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## **Standing Committee on Finance**

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**EVIDENCE**

**Monday, November 3, 2014**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Monday, November 3, 2014

• (1555)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):**  
[Public proceedings resume]

I call this meeting to order, the 54th meeting of the Standing Committee on Finance. We are on committee business.

I am going to go to Mr. Saxton, who has a notice of motion.

Mr. Saxton, please.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Mr. Chair.

Every member should have a copy, in both official languages, of the motion before them. I just would like to say that this is a motion similar to what has been put forward previously for other BIAs. Bill C-43 will be referred to committees this week and should provide ample opportunity for not only our committee to study our sections but other committees to study theirs, as well.

The motion attempts to send many of the new or amended acts to separate committees. This includes, for example, all the industry items going to the industry committee, or the temporary foreign worker program changes to the human resources committee, etc.

Let me remind my colleagues that the majority of the measures in this BIA implement budget 2014 measures or previously announced government measures. Our proposal is to have committees report back to us by November 21, giving us the last week of November to study and get through clause-by-clause, as well as giving the analysts time to put together all the proposed amendments.

The minister will be appearing before our committee on November 19. We propose starting with officials for the divisions our committee will be studying, and then moving on to witnesses right away after that. Note that we ask opposition members to indicate to the clerk or chair as soon as possible what divisions or sections are a priority for officials. This way, we won't need to go through every division in order—as with the all-party briefing, which has already taken place, and most members had the opportunity to ask questions at that time—especially if there is no need for questions for that particular section. Let's try to focus on the sections that have the questions.

Thank you, Mr. Chair.

**The Chair:** Thank you very much, Mr. Saxton.

I'll go to Mr. Cullen, please.

**Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP):** I'll be brief, Mr. Chair. I appreciate the motion by Mr. Saxton. This has been done before. That doesn't actually make it a good way to make laws. This is an incredibly complicated piece of legislation, being 460 pages in length and with 401 clauses, about a dozen of which fix old omnibus bills, so a new omnibus bill to fix an old omnibus bill, which had in it changes to fix the omnibus bill prior to that.

We're going to come to some agreement on the calendar, at least for the finance committee to study this. Our challenge has been previously and remains with this motion that we are going to, in effect, try to carve out this bill. If committee members will remember, when the first major omnibus bill came forward, the opposition, the New Democrats, tried to get the bill actually divided.

Witnesses have to come before all of these committees on these important laws that are being changed. We needed to hear the witnesses and make amendments to the legislation in real time in that process. You don't have this bit of a mess in which other committees see this bill nominally and are not able to amend it directly, and all of that gets dumped back towards the finance committee. Finance committee then does clause-by-clause over a day, because it's been ordered by the government in a time allocation fashion to deal with hundreds of clauses with we don't know how many amendments. Much of the time, committee members who will be voting did not hear the witness testimony. As the chair or the government members will point out, we can sub in and sub out MPs from other committees who may not have heard the witness. It's just a mess. This is why the mistakes get made.

This might seem procedural to some, Mr. Chair. The problem is that when you make mistakes in legislation, the effects of it end up in court. They end up costing Canadians time and money, and in other cases just make flat out bad laws.

With such a massive omnibus bill touching on so many different parts of our legislation and with the way governance is done here in Canada, it seems to be a lesson that has not yet been learned by this government. Of course, we'll be voting against this. The government members will push this through regardless, I suspect. But at some point or another they have to find a way to not have these kitchen sink bills show up in Parliament, with so many completely unrelated clauses—unrelated to the budget, unrelated to each other—and pretend that this is somehow a coherent piece of legislation, because it's not.

Of course, the New Democrats will take the work on seriously, because we do. Public safety, industry and science, human resources, natural resources, citizenship and immigration.... We could have had another dozen committees, I'm sure, brought into this. But this is as complicated a way as can be to make law in Canada. No wonder the government keeps making mistakes, which don't cost them but certainly cost Canadians.

Thank you, Mr. Chair.

**The Chair:** Thank you, Mr. Cullen.

We'll go to Mr. Chan, please.

**Mr. Arnold Chan (Scarborough—Agincourt, Lib.):** Thank you, Mr. Chair.

I want to echo the comments that Mr. Cullen has tabled, outlining the Liberal Party position again. This motion is part of an ongoing undemocratic process, part of a time allocation motion that would limit the committee's ability to study this bill, particularly now that we've set a deadline of November 27.

It's undemocratic in our view to limit debate and to have the complicated process of having this referred to a series of different standing committees then reported back to this particular committee under an incredibly tight deadline within the framework of a massive omnibus bill.

Bill C-43 includes a number of measures that have nothing to do with this committee, with the budget, and frankly don't belong in a budget bill and should not be before this committee.

For example, part 4, division 5 dealing with the denial of social assistance to refugee claimants in our respectful view does not belong before this committee. While subparagraph (a)(v) of the motion asks the immigration committee for their input on division 5 we do not believe that is sufficient. Immigration should also have the power to vote on these clauses and amend them as opposed to their simply being referred back to us. Under this motion the power to vote and amend these sections would rest solely with this committee.

For these reasons the Liberals will also oppose the motion.

**The Chair:** Thank you, Mr. Chan.

I have no more speakers and will therefore call the question on Mr. Saxton's motion.

(Motion agreed to)

**The Chair:** Thank you. That deals with our committee business.

I am pleased to call this meeting back to order. I am very pleased to have with us again the Parliamentary Budget Office. We have our Parliamentary Budget Officer, Mr. Jean-Denis Fréchette, *bienvenue encore à la comité*.

We also have the Assistant Parliamentary Budget Officer, Mr. Mostafa Askari who has been with us many times, welcome.

We have Mr. Scott Cameron, economic adviser, welcome to you.

We have Ms. Helen Lao, welcome back to the committee.

● (1600)

Monsieur Fréchette, I understand you have an opening statement and then we'll have questions from all members.

**Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Library of Parliament):** Good afternoon, Mr. Chair, Vice-Chair, and members of the committee. Since you introduced my colleagues who are at the table it's going to be a shorter presentation.

Thank you again for the invitation to appear and discuss the recent economic and fiscal research published by the PBO team.

[Translation]

In recent weeks, the PBO team has published four reports discussing pressing fiscal and economic issues. All highlight issues for short-, medium- and long-term federal fiscal management that should receive further parliamentary attention. Two of our papers highlighted questions regarding how the government manages its short-term fiscal targets.

Our analysis of the employment insurance account demonstrates that Parliament has passed legislation that sets premium rates higher than necessary over the short term, in apparent conflict with the intended management of the program.

Our report on balanced budget legislation should be of great interest to your committee because it is a theme of your pre-budget consultations. This report offers parliamentarians a solid source of analysis and information that could be very useful when they review this topic. They will have to identify the incentives that such legislation can create in terms of policy making to ensure that potential incentives that go against economically and socially optimal fiscal management are mitigated.

[English]

Over the medium term, the challenges relate to how much of the projected surplus can be allocated toward permanent fiscal measures. As the "Economic and Fiscal Outlook Update" highlights, we now expect Canadian economic growth in 2014 to be higher than originally anticipated in our April outlook. As a result of this, we projected that the budget would move into a surplus this year, following six years of deficits. On average, we projected annual surpluses of \$8.8 billion over the outlook; however, measures announced on October 30, 2014, last week, have eliminated roughly half of this surplus, as shown in table 1 and table 2 attached to my remarks.

Much of the remaining fiscal room over the next two years is the result of temporary policies such as the direct program expenses operating freeze, the EI premium rate freeze, and asset sales, as shown in table 3. There is no longer any fiscal room for permanent tax cuts or spending increases. Introducing additional tax relief or spending initiatives would increase the risk of returning to deficits even further.

Over the long term, Parliament will need to consider the best policy response to the economic and fiscal consequences of an aging population, particularly with respect to health care costs. Our fiscal sustainability report highlights that the federal government is able to meet these demographic challenges with considerable fiscal room to spare. If the government takes a long-term approach to fiscal management, then there is room to maintain a sustainable debt burden while increasing borrowing for permanent tax relief or new spending by as much as 1.4% of GDP, or \$28 billion in 2014-15. This increased borrowing would then be repaid as demographic pressures drop dramatically after 2033.

• (1605)

[Translation]

In conclusion, these reports were prepared because of Parliament's interest in these issues and, as I mentioned, the specific interests your committee, in particular, had in some of them.

We also remain dedicated to find new ways and approaches for our reports to meet your needs.

[English]

My colleagues and I will be happy to respond to questions you may have regarding our “Economic and Fiscal Outlook” or any other relevant matter.

Thank you, Mr. Chair.

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

We'll begin members' questions. We'll start with seven-minute rounds with Mr. Cullen, please.

[Translation]

**Mr. Nathan Cullen:** Thank you, Mr. Chair.

I would also like to thank Mr. Fréchette and his team. I found his remarks very informative.

Mr. Fréchette, my first question concerns your presentation. My second question pertains to employment insurance and the program that was announced.

[English]

Let me start with your fiscal projections. Do the recent announcements by the government raise the risk of returning to deficit here in Canada?

**Mr. Jean-Denis Fréchette:** That's what was mentioned in my remarks.

**Mr. Nathan Cullen:** Does it also raise the spectre of what is sometimes referred to as “structural deficit”, in which the government has made commitments that drive it, on a structural level, toward seeing more and more deficits in Canada?

**Mr. Jean-Denis Fréchette:** As we have shown in the tables that are attached to my remarks, you can see in table 2 the calculation we did there for the structural deficit.

**Mr. Nathan Cullen:** Just to be clear, right now as we look at the strength or weakness, depending on your projections of the Canadian economy, with the commitments that have been made on the books

by the government, are we, in effect, watching the implementation of a structural deficit in Canada?

**Mr. Jean-Denis Fréchette:** I will refer that question to Mostafa. I'm sure he would like to add something on this.

**Mr. Mostafa Askari (Assistant Parliamentary Budget Officer, Economic and Fiscal Analysis, Library of Parliament):** What we are forecasting for the economy is that, over the last three or four years of the projection period, the economy will be operating above its potential level. We close the outward gap in 2015 and then for the rest of the projection period the economy will be operating above potential. What this means is that some of the revenues that you will see over that period of time would not be structural revenues. They are cyclical revenues; so those things, obviously, over time, once the economy goes back to potential, will lose that increase in revenue, so that's why—

**Mr. Nathan Cullen:** Sorry, can you describe what these one-time revenue sources are, typify what some of these would be?

**Mr. Mostafa Askari:** Sure. There are two or three factors here. One is what we call the cyclical factor, which is that once you're above potential, you get some extra revenues because the economy is operating above its normal trend. That part we call cyclical revenues. Those are not permanent; they're temporary revenues because the economy will go back to potential, and so revenues will go back to their structural level.

There are a couple of temporary factors, which we have mentioned in our calculations, that go beyond the structural budget balance. These are some of the adjustments that were made to the direct program spending in the past budgets, which are temporary measures. One was, essentially, booking the change in the insurance premium for seniors, which was done, and that booking is obviously a saving, but it's a temporary saving for the government because that is only done over a seven-year period.

Then employment insurance is another addition to the savings, which was booked. Again, the way that employment insurance is structured, it has to balance over a seven-year period, so whatever gain you have right now will be offset by losses in the future.

• (1610)

**Mr. Nathan Cullen:** Again, we often use analogies of households to try to understand this government-made function, to be able to relate this to Canadians. A household receiving a one-time payment and then running its household books in such a way as to expect that payment to continue on, even though we know it's one-time, runs that household, as does a government, back into deficit, back into borrowing quickly if big, expensive promises have been made.

**Mr. Mostafa Askari:** Exactly. That's why we have calculated this in table 3 that we provided today. At the bottom of table 3 is what we call permanent fiscal policy room.

**Mr. Nathan Cullen:** But there's no room.

**Mr. Mostafa Askari:** It is negative now. After last week's measures that were introduced, based on our calculations, that room is negative over the medium term.

**Mr. Nathan Cullen:** Let's turn to the EI hiring tax credit for a moment. Your estimation was very, very different from what the government continues to report, in terms of the economic impact for the costs of the \$550 million out of EI.

Has the government come forward with an analysis that you've been able to see?

**Mr. Mostafa Askari:** No. We've not seen any analysis from the government on the job impact of this.

**Mr. Nathan Cullen:** They claim 25,000 person-years, I believe.

**Mr. Mostafa Askari:** Well, I understand that is coming from CFIB, and—

**Mr. Nathan Cullen:** You've seen CFIB's analysis.

**Mr. Mostafa Askari:** We have seen some analysis from CFIB. The way it has calculated those job numbers is not the way that the job impact of a policy measure is normally calculated. It is talking about a job-year or person-year impact over a long period of time, which I believe is a 10-year period.

First of all, on the structure, based on the Employment Insurance Act, the account has to be balanced over a seven-year period. There is really no way you can get any gain or losses from this account by changing the premium. Whatever you do now, if you give credit now on EI, you have to offset that in the future by having the rate higher than what it would have been. If you maintain a higher rate now, the rate in the future will be lower. Whatever you do in that account over that period of time, it has to balance.

In effect, you can't really get any positive or negative impact from this account on the activity or on jobs.

**Mr. Nathan Cullen:** Is this, then, why your conclusion comes to this \$550,000 per job created?

**The Chair:** You have one minute.

**Mr. Nathan Cullen:** Thank you, Chair.

It's such an extraordinarily high figure. It is because of the very nature of the employment insurance account. If you borrow from Peter, you have to pay Paul.

**Mr. Mostafa Askari:** Well, yes, in fact. The way that the credit was done, it was only over a two-year period, so whatever the number of jobs we estimated, obviously the cost divided by that will be the cost per....

**Mr. Nathan Cullen:** This is the last question. Has the government disputed your analysis of this EI hiring scheme?

**Mr. Mostafa Askari:** We have not seen any official comment.

**Mr. Nathan Cullen:** Let's find out if they choose to now.

Thank you, Chair.

**The Chair:** Thank you, Mr. Cullen.

We'll go to Mr. Saxton, please, for seven minutes.

**Mr. Andrew Saxton:** Thank you, Chair. Thank you to our Parliamentary Budget Officer for being here with your colleagues.

Since coming to office, our Conservative government has been implementing its low-tax plan. In fact, since 2006 our government has lowered over 180 different taxes leaving about \$30 billion in the pockets of Canadians. I think you confirmed that in your previous report.

The average Canadian family now will have an extra \$4,500 in their pockets at the end of next year. In addition to that, corporate

taxes are also now reported to be about 46% lower than those in the United States. As a result we're seeing companies like Tim Hortons moving their corporate head offices back to Canada in order to take advantage of our lower tax policies. This of course in turn creates jobs and grows the economy.

At the same time as reducing taxes we're also on track to balance the budget a year ahead of schedule. This is unusual because many countries in fact have to raise taxes in order to balance their budgets. We've been able to do the opposite. We've been able to keep taxes low and balance our budgets at the same time. Given this, would you say that the Conservative government's plan to stay the course by keeping taxes low and balancing the budget is working?

• (1615)

**Mr. Mostafa Askari:** We would not comment on whether a plan from the government or any other party works or not. We can provide an assessment of what the results are from those measures.

Certainly some of the things you just mentioned are facts. Obviously the measures that have been taken by the government in terms of the tax reduction... The balanced budget obviously is the consequence of some of those decisions, but I would not get into whether the program works or not. That's an assessment of policy, which we don't normally do.

**Mr. Andrew Saxton:** Okay.

Would you normally then be able to say that because of taxes being lower in Canada we have had corporate head offices relocate back to Canada, which in turn has helped to create jobs and stimulate the economy?

**Mr. Mostafa Askari:** I think we have seen one example of that in terms of one major company moving their headquarters here and that definitely has some positive impact on the job market. But whether or not the tax is the only reason they have done that I can't really say as I don't really know what exactly the reason was they moved their headquarters. One could speculate that taxes would be one factor but whether that's the only factor or not I can't really say.

**Mr. Andrew Saxton:** Okay. But I think it's clear that if taxes were higher in Canada they likely would not have come back to Canada.

In your report on the surplus you say, and I quote:

Policymakers should be wary of using surpluses to implement permanent tax relief or spending initiatives if they wish to avoid returning to deficits as economic growth subsides.

Then you go on later to say under the spending section:

There is policy room to permanently increase spending or reduce the tax burden by 1.4 per cent of GDP (\$28.2 billion in 2014-15) while maintaining the stability of public debt over a 75-year horizon.

I don't quite understand. On the one hand, you are cautioning against putting in permanent tax relief measures and on the other hand, you are saying that there is room for permanently reducing the tax burden. Can you square that circle for me please?

**Mr. Mostafa Askari:** Certainly.

It all depends on what your perspective and fiscal anchor is. If the fiscal anchor is over the medium term and the objective is not to have deficits over the medium term then the room is very limited. As we showed, after the measures introduced last week actually the room is negative.

However, we do a long-term analysis of fiscal sustainability that uses fiscal debt-to-GDP ratio as a fiscal anchor. That debt-to-GDP ratio is the current debt-to-GDP ratio.

Our analysis shows that if your goal is to maintain a stable debt-to-GDP ratio in the long run and the long run is a 75-year horizon, then you would have the fiscal room of 1.4% of GDP. So again it all depends on what the fiscal anchor is over what period of time. If it is a medium term then there is not room actually left in the budget. But if you have a long-term perspective, which in our view is actually a more appropriate way of looking at the fiscal room, to look at the debt sustainability rather than the annual fiscal balance, in that case you would have a larger room.

**Mr. Andrew Saxton:** Thank you for explaining that.

Since our government took office in 2006, we've negotiated a record number of free trade agreements. I think we now have them with 43 different countries, and we had only five countries with these agreements in place when we came into office.

The most notable ones were the last two, which are with the European Union and with South Korea. They are both quite notable in the sense that the one with South Korea is the first free trade agreement with a country in the Asia-Pacific, and the one with Europe is notable because of its size and scope, so many countries involved, and such significant measures that are going to be taking place.

Our own analysts have calculated perhaps as many as 80,000 jobs will be created as a result of the European free trade agreement, and that could translate into \$1,000 per Canadian family.

How effective are free trade agreements at creating jobs and growing the economy, and how will Canada benefit in the years ahead from these new free trade agreements as Canada has with the free trade agreement with the United States and NAFTA that was negotiated by a previous Conservative government in the 1980s?

• (1620)

**Mr. Mostafa Askari:** In principle, freer trade definitely would benefit the economy. That's without question.

We haven't done any studies on CETA, the new agreement with the European Union. We have a study on that in our work plan, but it would take a while to finish it. It's a complex project. Hopefully sometime next year we can provide that assessment.

**Mr. Andrew Saxton:** Briefly, you mention in your report the importance of investing in public infrastructure. I think our government has made it absolutely clear that we agree with you. That's why we put a record amount of money in place to invest in public infrastructure.

Can you clarify for me or confirm to me that you think this is a good move the federal government should be doing?

**The Chair:** Reply very briefly, please.

**Mr. Mostafa Askari:** That was not a direct policy recommendation in our report. It was just an illustration of how capital investment would affect the budget and debt in Canada. We showed the impact on the budget is very small, and it may have potential benefits.

**The Chair:** Thank you, Mr. Saxton.

Mr. Chan, please, you have seven minutes.

**Mr. Arnold Chan:** Thank you, Mr. Chair, and thank you witnesses for your presentation, and thank you in particular, Mr. Fréchette, for your presentation.

I wanted to start by looking at the issue of oil prices. Oil prices have been dropping quite steadily since June by about 25%. A recent banking report suggested oil prices could drop to as low as \$70 U.S. a barrel by Christmas.

Do you think falling oil prices will have an impact on the government's balance sheet?

**Mr. Mostafa Askari:** In general since we are a net oil exporter, in the short run there will definitely be a negative impact on revenue through lower corporate taxes.

The complexity of that issue is lower oil prices will benefit other sectors of the economy and also consumers because consumers will have more real income available to spend on other things.

So over time typically you get that negative impact on the revenues in the first year, and then the other sectors of the economy will adjust to lower energy prices and lower costs so some of that negative impact will disappear over time.

In the end the net impact on government revenue in Canada may be very small.

**Mr. Arnold Chan:** In any of your current reports was the declining oil price reflected in your analysis?

**Mr. Mostafa Askari:** Not the most recent decline in oil prices, but we have a framework for estimating the oil prices for our forecast because we need that. That's mostly based on the future prices in the markets, and then we make some adjustment to that, and use that. But, no, the most recent declines are not reflected in our projection.

**Mr. Arnold Chan:** Thank you.

I want to follow up on some of the questions from Mr. Cullen on the EI tax credit.

Your report on the government's small business job credit predicted only 800 jobs would be created over two years at a cost of almost \$700,000 per job.

From our perspective, this credit provides employers with a perverse incentive, to hire only once they are near the \$15,000 cut-off for EI premiums.

One aspect of this was referred to by my colleague Ralph Goodale who asked you to look at how many businesses are near the \$15,000 threshold. Specifically he asked you whether you could find out how many businesses paid between \$14,000 to \$16,000 in EI premiums in 2013.

Were you able to get this information from the government?

**Mr. Mostafa Askari:** No, we did not get that information. We searched for the information from other sources, and we could not get it. We have not made a formal request to the government as to whether they have those numbers or not.

When we did the study, I think one of the issues was that this whole credit is relatively small when you compare it to the size of the economy. So any kind of negative or positive impact of that credit on job incentives, or whether firms will make a different kind of decision because of this credit, to us was not an issue. It's so small that it's not going to have a huge impact on any business, one way or another.

• (1625)

**Mr. Arnold Chan:** Obviously the Parliament of Canada Act gives you “free and timely access to any financial or economic data in the possession of the department that is required” for you to execute your particular mandate within your office. Despite that fact, your office—at least in the past—had a long-standing running battle with the government, which has often refused to give you information we feel you are entitled to.

I recall—and this was before I was elected to office—that your office was prepared to go to court to defend the right to obtain this information.

Can you give an update to this committee on your efforts to get information from this government, and have there been any ongoing challenges?

**Mr. Jean-Denis Fréchette:** There are always challenges.

I can provide you with some data. For the first time in the past six years the PBO will publish its own annual administrative report that will contain our statistics on our relationships in terms of requests for information.

In the last fiscal year, 2013-14, our rate of success with the requests that we made to departments is 55%, so in 55% we got everything that we wanted to have and what we required to do our job. In 45% of the cases it doesn't mean we got nothing, but it was incomplete. In some cases it was nothing.

So yes, we continue the work of building bridges. A good example is that on a weekly basis I have contact with various departments, and we are trying to develop some kind of approach, agreements or an MOU in some cases, so that will facilitate the access to information.

**Mr. Arnold Chan:** Are you getting that information on a timely basis?

**Mr. Jean-Denis Fréchette:** In some cases, yes, we do. In some other cases, no, but timely is always a matter of how much time we take to develop the questions, or how quick we are. We are quick to reply to a department that says it doesn't have exactly what we want.

Sometimes we have to understand that the department doesn't have the data or the information in the format that we want so we have to give them some time. Timeliness is there, but as I said, not always, but that we can understand.

**Mr. Arnold Chan:** Quickly, is there still a problem getting information at all, and if so, would you still be prepared to take the government to court?

**Mr. Jean-Denis Fréchette:** In some cases there are still difficulties getting the information. As I mentioned before, eventually when there is no hope of getting the information, that will be the signal to go to court, but we're not there yet.

**Mr. Arnold Chan:** Thank you.

**The Chair:** Thank you.

Thank you, Mr. Chan.

We'll go to Mr. Keddy for seven minutes again.

**Mr. Gerald Keddy (South Shore—St. Margaret's, CPC):** Thank you, Mr. Chairman.

Welcome to our witnesses, to the Parliamentary Budget Officer and to your team, and thank you for the work you do on behalf of parliamentarians and all Canadians.

I need a bit of help on one of the statements that came out of your office lately on government spending. “There is policy room to permanently increase spending or reduce the tax burden by 1.4 per cent of GDP (\$28.2 billion in 2014-15) while maintaining the stability of public debt over a 75-year horizon.”

I need some help here trying to figure out how you can... I understand a one-year projection, that's pretty easy, or even four or five years. But how can you project what's going to happen with public debt over a 75-year horizon?

I remember 20% interest rates in the eighties, and they were not pretty. A lot of things can happen in the world that are way beyond government's control, so I wonder how you can think about a 75-year horizon.

**Mr. Mostafa Askari:** I remember the 20% interest rate as well, sir, but...

• (1630)

**Mr. Jean-Denis Fréchette:** You had a mortgage.

**Mr. Mostafa Askari:** That's right.

The study that we do—and we call it fiscal sustainability, which is a long-term study—is the sort of standard kind of exercise that most OECD countries actually do. This is to help governments and policy-makers have a framework for the future, taking into account the impact of long-term trends, like the demographic changes. We don't really call the study a forecast; it's a scenario now, a “what if” scenario. We assume that the current fiscal structure that exists right now would not change, which means no new tax measures, no new expenditure measurements. There are some of the standard assumptions that you make in terms of how the expenditures will develop over time, or taxes; the tax burden would remain constant. Under those conditions, and assuming that the interest rates, as you mentioned, will go to their normal level, over that 75-year period—you may have ups and downs during that period, but on average, if they stay at the normal level—then you can measure the impact on the government balances every year, and then that will help you to measure the impact on overall public debt. That's the framework.

**Mr. Gerald Keddy:** Thank you for that.



I have another question. We announced the children's fitness tax credit at a cost of about \$25 million to \$35 million per year over the long term—short long term, for politics. Together, measures announced since budget 2014 have, in your words, "...only a small fiscal impact in 2015-16 and 2016-17, and a negligible impact going forward".

If you looked at that, did you also look at not just the economics but the economics of a healthier society? We have a rampant obesity problem in Canada. We have type 2 diabetes in grade-school children, as we've never had it before in this country, which will absolutely come back to haunt us at some point in the future. I just wonder if you worked that into your equation, because I couldn't find that.

**Mr. Mostafa Askari:** In response to your question, maybe it's not an answer, but we normally do not measure those kind of effects, from a policy measure, whether it affects the health of the population and how a healthier population will affect the economy. That becomes the second-, third-, and the fourth-round impact of a policy measure that we do not normally take into account. Not that they're not there; they are there, but in our kind of work we do not normally do that.

**Mr. Gerald Keddy:** This is just a comment; you don't have to answer. My suspicion is that, for \$25 million to \$35 million a year, we're going to get paid back by a huge dividend with improved health care of society and a healthier society. I mean we've got obesity rates that are off the charts. We've got an unhealthy workforce. We've got lost time. All of those things cost the Canadian taxpayers and governments and society dollars.

**Mr. Mostafa Askari:** That, of course, assumes that people who put their kids into sports won't do that without that credit. That's a major assumption.

**Mr. Gerald Keddy:** Okay.

The recent "Economic and Fiscal Outlook" noted that the Canadian economy is...you know, we've created roughly 65,000 new jobs in the first three months of 2014. Recent gains have been almost entirely in full-time positions in the private sector. That builds on our strong economic record of one million jobs since the depths of the recession, mostly full-time, private-sector jobs.

If we look at the broad spectrum of job-creating measures taken by our government since 2012, including the reduction of the corporate tax rate, having fostered the conditions necessary for increased economic growth—and I think, quite honestly, we did that as a government—would your analysis of the jobs added to the economy change if you took these measures into consideration?

**Mr. Mostafa Askari:** Sorry, what—

**The Chair:** You have one minute remaining.

**Mr. Gerald Keddy:** Your analysis was somewhat less than that. Would that analysis change if you took our analysis of the jobs added to the economy, if these measures were taken into consideration?

**Mr. Mostafa Askari:** All the estimates that we have essentially take into account all the policy measures that government has introduced over time; this is always taken into account both on the positive and negative side, it doesn't really matter. The only thing, as

I mentioned, that we don't take into account are some of those effects that you were mentioning about a healthier population and how those would eventually affect.... Those kinds of things we do not take into account.

• (1635)

**Mr. Gerald Keddy:** That's fine.

**The Chair:** Thank you, Mr. Keddy.

We'll go to Mr. Rankin for seven minutes.

**Mr. Murray Rankin (Victoria, NDP):** Thank you.

Thank all of you for coming. Mr. Fréchette, welcome again.

I would like to ask you about your August report entitled "Analysis of Performance Budgeting During Recent Fiscal Consolidation". It seemed to reveal that the government is cutting programs regardless of how well they work. Not only did it find no relationship between the performance by a department and its budget growth but it also found evidence, it seems to me, that important financial resources are being taken away from successful programs and transferred to non-performing programs.

According to your findings, what is the government's success rate in meeting its own performance objectives?

**Mr. Mostafa Askari:** The expenditure management system, which is under the control of the Treasury Board Secretariat, was established to ensure that the spending by programs provides value for money. Because of that, there is a system in place that each department and agency has to provide indicators for the performance of their programs and then at the end of the year they have to assess to what extent they have achieved those objectives.

What we did in our report was look at over a three fiscal-year period the performance of all those programs, their objectives and what they showed they achieved at the end of the year, and then we tried to match that with the changes in the budget allocation for those programs. The idea was to see whether the expenditure management system and the performance measures are actually used for allocating funds to different programs.

What we found was there was no real correlation between the performance of the programs and the budget allocations, budget cuts or increases, in the following year.

**Mr. Murray Rankin:** It also seemed that you found about 44% of the programs didn't have enough data to measure their success or failure. Is that so?

**Mr. Mostafa Askari:** That's correct. A large number of programs do not actually provide enough information on their performance, or they change the performance criteria during the year so it would be very hard to actually measure the performance at the end of the year.

**Mr. Murray Rankin:** Building on what my colleague, Mr. Chan, said, it seems to me this points to a larger problem about the failure of the government or refusal to provide adequate data to you to do your job. That would seem to be pretty self-evident, based on that.

**Mr. Mostafa Askari:** We didn't request that information. That's information that's supposed to be tabled every year by the departments in their performance reports, and some of those programs do not have the information that is required.

**Mr. Murray Rankin:** I'll come back to that, if I may.

Turning to something different, did your medium-term analysis of the report on fiscal management take into account the costs of the mission in Iraq?

**Mr. Mostafa Askari:** No, we have not done that yet.

**Mr. Murray Rankin:** I'll go back again to information management. Six months ago the Federal Court strongly upheld the right of your predecessor to take the government to court should it refuse to provide requested information. It was recently reported that you were still struggling, Mr. Fréchette was struggling, to obtain information on the impacts of the massive spending and staffing cuts announced more than two years ago, and you were thinking of going back to court to obtain that information.

Could you update this committee on the status of those efforts?

**Mr. Jean-Denis Fréchette:** On the efforts of getting the information for the budget 2012, we are basically at the same status. In August 2013 there were requests for access to information under ATIP that were made, which did not work very well for various reasons. That is not an approach that is very effective.

As I mentioned before to another question, not specifically in that context but in some other cases we are developing bridges and we are developing approaches. Eventually when.... And I understand—I was about to say “your frustration”, but I would use the French word, *exaspération*—

[*Translation*]

**Mr. Murray Rankin:** That's the right word.

[*English*]

**Mr. Jean-Denis Fréchette:** —which, believe me, I share with you. When I get exasperated enough, eventually going back to court is not off the table.

**Mr. Murray Rankin:** But, Mr. Fréchette, in reply to Mr. Chan, you used the expression “55% of the information we feel entitled to”. Those were your words. It's not your entitlement, it's the law that requires that, and the government is not obeying that law.

• (1640)

**Mr. Jean-Denis Fréchette:** Absolutely. In some cases, a department makes an assumption that it's because we don't ask specifically for economic and financial data. The department, DND—and I mention it because it's public—specifically said it's outside the scope of the mandate. We dispute that.

**Mr. Murray Rankin:** Let me talk about the CRA. You have an MOU with the CRA to analyze the tax cap. I think you talked about that. We introduced a motion in the House that would have required the Conservatives to give your office the information to measure the tax cap. The government voted down that motion. Can you tell us about your efforts to measure the tax cap, and about this MOU?

**Mr. Jean-Denis Fréchette:** You're right, an MOU is under discussion. We're still negotiating with CRA because we want to make sure that it's going to be not only an MOU for that specific tax

cap, which is important because we received two requests from parliamentarians who asked that specific question. We are now considering that the MOU is in the process of being negotiated, as I said. We want to have a long-term approach for the MOU. We don't want to have an agreement or a memorandum of understanding that would be specifically for this. We want something on a longer term. Eventually, if it doesn't work, as I said, when we lose hope, then we will have to move on.

**Mr. Murray Rankin:** Yes, I hope you do.

Very briefly, Mr. Mulcair, the leader of the opposition, introduced Bill C-476 that would create a status like that of the Auditor General for the PBO. Do you agree that strengthening the mandate in that way would be beneficial for your work?

**Mr. Jean-Denis Fréchette:** If it's the wish of parliamentarians to review the legislation, I certainly support whatever parliamentarians will—

**Mr. Murray Rankin:** Would it assist you in your efforts to have that level of independence?

**Mr. Jean-Denis Fréchette:** I'll give you the example, to circle back to the MOU, the Auditor General had to develop MOUs with departments to have access to information, and he's an independent officer of Parliament.

**Mr. Murray Rankin:** Thank you.

**The Chair:** Thank you, and thank you, Mr. Rankin.

Mr. Allen, you have seven minutes, please.

**Mr. Mike Allen (Tobique—Mactaquac, CPC):** Thank you very much, Mr. Chair, and thank you to our witnesses for being here. There are so many questions in so little time, seven minutes.

Mr. Fréchette, one of the comments you brought up was that growth was higher than expected. I have three questions on that. What are the key things that have driven that additional growth? What are some of the risks you see in the projections of that growth? What is driving the growth above the potential? You started talking a little about it in footnote 6 on page 7 of your “Fiscal Monitor”, but I'd like to understand a little more detail on that from your perspective.

**Mr. Jean-Denis Fréchette:** I'll ask Helen to answer.

**Ms. Helen Lao (Economic Analyst, Economic and Fiscal Analysis, Library of Parliament):** Growth for 2014 was higher than expected. We revised up growth for 2014, partly because Q2 of 2014 came in stronger than expected. In our forecast, we also expect U.S. economic conditions to continue to improve as we have seen in their labour data, as well as their quarterly GDP for the first estimate of Q3. That's why we've revised up the growth for 2014. It was partly reflective of the stronger Q2 that we've seen.

**Mr. Mike Allen:** What would you see as some of the major risks if you projected that up? The Atlantic Provinces Economic Council just said they're projecting the Atlantic provinces' growth being a little better—not modest, not great, but a little better—mostly due to the U.S. conditions. Can the U.S. continue to sustain that? Is that one of the key risks you would see? Is there any risk of a fiscal impasse in 2015 hurting that as well?

**Ms. Helen Lao:** It could definitely be a positive risk, but on the downside, it could be weaker commodity prices. Also, weaker employment growth could also cause a downward revision in our economic forecast.

**Mr. Mike Allen:** Have you made a projection on the value of the Canadian dollar and the impact on that? It would probably be helpful for us.

**Ms. Helen Lao:** We revised down our forecast of a Canadian and U.S. exchange rate.

**Mr. Mike Allen:** Is that long term?

**Ms. Helen Lao:** In the medium-term projection we've reflected that, and that was also based on the weaker commodity prices we've seen.

**Mr. Mike Allen:** Thank you.

Mr. Askari, I think you made a comment about table 3. The last statement you made on that was in the medium term. After you get past 2019-20, does it look better after that medium term, even with the tax cuts and the additional child care benefit payment that was announced last week?

•(1645)

**Mr. Mostafa Askari:** Well, typically because we have a progressive tax system, taxes tend to increase more than the growth in GDP over time because of that bracket creep over time. People move up to a higher bracket and pay higher taxes, so there is a small increase over time, an improvement in the balance over time.

Again, I'll take you back to what I said about the long term. If we have a longer-term perspective, you will have that room I mentioned because the way that the federal government expenditures and taxes are structured now, something around 45% of government spending is in transfers. Most of them are indexed to GDP, so it's very hard for them to get out of hand. Then the direct program spending, which is another major part of this spending, is almost frozen. It increases very gradually, so over time you will see an improvement in the budget balance, yes.

**Mr. Mike Allen:** Thank you very much.

You mentioned you were going to be doing a CETA analysis, which is complex. I'd like to understand what trade deals have factored into your projections going forward, even into the next number of years. Have you been able to use previous trade deals that we have in order to get a projection of the impact of Korea and the impact of CETA, of what they might mean in the growth rates that you've projected?

**Mr. Mostafa Askari:** We have not explicitly taken into account any of these trade deals. CETA is new. It hasn't really been implemented, so there's really no point in doing that. As I said, we have to do a study to have a better idea of its effect.

The other trade deals that have already been done, relative to the overall picture, are very small, so they don't really require an explicit account in the way we do our projection.

**Mr. Mike Allen:** Okay.

I'm fascinated by the demographic information that was in your report—2033 seems to be an interesting year, when a lot of things seem to settle, I guess, and stabilize, at that point in time. We're going to be at 2.6 people of working age for every person 65 years and over. When we're talking about immigration rates, it makes me wonder. The world is going to be very competitive for immigration. Do you see that we're going to be able to win in the competition for skilled immigrants? What's your projection on that? Population growth is only at 1.67 of internally generated children, right?

**The Chair:** You have one minute.

**Mr. Mike Allen:** Can you answer that all in one minute?

**Mr. Scott Cameron (Economic Advisor, Analyst, Economic and Fiscal Analysis, Library of Parliament):** Is there a competition for skilled immigration? We haven't looked at that very closely. We have some longer-term StatsCan assumptions that our forecast is based on. It would be an interesting topic.

**Mr. Mostafa Askari:** If I could just add one point, I think you're right: there will be competition for skilled immigrants. That's one reason we have actually done some simulations in the past, in terms of whether raising immigration levels would actually help deal with the issue of long-term fiscal gap. Normally it's very hard to see that in the numbers.

**Mr. Mike Allen:** I'll just make a quick comment—I have 15 seconds.

**The Chair:** Yes, make it a very quick comment.

**Mr. Mike Allen:** It seems to me, based on the productivity growth, that just from a government policy standpoint it's going to be very important for investments in capital, because that's going to be one key thing for productivity growth. From a policy perspective, I'm encouraging businesses to invest in capital.

Thank you very much.

Thank you, Chair.

**The Chair:** I think it's a hint from Mr. Allen that, if you wanted to pursue that area of study, it would be worthwhile.

Thank you.

[Translation]

Ms. Pécelet, you have seven minutes. Please go ahead.

[English]

**Ms. Ève Pécelet (La Pointe-de-l'Île, NDP):** Thank you very much, Chair.

Thank you very much to our witnesses.

[Translation]

The government intends to deliver six to eight ships, including infrastructure, by 2024, at a cost of \$2.8 billion. But the Parliamentary Budget Officer's main finding is that the current budget is not sufficient to acquire six to eight ships. Currently, should there be no delays, the budget would allow for just four ships to be built. A one-year delay would bump up the cost of building four ships by an estimated \$206 million more than currently budgeted. A two-year delay would bump up the cost by an estimated \$310 million.

•(1650)

[English]

Even with no delays, to achieve four ships with 80% confidence is \$201 million over the budget. The confidence level calculates the range of potential cost estimates and then orders from the lowest to the highest; the mid-point of these estimates is called the 50% confidence level. This is a minimum acceptable standard when selecting a budget. Fifty per cent of the anticipated outcomes yield cost estimates less than the budget and only 50% yield estimates greater than the budget. So only four ships can be delivered with the \$2.8 billion budget at the minimum acceptable confidence level. If the government wanted to deliver the stated minimum of six ships and the maximum of eight ships, the budget would need to be augmented by \$470 million to achieve a 50% confidence level. Any delay over a year would mean that the budget would likely only be sufficient to build three ships. Schedule slips, therefore, may have a significant impact on the government's purchasing power and on other projects down the pipeline such as the Canadian surface combatant.

As this program stagnates, it is understood that we lose ships in numbers. Does this lag affect the capabilities of those ships as well and, if so, how?

[Translation]

**Mr. Jean-Denis Fréchette:** Thank you for your question.

Yes, your figures are correct. The report states that a 50% confidence level equates to four ships. Raising that level to 80% would raise not only the likelihood of it being done, of course, but also the cost. The real answer to all of this is that there is a domino effect. The longer the delay, the greater the chance it will affect the building of other ships, the Canadian surface combatants.

In the event there are no delays or a delay occurs during the timeframe, the ships targeted for 2021, the next set of ships, will be in jeopardy or possibly delayed. Skills and expertise could be lost in the meantime.

The figures you cited are accurate. So achieving four ships with a 50% confidence level is more likely if everything stays on schedule. An 80% confidence level would basically require increasing the budget and, obviously, avoiding any delays.

**Ms. Ève Pécelet:** In your report, you talked about the improvement in the structural budget and the fact that the budget would move into a surplus position. However, a number of economists are of the view that it is a false surplus—and I think you talked about this in your presentation—resulting from the federal government's failure to spend all budgeted amounts appropriated by Parliament.

And that could make fiscal management more challenging in the years ahead, especially in light of a potential change in government in 2015. In fact, the budget reality and the public accounts reality are completely different.

What are your thoughts on the false surplus projected by the government?

**Mr. Jean-Denis Fréchette:** I am going to ask Scott to answer that.

[English]

**Mr. Scott Cameron:** Certainly. Let me see how to approach this.

You approve the estimates on a cash basis. When finance is preparing its forecasts, it has an adjustment that it makes to put that on an accruals basis. We haven't been provided with information to assess that, but it has appeared that over the last four or five years, every year there has been a surprise in how much the spending is coming in relative to what has been approved by Parliament. There's always some room there. It arises from the incentives that departments have. When they're spending throughout the year, the consequences of overrunning budgets are much harsher than of under-running budgets, so naturally every year you get an under-spend and finance it. When it forecasts direct program expenses, it accounts for that.

Each year there has been a greater amount than what has been forecasted by Finance Canada. We would like to do our own forecast of DPE but we haven't yet been provided with the information. That's been rejected, I believe, from requests that we've made to get how this reconciliation between the expenditures appropriated by Parliament and what actually goes out based on the public accounts...as you said, and how that gets reconciled in the budget outlook. We would like to look at that issue more closely, but we would have to find other ways to do so.

•(1655)

**Ms. Ève Pécelet:** I would just thank the witnesses a second time for coming.

Thank you very much.

**The Chair:** Thank you.

We'll go to Mr. Van Kesteren, for seven minutes, please.

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

It's good to see you again.

This is fascinating stuff. Every time you come in, I think we learn more. This really is an interesting department you run. I think we're all learning as we go. Of course you are our teachers for the most part, but much of this you can bring down to a level most people can understand.

I wonder maybe if, through my line of questioning, I can do that.

I'm going to go to you, Mr. Askari. Why is the global growth, the GDP, so stagnant? What's going on?

**Mr. Mostafa Askari:** That's a very good question, sir. In fact, typically six years after a recession we should be in a situation where the global growth has sort of stabilized and there is really no issue.

There are a number of risks and issues that have caused this sort of instability in global growth, and we see the IMF has revised down its global growth projection in its most recent publication.

One of the issues identified by the IMF actually is that a number of countries in Europe and in North America, very early on after the recession, had started to significantly reduce their government spending. The fiscal drag that was created both in Europe and in North America did not allow the normal business cycle to come back and provide—

**Mr. Dave Van Kesteren:** Let me interject for a second. Is that factual, or is that maybe an opinion? I hear both sides of that equation

I'm thinking about a country like France, for instance, that wouldn't dare to do what you suggest. As a matter of fact it has even increased and raised its taxes, and its GDP is not growing.

I'm thinking of a country like Germany that has strict fiscal measures. It is seeing an increase.

Is that a theory, or can you say emphatically that's the reason?

**Mr. Mostafa Askari:** No, in fact it's a reality. In Europe the fiscal budget compression obviously was recommended by the European Commission.

**Mr. Dave Van Kesteren:** But the Americans really haven't curbed their spending. As a matter of fact, they have increased their spending. They have doubled their debt in six years from \$8 trillion to \$16 trillion.

Isn't that running...? I'm not here to argue. I'm just trying to understand this thing because, where I come from—and I would dare say all of us have come from here, especially I'm speaking now of the older generation—you didn't get into debt to get out of debt.

Now I understand there is a theory that says if governments spend more, they can kick-start the economy.

Is that kind of what you're saying?

**Mr. Mostafa Askari:** Typically, sir, during any recession period, one of the major players in the economy, which would be government, can actually help by boosting spending or reducing taxes to kick-start the economy.

Just in response to your question whether it's a theory or a reality, the International Monetary Fund actually in its annual publication of "Fiscal Monitor", which looks at the fiscal situation in different countries, has a measure that shows how much fiscal drag exists for each country. Even in the most recent publication of "Fiscal Monitor" that it released in October, it shows for Europe and North America still there is a bit of a fiscal drag.

Even now at the end of the thing there is still a fiscal drag, and that fiscal drag started very early on, about 2010, and continued. So that's one of the factors.

● (1700)

**Mr. Dave Van Kesteren:** I guess I'm just looking for a country you can point to and say it's working there. I look at Japan, for instance. It has started its quantum whatever, and it has just poured trillions of dollars into its economy again. There is an upsurge in its stock market, but it is still struggling with that same low growth.

Can you point to a country? And please don't say the United States, because we haven't got enough time here. We could discuss that for a while.

Let me go to something else very quickly though. Where does the current rate of debt to GDP in Canada stand right now?

**Mr. Mostafa Askari:** About thirty...

**Mr. Scott Cameron:** Federally....

**Mr. Dave Van Kesteren:** That is 31%?

**Mr. Mostafa Askari:** Yes, 31% or 32% is right.

**Mr. Dave Van Kesteren:** The government has said that it would like to see a comfortable level of about 25%.

I think you did a pretty good job of explaining how, when our GDP rises, we can borrow more money. When will we be at 25% at our current stage and the rate we're going at this point? What would you suggest?

**Mr. Mostafa Askari:** I think that by the end of the full projection period, in 2019-20—

**Mr. Scott Cameron:** We're close—

**Mr. Mostafa Askari:** —we are almost 25%.

**Mr. Scott Cameron:** Yes, the 2020-21 fiscal year.

**Mr. Dave Van Kesteren:** Just so that folks understand what we're doing then, we are able to spend more money as a government. In essence, we're going into debt but because our economy is growing, the debt isn't that scary.

Mr. Cameron, is that fair?

**Mr. Scott Cameron:** I'm just trying to think. It depends on how the balance sheet stuff plays out and the capital spending plays out. I don't think we're going into debt further, but it is decreasing faster as a share of GDP than it would be—

**Mr. Dave Van Kesteren:** It gets a little bit complicated, but I think we understand what you're saying.

Very quickly, you would agree though that this is a recent phenomenon where governments... I'm not only saying governments spending money to get out of debt, but controlling the economy by monetary measures is recent, isn't it? We haven't seen a time where governments have kept the interest rate at near zero and have kept inflation at 2%. This is fairly recent. This is not something that's been practised, let's say, in our generation.

**Mr. Mostafa Askari:** That's a result of the very deep recession that created a huge excess capacity in the economy and that's why inflation has remained low and the Bank of Canada was able to maintain interest rates at a very low level, of 1% now.

**Mr. Dave Van Kesteren:** Just wrapping up very quickly, we've done relatively well as a country when we look at where our debt has increased from 6.50% to possibly 8%, and to have had the results we have.

Do you agree?

**A voice:** Yes.

**Mr. Dave Van Kesteren:** Thanks.

**The Chair:** Thank you.

Mr. Adler, please.

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

Thank you, all, for being here today.

I do want to pursue a number of different angles.

Some say that nominal GDP is the best indicator of the broadest measure of the government's tax base. You have indicated that your assessment of nominal GDP exceeds the forecast of private sector economists in the next couple of years, but then beyond 2016 it is below. Could you explain that and the reasons why?

**Mr. Mostafa Askari:** Yes, we have our own projection, obviously, which is different from the private sector's, so our growth profile for the real GDP is somewhat different from the private sector forecast. Also, there are two elements to that, which are the real GDP and the prices. The combination of the two will give you the nominal GDP.

When you look at the five-year projection, the nominal GDP on average is actually very close to what the private sector has, but it has a different profile. It's a little bit higher first and then a little bit lower later. It's just a matter of having a different forward projection, that's all.

**Mr. Mark Adler:** Your methodology is different, or do you use different tools?

**Mr. Mostafa Askari:** It's a methodology judgment. Projection is done through models and also through the judgment of those who are using those models. Obviously every forecaster has their own view of how things will develop and our view might be a little bit different from what the private sector has in terms of the profile for that.

**Mr. Mark Adler:** Okay, I was just trying to get an idea of number one, why it's different, and number two, what different tools you're using from those the private sector economists are using.

• (1705)

**Mr. Mostafa Askari:** Nothing really. You use models that are pretty standard in general. Some private sector forecasters don't even use a model, they use their judgment essentially, and it's different. Each organization uses a different approach to these things. But everybody is using the framework of the economy to do that so it's not that much different.

**Mr. Mark Adler:** Okay, I've got that.

We heard recently that the Bank of Canada has abandoned forward guidance as a policy tool, and a number of other central banks around the world are doing the same and tend to want to reserve it more for times of monetary stress.

Could you comment on whether you think that's a good policy move or not. I'm just curious about your thoughts on that.

**Mr. Mostafa Askari:** Information is always valuable for people like us who are in the business of projection, and obviously forward guidance by the Bank of Canada would be helpful in that sense. If they do not do that then we don't really know exactly what their views are on how interest rates are going to move in the future. Obviously we would like to see forward guidance and even more detailed forward guidance in terms of the projection by the Bank of Canada of interest rates. The bank never provides any projection of interest rates and it would certainly be helpful to us if we had that.

**Mr. Mark Adler:** You indicated earlier that with the fall in energy prices there's also a commensurate fall in government revenues, naturally. However, that's offset by the fact that people will have more money in their pocket as a result of spending less on energy, therefore, they'll be spending that money on other goods and services, thereby raising government revenues on that side of the ledger.

Does the same not occur when the government relieves a tax burden on citizens too: if they have more money they're going to spend more? Would the same principle apply?

**Mr. Mostafa Askari:** Yes, they will spend more, obviously. But, typically, if you estimate the impact of a tax rate decline, it would never pay for itself under normal circumstances. The amount of the increase in revenues as a result of the stimulus impact of tax is never going to be sufficient to pay for itself. The overall tax in Canada is 15% of GDP. If you reduce taxes by one dollar, that tax decline has to essentially stimulate six dollars of GDP to pay for itself. That kind of a multiplier of one dollar of tax decline creating six dollars of GDP is an extremely large multiplier. I'm not aware of any standard macro model that people use for this kind of assessment that can provide that kind of a multiplier.

**Mr. Mark Adler:** Corporate tax revenues in Canada have increased. Is that not true?

**Mr. Mostafa Askari:** That's correct.

**Mr. Mark Adler:** That's a direct result of lowering the federal corporate tax rate to 15%, is that correct?

**Mr. Mostafa Askari:** Not necessarily; corporate taxes typically increase because of the increase in activities, but we can't really attribute all the increase in business activities to the reduction in corporate tax rates. As I said, all we have to compare it to is what would have been the case had there not been the reduction in corporate taxes. It is very likely that without the reduction in corporate tax rates, we would still see an upward increase in corporate revenues. It's just a matter of that magnitude, whether it's higher or lower.

**Mr. Mark Adler:** Would you not agree, though, that a lower corporate tax rate is an attractive investment tool to get foreign investment, to get companies from outside Canada to invest in Canada? If they have the option of investing in a higher tax jurisdiction or a lower tax jurisdiction, naturally they're going to choose a lower tax jurisdiction. Say, between Canada and the United States, the quality of life is similar, however here they're going to pay less in corporate tax, at the federal level at any rate, plus they don't have to pay health care costs in addition, that they have in the States, and that sort of thing. Would that not be an attractive policy tool?

**Mr. Mostafa Askari:** It is certainly a factor, but it's definitely not the only factor that enters into the decision of a business to locate its business. Many different factors would affect that, but certainly taxes would be an important factor, absolutely.

**Mr. Mark Adler:** Burger King recently buying out Tim Hortons, and this whole issue of tax inversion and all of that, how do you see that playing out over the next...? Congress has taken a number of steps to reduce the attractiveness of tax inversion, but how is that going to benefit? Is that not a good sign for the Canadian economy that we've got companies like this that could buy—

• (1710)

**The Chair:** Make a brief response, please.

**Mr. Mostafa Askari:** I wouldn't be able to comment on that. It's not something that we have studied now, sorry.

**Mr. Mark Adler:** Okay.

**The Chair:** Okay, thank you.

Thank you, Mr. Adler.

I'm going to take the next few minutes here, as the chair.

The issue of access to information was raised, responsiveness of various departments. You mentioned that some departments are better than others. Which are the best departments and which are the worst ones?

**Voices:** Oh, oh!

**Mr. Jean-Denis Fr chet:** As I mentioned, we have a problem with DND for various reasons, in not having access to information; I think we mentioned that several times. One of the problems is that last year, in response to one of our requests, they made a comment that was outside the scope, based on their own assumptions. So that is problematic.

We have a good relationship with Agriculture Canada and Finance.

It also depends on the requests. It's difficult to make a list of what is the best, what is the worst. It depends on our kinds of requests.

**The Chair:** The second item you mention in your "Economic and Fiscal Outlook", on page 1. You said it would be good practice if policy-makers commit in advance to the allocation of potential surpluses between debt reduction, tax reductions, or spending increases. I agree heartily, and so I want you to advise this committee as to what per cent you would allocate to each one of those.

**Mr. Mostafa Askari:** Oh, sir, that's a dangerous—

**The Chair:** I know people don't like answering it, but what's your advice?

**Mr. Mostafa Askari:** This is your business, not ours.

That's a policy choice, really. I'm serious. It's a policy choice. Those kinds of decisions really have to be based on many different things that we do not take into account in our business. There are issues of equity, efficiency, and what the objectives are.

**The Chair:** You don't have to answer it, but if you want to... Does anyone want to answer it? No?

Mr. Cameron, do want to answer that?

**Mr. Scott Cameron:** Well, you can give it all to me if you want.

**Some hon. members:** Oh, oh!

**The Chair:** Here's the next question. You mentioned that growth in the U.S. is positive and is certainly picking up, and the Canadian growth rate. What do you think will be the impact on the U.S. growth rate of its moving away from quantitative easing?

**Mr. Mostafa Askari:** We have essentially taken that into account in our projections of interest rates. The reason that interest rates show a rising profile is that the U.S. will stop the quantitative easing and rates will gradually increase in the U.S., and the same thing in Canada.

Now the question, of course, is the response of the economies to that kind of environment. We have made an assumption, whether that really would be the case or not. That's a risk to the forecast. The negative response will be harsher, larger, obviously—

**The Chair:** Will there be an impact?

**Mr. Mostafa Askari:** There will be an impact, definitely, yes.

**The Chair:** What will it be?

**Mr. Mostafa Askari:** Driving the interest rates will have a negative impact on economic activity.

**The Chair:** Can you quantify that?

**Mr. Mostafa Askari:** Well, if it goes beyond, we have measures of how a 1% increase in interest rates would affect the economic activity. The data is actually provided in the budget documents, normally, by the Department of Finance. I don't recall the exact number right now, but there is going to be a negative impact.

**The Chair:** Next you talked about the impact of the price of oil. That was also raised by Mr. Chan, I think. On page 3 you show the difference between Brent, West Texas Intermediate, and Western Canadian Select. Have you done analyses on the differences between those? Obviously there are, somewhat, differences of product. Obviously part of the reason for that difference, especially over the past number of years, has been due to market access. Have you done any studies in terms of what per cent of that difference is due to access to market for those products?

**Mr. Mostafa Askari:** No, we have not done that study.

Actually, it's interesting, the decline in oil prices. The Brent and WTI have been more in decline than the Western Canadian Select price, which is actually beneficial for Canada because most of the Alberta oil is sold at Western Canadian Select price. We haven't really done any study as to what portion of that differential is due to the access.

There will always be a differential because there are different qualities of oil, kinds of oil. What portion of that is due to access or a lack of pipeline, I cannot answer.

• (1715)

**The Chair:** In terms of impact on federal government revenues, obviously it has a greater proportionate impact on provincial revenues, particularly in my province of Alberta.

**Mr. Mostafa Askari:** Yes.

**The Chair:** Can you give us a ballpark, if the price of oil drops by \$10 a barrel, in terms of the impact on federal revenues going forward?

**Mr. Mostafa Askari:** No, we have not done that because that goes through corporate taxes. We can probably look at that and get back to you.

**The Chair:** Okay.

Here is the next question I have. The U.S. economy has picked up, and the U.K. economy has picked up. There's a fairly active debate that the U.K. government embarked on an austerity program that was far beyond what any other government in the G-7 did, I think. There's debate as to what impact those measures, in terms of trying to move to a balanced budget, had on its growth. Do you want to comment on that situation?

**Mr. Mostafa Askari:** Well—

**The Chair:** Ms. Lao, do you want to comment?

**Ms. Helen Lao:** We haven't looked at the U.K. specifically, given that the U.S. is our biggest trading partner as of the moment. That's why we assume, in our economic forecast, that the Canadian outlook would be heavily influenced, more influenced by the U.S. than the U.K.

**The Chair:** In terms of your analysis as to why the U.K. economy has recently picked up after embarking on and implementing a series of what most would agree was austerity measures—

**Ms. Helen Lao:** We haven't looked at that specifically.

**The Chair:** Okay.

A final area I wanted to get to was demographic challenges, but the bells are indicating we have a vote in the House.

Colleagues, on behalf of the committee I want to thank you all. As members have said, it's always a very interesting discussion when we have you before the committee.

**Mr. Dave Van Kesteren:** Mr. Chair, are you going to ask that question?

**The Chair:** It's a big question.

**Mr. Murray Rankin:** Go, go, go.

**The Chair:** It's on demographic challenges, and I appreciate the reports that you've done. I find them very good.

You talk about a declining birth rate, you talk about people living longer, and as was pointed out by Mr. Van Kesteren, you talk about entering a period of global, modest, economic growth, which is even different from the economic growth going down for the industrialized countries in the 1970s. You talk about the demographic pressure of the population sort of tapering off somewhere after 2033 because of the baby boom population. The challenge is mainly at the provincial level, not at the federal level, as you point out.

If you're looking at the provincial level, in fairness, they've probably never received more transfers from the federal government in history, but the federal government has also vacated certain areas with respect to tax measures. I hear all the time, as a federal politician when I go back home, that the federal government raises too much of the tax and that more tax should be raised at the municipal or at the provincial level.

Isn't that something that provinces have to look at in the sense that they're either going to have to find some way to restrain spending—especially in areas like health care—or they're going to have to look at their revenue issue, one way or the other? Frankly, it's not really a problem they should push upward again; it's a problem they're going to have to face directly.

**Mr. Mostafa Askari:** You are absolutely right.

When we do the “Fiscal Sustainability Report”, part of the reason we do the provinces, the CPP and QPP, is to give Parliament the view of the total economy and what the situation is. We see that the federal government has room and the provinces don't have room, maybe because of the House expenditure increases. Certainly, they have an option to increase their taxes to pick up that tax room that was provided by the federal government, to take that up and deal with the ratio through higher taxes. Again, that's the choice that the provinces can make.

We also show in our report some simulation and some illustration of the different scenarios that one can consider for the health care transfer and the health care control. They are controlling the health care expenses that would actually, to some extent, reduce that pressure on the provinces. It's a minor adjustment, for example, to the health care transfer from the federal government. You can actually reduce the pressure on the provinces, but they do have that option. When we say that the fiscal gap at the provincial level is 1.7% of GDP, that gives them the option of either reducing their spending or increasing their taxes or a combination of the two to deal with that issue. Certainly, if they can control the health care cost to some extent—I mean, it's not possible to reduce it to nothing but obviously they can bring it down to some extent—then that will help them significantly.

• (1720)

**The Chair:** Okay.

That's a much larger discussion.

**Mr. Mostafa Askari:** Obviously it is.

**The Chair:** I'll have to end it at that. I'm well over my time.

Again, I want to thank you on behalf of the committee for appearing. If there are any follow-up reports please do send them to me and I'll ensure all members get them.



**Mr. Mostafa Askari:** Thank you very much.

**The Chair:** The meeting is adjourned.

**Mr. Jean-Denis Fréchette:** Thank you.

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