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Wednesday, April 16, 2008

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Chair

Mr. Rob Merrifield

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•(1530)

[English]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I'd like to call the meeting to order.

Pursuant to the order of reference of Thursday, April 10, 2008, we are dealing with Bill C-50, An Act to implement certain provisions of the budget tabled in Parliament on February 26, 2008 and to enact provisions to preserve the fiscal plan set out in that budget.

We have with us this afternoon the Minister of Finance, Mr. Jim Flaherty. We want to thank you for coming and getting to the committee as promptly as you have. We have you for an hour, and we don't want to waste much of that time, so we want to get right into your dialogue, and then we'll move on to questions.

I want to remind the committee that with the minister being here, the questioning is a little bit different. We'll start with the opposition members first, seven minutes each on a round, and it will go all the way down through to the NDP and then to the Conservatives. That's according to the rules of this committee. With that, we'll proceed.

Yes, Mr. Dykstra.

Mr. Rick Dykstra (St. Catharines, CPC): Mr. Chair, you described it very well, and I don't want to take up any time, but I wondered if perhaps, seeing as we're going to be here for an hour, five-minute rounds might be better, to allow a few more people to ask questions.

The Chair: I would be open to that if there is no objection, and I am seeing none.

Yes, Mr. McCallum.

Hon. John McCallum (Markham—Unionville, Lib.): I guess that would work. If the minister has fifteen minutes and we have five-minute rounds, then we'd have time for nine. Is my math right? Yes.

An hon. member: You're the economist. You're the one who was going to baffle us with numbers.

The Chair: That's all right. Let's not pull out the calculator quite yet, but we will proceed that way. The minister has assured me that he will not be going more than 15 minutes, and so with that, we'll give the minister the opportunity to start with his 15 minutes.

Mr. Minister, the floor is yours.

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

I appreciate this opportunity to meet with you and the members of the committee to discuss Bill C-50, which as you know, is an act to

implement certain provisions of the budget tabled in Parliament on February 26, 2008, which is the third budget of our government.

[Translation]

I am pleased to meet with you and the members of your committee today to discuss Bill C-50, an Act to implement certain provisions of the budget tabled in Parliament on February 26, 2008.

[English]

This year's budget builds on the decisive and timely action taken in the October 2007 economic statement to support the economy. The economic statement provided an additional \$60 billion in broad-based tax relief for Canadians. Since coming to office, our government is providing nearly \$200 billion in tax relief in this and the next five years.

Now, reducing our overall tax burden at the federal level is providing a terrific shot of adrenalin for the national economy. Actions taken by the government since 2006 are providing \$21 billion in incremental tax relief to Canadians and Canadian businesses this year. This is significant and substantial economic stimulus, equivalent to 1.4% of Canada's GDP. We have been ahead of the curve, managing the economy prudently and responsibly.

I note for the committee that the IMF World Economic Outlook, released last week, praised the Canadian government for its preemptive and ongoing measures, and I quote from the report: "A package of tax cuts has provided a timely fiscal stimulus..." and "...the government's structural policy agenda should help increase competitiveness and productivity growth to underpin longer-term prospects". So clearly our tax reductions have helped place Canada in a position of strength and allowed us to respond more effectively during this period of economic uncertainty.

This includes historic business tax reductions announced in the October economic statement that will give Canada the lowest statutory tax rate in the G7 by 2012. It will also give Canada the lowest overall tax rate on new business investment in the G7, a goal that we will reach by 2010.

Budget 2008 also builds on the government's record of strong fiscal management. By 2012-13, total debt reduction by the government since coming into office will be more than \$50 billion—that's five zero.

Commitment to sound financial management and debt reduction is never easy, but we are committed to eliminating generational inequity. We will not leave our children and grandchildren with the burden of paying for the excessive spending of the past. This bill reflects that commitment.

•(1535)

[Translation]

Budget 2008 also builds on the government's record of strong fiscal management. By 2012-2013, total debt reduction by the government since coming into office will be more than \$50 billion. Commitment to sound financial management and debt reduction is never easy, but we are committed to eliminating generational inequity. We will not leave our children and grandchildren with the burden of paying for the excessive spending of the past. This bill reflects that commitment.

[English]

Mr. Chairman, with the limited time available to me today, I will only focus on a few of the key provisions in this bill.

Before I do that, I would like to mention Bill C-253, which is the private member's bill that proposed changes to the registered education savings plan, a proposal that could cost the government more than \$900 million annually. I note that this cost estimate is a conservative one, as we have recently seen other estimates, like the one by Don Drummond of TD Bank, that the cost could be in the vicinity of \$2 billion annually. Bill C-253 is a fiscally irresponsible measure that risks putting the federal government into deficit. In a time of global economic uncertainty, this is a risk our government is not willing to take. I would also note that a vast array of stakeholders, including prominent student groups such as the Canadian Federation of Students, have come out against this legislation. That is why Bill C-50 also includes language to protect the government's fiscal plan from the effects of Bill C-253.

Let me stress, however, that this government is supporting post-secondary education in many ways that are fiscally responsible and effective. It is in this spirit that our government has taken action in the past two budgets to improve RESPs by expanding the program and making it more flexible and more available to students. Budget 2008 also builds on past action to help students pay for their education by committing \$123 million over four years, starting in 2009-10, to streamline, modernize, and improve access to the Canada student loans program. Secondly, it supports students with a \$350 million investment in 2009-10, rising to \$430 million by 2012-13 in the new Canada student grant program. This new program will be easy to use, transparent, and broad-based, providing certainty and predictability for Canadian families and their children.

Let me now turn, Chair, to the main measures in budget 2008 that are incorporated in Bill C-50. As I noted, budget 2008 builds on the actions taken in the October economic statement in a number of significant ways. It helps Canadians save with a new tax-free savings account. It provides further assistance for Canada's manufacturing and processing sector. It supports small and medium-sized businesses by improving the scientific research and experimental development tax incentive program. These measures, which I will now address in some detail, are just a few of the actions we are taking to help improve Canada's productivity, employment, and prosperity.

On the tax-free savings account, Canadians now have more money in their pockets as a result of our tax reductions. This is money where individuals, families, workers, and seniors can spend,

invest, or save. To help Canadians realize even greater benefits from saving, our government is creating a new tax-free savings account, or TFSA. Christened a tax policy gem by the C.D. Howe Institute, the TFSA represents the single most important personal savings vehicle since the introduction of the RRSP in 1957. It's the first account of its kind in Canadian history. It is a flexible, registered, general purpose account that will allow Canadians to watch their savings grow tax free.

This is how it works. First, Canadians can contribute up to \$5,000 every year to a registered tax-free savings account, plus carry forward any unused room to future years. Secondly, the investment income, including capital gains earned in the plan, will be exempt from any tax, even when withdrawn. Thirdly, Canadians can withdraw from the account at any time without restriction. Better yet, there are no restrictions on what they can save for. And finally, the full amount of withdrawals may be recontributed to a tax-free savings account in the future, to ensure no loss in a person's total savings room.

To make it easier for lower- and modest-income Canadians to save, there will be no clawbacks by the federal government. Neither the income or capital gains earned in a tax-free savings account nor the withdrawals from it will affect eligibility for federal income-tested benefits such as the guaranteed income supplement.

I'll say a few words about the manufacturing sector. The Canadian economy remains strong, yet we are mindful of the challenges before us: global uncertainty, volatile markets, and the difficulties confronting some of our traditional industries such as forestry and manufacturing. In budget 2007 we brought in a \$1.3 billion temporary accelerated capital cost allowance. This initiative allows manufacturing businesses to fully write off investments in machinery and equipment over a two-year period.

•(1540)

In budget 2008, we extended this initiative for three years, on a declining basis. This will provide the manufacturing and processing sector with an additional \$1 billion in tax relief. Manufacturers asked for this extension, and we delivered.

Through the community development trust, the government is also investing \$1 billion to support communities and workers affected by international economic volatility. We are now working with each province and territory to identify priority areas for action and to seek their public commitment to support communities, consistent with the objectives of the trust.

[Translation]

Through the community development trust, the government is also investing \$1 billion to support communities and workers affected by international economic volatility.

We are now working with each province and territory to identify priority areas for action and to seek their public commitment to support communities, consistent with the objectives of the trust.

[English]

I note the Province of Ontario has been particularly appreciative of the trust and their share of this funding of over \$350 million. Indeed, the Ontario government has recently outlined its plans to spend all this money in their provincial budget, including programs to provide up-to-date training for Ontario's unemployed workers who require skills upgrading.

Our government made a commitment in budget 2007 to help promote research and development. In budget 2007 and in its science and technology strategy mobilizing science and technology to Canada's advantage, the government committed to identifying opportunities for improving the scientific research and experimental development tax incentive program, including its administration.

Budget 2008 proposes to enhance the availability and accessibility of the financial support for R and D to small and medium-sized Canadian-controlled private corporations. Specifically, Bill C-50 proposes to, first of all, increase the expenditure limit for the enhanced scientific research and experimental development investment tax credit; and secondly, extend the enhanced scientific research and experimental development investment tax credit to medium-sized companies by phasing out access to the enhanced benefits over increased taxable capital and taxable income ranges.

This proposed action will help Canada stay at the forefront of R and D, which in turn will help Canada continue to be competitive.

Mr. Chairman, these and other initiatives in Bill C-50 clearly illustrate our government's commitment to deliver results. Budget 2008 reflects the stability and responsible leadership that Canada needs for these uncertain times. It builds on efforts we have taken since 2006 to reward Canadians for their hard work, improve standards of living, and fuel economic growth.

[Translation]

Budget 2008 reflects the stability and responsible leadership that Canada needs for these uncertain times. It builds on efforts we have taken since 2006 to reward Canadians for their hard work, improve standards of living, and fuel economic growth.

• (1545)

[English]

I now welcome any questions you may have about this bill. I am joined, of course, by officials from Finance Canada, who I'm sure will be of assistance to fully respond to your questions.

The Chair: And we want to thank you very much. We have a little extra time and appreciate that very much.

We will now move on to questions and answers.

We will start with Mr. McCallum. You have five minutes.

Hon. John McCallum: Thank you, Mr. Chair.

Thank you, Minister, for coming here.

I thought I'd try something different in the sense that while I could find points in your statement with which I disagree, I thought I'd try to be non-partisan, in the spirit of this committee, on the asset-backed commercial paper issue, because this committee agreed in a consensual way to have hearings on what went wrong and what

could be done to improve the situation. And I don't think there was any partisanship in our recent meeting.

I'd like to focus on that, and if I may, I'd like to focus on the federal role, because you have said this strengthens the case for a single regulator. You have said provinces or provincial agencies were at fault. I don't really deny that, although I would point out that I think the U.S. and the U.K., who do have single regulators, did worse than Canada. So it's not a panacea or a cure-all, but I don't disagree with that angle. I think there's a lot of blame to be shared.

I would suggest that for a federal minister or a federal finance committee, our first responsibility starts with our own federal agencies. So whether the provinces were guilty or not guilty, I'd like to focus on federal agencies, federal responsibilities, and in particular OSFI, the Office of the Superintendent of Financial Institutions.

I'm not making accusations here, but we have heard from more than one expert that to a significant extent, OSFI had inappropriate regulation that made the crisis worse than it otherwise would have been. And what I am referring to is that OSFI allegedly encouraged banks to offer conditional liquidity facilities for issue of asset-backed commercial paper rather than the international—

The Chair: Before you go too much further, I am not necessarily overly concerned, but I do want to remind the committee that we're on Bill C-50. It's not estimates, where we have the ability to ask any questions. So I want to be careful that we not get too far on this one. But go ahead and ask it, and we'll see if the minister answers it.

Hon. John McCallum: Then let me suggest that asset-backed commercial paper is closer to the budget issue than are our new immigration rules.

An hon. member: Yes, absolutely!

Hon. John McCallum: But I'm trying to be non-partisan and ask an honest question.

The point I'm making is that certain experts have suggested that the fact of conditional liquidity facilities rather than unconditional made things worse, because while the conditional facilities allowed the paper to be issued, when the crisis hit, the fact that they were conditional made them not work, because there was an escape hatch. So a number of experts have said that this was the fault of OSFI, which clearly exacerbated the crisis.

So my question to you, Mr. Minister, is whether you accept that position or whether you have any comment in general—not on the crisis in general, but on whether OSFI in particular is blameless or whether OSFI might have some responsibility for the crisis.

Hon. Jim Flaherty: Thank you, Mr. McCallum. I'm only concerned with trying to figure out, if when you act non-partisanly you ask an honest question, what kind of question you ask when you act in a partisan way.

Hon. John McCallum: Perhaps a little more aggressive in tone.

Hon. Jim Flaherty: I have not heard that suggestion about the conditionality and non-conditionality, but Mr. Rudin may be able to assist.

Mr. Jeremy Rudin (General Director, Economic and Fiscal Policy Branch, Department of Finance): Thank you.

I understand that you'll have hearings in more detail on this, and since it's quite a technical issue I won't take a lot of time.

I think the key points to make in this regard are that the possibility, the treatment in regulation, that there might be conditional or unconditional commitments was recognized worldwide; that the rules that OSFI had in this regard, the differential treatment between conditional and unconditional treatment, were well aligned with those of other regulators; and that the transactions involved were not necessarily under the purview of OSFI. That is to say that a number of the financial institutions that were providing this conditional liquidity support were regulated by their home regulators, not by OSFI.

We could go into more detail, but that will take us far from Bill C-50.

• (1550)

Hon. John McCallum: So am I summarizing correctly in saying that you do not believe this was an issue or a problem in the crisis?

Mr. Jeremy Rudin: The fact that liquidity support was conditional obviously had an impact on the events that took place in Canada. The point I'm making is that there was nothing specific in Canadian regulation that permitted this, in the sense that others didn't. Indeed, that much of the regulatory supervision of those institutions that were providing conditional support was done by foreign regulators.

The Chair: Mr. Crête.

[Translation]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Minister, thank you for being here.

In Bill C-50, an amendment to the Immigration and Refugee Protection Act makes a sudden appearance.

Do you agree with me that it would only be proper to refer that part of the bill to the Standing Committee on Citizenship and Immigration in order for that committee to consult experts in the field, members assigned to that file, not just members of the Standing Committee on Finance?

[English]

Hon. Jim Flaherty: I think this committee is fully capable of dealing with that issue.

[Translation]

Mr. Paul Crête: Minister, we actually find that that is clearly not within our purview. It's a devious way of doing things that we've seen develop in the United States, particularly by the right wing there. I'm very disappointed that the federal government is taking that approach.

However, since we don't have much time, I'm going to move on to another point. On employment insurance, I have here an opinion of the Canadian Institute of Actuaries, from which I quote a paragraph on the surplus:

[Translation] It's as if the plan were being allowed to use only two of the current \$54 billion dollar employment insurance surplus, and only temporarily at that. But in practice, the operation of employment insurance is being isolated by no longer allowing it to serve the purposes of the plan.

Two-billion cushion: the plan should instead have a \$15 billion fluctuation reserve [...]

[...] the rate should be stable for an entire economic cycle, as stipulated by the 1996 act.

You're telling us you have a responsible budget. Given the current economic slowdown, wouldn't it have been a lot more reasonable to follow the recommendations, like those of the Canadian Institute of Actuaries, instead of having a cushion of only \$2 billion?

We know full well that the economic slowdown could very rapidly push the plan into deficit. Workers are the ones who contributed the most to the fight against the deficit. There was \$54 billion, and you've reduced that to \$2 billion.

Hon. Jim Flaherty: What's the question, Mr. Crête?

Mr. Paul Crête: Why not follow the recommendation of the Canadian Institute of Actuaries, who suggested a \$15 billion reserve instead of a \$2 billion cushion, which is completely out of line with our needs for the economic cycle?

[English]

Hon. Jim Flaherty: As you know, in this bill we are making a major change with respect to EI in moving EI out into what will be the new Canada Employment Insurance Financing Board, a crown corporation.

But Mr. James can respond to the issue.

[Translation]

Mr. Paul Crête: Minister, I would like you to answer. There is \$54 billion in accumulated surpluses. You are now giving back 2 billion. Don't you think that is stealing \$52 billion from the people who have paid premiums for years and who have contributed the most to fighting the deficit? Now you are not in any way giving them back their due.

[English]

Hon. Jim Flaherty: As you know, historically there have been many criticisms by both employers and employees with respect to the surplus. The purpose of creating and managing a separate bank account, which this bill will do, will be to hold and invest any excess EI revenues from a given year until they're used to reduce premium rates in subsequent years. So this is an important advance with respect to that issue.

[Translation]

Mr. Paul Crête: Is there not a flagrant contradiction between your statement about sound and rational money management in the context of the current economic slowdown, and the fact that you have only made provisions for a \$2 billion cushion, whereas the Canadian Institute of Actuaries, which is neither a political party nor a partisan organization—it is actually a group of insurance experts—is of the view that a \$15 billion reserve is required for the system to survive?

•(1555)

[English]

Mr. Bill James (Director General, Employment Insurance Policy, Department of Human Resources and Social Development): With respect to the proposed reserve in Bill C-50, it's correct that it's proposed as \$2 billion. That's an amount the government feels is appropriate vis-à-vis the rate stability provisions in the legislation.

[Translation]

Mr. Paul Crête: For one year.

[English]

Mr. Bill James: It's important to recognize as well that should that reserve ever be depleted, the government will stand behind the continued payment of employment insurance benefits in that situation. So there is no concern at all that until the reserve is brought back to its intended level, those payments would not be made by the government. The amount of the reserve takes account of the design of the program today and current economic conditions and is considered appropriate in those regards.

It's important to note that the other—

[Translation]

Mr. Paul Crête: Mr. James, do you agree that the \$2 billion is for just one year? For the system to survive a full economic cycle, as it should, it would actually take \$15 billion, which is what the actuaries are calling for, out of respect for the people who get benefits and pay premiums under the plan.

[English]

The Chair: The time has gone, but I'll allow a very quick answer to that.

Mr. Bill James: Just to reiterate, the \$2 billion reserve that has been set aside is considered appropriate for the parameters provided for in the legislation. The legislation contains parameters in terms of how much rates can increase or decrease, so there are stability provisions in there—and the \$2 billion reserve takes those into consideration.

The Chair: Thank you very much.

Monsieur Mulcair.

[Translation]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chairman.

First of all, I would like to welcome our finance minister, Mr. Flaherty. I would just like to take a few seconds to say how upsetting I find it that the officials from his department are unable to speak French. As a minister and like all committee members, he has the right to use the official language of his choosing.

I noticed the same thing when the budget was tabled, when I was accompanied by my close associates. We could not get a single complete answer in French from the officials. I think it is quite simply because the Department of Finance of Canada operates exclusively in English.

My question for the minister is about a statement he made earlier. He talked about Ontario's share. He said Ontario was satisfied with its share of the \$1 billion trust that was created. He mentioned \$350 million.

I would like to know from the minister how he went about determining that this amount was fair. Does he consider Quebec's share to be fair?

[English]

Hon. Jim Flaherty: Thank you, Mr. Mulcair.

Let me say first that your assertion that the Department of Finance works only in one of the official languages is not correct. I have been the minister for more than two years, and I can assure you that a lot of the department's work is conducted in the French language.

That said, the \$1 billion trust is distributed per capita. So the \$350 million or so for Ontario is apportioned in that way, as is the apportionment for the other provinces, including Quebec.

In terms of their being satisfied with it, they've said some very nice things about it. I generally interpret that as satisfaction.

[Translation]

Mr. Thomas Mulcair: I asked if it was fair.

If the trust is supposed to compensate for job losses due to the tax policies of his government and Quebec has, per capita, lost a lot more than Alberta, for example, does he think it is normal for Quebec to have such a small share? Should there not be other criteria beyond a simple per capita criterion?

Yesterday, the Crocs plant announced that almost 1,000 jobs would be lost in Quebec City. Those jobs are very hard to replace. Earlier, he made an emotional reference to our children and our grandchildren. Does he realize that in the Beauce, for example, there are companies that employ parents and grandchildren, and that generations have worked for companies like Le Baron, which are now closing because of the tax policies of his government? Why is he not doing more to help Quebec out here?

[English]

Hon. Jim Flaherty: Well, we're not. There are more people who live in Ontario than in Quebec.

[Translation]

Mr. Thomas Mulcair: I mentioned Alberta. That is the example I gave. It is about job losses, not population.

[English]

Hon. Jim Flaherty: There have been some job losses in certain sectors in Alberta. There have been forestry job losses, as you know, in Quebec, in New Brunswick, in Ontario, particularly in northern Ontario. There have been significant job losses in the forestry sector in the province of British Columbia as well.

This is a \$1 billion community trust set up in this budget, but this is not the end of what the government does—hardly! We have the older workers program, as you know, which we brought in via previous budgets, and which I can say was encouraged by your party before you arrived in Ottawa. I remember the discussions I had about what was desirable, and one of the major points made by your critic at the time, and the Bloc Québécois, was to try to do something for older workers between the ages of 55 and 64—which we did. And now we have put more money into this in budget 2008.

• (1600)

[Translation]

Mr. Thomas Mulcair: This will be my last question, Mr. Chairman.

Table 5.4 of the budget, on page 201 of the English version, shows that starting in fiscal year 2008-2009, which just started on the first of this month, and over a period of just two years—two fiscal years—personal income tax is going to go up by 12%, which will be a budget increase, whereas corporate income tax is going to go down by 14% over a two-year period.

Does the minister consider this fair? Does his department have any studies to show that the GST reductions, which he and his government boast so much about, have actually benefited consumers? Or have they been absorbed by increased corporate profits?

[English]

Hon. Jim Flaherty: On the GST studies issue, I'll have to get one of the departmental staff to speak to that.

On tax reductions, we've reduced taxes of every kind in Canada, including the personal income tax, since we came into office. Certainly we've reduced the consumption tax by two full percentage points. This is being reflected now, and Canadians know it, because they're filling in their tax forms and are seeing the size of their rebate cheques. This is something that is well known and has recently been communicated to me every day by people across Canada, who are saying how happy they are to be getting higher rebates than they expected.

On the question of the studies showing the benefits of the GST cuts for consumers, I'll get my colleague to respond.

The Chair: Just very quickly.

Mr. Chris Forbes (Director, Fiscal Policy Division, Economic and Fiscal Policy Branch, Department of Finance): I don't have the numbers in front of me, but if you look, for example, at the consumer price index as issued by Statistics Canada, in January you'll see a sharp reduction in consumer prices. That goes to your question about whether the benefits of the GST cuts have been passed on to consumers. It indicates a significant slowing in the annual rate of increase in consumer prices, which would reflect the GST imposition. It's difficult to break it out to the dollar, obviously, but that's what we have seen in the January consumer price index.

The Chair: Thank you very much.

I'll now move on to Mr. Menzies.

Mr. Ted Menzies (MacLeod, CPC): Thank you, Mr. Chair. Because of our shortage of time here with the minister, I will be sharing my time with Mr. Dykstra.

I have just one quick point to Mr. Mulcair's comment about two official languages. The department did provide intensive briefings in both official languages for all members of Parliament, so I don't know that the minister was aware of the delivery of those two extensive briefings, but we do, at that department, operate in two official languages.

First of all, Minister, congratulations on getting your third surplus budget in a row passed. It's great to see that. Last weekend you were at a G7 conference, and there was lots of buzz back here about the financial discussions going on down there—G7 and the IMF. You alluded to it very quickly in your opening remarks. Regarding the fall economic statement and other initiatives we've taken, can you share with us perhaps how those compare actually with the United States, which isn't seeing the growth that we are, and the strength in their economy?

Hon. Jim Flaherty: Yes, despite the challenge posed by that question, I'll see if I can respond.

Mr. Ted Menzies: I didn't want to catch you off guard.

Hon. Jim Flaherty: No, no, that's fine. We don't use that word "short".

At the G7 ministers meeting, there was some discussion about stimulus and the views of different countries about the need for stimulus within their own economy. As you know, the U.S. economy has been significantly slowed of late, and the U.S. has a stimulus package that will start sending out cheques, which are refundable cheques, including to the people who don't pay tax. They start going out in May and they'll be going out until the end of June. A huge number of cheques will go out—as I understand it, more than 100 million of them—to Americans. This is a one-time, one-year stimulus. So it's not a structural change in the U.S., and it amounts to a little over 1% of U.S. GDP.

On our side, our stimulus is about \$21 billion, which is about 1.4% of Canada's GDP. It is—looking at the numbers on the weekend—the largest stimulus package per capita in the G7, as far as I could determine by looking at what the other countries are doing. And thank goodness we did it, because we are seeing what we thought we would see last year. We're seeing it happen this year—that is, slower economic growth in Canada—and fortunately the stimulus has entered and is entering our economy now.

• (1605)

Mr. Rick Dykstra: Thank you, Mr. Menzies.

I'm going to focus a bit on education and investment in universities and colleges.

In 2006, Minister, you put in the budget a billion dollars for university and college infrastructure; in 2007, a 40% increase in funding to universities and colleges, which amounted to a little over \$800 million. This year there was a commitment to extending the new Canada student grants program to ensure that all students who need the financial help do have the opportunity to go to university or to college. Included in that was the enhanced graduate scholarship opportunities program. I thought it wouldn't be a bad thing to take a couple of moments just to comment on that, because obviously there's been a strategic investment, year by year, back into universities and colleges. I think letting folks know the purpose and the reason for that investment would be extremely helpful.

Hon. Jim Flaherty: Thank you, Mr. Dykstra.

Our economic plan for Canada is called *Advantage Canada*, which we published in October 2006. It seeks to create five advantages for Canada, one of which is the knowledge advantage, and we're going ahead and implementing that for each budget. We're doing more this year, with the new Vanier post-graduate scholarships, more with Canada chairs and funding Canada chairs. Indeed part of the immigration reform we're doing is to help facilitate students being able to study in Canada, particularly doing post-graduate work. We need more bright people. We need more master's degrees. We need more PhDs in Canada. We need to expand that for the sake of our economy and economic growth going forward.

I was very pleased to receive a letter after the budget from the Ontario association of university presidents, praising the budget. Good things have been said by the College Student Alliance, the Canadian Federation of Students, the Association of Universities and Colleges of Canada, and others.

I meet with university presidents from time to time as well, and we consult with them. We have them to our advisory meetings and so on. It's vitally important, from an economic point of view and other points of view, that we make our university system, our post-secondary education system, including the colleges, as vibrant as possible.

The Chair: Thank you very much.

We'll move to Mr. McKay. You have five minutes.

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

There are quite a number of things jammed into this bill, one of which is amendments to the Bank of Canada Act. As you know, the Bank of Canada has put about \$10 billion of additional funding to liquefy, if you will, the system over the last number of months.

In the bill here it says “conducting monetary policy or”—that's a well-understood purpose of the Bank of Canada—“promoting the stability of the Canadian financial system”.

My first question is whether that is new to the role of the Bank of Canada.

My second question is with respect to “it can buy and sell... securities”. That would be well understood. And then it says “any other financial instruments”. That's a pretty broad idea of any other financial instruments. Can you give us some idea of what the Bank of Canada has in mind?

And my third question has to do with “a severe and unusual stress on a financial system”, which apparently the governor alone determines. It seems to me, on the face of it, that this is an enormous allocation of powers to the Governor of the Bank of Canada, with virtually no parliamentary oversight whatsoever. I understand that the Bank of Canada is responsible for monetary policy, but this seems, on the face of it, to have the potential of enormously expanding the governor's authorities.

Could you comment on that, please?

● (1610)

Hon. Jim Flaherty: First of all, the mandate of the bank is not changing. But to give you the context for this, last August the subprime issue raised its ugly head, and it became apparent fairly quickly that some of the central banks had more room to move than did other central banks. That included a need to expand the options that the Bank of Canada has. That's why we've gone ahead in this bill and seem to have expanded the types of securities that they can take.

You've seen some of the announcements about that by the bank in recent times as well. Mr. Rudin can reply with respect to the specific instruments.

Mr. Jeremy Rudin: I would just note that the section you're referring to is in the Bank of Canada Act as it stands. It's for drafting purposes, and that's been repeated. The current subparagraph 18(g.1) says:

if the Governor is of the opinion that there is a severe and unusual stress on a financial market or financial system, buy and sell any other securities...to the extent determined necessary by the Governor for the purpose of promoting the stability of the Canadian financial system.

So that's a power that's already there. The change is really the proposed subparagraph above that, in proposed section 146, which gives the governor the authority, even when he is not of the opinion that there is a severe and unusual financial stress, to establish a list of securities in which the Bank of Canada will conduct open market operations.

Hon. John McKay: Excuse me. Are you saying it's when he's not of the opinion, or when he is of the opinion?

Mr. Jeremy Rudin: No, I'm saying even when he is not.

So there are two regimes.

Hon. John McKay: So you mean at any time, then.

Mr. Jeremy Rudin: I mean at any time.

So there are two regimes now, and there would be after the adoption of this bill as well. There is the normal regime, and then there is a more liberal regime when the governor is of the opinion that there is a severe stress.

What we're proposing to change through proposed section 146 is the way the normal regime works. It adds, in the normal regime, the authority for the governor to establish a list of securities in which the bank will conduct transactions. That list must exclude equities. That list has to be published in the *Canada Gazette* at least seven days before it takes effect.

Hon. John McKay: So regardless of whether there is or isn't a stress, the governor will have published a list, and that list will contain all of the instruments that the governor is able to buy and sell.

Now, does that have a retroactive effect?

Mr. Jeremy Rudin: No.

Hon. John McKay: It has no retroactive effect. Okay. Thank you for that. That's helpful.

My final question is to the minister. It's just a short one. I want to know why the \$3 billion contingency fund that was taken—

The Chair: I'm sorry. Actually, you've just had the final question.

Hon. John McKay: That's terrible.

The Chair: I know it is, but those are the rules—your rules, by the way.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Minister, you said that the Bloc Québécois had called for a program for older workers and that you had answered that call. However, the program you put forward in your budget is not at all what we were calling for, nor does it meet the needs of the many older workers in Quebec who have lost their jobs.

I'd like to come back to the \$1 billion trust you set up to help the manufacturing and forestry sectors. The vast majority of jobs in these sectors were lost in the past two years in Ontario and quite noticeably in Quebec, particularly in the forestry sector.

You set up a trust to help each of these provinces on a per capita basis. Witnesses have told us that your proposed assistance amounts to around \$2,000 per job lost in Ontario and Quebec, and \$20,000 in Alberta.

Minister, considering that Quebecers pay federal taxes in the same way as all other Canadians, is it fair to Quebec workers who have paid their taxes to get \$2,000 per job lost, while Alberta gets \$20,000 per job lost?

•(1615)

[*English*]

Hon. Jim Flaherty: I don't accept the arithmetic, I can tell you that. There have been significant job losses in manufacturing in Quebec, in Ontario, and elsewhere in Canada. The good news is that those job losses have been absorbed in the economy; people are getting other jobs. There's a strong service sector, as you know, in the Canadian economy, a strong service sector in Quebec and in Ontario as well. The funds are designed primarily to help people adjust and get new jobs, including older workers.

I give your party credit for pushing that subject. We didn't do exactly what was proposed by the Bloc Québécois—that's true—but we did create a program that is of some assistance.

The economy changes, and this is not something that is abnormal, to have economic change and to have people in need of retraining. The important thing for governments, it seems to me, is to make sure we have the retraining programs in place, to make sure we work with the provinces in terms of helping people adjust.

[*Translation*]

Mr. Jean-Yves Laforest: I don't have much time left, Minister.

Basically, you disagree with my figures, but you're not answering my question, which was whether you find that to be fair. I will still send you the document your colleagues received from the committee. It's a study by a professor from the Université de Sherbrooke showing in black and white the unfair distribution of this trust money.

You say you worked very hard to set up the program to assist older workers, and I thank you for saying so publicly, but it doesn't meet the expressed needs of Quebec workers.

Instead, the program you set up provides opportunities to people 65 and over to continue working, but that is not what's needed.

[*English*]

Hon. Jim Flaherty: All I would say, Monsieur Laforest, is that I would want to look at all of the programs, all of the assistance, and look at the study you mentioned from Université de Sherbrooke. I'm happy to do that and review it and get back to you about it.

There are also substantial transfer payments, as you know, from the Government of Canada to the Government of Quebec, which have been increased significantly.

The Chair: Thank you.

We'll now move to Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Good afternoon, Mr. Chair. I'll be sharing my time with Mr. Del Mastro. I only have two really quick questions.

Thank you for joining us today, Minister. I'd like to ask you two questions about the tax-free savings account.

One, in your speech today and in the actual document, you talk about flexibility. Maybe you could highlight for me what you mean by this savings plan being flexible and what that means to Canadians.

I'm going to ask my second question at the same time. At present when I get my tax return back, it shows me how much RRSP room I have left—and I do have lots left—to invest in, in the future. Do you expect that to happen for the tax-free savings plan, that Canadians will know how much room they have left? I know it's transferable from one year to the next. Do you expect that to happen? How do you think Canadians should be informed of that?

• (1620)

Hon. Jim Flaherty: Well, I think the market will work. Financial institutions, I expect, will want to attract this business and will compete for this business, starting January 1, 2009, assuming the bill passes. That is when people will be able to start putting aside money in a tax-free savings account.

I was at York University the other day, and I can tell you that the students there—some of whom were business students, some of whom were law students—sure understand the TFSA. They know all about it, because they know what it will mean for young people. The amount of money they will be able to earn tax-free in their lifetimes will be staggering. In fact, we expect in the Department of Finance that over time, 15 or 20 years, about 90% of savings will not be taxed in Canada. We have the RRSP and now this TFSA vehicle. It's an historic change to encourage savings by Canadians.

Mr. Mike Wallace: Thank you.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Minister.

With regard to budget 2008, once again we see that you've brought forward a document on the ongoing budgetary surplus. You're continuing to pay down debt. I believe some \$37 billion in total debt was paid down in just over two years. You just came back from the meetings with the other G7 nations, those being the wealthiest in the world. How many other nations in that group are currently experiencing ongoing budgetary surpluses and paying down debt?

Hon. Jim Flaherty: We're the only one.

Mr. Dean Del Mastro: Good work, Minister.

On the GST specifically, the GST cut that was brought forward in the fall economic update, we had a number of people talk about the GST reduction. They talked about it being a stimulant in an over-stimulated market. That was way back when we had proposed it in 2005. And of course, we see now that we have an economy in need of a stimulant.

I note that domestic demand for goods is increasing substantially. Specifically, we saw the demand for new cars, new electronics, and so forth in Canada up significantly, really supporting retail operations across the country. How would you view the GST reduction in light of this, and do you think it was timely in view of some of the softness that we've seen in other economies?

Hon. Jim Flaherty: As you know, we accelerated this second point in the GST to January 1, 2008. That again was entirely intentional. It was apparent to us that we needed to create a significant financial stimulus to the Canadian economy for this year. The Americans are behind us in doing that. We were ahead of the curve on that.

The confidence that consumers are showing in the Canadian economy is good. We expect it to continue. It helps when people get larger tax rebates. It helps with the GST reduction.

As you know—I think you know—the car dealers association folks were here yesterday, car dealers from across Canada, reporting good sales. January and February looked pretty good, and March apparently too. There's a revised prediction about total auto

production for this year, which is pretty good. This is encouraging for the Canadian economy. Governments don't make cars, but governments can help stimulate consumer demand by letting people keep more of their own money, which we're doing.

Mr. Dean Del Mastro: Do I have time for another question?

The Chair: Yes, one quick one.

Mr. Dean Del Mastro: I want to go back to the tax-free savings account. You mentioned that the RRSPs were brought forward by the Diefenbaker government in 1958. Obviously the one big tax shelter that we, as Canadians, have is our homes. That's a tax shelter. But not all Canadians have that.

This seems to me to be a benefit for Canadians broadly, in all positions, including those who may not have a home, to actually shelter some of their after-tax dollars from the tax man. Was that something you considered in the creation of the tax-free savings account?

Hon. Jim Flaherty: When we looked at creating a savings vehicle, there was a myriad of plans, and many economists have recommended various plans over time. Many of them have now taken credit for this particular plan. You know, success has many fathers and mothers and cousins and sisters and brothers and so on.

In any event, there it is. We looked at whether there should be some restrictions on what the money could be used for, but we wanted a broad, simple plan that Canadians would want to access and that would be understood clearly. And that's what we have. Money can go in and out of the plan to buy a car, or for a young person who might want a house, a first residence, a condo. It can be used for educational purposes, although we have an RESP. It can be used for whatever someone wants to use it for.

The hope is that it will help create a stronger culture of savings in Canada.

• (1625)

The Chair: Thank you very much.

Mr. Turner, five minutes.

Hon. Garth Turner (Halton, Lib.): Thank you.

Welcome, Minister. I have a couple of things that I am a bit curious about.

I am curious about the provisions on immigration that are included in Bill C-50. Many people have asked whether this doesn't turn immigrants into economic commodities. Why is this included in this bill?

Hon. Jim Flaherty: Certainly part of the purpose of immigration is to help improve the standard of living and quality of life of all people in Canada, including newcomers to Canada. As you know, we were left with a mess by the previous Liberal government. We were left with about 800,000 people who were entitled to be interviewed in order of the time that they applied. This is not practical and not in the best interests of the country.

We have labour shortages in virtually all parts of Canada, particularly in the west. Surely we want to look at matching skills to jobs as part of—not all of, but part of—the immigration program in Canada.

Hon. Garth Turner: Why was it not separate legislation?

Hon. Jim Flaherty: Because it's an economic imperative. This is very important.

Mr. Turner, you know the demographic challenge we have in Canada. We're now over the peak. We're going to have widespread demand and insufficient labour in Canada.

Hon. Garth Turner: Thank you. Next question.

There's something, Minister, I've been curious about as well. The guy you hired to write your speech for \$122,000.... You said in the House a number of times that administrative functions—

An hon. member: What has this got to do with the budget?

Mr. Ted Menzies: I have a point of order, Mr. Chair.

The Chair: I'm going to call that question out of order. It was defeated in a motion here.

An hon. member: Try to catch up, Garth. It's 2008.

The Chair: We will not allow that question.

Hon. Garth Turner: You haven't heard the question.

The Chair: Okay, proceed with it. Be careful, though.

Hon. Garth Turner: You said in the House a number of times, Minister, that administrative functions were not followed. My question is pretty simple. Who didn't follow them? Were they civil servants or your office?

The Chair: I called the question out of order, but the minister can answer it any way he likes.

Hon. Garth Turner: Is the minister going to answer?

Hon. Jim Flaherty: No, they were not followed.

I'm actually going to the public accounts committee, I think on May 13, which has decided to look into this subject.

Hon. Garth Turner: Who didn't follow it, though, Minister, civil servants or your office?

Hon. Jim Flaherty: Well, the administrative procedures were not followed. I'm not going to say.... I'm not an expert on what every procedure is, but certainly they were not followed in my office by my exempt staff, as they're called.

Hon. Garth Turner: They were not followed. Okay.

Hon. Jim Flaherty: On that particular contract.

Hon. Garth Turner: Thank you.

The budget has a provision in it to send a train to Mr. Del Mastro's riding. I'm a bit curious. Can you explain why that decision was made?

Hon. Jim Flaherty: I think you're familiar with the Greater Toronto Area. I'm sure you're familiar with the fact that there are 41,000 automobiles travelling that route now. I'm sure you're familiar with the environmental needs that we have in this country to reduce those kinds of emissions.

I'm sure you're aware that we have GO Train service along the lakeshore corridor, and we have GO Train service into your riding in Georgetown. But do we have a commuter service using the existing track? It was discontinued in the late 1980s or early 1990s. Why was it discontinued? It was discontinued because the government of the day felt it had insufficient resources, not because it wasn't being used. There's a railway line there. It can be used now. That part of Ontario is one of the fastest growing regions in North America, not only in Canada but in North America. What's wrong with using the trains to move people?

Hon. Garth Turner: I was just asking why it was that particular riding, because VIA Rail said it was uneconomical.

● (1630)

Hon. Jim Flaherty: It goes through 22 ridings, most of which are held by Liberals.

Hon. Garth Turner: They said it was uneconomical. I don't know why you're bringing partisanship into this—

Some hon. members: Oh, oh!

Hon. Jim Flaherty: Because...I don't mean to confuse you, since you've been a member of many parties.

Some hon. members: Oh, oh!

Hon. Garth Turner: Without being snide, do you think you could answer the question? VIA Rail said it was uneconomical. Why do you think it will be economical? Do you think this is going to be a candidate for—

Hon. Jim Flaherty: No, I think I just explained to you, Mr. Turner, that the discontinuance of the service was not on economic grounds. It was because of a restraint in spending by the Government of Canada of the day.

Hon. Garth Turner: I have a question on the tax-free savings account.

We've heard a number of witnesses...and by the way, I think the premise of it is good and I did recommend to you back in April 2006, as you know, that you do this, but as a retirement vehicle. You've chosen not to do it as a retirement vehicle.

We've had a number of people testify before us that this change is pretty significant because it alters it now into a tax-avoidance device for the wealthy. People who have maxed out their RRSPs or who have sizeable pension income can now shelter this income from capital gains.

Does that concern you at all, Minister, that this could be costing the Government of Canada a significant amount down the road and only be benefiting people as a tax avoidance device?

Hon. Jim Flaherty: Of course it's going to cost the Government of Canada money down the road. It's a tax savings plan. We're going to forgo tax revenue on significant amounts of money. But the money belongs to Canadians; it doesn't belong to the government. If people save, that's a good thing, and I hope people will be able to be more self-reliant in this way.

I thank you for saying back in February 2008, “The centrepiece is an after-tax savings plan, which is a good idea.... It's something I have long advocated for”. I would have just said “long advocated”, because you don't need the “for” there. But it was good of you to say that.

The Chair: With that, we want to thank you. Time is gone from this hour. So I want to thank the minister for his time here at committee.

With that, we'll suspend for a couple of minutes as we ask the department to come forward.

Point of order? Yes.

[*Translation*]

Mr. Paul Crête: I propose that we immediately adopt the motion I tabled on Bill C-50, rather than after hearing from the witnesses, in an hour. It's the second item on the agenda, “Committee Business”, “Notice of Motion from Paul Crête”.

I move that we adopt the motion right away, which is much more relevant to the minister's evidence, and then we'll have dealt with that.

[*English*]

The Chair: It's on the agenda. What you're asking is to accelerate it on the agenda?

[*Translation*]

Mr. Paul Crête: I move that we adopt it, that we debate it now.

[*English*]

Mr. Dean Del Mastro: It's not a point of order.

The Chair: It's a point of order, but I think we would need the consent of the committee to move that way.

[*Translation*]

Mr. Paul Crête: I ask for consent.

[*English*]

The Chair: If it is, I don't see any problem with it.

So you're asking for the consent of the committee?

Mr. Paul Crête: *Oui*.

The Chair: I think Mr. Crête is asking for the notice of motion that we have as committee business to be accelerated to now in the committee agenda, which means we would take it now.

Thank you, Mr. Minister, for coming in.

Mr. Dykstra.

Mr. Rick Dykstra: Just to be clear, my colleague Mr. Del Mastro said it. A point of order on a point of order. You actually can't move a motion on a point of order. If Mr. Crête wants to ask for unanimous consent, that's fine, but it's not a point of order.

The Chair: No, I agree it's not a point of order, and it was unanimous consent. That's what I was asking for. Do we have unanimous consent to move it to now?

That's what I discerned, that we do have consent. So let's proceed.

Go ahead, Mr. Crête.

[*Translation*]

Mr. Paul Crête: All committee members have had an opportunity to read the motion. Contrary to what the minister said, I think it only reasonable to ask the Committee on Citizenship and Immigration to study the part of the bill that has to do with immigration. That's why this motion seeks that committee's recommendations by May 9, so that they can be taken into account before proceeding to clause-by-clause consideration of the bill.

[*English*]

The Chair: Discussion on the motion?

Mr. McCallum.

Hon. John McCallum: Yes, I'm not quite sure of the order, but I have a small friendly amendment, which I have discussed with Mr. Crête, to make to the motion.

The Chair: If you have an amendment, present that amendment.

• (1635)

Hon. John McCallum: Right now?

Mr. Rick Dykstra: I need a point of clarification. Mr. Crête asks for unanimous consent to move his motion and vote on it immediately.

[*Translation*]

Mr. Paul Crête: To discuss the motion, to debate it.

[*English*]

Mr. Rick Dykstra: We agreed to move forward on a motion unanimously, and now all of a sudden we have Mr. McCallum moving amendments to the motion.

The Chair: We've accepted the opportunity to have him introduce his notice of motion. We'll have discussion on that motion. If there's an amendment to that motion, we'll take that in order. So if you have an amendment, we'll hear it.

Hon. John McCallum: Thank you.

On the third line, instead of saying “consider Part 6 of Bill C-50”, it would say “consider the subject matter of Part 6 of Bill C-50”.

I don't think that is of great import, but that is the amendment.

The Chair: Okay. Is there any concern with the amendment? Seeing none, we'll accept it all in one. Is that fair?

Mr. Mike Wallace: Moved as amended.

The Chair: I hear “moved as amended”.

(Motion as amended agreed to)

The Chair: That was carried unanimously. Thank you very much.

We'll now ask the department to come forward, and we will proceed with the second part of our agreement.

Go ahead, Mr. Pacetti.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Just for clarification, what does this motion we just adopted mean? I would have voted in favour. But what will happen if the standing committee says yes or says no or asks for an extension of time? What is the commitment between our committee and their committee in terms of...?

The Chair: We'll write the letter. As I understand the motion, it is a request that we get input from the citizen and immigration committee with regard to that portion of this motion.

Mr. Massimo Pacetti: It's not binding. But let's say, for example, that they were to come back and say, well, we'll get it ready for you for May 11 or May 12.

The Chair: Well, we can decide at that time, but the motion says May 9.

Mr. Massimo Pacetti: Okay, that's it. Thank you.

The Chair: Fair enough.

Do we have our department? No. Okay, there are no further presentations. We're just going to continue with questions and answers. We will proceed with that.

Mr. Pacetti, you can start. We're into our seven-minute round, so go ahead for seven minutes.

Mr. Massimo Pacetti: Okay, I may be sharing my time.

This is a quick question. On the Immigration and Refugee Protection Act again, what is going to be the involvement of the Department of Finance officials on this aspect of reforming the Immigration and Refugee Protection Act?

I'm not sure who I can even ask the question to.

Mrs. Andrea Lyon (Assistant Deputy Minister, Department of Citizenship and Immigration Canada): I'll take that.

I assume that you're referring to the instructions the Minister of Citizenship and Immigration will be issuing pursuant to the legislation. Minister Finley issued a press release on April 8 that outlined some of the guidelines or principles that will be relevant in the issuance of these instructions. Some of those include a series of consultation exercises the government will engage in interdepartmentally and also more broadly, with interested stakeholders such as the provinces, such as labour, such as the business community.

The instructions themselves will also appear in the *Canada Gazette*, and they will also appear in the annual plan the minister tables in the House.

Mr. Massimo Pacetti: Maybe my question's not clear, but I'm reading from the briefing binder here, and it says that there are amendments that will be made, not potential amendments or changes in regulations.

Mrs. Andrea Lyon: The amendments being proposed to the act are indeed a portion of Bill C-50.

Mr. Massimo Pacetti: Again, how can this be included in a budget implementation bill if it's going to affect the act?

Mrs. Andrea Lyon: I think Minister Flaherty addressed the question of the inclusion of immigration or IRPA amendments within Bill C-50. He referred to the linkage between competitiveness of the Canadian economy, which appears in *Advantage Canada*, and the desire to ensure that Canada has the right people at the right time in terms of our ability to respond to labour market demands.

• (1640)

Mr. Massimo Pacetti: Are you and the finance department okay with that answer? Are there skills in the finance department to make

amendments and allow any types of amendments this committee would like to make on immigration and refugees?

Mrs. Andrea Lyon: The amendments that were brought forward and the process the government will follow will involve very close interdepartmental consultation with not only the Department of Finance but our colleagues in HRSDC, the Bank of Canada, and other relevant players. So I am okay with that.

Mr. Massimo Pacetti: Thank you.

I know that the Canada Millennium Scholarship Foundation will be dissolved. Can you take me through it? The briefing notes say it will be liquidated within six months of coming into force—and the date. Is the Millennium Scholarship Foundation supposed to liquidate all moneys between now and 2010?

Ms. Rosaline Frith (Director General, Canada Student Loans Program, Department of Human Resources and Social Development): The endowment will essentially be run down between now and late 2009. The Millennium Scholarship Foundation will continue to disburse bursaries for the school year 2008-09. By January 5, 2010, they should have expended almost all of their endowment fund, and whatever is left will then be returned to its source. So moneys that originated from the government will go back to the consolidated revenue fund; moneys that originated from—

Mr. Massimo Pacetti: How much is in there now?

Ms. Rosaline Frith: There's very little left right now. They will expend about \$350 million in 2009, and there will be very little left in the fund at that point.

Mr. Massimo Pacetti: So you're projecting it to be pretty well wound up by then?

Ms. Rosaline Frith: That's correct. Then in January and the six months following they will liquidate whatever is left of the assets. I'm not referring to their fund, but to any goods they own.

Mr. Massimo Pacetti: You're not projecting it to be a major sum?

Ms. Rosaline Frith: It won't be a major sum at all.

The Chair: I want to interrupt very quickly. At the beginning of the meeting we asked for five-minute rounds. We have a motion for later on. We're into seven-minute rounds. If the committee feels it's advisable to continue with five-minute rounds, I think that would be the wiser thing to do.

I see consensus on that, so your time is gone.

Monsieur Crête.

[Translation]

Mr. Paul Crête: Thank you.

With the amendments to the Employment Insurance Act, what would happen if, for example, next year, as a result of the slowdown, we needed more than the \$2 billion in the reserve? Legally, how would that work?

Mr. Bill James: If the reserve is completely used up, the government will continue to pay benefits until rates are increased to replenish the reserves.

Mr. Paul Crête: You'll be able to go over \$2 billion, to spend more than \$2 billion if the situation requires it. Is that right?

Mr. Bill James: If I understood your question correctly, the answer is yes. If the reserve is completely used up...

Mr. Paul Crête: Why are you using the word “reserve”? The \$2 billion amount is not a reserve, it's a cushion. The difference is that if you go over the \$2 billion amount, the excess amount will have to be made up for by premiums later, if I understand correctly. If we had a \$15 billion reserve, which is what the actuaries are calling for, there would be no need for immediate reimbursement. It would be cyclical.

Why does it not go by full economic cycle, as under the previous legislation?

Mr. Bill James: I don't know the basis for the \$15 billion reserve you mentioned. All I can say is that the amount proposed by the government and found in the bill is considered sufficient to maintain rate stability, as anticipated.

• (1645)

Mr. Paul Crête: You're talking about one year, right?

Mr. Bill James: It depends on the shortfall. It could be one year, three years or more. The program's underlying principle is that we're going to try to match revenue and spending every year.

Mr. Paul Crête: If there's a surplus at the end of the year, will it be added to the \$2 billion or will it be transferred to the Consolidated Revenue Fund?

Mr. Bill James: If we anticipate a surplus in a given year, the amount of the anticipated surplus will be transferred to the independent organizations, and will be added, if you will, to the \$2 billion, until rates are lowered to bring us back down to \$2 billion.

Mr. Paul Crête: Thank you.

Let's talk about the changes to the Bank of Canada Act. Can you sum up for us what the added powers of the Bank of Canada are going to be, particularly in the context of the current commercial paper crisis? Will this give the Bank of Canada added powers to make liquidities available in the context of this crisis?

Mr. Jeremy Rudin: The proposed amendments...

Mr. Paul Crête: All of you could have spoken French earlier. I think Mr. Mulcair would have been very happy.

Mr. Jeremy Rudin: The proposed amendments give the governor the discretion to make additions to the list of assets the bank can buy or sell, as needed. Of course, that could be helpful in a situation of financial instability.

Mr. Paul Crête: Is there a maximum amount? Is the discretion unfettered? Are there maximum amounts or limits?

Mr. Jeremy Rudin: There are limits in terms of the purpose of the transactions. Subsection 18(g) of the proposed act says, quote:

18. The Bank may [...]

(g) for the purposes of conducting monetary policy or promoting the stability of the Canadian financial system,

So there are limits in terms of the purposes, but not necessarily in terms of the amount. Of course, if it's a purchase, the bank has to be able to afford it.

Mr. Paul Crête: Were these legislative measures drawn up based on what happens at the U.S. Federal Reserve?

Mr. Jeremy Rudin: The situation of the U.S. Federal Reserve is a bit different. I'm not an expert, but I think it's more based on the example of the Bank of England or the European Central Bank. Those banks have a lot of flexibility.

[English]

The Chair: Thank you very much.

Mr. Wallace, you have five minutes.

Mr. Mike Wallace: Thank you, Mr. Chairman.

I want to ask the kinds of questions I get from constituents, and I'm going to stick to the tax-free savings account.

We are very happy with this program. You would put the regulations in place, and that would be ready by the end of this calendar year. Is that a correct statement? And what happens then is that financial institutions would actually offer the accounts or financial services of, say, a bank or a life insurance company. I don't know who would do it, but the Government of Canada wouldn't offer the account. It's similar to an RRSP, which is offered by a third party, but based on the rules set out by the Government of Canada.

Is that an accurate statement?

Mr. Gérard Lalonde (Director, Tax legislation Division, Department of Finance): That's absolutely correct. One of the reasons the TFSA is in this bill is in order to ensure that we get early passage of the bill, so we can get the infrastructure put in place so the banks can start offering the TFSAs, if not immediately in the new year, as soon as possible in the new year.

• (1650)

Mr. Mike Wallace: So this is the exact same process then for the registered disability savings plan that was in a previous budget. The regulations get in place, and then it's up to the financial industry to offer that as a product. Is that correct?

Mr. Gérard Lalonde: That's correct.

Mr. Mike Wallace: In my view, with the system that we have now, we have an understanding of where we stand from an RRSP point of view, how much room we have. At least, I find out once a year when I get my tax return sheet back saying I filled it out correctly. People in the riding ask me how they are going to know how much room they have left. Are you expecting the institutions to do that, or do you think government should do that? Do you have any concept on that at this present time?

Mr. Gérard Lalonde: We wouldn't expect the government to be watching your balance in a TFSA during the course of the year, to see whether you've exceeded the balance during the course of the year.

We're currently having discussions with both the Canada Revenue Agency and the Canadian Bankers Association to ensure that we can put in place the required information requirements in a way that minimizes the degree of effort that needs to be put in by both of those organizations and also gives the best information to taxpayers. Whether it will be exactly the same as the RRSP remains to be seen, but as I say, we're currently in discussions with both organizations.

Mr. Mike Wallace: So it's an issue you're working on.

I'm certainly clear that whatever I put in there is not deductible, but the growth in there is not taxable, so it's a great savings program.

Again, people in the riding are asking such questions as, "Can my wife and I both have one?" and "Can I contribute to hers and can she contribute to mine?" Are those issues worked out? Do you have the answers to those questions?

Mr. Gérard Lalonde: Yes, absolutely.

As indicated in the budget document, we've gone out of our way to ensure that the attribution rules that might otherwise attribute income from one spouse who has made contribution into another plan in excess of their own TFSA room have been turned off, ensuring that each household member who is of age to have a TFSA can contribute the maximum or can have other family members contribute for them.

Mr. Mike Wallace: Right. Then the maximum changes with...is it the consumer price index? Is that maximum indexed?

Mr. Gérard Lalonde: The maximum is indexed, but it will be indexed in \$500 increments.

Mr. Mike Wallace: So if you don't go up the \$500 amount, you wouldn't get data?

Mr. Gérard Lalonde: That's right. We won't be indexing to \$5,002.35. It will go in \$500 increments.

Mr. Mike Wallace: Okay. So that could take time.

Mr. Gérard Lalonde: It could take a few years, yes.

Mr. Mike Wallace: Was that my time?

The Chair: It's very close to your time, yes.

Mr. Mike Wallace: Thank you.

The Chair: He actually had more time. It's very rare for that to happen, but it's so close that we will call it.

We'll now move on to Mr. McKay. I hope you have some good questions. You have five minutes.

Hon. John McKay: I always have good questions.

Mr. Rudin, what is a financial instrument that's not a security?

Mr. Jeremy Rudin: What is a financial instrument that's not a security?

Hon. John McKay: Yes. I'm directing you to amendments to subclause 146(1). It says "securities and any other financial instruments", and then it goes on to something about "instruments that evidence an ownership interest or right in or to an entity".

I don't understand that. But what is a financial instrument that's not a security?

Mr. Jeremy Rudin: That's a question of legal drafting. I'm afraid I don't know the answer.

Hon. John McKay: It strikes me as a rather important question, because the way you describe the expansion of the bank's authorities here has been—how should we say?—largely unexamined in public. For example, is asset-backed commercial paper something the bank could buy under this authority?

Mr. Jeremy Rudin: Yes, if it were on the list that had been established by the governor.

Hon. John McKay: Is it on the list established by the governor? Is that something the governor could purchase today?

• (1655)

Mr. Jeremy Rudin: Can the governor purchase asset-backed commercial paper today? I don't believe so. The bank can accept it as collateral for a loan; I don't believe the bank could purchase it today. I'd have to check.

Hon. John McKay: If the governor decides that asset-backed commercial paper is a good buy for the bank and puts it on his list, is that the end of it? Can he buy it?

Mr. Jeremy Rudin: I would say two things in this regard.

First of all, the intent is for the governor to be able to establish the appropriate list. There are two types of restraints on the use of that power. One is the purpose test: these purchases and sales have to be made either for the purpose of implementing monetary policy or of supporting the stability of the financial system. Furthermore, this list has to be published in the *Canada Gazette* and a certain length of time has to pass, so there's transparency and accountability.

Hon. John McKay: But in some respects, that's like talking to yourself. If he decides that the financial system is destabilized, then he puts whatever he needs up on the list and he publishes it. It's hardly a check and a balance. It's hardly something where the public of Canada, in right of the minister, for instance, or in right of Parliament, really has any say on what the governor decides goes on the list. It's an appearance of a check, but it just doesn't strike me as one.

Mr. Jeremy Rudin: The legal restraint on the use of it is the purpose test. That is to say these transactions have to be done with one of those two purposes as the motivation. The transparency and accountability is a sunshine aspect.

Hon. John McKay: But on the purpose test, he's the judge and the jury.

Mr. Jeremy Rudin: In what sense?

Hon. John McKay: In the sense that if he decides that his financial system is not stable, then that's the only test that counts.

Mr. Jeremy Rudin: For what would become subparagraph (g.1), this is not unlike what will become subparagraph (g.2). It's not a situation test. It's not if the governor is of the opinion that the financial system is unstable, but rather that these transactions must be done with the purpose of supporting the stability of the financial system or the implementation of monetary policy.

Hon. John McKay: Yes.

Mr. Jeremy Rudin: The other point I would make in this regard is a bit of a technical one, but nonetheless it's potentially important. The bank already has a broad power to make loans backed by collateral. There is a popular form of transaction in financial markets called the "repo". This is a transaction that is essentially lending, but it is technically a sale. This is a transaction where the two institutions agree, or the two parties agree, that one will purchase a security and then sell it back to the other at a prearranged price, a higher price. The difference between the purchase price and the resale price is the embedded interest rate in the transaction. So the purchase and then the subsequent sale are linked. It's a way of doing secured lending because the security resides with the purchaser if the counterparty isn't around—because they go bankrupt—to make the repurchase.

This is the sort of transaction that having this list allows the bank to do. So it would allow it, for example, to make repurchase transactions in the same set of instruments for which it can make what is legally a loan, using those instruments as collateral.

The Chair: Thank you very much.

We'll now move to Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chairman.

I'd like to come back to the question my colleague, Mr. Crête, asked earlier. It had to do with the employment insurance plan and the \$2 billion reserve. I want to make sure I understand how it works.

Correct me if I'm wrong. It's anticipated that the plan will continue to work like it did before, with premiums from workers and companies, and those amounts will cover benefit payments to the unemployed for one year. During that year, the \$2 billion reserve won't be touched. If there are any surpluses at the end of the fiscal year, they will enrich the \$2 billion reserve, but then they will be used to lower premiums, so that the reserve always remains \$2 billion.

Is that right?

• (1700)

Mr. Bill James: The goal is to match revenue with spending over the years so that spending and revenue are equal when the new plan comes into force. Every year, there may be deficits or surpluses. In that situation, the surpluses will temporarily be sent to the organization until rates are lowered, so that the amount can be transferred and spent on benefits. In that way, any premium overpayment will be equal to benefits.

Mr. Jean-Yves Laforest: However, what would happen if the reverse were to occur? Suppose in any given year with a lot of job losses, \$1.5 billion from the \$2 billion reserve was used up and there was only \$500 million left in the reserve. Would that \$1.5 billion be recovered through premiums? Would that happen over the course of one year, or in ways that would not penalize all workers and companies?

Mr. Bill James: That's an important question. The act contains limits on how rates are decreased or increased from year to year.

Under the act, rates can't vary by more than 15¢ per year. That will ensure some stability for companies and workers.

Mr. Jean-Yves Laforest: Thank you very much.

I have no more questions, Mr. Chairman.

[*English*]

The Chair: Thank you very much.

We will now move to Mr. Menzies.

Mr. Ted Menzies: Thank you, Mr. Chair.

I want to thank all of the officials. I don't think we actually realized how many officials are here today. Mr. Dykstra and I were just talking about the amount of effort that has probably gone into preparing for this. So thank you for your efforts.

I have a very quick question, two questions, and then I'll hand it over to Mr. Dykstra.

This is to Finance officials, referring to parts 8 and 9, where we're dealing with payments to provinces and territories, and payments to certain entities. Whoever this question may go to, first of all, where does the funding come from?

Secondly, we're in a minority Parliament. We keep hearing threats of elections. We'd like to get this through as fast as possible. What happens if we don't get Bill C-50 passed before this House rises?

[*Translation*]

Mr. Yves Giroux (Director, Social Policy, Federal-Provincial Relations and Social Policy Branch, Department of Finance): The money for the Police Officers' Recruitment Fund comes, among other things, from the 2007-2008 end-of-year funds. The same thing goes for payments in trust to the provinces and territories. If Bill C-50 doesn't pass, the provinces and territories won't have access to those funds.

[*English*]

Mr. Ted Menzies: Thank you.

The Chair: Mr. Dykstra.

Mr. Rick Dykstra: Thank you, Mr. Chair.

One of the things I want to ask a little about was the expansion of the mental health work that the government has done over the last couple of years. In 2007 we announced the creation of the mental health commission. Its responsibility is to lead and develop a national mental health strategy. In this budget, we've certainly extended that in terms of providing funds to establish the commission.

I just want to get the ministry's thoughts—I shouldn't say thoughts, I should say your process—in terms of how this is working and how it's going to work its way through. As many of us know, the study that came from the two senators certainly gave us direction as to what we should do, and in fact we are now, as we can see over the last couple of budgets, working through the implementation.

I wonder if you could comment on that implementation.

• (1705)

[*Translation*]

Mr. Yves Giroux: As you probably know, Senator Kirby has been a strong advocate for mental health issues and the importance of allocating more money to mental health research and treatments. That's why \$110 million was allocated to the Mental Health Commission of Canada for the completion of five applied research projects on how best to deal with mental health issues, particularly in relation to homelessness on the east coast of Vancouver Island.

Other projects will be conducted in Winnipeg, Toronto, Montreal and Moncton. They will all focus on specific client groups. In Montreal, it will be immigrant communities whose mother tongue is not French. In Toronto, it will be immigrant communities whose mother tongue is not English, in order to see how these different client groups are affected, how to do outreach and how best to treat them when they have mental health problems.

Mr. Rick Dykstra: Thank you.

[English]

The Chair: Thank you very much.

Mr. McCallum—and these five minutes will end the session.

Hon. John McCallum: Thank you.

I'd like to ask you a question about clause 153, which gives the minister the power to appoint advisory and other committees. Then the cabinet or Governor in Council decides what these people should be paid.

My first question is, why does the minister need this power?

Mr. Jeremy Rudin: This is a power that a number of ministers have, and one can imagine it being used in the following situation. As you know, a number of expert panels have been appointed. In selecting people for these panels, it's often necessary to look for particular expertise, and there may be a need for various points of view to be represented. This hasn't been a difficult process administratively for expert panels that have recently been appointed, because they were pro bono; so it was not a question of a contractual relationship. But it is certainly possible—and this is foreseen in the acts or powers of some of the other ministers—the minister will need to appoint an advisory group, where remuneration will have to be paid. Having the flexibility to do this under the supervision of the Governor in Council rather than the conventional contracting rules would be extremely useful.

As I said, you're looking at places where very specialized expertise is necessary and where a certain balance of representation or views may be necessary. So the minister would wish to select the people individually.

Hon. John McCallum: That means he could choose whoever he wanted; he wouldn't have to go through any competitive process.

Mr. Jeremy Rudin: Again, the terms and conditions, or those sorts of things, would be supervised by the Governor in Council, but it would not be necessary to submit a request for proposals, for example.

Hon. John McCallum: And would there be any limitation on the nature of the committees? Could he appoint a speech-writing committee, or something of that nature?

Mr. Jeremy Rudin: It needs to be an advisory committee, and the minister has to—

Hon. John McCallum: So he could appoint a committee to advise him on his speeches?

Mr. Jeremy Rudin: The bill reads, “may establish advisory and other committees”.

Mr. Ted Menzies: Chair, the question is a little irrelevant.

Hon. John McCallum: It will in the act; it's relevant.

Mr. Jeremy Rudin: Well, it says, “The Minister may establish... other committees”, so indeed there's not a restriction that they be advisory in nature.

Hon. John McCallum: Okay, thank you very much.

The Chair: Thank you very much.

Mr. McCallum was going to be the last questioner, but Mr. McKay has talked me into allowing another really good question.

Go ahead, Mr. McKay.

Hon. John McKay: As you know, I only ask good ones.

Does the \$2 billion that's being set aside for this EI fund actually move from the general fund into a special bank account for EI? What I can't quite figure out is whether this is real money.

• (1710)

Mr. Bill James: Yes, under the provisions of the proposed law, there would be an amount transferred from the consolidated revenue fund to the Canada Employment Insurance Financing Board. That amount would be maintained and invested by the board outside the government's consolidated revenue fund.

Hon. John McKay: So it's moving from a bank account to another bank account, in simple language. Is that a fair statement?

Mr. Bill James: Yes, it would be leaving the consolidated revenue fund to be provided to a separate organization.

Hon. John McKay: If that's true, is there provision for it in the budget presented in March? Is that \$2 billion actually taken out of program expenses and set aside pending the set-up of this? Or is it simply sitting there?

Mr. Bill James: It's important to distinguish, when talking about the movement of EI premiums, between a cash movement and—

Hon. John McKay: But this doesn't have anything to do with premiums; this has to do with your reserve.

Mr. Bill James: Yes, with regard to the transfer of the reserve then, the transfer of that sum of funds does not affect the government's bottom line per se, because the amount of money continues to be consolidated within the Government of Canada's books, consistent with public accounting principles.

Hon. John McKay: Well, it wouldn't affect the assets and liabilities, but it would affect the income and expenses. So I guess the questions I'm asking are, in fiscal year 2008-09—if in fact Bill C-50 passes—will the \$2 billion come out of the revenue account and get passed over to this new entity; and should the anticipated surplus of \$2.3 billion, or whatever the number is, actually reflect that movement of \$2 billion?

Mr. Bill James: I should clarify this. Again, this area of the accounting treatment of different revenues and expenditures is not my particular area of expertise.

My understanding is that the transfer of the money is not an expense, so that should clarify the first part of your statement. The expense would be recognized at the point in time at which those moneys were depleted and paid as benefits. That's a standard accounting approach.

Hon. John McKay: Okay, that's helpful.

Thank you.

The Chair: Thank you very much.

Monsieur Crête has talked me into allowing another very, very short question. I have to see this, so I'm going to allow it.

[*Translation*]

Mr. Paul Crête: The provinces had until March 31, 2008, to sign up for the 2008 Public Transit Infrastructure Trust. Which provinces have answered that call?

Mr. Yves Giroux: Ms. Krista Campbell, from the finance department, can answer that question.

Mr. Paul Crête: Do you want me to repeat the question? The 2008 Public Transit Infrastructure Trust sets aside \$500 million for provinces and territories that made a public commitment by March 31, 2008. Which provinces made a commitment by March 31, 2008?

Ms. Krista Campbell (Senior Chief, Director's Office, Federal-Provincial Relations and Social Policy Branch, Department of Finance): All provinces and territories are committed.

Mr. Paul Crête: They made an official commitment?

Ms. Krista Campbell: Yes.

Mr. Paul Crête: So they are all eligible.

Ms. Krista Campbell: They are all eligible, yes.

Mr. Paul Crête: Thank you.

[*English*]

The Chair: Thank you very, very much.

Thank you to the department for coming in and for actually answering, by way of your conduct, a question that was put to the finance committee earlier this meeting with regard to official languages. You've handled yourself very well and very aptly in both official languages. Thank you for that and for attending our committee

Thank you also for the questions.

Just to remind the committee, please give the clerk the names of any witnesses you may wish to call before the committee with regard to this piece of legislation. We'll ask for that early, so that we can proceed appropriately when we come back from the break.

With that, the meeting is adjourned.

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