy over the last, probably, seven or eight years. There have been some changes with our government. In particular, in the oil and gas sector there was a phase-out in 2007 and 2011 of the accelerated capital cost allowance, ACCA, deduction. I understand that was done as a result of G-20 commitments, some of the concerns they had at the G-20 meeting. Indeed, I was curious as to what would be taking place in the future regarding this particular budget and what will go forward for the oil sands.

Frankly, Minister, we're too busy up there right now, and we don't need any more relief as far as taxes go.

Hon. Jim Flaherty: I appreciate that. You know the direction in which we have been going, which is to phase out any special benefits for oil and gas in Canada.
The oil and gas sector pays billions of dollars a year in taxes, and that tax revenue is used to pay for health care and other social programs by governments across Canada. In the 2007 budget and again in 2011, we took out some of the preference specific to oil sands producers, so they're gone and have been gone completely since 2011.

This year we're phasing out the Atlantic investment tax credit for oil and gas and mining sectors, a move which has met with some resistance. Quite frankly, these are good investments in Atlantic Canada, and they don't need a tax preference. They can make money and they do make money.

This is part of our commitment to the G-20 as well. We just talked about it again this weekend in Mexico City. A lot of the other countries in the G-20 are concerned that large gas and oil producers like Canada do not subsidize oil and gas production through taxation, through the tax system, and we do not. We've moved quite dramatically away from that during the course of this government.

Mr. Brian Jean: There has been a call by some parties and some provincial governments regarding the opportunity to use an ACCA for upgrading and refining capacity. I know the Alberta government has suggested there should be something on that.

Is that within the mandate of the G-20, regarding the upgrading and refining capacity? I know the NDP have suggested that we should put more of that type of oil and gas sector in our economy—

• (1925)

The Chair: Okay, question.

Mr. Brian Jean: —and stop sending a lot of it down to the United States.

Is that part of the G-20 mandate or is that part of our government's mandate in this particular budget?

Hon. Jim Flaherty: It's not, as far as I know, part of the G-20 mandate. The G-20 mandate is really concerned with subsidies in the extraction and production of oil and gas. But it's an interesting concept. It's not something we've addressed previously in budgets, so I'll look forward to receiving the report from the committee.

The Chair: Thank you, Mr. Jean.

[Translation]

Mr. Caron, you have five minutes.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you very much.

Thank you, Mr. Minister, for joining us. I assume that an omnibus bill also requires an omnibus environment.

I would like to come back to scientific research and experimental development tax credit. Capital expenditures will no longer be considered as expenses qualifying for tax credit. We have heard a number of witnesses—including Canadian manufacturers and exporters—say that eliminating capital expenditures from the credit calculations could have a fairly significant impact, especially on the manufacturing and natural resources industries. That is because large businesses, in particular, often need pilot projects in the form of trial plants.

Let me say that one of the complaints we have had about SR and D, again, mainly from small and medium-sized businesses, is that they don't have the money to hire a bunch of accountants and so on to figure out all the paperwork they need to do.

In fact, it's getting so complicated that they hire specialists and pay them contingent fees of 30% and more. This is another issue we're looking at, about how much of this SR and ED money ends up in the hands of experts and consultants and doesn't end up doing what it's supposed to do, which is to create more R and D in our country.

To simplify the SR and ED program, the proposal in the bill excludes expenditures of a capital nature, including payments in respect of the use of or the right to use capital property, from eligibility for SR and ED deductions and investment tax credits. It helps to simplify the system.
Mr. Guy Caron: However, Canadian manufacturers and exporters surveyed their members. They say that, after capital expenditures were made ineligible for tax credit calculation, 69% of their companies are anticipating a drop in their R&D expenditures. In addition, 18% of them are thinking of moving their R&D investments elsewhere, since competitiveness will be lower here.

Don't you think that the impact is fairly significant, and that perhaps this eligibility change should be reconsidered?

Hon. Jim Flaherty: No, but it depends where a country starts. We start with the SR and ED program, which is among the most generous investment tax credits in the entire world. Now we're reducing it modestly, not dramatically, but modestly. It's still a very generous tax credit to large businesses doing R and D in Canada.

The Chair: Merci, Monsieur Caron.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair.

I want to thank you, Minister, for being here today. I know how busy you are, so thank you for your time today.

In my riding of York Centre, we regularly convene a number of businesses, mostly small businesses. About twice a month we sit around a table, and we talk about issues and different concerns and challenges they may have.

I have to tell you that, to a business, and these are all small businesses, they all say to convey thanks to the Minister of Finance, particularly for the small business hiring tax credit. They are hiring people as a result of this. A number of them wanted me to pass on a thank you for that.

I want to talk a bit about the IMF's comment on the governance reform provisions which are contained within Bill C-45 and how they relate to what we saw in Bill C-38, the first budget bill. These are designed, of course, to strengthen the financial architecture around the world and all of that.

Canada is co-chair of the G-20 working group. Can you talk about why it's important that Canada take a lead on this to strengthen the international financial architecture and push the IMF to be more fiscally responsible government. That's important so that we avoid some of the very difficult situations we have seen in some of the southern European countries.

Mr. Mark Adler: Thank you.

You also mentioned earlier that we can't be complacent, and of course we can't, notwithstanding the fact that we have the number one economy in the G-8, and the strongest job growth. We're recognized by the OECD, the IMF, and the World Economic Forum as having the best financial system and the best job growth. Forbes said we're the best place to be doing business.

Today, Mario Draghi, the ECB president, spoke in Frankfurt about the four pillars of the European Union economy. He had some fairly optimistic things to say about the European Union.

How do you see the European Union, and of course the forthcoming fiscal crisis, the fiscal cliff, in the U.S.? If a shoe drops, how will that affect us here in Canada?

Hon. Jim Flaherty: The American situation is relatively straightforward. The calculation of the shock to the U.S. economy is 4% to 5% of real GDP. That's the American assessment of what will happen if they let the fiscal cliff happen without any adjustment. I have more faith in self-interest taking hold at some point and people realizing that this would be very unwise. It would hurt a lot of people in the United States. It would also hurt us and we would go into a recession not long after because still 75% of our trade is with the United States and there would be sharply reduced demand of course.

With respect to Europe, we've been pressing Europe for a long time, the eurozone countries, and sometimes we've created a chill in the room by not going along with everybody. I think it's having some effect. For the first time the leaders of the eurozone met following the IMF and World Bank meetings in Tokyo three and half weeks ago and actually set a deadline for setting up the legislation for the supervisory body for their banking system in Europe. It is to be done by the end of this year. Then the leaders of the eurozone instructed their finance ministers to get the implementation done. Their finance ministers are meeting on, I believe, November 12. There are some steps happening with some deadlines in the eurozone.

Mr. Hoang Mai (Brossard—La Prairie, NDP): Thank you, Mr. Chair.
Thank you, Mr. Minister, for joining us today.

You know that the Governor of the Bank of Canada said this summer that there were issues regarding money referred to as dead money—which consists of over $500 billion sitting in private companies' coffers. You also talked about that.

[English]

I want to quote what you said:

We've done a lot through the tax system to encourage Canadian executives, business people, to start utilizing some of the capital they have on their balance sheets. At a certain point, it's not up to the government to stimulate the economy, it's up to the private sector, and they have lots of capital.

[Translation]

Now that we know that about $525 billion is sitting in those coffers and is not being reinvested in the economy, could you explain to us why your budget and your measures failed to fix that problem?

[English]

Hon. Jim Flaherty: Actually they have. If one is interested in jobs and growth we have more than $20,000 net new jobs in Canada since the end of the recession in the summer of 2009. That's easily measured. It's accurate. It's respected around the world. The Canadian brand of fiscal responsibility and monetary responsibility is very strong.

[Translation]

Mr. Hoang Mai: Do you agree that there is over $500 billion currently sitting in private companies' coffers and that this money is not being reinvested in the economy?

[English]

Hon. Jim Flaherty: I appreciate the question. I think the operative word there is "was". We have actually seen some increase in capital expenditures by Canadian corporations. We've seen some acquisitions. We've seen more activity. We've seen that the special provisions with respect to incenting the purchase of manufacturing and processing equipment have had some positive effect. As the year has gone on, I'm more encouraged by the level of business investment by Canadian businesses.

[Translation]

Mr. Hoang Mai: I just want to provide you with some context. You and the Governor of the Bank of Canada talked about that issue this summer.

I would also like to come back to the fiscal cliff in the United States. I think my colleague Mr. Adler mentioned that. Unless I am mistaken, you said today that, if we were faced with a similar budget issue, you would be open to certain stimulus measures.

Since you also praised the committee's work when it comes to pre-budget consultations, could you tell us what kind of stimulus measures you were thinking about, in terms of programs or anything like that?

[English]

Hon. Jim Flaherty: First of all, I'm not envisaging anything right now. What I said before and I say again is we are a pragmatic, sensible government. If our economy goes into recession because of an external shock from the United States or the eurozone, or both, we will take steps to stimulate the economy. What we have done before we will do again, and you know what we have done before.

We would not do exactly the same thing again. We've learned, I think, some ways to do things better from our experience during the great recession, but we are not going to stand by and have the Canadian economy slip deeply into recession with high unemployment.

[Translation]

Mr. Hoang Mai: I also agree. During pre-budget consultations, many people called for the government to invest in infrastructure. I think all the committee members think that could stimulate the economy and create jobs here.

However, we may like to hear more ideas regarding this. We would also like you to talk more specifically about your budget or the Budget Implementation Act.

There is a tax credit for clean energy generation equipment. We asked the officials how much money was earmarked for that. They said about $4 million would be set aside for clean and renewable energies. I know you said there were no subsidies for oil, but organizations such as the David Suzuki Foundation and the Climate Action Network Canada are saying that $1.4 billion in subsidies is provided for fossil fuel.

● (1940)

The Chair: Please ask your question.

Mr. Hoang Mai: Yes.

Do you think we should invest more in green energy—in other words, maintain the investments—and not only $4 million?

[English]

The Chair: Briefly, Minister.

Hon. Jim Flaherty: We are encouraging clean energy investments in two ways. One, we take away the tax benefits of fossil fuel production. Any of the tax advantages they have are gone. Then we help with the new investments they're dealing with, with clean energy. We are expanding the incentive; well, last year we did expand the incentive to include equipment that generates clean electricity, using waste to create heat. We have further provisions for a broader range of bioenergy equipment in this bill.

The Chair: Great. Thank you.

[Translation]

Thank you, Mr. Mai.

[English]

I'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, Minister, for being here. I want to thank you for your work. I think everybody realizes, in this place at least, the hours and the diligence you and your department have put into your job, and the results are there. We are most appreciative of what you do.
I got a call this afternoon from a local reporter—probably most of us did—asking me what I thought about the election results. I think they're fine. That's an American decision and I wish Mr. Obama the best. I went to bed early last night; I had a hunch that was going to be the result.

However, I got up really early because I had to find out about proposal six. I think you're familiar with proposal six. In my neck of the woods that was an attempt by the owner of the Ambassador Bridge to stop the agreement that we had made. I was with the Prime Minister when he made that announcement with the Michigan governor for that very important bridge that we have acted upon to get built for Canada.

We get criticism from time to time. People say this is an omnibus bill and why are we putting in these things, and I'm sure you're familiar with the bridge to strengthen trade act. It's in part 4, division 5. I wonder if you could tell this committee why that is so very important to us as Canadians and especially for our economy.

Hon. Jim Flaherty: Thank you for the question.

As you know, that's one of the sections for another committee to look at, but I'll talk about it.

This is economic infrastructure. This is the kind of infrastructure we need so that we have more jobs, growth, and prosperity in Canada.

Personally, I've been working on this issue since 1995 when I was first elected to the provincial legislature. I was minister of economic development, minister of finance in Ontario. We worked very hard back then to accomplish this. Still we're sitting here in 2012 in Ottawa and it's not done yet. However, I'm thrilled with the result. I would not be candid with you if I didn't say that I'm thrilled with the result.

It's usually important to the auto sector. The auto sector, as you know, is reviving. It's doing very well. Sales are up significantly. We have an integrated auto sector in North America. Chrysler vehicles and so on go back and forth. I think the average is seven times to Detroit and back to Windsor during the course of their manufacture.

This is hugely important for southwestern Ontario, for the auto sector, for employment, good jobs, and a good future. It's good for the parts business as well in southwestern Ontario.

I'm thrilled that the voters of Michigan supported the proposal.

Mr. Dave Van Kesteren: Thank you.

We talked many times about the importance in my riding, as well, of the greenhouse industry and how much flow goes there.

Mr. Chair, how much time do I have?

The Chair: You have just under two minutes.

Mr. Dave Van Kesteren: I'll ask the question very quickly.

In the summer I went to an OECD conference. The socialist part of that organization is quite emphatic when they talk about austerity and how this is harming economic growth. I heard you say at the last G-8 meeting that there's a consensus that governments have to get spending under control. I'm encouraged to hear that. I just wonder, because we hear it in this place, too, if we're doing the wrong things when we cut back and reduce spending. I wonder if you could enlighten us on that.

Hon. Jim Flaherty: When Chancellor Merkel visited Canada this summer, she made it very clear that Canada is on the right track in controlling expenditures. Germany has done so and Germany has avoided a lot of the difficulties that other countries have experienced in Europe and has maintained quite a strong manufacturing base in their country.

I know you've run businesses. I know you're busy here in Ottawa now so you're not there all the time. However, you can't run a business, you can't run a household, you can't run a country by running into debt year after year and pulling out the credit card every time there's a problem and adding on to your debt load. It eventually catches up with you. It catches up especially when interest rates go up, and they inevitably will go up, which is why we've been saying that, and I've been saying, and the governor has been saying that about our housing residential mortgage situation.

We all have to make sure that we stay on track to balance budgets, that we keep the Toronto commitments. The Prime Minister showed a great deal of leadership on that in pushing that forward at Toronto and in the G-20. I think we all need to get on that course. Really, there's not a lot of push back that I hear at the meetings from some of the countries that are in difficulty, but there has to be the will to follow through and to implement, which is always challenging.

Ireland, for example, is following through and is going to be successful, in my view, in their austerity measures, at the same time as promoting economic growth in the country, and they will recover.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Welcome, Minister. I'm pleased to see you again. That is the biggest posse I've ever seen with anybody, but we're glad to have them here because I'm sure they'll supply good information if we need it.

You will recall, sir, that we went back and forth in the House a bit during the time that you started talking about the proposals for changing OAS. At the time, we were trying to draw out from you the costing figures that you were working from. It caused us some grave concerns at the time we were having that kind of a struggle. Recently the Auditor General has talked about the fact that you were in possession of those, and your department had them for a considerable bit of time before.

I'm going to ask you if you'll give us a commitment today that going forward, for the benefit of the parliamentarians in this committee, we'll be able to access those types of figures as we need them to do our due diligence.
Hon. Jim Flaherty: Yes, there were some recommendations made by the Auditor General, as you know, and we've agreed to follow all of the recommendations that the Auditor General made, except his recommendation about the federal Department of Finance commenting on long-term financial situations of the provinces. That's really an area of provincial responsibility. It's not an area of federal responsibility. I appreciate the comments you've made and if life goes well for you, some day you could be the parliamentary budget officer.

Mr. Wayne Marston: It'll have to go really well.

I'll go a little bit further. There are all kinds of new buzzwords that we're starting to hear, the financial cliff, dead money, things of that nature. Mr. Carney has talked about it.

Do you have any specific plans of addressing the so-called dead money to get it active?

Hon. Jim Flaherty: Yes. We took some measures, as you know, in the budget last year to encourage investment in manufacturing machinery and new processes and we have seen an increase in that spending, so that's encouraging. As I was just saying to your colleague, we've also seen in recent months more spending showing up by Canadian companies, so they're starting to invest some of their capital. We're seeing some acquisitions done and so on. It's encouraging.

Having said that, there could be more and it would be helpful for there to be more.

Mr. Wayne Marston: I come from Hamilton where we had for generations a huge industrial base. We've heard at this committee concerns regarding SR and ED, and you'll notice that's percolating through the conversation fairly well tonight. We've had indications that the changes are going to drop us from ninth to fifteenth in R and D. There is all kinds of negative commentary out there. People are saying there are concerns that we'll be less productive as a nation going into the future. Investment in R and D is one of the things that seemed, for North America as a whole, to get us into a better position to compete in the world. We have the education systems to fortify that. Again, I'm from Hamilton. We have McMaster and the centres of excellence there.

At a time when other countries appear to be investing more, and your comments earlier tonight seemed to address that to some extent, could you give us more reasons as to why you appear to be moving in the opposite direction?

Hon. Jim Flaherty: We're moving in a modified direction, I would say. The reason is simple. We invest among the largest amounts per capita in the world in R and D, and our results are not stellar. They're a long way from stellar.

Do we just continue with this system, or do we try to improve it to get better results? After all, this is a tax incentive program designed to get better R and D results, at the end of the day, so that it shows in the economy and helps create jobs.

We think, and Mr. Jenkins' panel was of some help to the government on this, that it would be a good idea to take some of the money and encourage young innovators, including the ones at McMaster University, which has a very good reputation for innovation in medical devices and all sorts of innovation.

There is risk to it. We'll see how well the venture capital scheme works. It will take several years to see how it takes hold. There are many reasons for a positive attitude toward this. We have some really good universities such as McMaster with great engineering programs, superb medical schools, and so on, and some very bright young people. We think they should get part of the action.

The Chair: You have 10 seconds.

Mr. Wayne Marston: I can't sit here with you before me without asking when you're going to start increasing the CPP. It would be out of character, if I hadn't asked that, sir.

Hon. Jim Flaherty: Yes, your persistence is admirable.

The Chair: Thank you, Mr. Marston.

Minister, do you want a motion to the effect of appointing Wayne as the next PBO?

Some hon. members: Oh, oh!

Mr. Wayne Marston: I'll need twice the staff.

Some hon. members: Oh, oh!

The Chair: Maybe Mr. Hoback will move it.

Mr. Hoback, please. You have five minutes.

Mr. Randy Hoback (Prince Albert, CPC): I think we could take a look at that.

Again, Mr. Minister, it's great to see you tonight. The NDP seems amazed at the number of people who have come here to watch you tonight, but you are one of the most successful finance ministers in the world at this point in time, running a great economy. On a Wednesday night, I think this is a great place to be, listening to you and talking about this great budget implementation bill that we have in front of us. I can understand why they're all here. What else can you do on a Wednesday night?

Hon. Jim Flaherty: You have to get a life.

Some hon. members: Oh, oh!

Mr. Randy Hoback: They're finance junkies, maybe.

Mr. Minister, one of the things I think we really want to highlight is the PRPP program and the importance of that program. Sixty per cent of Canadians did not have access to a workplace pension. If you're self-employed, like a farmer, like many people in my riding, you had no ability to even create a pension for yourself.

I understand there are some measures relating to that in this bill. Could you talk about that aspect and how we're providing a low-cost pension option for not only self-employed people but all Canadians?

Hon. Jim Flaherty: Thank you for the question.

This goes back to the smaller businesses and medium-sized businesses in Canada. Most big businesses, as we all know, have pension plans, but 60% of Canadian workers, including self-employed people, don't have even any access to a pension plan, which is why we brought forward the idea of pooled registered pension plans, so that smaller employers can pool their employee groups and get professional advice and better rates.
That's where we are. As you know, the bill passed previously. There are some technical changes that we've been asked to make by different participants, including broad-based eligibility, making sure that the costs of administering the pension plans will be spread over a larger group of people, and many of the employers find the costs a bit too high.

We're making some changes. We're shifting fiduciary responsibilities and reducing the administrative burden for the employer so that more employers will offer, we hope, pooled registered pension plans for their employees.

Savings at retirement, as this committee well knows, constitute a significant problem in Canada.

Mr. Randy Hoback: We had CFIB here for a different meeting earlier this week. They spoke about talking to their community about the options they had looked at for increasing pensions, and they reported their members as saying that this is a great low-cost option. They did not want to see any type of increase in so-called payroll taxes.

I think you've done a great job. I think Mr. Menzies should also be patted on the back for all the work he's done in the background to provide this tool that Canadians can use.

Another thing we may want to talk about is the Canada pension plan triennial review. You might want to touch on what that means in this budget.

Hon. Jim Flaherty: The Canada pension plan is one of the great Canadian success stories. I certainly don't take credit for it; it's been around for a long time. It's a well-funded plan. It's actuarially sound for the next 75 years.

The governance of the Canada pension plan is quite interesting, because it's shared by the provinces and the federal government. When we do a review, we do it together. Then when the finance ministers meet, we look at the results of the review, take advice from our officials, of course, and then approve it.

What is brought forward in this bill with respect to the Canada pension plan are some technical changes, which were sought by the plan itself. All of them have been approved by all the finance ministers of Canada.

Mr. Randy Hoback: Okay.

The Chair: You have one minute.

Mr. Randy Hoback: I think I'll leave it there and pass it on to you, Chair.

The Chair: Okay, thank you, Mr. Hoback.

Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Chair.

Welcome again, Minister. It's been a great pleasure for me to learn by working with you. Every time you appear, I learn something new, so thank you for enlightening us.

When the CFIB was here the other day, they distributed a pamphlet I know you haven't been able to see, but I do want to share some information from it with you. I'm particularly interested in the challenges of older workers. I know we've done a number of things to help older workers. You yourself have pushed for things like the targeted initiative for older workers, approved the ThirdQuarter project that was put forward by the Manitoba Chambers of Commerce in the last budget, which will help to link employers to older workers who still enjoy working, and want to continue.

The CFIB surveyed their members and they asked this very question: “At what age do you believe you will be able to retire comfortably?” They had almost 10,000 responses. What shocked me was that the majority of responses said age 68 or later.

Having said that, I know that in Bill C-45 you've taken some more measures to try to help older workers. Obviously it's needed, according to surveys like the CFIB's.

Can you enlighten us as to what we're doing for older workers? For example, under CMHC, you've taken some measures with regard to retirement age. Can you tell us a little about that?

Hon. Jim Flaherty: Yes, we want to make sure it's easier for people to deal with their money when they're a bit older. We're fortunate that we're living longer. This isn't something we should feel bad about. I think it's a good thing for men and women to have the longevity they have today in Canada compared to a generation ago. It's really quite remarkable, and they're in relatively good health in most cases.

What I hear from people, and I'm sure you hear this too, is that they'd like to be able to move up the RRIF age, for example. We moved it from age 69 to age 71. Some people would like us to bump that higher because a lot of people are continuing to work to age 68 or later, if they're fortunate to have good health. That's one thing.

We want to ensure there aren't unnecessary restrictions on mortgage eligibility and mortgage insurance eligibility for older people just because they happen to be older. We want to make sure we get the pension issues right because some Canadians are legitimately worried about their pension plans, especially defined benefit plans. There's a lot of work to do at Finance, as you know as parliamentary secretary, to try to make sure we make the financial path smoother for older Canadians.

Mrs. Shelly Glover: I appreciate that. I know how important that is to you. I've sat with you many times as you talked about the importance of securing the long-term prosperity of not only those who are working into their later years, but future generations, so I appreciate that.

I want to comment as well on the fact that it is very much appreciated that you've clarified for the Canadian Manufacturers and Exporters who were here the other day that there is going to be a transition into direct programming with the money that is saved. They were pretty clear about not really knowing whether or not that was going to happen, so thank you for that reassurance. I'm sure they're listening tonight.
I want to share with you some of the other things they were thankful for that haven’t come out here tonight, but they’ve been very well received. These are things like the fact that we decreased the GST. I asked them about that. They were happy about that. They were happy about corporate tax decreases as well as limiting EI premium increases to 5¢ as opposed to 15¢. They appreciated the accelerated capital cost allowance for manufacturing equipment. With respect to opening up trade, we know that some opposition parties really don’t support us on that, but manufacturers believe that’s important.

Things they didn’t think were necessarily helpful were things like the carbon tax. I want to give you an opportunity to tell us what that would do.

● (2000)

The Chair: Make a brief response, please. You only have about 35 seconds.

Hon. Jim Flaherty: I really liked your list of good stuff, and then you went to the bad thing, the carbon tax.

Yes, we're against raising taxes, and the carbon tax would be a $21 billion tax on Canadians, which is shocking. It's the last thing the Canadian economy needs. Quite seriously, the last thing we need in Canada are new taxes, especially large taxes that are not incentive taxes, that don't create any wealth, that just take wealth and give it to government.

Mrs. Shelly Glover: I appreciate that. Thank you.

The Chair: Thank you very much, Ms. Glover.

Minister, I just want to wrap up with a few comments.

First of all, I do appreciate your report about the pre-budget committee. I think it is important to show members of this committee, who spend an awful lot of time in pre-budget hearings, that there is a thread between the pre-budget report, the budget in February or March, and the budget implementation bills.

I also wanted to indicate that our hope is to have the report on the charities study to you before Christmas, both the pre-budget report and the report on charities.

I did want to touch on one specific thing. You were in discussion with Mr. Mai about your department's commitment with respect to credits for the fossil fuel sector. As someone who represents a lot of that sector, I would just encourage you to do the approach that was followed in this bill. In this bill there were changes made to the corporate mineral exploration and development tax credit, but at the same time, in the same budget the government extended the mineral exploration tax credit. I think that kind of surgical approach in terms of phasing out some tax credits, there are certain tax credits that do cause a lot of growth and investment, and do result in exactly what you said, which is the billion dollars of revenues back to the government. I don't know if you had any specific comments with respect to that.

Hon. Jim Flaherty: As you do in this committee, I'm sure we do try to be very cautious when we look at tax credits and try to make sure that investment credits, and the mineral tax credit is a good example, are actually accomplishing their purpose. When we see, as we have seen, that the oil industry, for example, doesn't need any of this anymore—at one time yes, but they don't need any of that tax credit support anymore—then we discontinue it.

The Chair: I appreciate that.

I just want to finish by referring to a comment by Congressman Frank. Members of the committee were in New York and Washington in the spring and I asked him about his bill. The Dodd-Frank bill was 2,300 pages, and of course our bill is 400 and some pages. I asked him what he said to members who complained about the size of the bill. He told them that if they didn't want to read the bill, they could wait for the movie to come out. I wanted to give him that final comment.

Minister, thank you for appearing before us today and for responding to our questions.

Ladies and gentlemen, the meeting is adjourned.
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