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## Standing Committee on Finance

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**Monday, October 24, 2005**

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•(1105)

[English]

**The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)):** Good morning, everybody.

Just before we begin, I would like to thank the members for showing confidence in me and electing me as chair. It's an honour and I appreciate the gesture, if I can call it that.

We just came off a rough week of pre-budget consultations. We're back in Ottawa this week.

We're here pursuant to Standing Order 108(2) for our study on federal fiscal forecasting. We have the four independent consultants. I'll allow each of you 10 minutes for opening remarks.

Before I begin, while the committee was away last week travelling, we were reading in the papers some of the documents that were leaked. I just want to go over some of the contract's conditions. I'm not going lay blame on anybody, because it could occur on our side as well, but I just want to make sure that everybody's aware the contract says that your services

paid for by the House of Commons under this agreement are the property of the House of Commons and neither the Contractor nor any officer, servant or agent of the Contractor shall divulge, release, or publish anything related to the performance under this agreement without first obtaining the written permission of the House of Commons.

[Translation]

And I will read it in French.

[...] the execution of the contract by the Contractor paid for by the House of Commons under this agreement are the property of the House of Commons and neither the Contractor nor any officer, servant or agent of the Contractor shall divulge, release, or publish anything related to the performance under this agreement without first obtaining the written permission of the committee chair.

[English]

So if we can just work under those rules, I would appreciate it.

Ms. Russell, and then Mr. Darby.

**Ms. Ellen Russell (Economist, Canadian Centre for Policy Alternatives):** Do we distribute this material after it is been presented today at the meeting?

**The Chair:** Once we have the committee hearing and we okay the numbers or okay reports, at that point you can distribute them as you wish.

**Ms. Ellen Russell:** And will that “okay” happen this morning at the meeting?

**The Chair:** Once the meeting is done, yes. Once the meeting is over with.

**Ms. Ellen Russell:** Thank you.

**The Chair:** Mr. Orr.

**Dr. Dale Orr (Managing Director, Canadian Macroeconomic Services, Global Insight Inc.):** No that's fine.

**The Chair:** Mr. Darby.

**Mr. Paul Darby (Deputy Chief Economist, Conference Board of Canada):** No, I had the same question.

**The Chair:** So if we can begin, I have the Canadian Centre for Policy Alternatives.

Ms. Russell.

**Ms. Ellen Russell:** Thank you very much.

Good morning, everyone.

I'm very pleased to be joining in the discussion of fiscal forecasting initiated by this committee. I think the discussion today is particularly important, because I am concerned that we are heading in a direction that may make it more difficult for Canadians to decode official financial documents to ascertain the true state of federal finances.

Ironically, Canadians may be under the impression that the government is repairing its reputation for inaccurate fiscal forecasting; they may believe that the government no longer chronically underestimates its budget surplus. This impression has been promoted by the government's low \$1.6 billion surplus forecast for 2004-05, the result of a lot of multi-year big ticket expenditures charged against the 2004-05 fiscal year. In fact two of these expenditures were a surprise: Atomic Energy of Canada's energy environmental liabilities, and payment of the offshore revenue agreements in a lump sum rather than over several years. Had these surprise expenditures not been counted in 2004-05, we would have had a surplus of \$6.5 billion, an amount quite close to CPA's July forecast of \$6.8 billion.

The surplus could have been even higher. The government booked several trusts funds to that fiscal year, such as the \$4.3-billion health care wait time reduction fund. If the federal government had decided not to prepay those expenditures via trust funds, we would be looking at a surplus of around \$12 billion. So we should not interpret the official \$1.6 billion surplus as an indication of any deterioration in the government's underlying financial position.

This treatment of expenditures in the last fiscal year has very important implications for the independent fiscal forecasting process, in which all of us are engaged. Our independent fiscal forecasts will become virtually an exercise in futility if the government dramatically changes its surplus position by rearranging expenditures and revenues at the end of the fiscal year. No one outside of government not privy to these decisions can hope to make accurate surplus forecasts under these circumstances.

Thus the 2004-05 treatment of expenditures raises two important questions. Number one, to what extent does the finance minister exercise discretion about the timing of revenues and expenditures? Number two, is the Minister of Finance promptly disclosing his decisions to change the years in which revenues or expenditures are booked? If the Minister of Finance exercised a great deal of discretion in the timing of multi-year revenues and expenditures, it creates the opportunity to manipulate these items to engineer a higher or lower surplus.

Now, if we add to this the possibility that the government fails to tell us about these decisions in a timely manner, then we have the makings of a situation in which political pressures are likely to influence accounting decisions. If we tolerate an environment in Ottawa in which revenues and expenditures are rearranged to suit the political appetite for a surplus of a certain magnitude, then the government's financial disclosures will offer Canadians little insight into the true financial position of the government.

And this concern is even more grave in light of the government's move to make certain decisions contingent on the size of forthcoming surpluses. If legislation is passed that allows the government to allocate surpluses based on a formula that is triggered by the size of the surplus, then the Minister of Finance will have a very compelling incentive to massage the size of the surplus according to whether he wishes to honour or to avoid implementing the formula. This intensification of political influences on federal bookkeeping will further compromise the transparency of federal finances.

Despite the fact that I am indicating to you that our independent fiscal forecasting process will become increasingly irrelevant if politically motivated massaging of the surplus is allowed to grow, I will of course present to you the current CCPA budget forecast.

As has been the case for many years now, our forecast points to large forthcoming budget surpluses. In our report we have used Infometrica's macroeconomic forecast, which indicates a fairly good economic outlook, despite recent shocks such as oil prices and the hurricanes in the United States. And in terms of revenue, we see the revenue-to-GDP ratio at about 15.3% in 2005-06, thanks to strong PIT and CIT revenues. Revenues soften a little in later years, particularly by 2007-08, when personal income tax cuts announced in the 2005 budget are costing about \$1 billion in that year, and when corporate income tax revenues decline somewhat as a percentage of GDP.

In terms of expenses, we see expenses as a percentage of GDP at about 12% this year, thanks in part to the additional spending negotiated in Bill C-48, but this falls as a percentage of GDP, particularly after 2006-07 when the deal concludes. We also see debt service charges declining as a percentage of GDP and in terms of

dollar value under the assumption we make, which is that contingency reserves of \$3 billion are applied to debt repayment.

So this is our bottom line. We see a surplus of about \$11.4 billion in 2005-06 rising to \$12.5 billion in 2006-07 and rising to \$15.4 billion in 2007-08, largely because at that time we are assuming that the NDP deal has expired and that spending will cease.

Please note that there was a typo in an earlier version of the report in table 5. It did not affect our bottom line, but do make sure you have the most up-to-date copy of our report. I have extras should you need them.

So what is striking to me about the four reports of our forecasters is our shared belief that there are large fiscal surpluses in the years ahead. The differences among our various forecasts are less interesting to me than the fact that we are all so different from the government's. In my view, it is not news that there are some differences among our various forecasts. Since none of us has inside information known only to the finance department, we are forced to make assumptions, and different assumptions create different surplus estimates.

What is news is that despite all our methodological differences, and despite the differing assumptions we have been forced to make, we all come in with higher estimates of the budget surplus than has the government. But as I have said, all our forecasts will be made virtually irrelevant if the government can increasingly rearrange revenues and expenditures in a manner that is not discernable to outsiders. And it is for this reason that I think the ultimate solution to compel the government to be transparent in both its forecasting and its financial disclosures is to establish an entity within government charged with projecting objective and unbiased forecasts of our finances. This entity needs access to insider information available to the finance department, yet protection from the political pressures that compromise the forecasting of the finance department.

Much as I salute the process initiated by the finance committee to get independent prospectors on fiscal forecasting, I believe only the creation of an entity within government can give Canadians what they deserve, namely reliable financial information from their government.

Thank you.

• (1110)

**The Chair:** Thank you, Ms. Russell.

I think when we first started this process, we met with the independent forecasters, and we realized that there was going to be a problem with finance. As long as you indicate that in your submissions or in your briefs, and I think you have to continue to indicate whether you got help or direction from the finance department or not... Most of the members know that, but if you could just reiterate it every time, it's fine. We know there are certain aspects of your presentations that you don't have readily available.

So I just want to put that on the record, so we understand that you're limited as to some of the information you're working with.

From the Conference Board of Canada, Mr. Darby.

• (1115)

**Mr. Paul Darby:** Thank you very much, Mr. Chair.

Again, it's a pleasure to be here. It has been a while, so it's certainly nice to be back in the room.

I have a brief presentation, Mr. Chair. Basically, I thought that to some extent I would try to defend or at least give an indication of our track record in terms of how we've been doing on these forecasts, at least since March, focusing on the fiscal year 2004-05, which is the year that has been completed.

I'm building on the remarks of Ms. Russell, Mr. Chair.

If you look at the three components that are really under our control in terms of forecasting, which are total revenues, transfers to individuals, and public debt charges, I want to in fact indicate how close we have been to the final published number. For example, errors that are frankly never much more than a billion dollars on total revenues, \$200 billion in revenues, are percentage errors that are minuscule. On transfers to individuals, I think the committee will be glad to know that we've probably never been so accurate. These errors are almost zero. In terms of public debt charges, certainly for July, that's probably the most accurate forecast of public debt charges I've ever managed to produce.

I think the committee will be glad to know that they're getting good value for their money. I think you'll also note that they're very accurate as well.

This is probably building on Ms. Russell's remarks about the estimate of the surplus, which was at a certain level and it somehow melted down to \$1.6 billion. Of course, the part that we have less control over is on the direct program expenditures. There are accounting issues, as you know, with some of those expenditure profiles.

I also wanted to make the adjustment here so that you can see our track record with respect to forecasting the actuals for 2004-05. If you make the same adjustments to the forecast that the finance department did at year-end, you would see that we in fact did a little better in March than we did in July. We were pretty much dead-on in March, with one-sixth compared to one-sixth, if I can round it out. We were a little more sanguine in July than I think the final numbers ended up. We were about \$800 million or \$770 million off, but I would submit that in the context of true underlying surpluses, which are closer to \$8 billion, this is a small error. In general, I think we've managed to do quite well in forecasting the year-end numbers, even six months out.

I want to switch from that topic. Here's the bottom line, for the information of the committee.

These are similar numbers to the other consultants' numbers, perhaps slightly under the CCPA's number, but similar to the others in general. It's roughly \$10.2 billion to \$10.5 billion this year, which is the fiscal year we're currently in.

Over time, when we get to the year 2010-11, even considering all the amendments to the 2005 budget that have been passed, particularly the NDP amendments, we're looking at a budget that

would still have close to a \$16 billion budgetary surplus in the year 2010-11.

Revenues as a share of GDP, since this is a number that we have been focusing on in the committee hearings, are quite constant but tend to fall over time. This is mainly as a result of the tax cuts that are currently in the budget.

I thought I would talk about these tax cuts, Mr. Chair.

On personal tax cuts, we had some back-end personal tax cuts going out, which bring down revenues slightly as a share of total nominal GDP. On corporate income tax cuts, the corporate tax cuts were removed by the NDP amendments. We now have some information to suggest that they're kind of back on the table. That's why revenues as a share of nominal GDP tend to fall as you go into the medium term in 2010-11.

• (1120)

In terms of the risks to this outlook, there are a couple of issues I want to raise briefly. One is corporate income taxes. On corporate profits as a share of nominal GDP, we graphed that back to 1961, just to give you the long-term perspective. The average is almost 10% on the nose, but you can see how in 2005 that share has gone up to 14% or so of GDP. So corporate profits right now in Canada, as a share of nominal GDP, are pretty much at record levels. We haven't seen them that high for a long time.

This has led to some debate amongst our colleagues and within the finance department on the treatment of corporate profits as a share of nominal GDP going forward. One of the main reasons, at least historically, why the finance department estimates of the surplus tend to be lower than the estimates coming from the consultants is that in the past the finance department has brought down those corporate profits, as a share of nominal GDP, toward long-term historical levels. As a result, they have had very low growth rates for corporate income tax collections. I want to make that point very clearly. This is one of the main differences between the finance department estimates of their surpluses, and estimates coming from the consultants.

Now we don't do that. As you can see in forecasts going forward, we have a little dip in corporate profits as a share. We feel oil prices and commodity prices will retrench to some extent, but then we have some improvement as we go further out into the medium term. That does introduce some element of risk, which the committee may want to discuss with the consultants at length. Nevertheless, we do feel there are some underlying structural changes with respect to corporate income in Canada that make this the most reasonable forecast.

There's another issue I want to talk about in terms of risk. In the short term now when we look at 2005-06, the fiscal year we're currently in, there's some angst around the forecast for personal income tax collections. If you look at our forecast for personal income in this fiscal year, it's to grow at about 5%. A normal multiplier on that, to get to personal income tax collections, is about 1.2%. So personal income tax growth of 5% should generate, in whatever are normal times, about a 6% growth in personal income tax collections.

In fact, our forecast for this year is much closer to 7%; it's about 6.8%. So you might think we've built in some excess here, that we're being perhaps overly optimistic in terms of personal income tax collections. But if you look at the data we now have for the year to date from the fiscal monitor, on a year-over-year basis personal income tax collections are growing by much closer to 9%. We know that as we get into the final months of the fiscal year there tend to be some declines in personal income tax collections, so we would never suggest that 9% growth rate would hold right through to the end of the fiscal year. Nevertheless, we really have to do some hard work to the numbers to get it below 7% growth.

So I want you to get the message that 7% growth in personal income tax collections is a rather conservative forecast here, given the numbers and the data we already have. Frankly, if you're growing personal income tax collections at 7%, boy, does that ever add to your revenue growth, and does that ever help to generate some healthy surpluses. I want to make that point clear.

Going out into the medium term, we're more conservative past 2005-06 in our relationship between personal income tax collections compared to personal income growth. That's the 1.2 ratio I talked about, and they're much tighter—again, very conservative going forward. Corporate profits are pretty much lined up with corporate income tax collections.

With those remarks, Mr. Chair, I'll stop.

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

Next from Global Insight is Mr. Orr.

**Dr. Dale Orr:** Thank you, Mr. Chairman, and good morning. I'm very happy to be back amongst you again. Thank you for letting us participate in the exercise.

I hope you all have a copy of our report. What I'm going to do is just highlight a few key things you will find in the report, starting with the economic assumptions that are on table 1, page 11.

In terms of real economic growth, we're saying that for this year, really, and for next, as well as for 2007, the Canadian economy is at pretty close to full capacity, and it's going to move along at about that pace over the next couple of years. Our forecast is pretty much a consensus. I understand you're meeting with David Dodge later on, and that's about what he's going to tell you, and I think that's about what Mr. Goodale is going to tell you when he delivers the economic statement. In terms of real economic growth, we're about at full capacity. We're going to move along, probably, at a shade just below 3% this year as well as for the next couple of years.

If you go from that real growth forecast down to the bottom of the table, that's actually the most interesting and important number, or certainly one of the most interesting and important numbers for us—nominal GDP growth—because nominal GDP is the general tax base for the government. This is an important point: we're now forecasting nominal GDP growth to be quite a bit higher for 2005 than what we were in our previous reports for next year. It's also a little bit higher than our previous forecasts.

The nominal GDP growth is higher, and the rate of increase in nominal GDP is more than that of real GDP. The reason is that nominal GDP takes into account what's happening to the prices of

our exports, and the prices of our exports have improved very sharply. That's mainly the energy exports, but also the other commodities.

Now, you can see that when those export prices are very strong, that generates, from the federal government's point of view, corporate income taxes and personal income taxes, which are not picked up quite as sharply in the real GDP number.

Turning from the economic forecast, go to our table 2, which says "Monitoring *The Fiscal Monitor*". So here what we do in some detail is track the monthly results as they have come in for this fiscal year so far. What you see in front of you is *The Fiscal Monitor* results that we had available to us by October 7, when we filed this report. About a week later, the October *Fiscal Monitor* came in, so I will also refer to those results so you're absolutely right up to date with how revenues are coming in this fiscal year.

The key point to make there, if we look at total budgetary revenues, which as a matter of fact you see in the table, is that they were running at a pace to hit \$214 billion for this year. With the October report, they're in fact running almost as strongly, at \$212 billion.

Our forecast for revenues for this year is not \$214 billion and it's not \$212 billion either. It's actually \$208 billion, because I'm in agreement with what you heard from Paul. The revenues are coming in at a very sharp pace. We don't think that can be maintained, but they're coming in at a pace of \$212 billion. Our forecast is \$208 billion. I think that's a pretty good revenue forecast.

Incidentally, the forecast we gave you in July was so close to the actual—it was only off in the fourth number—it was with 99.9% accuracy. But that's another point. But we have provided very accurate revenue forecasts.

The other point is that the debt charges came in last year lower than forecast. I think they're going to come in quite a bit lower than forecast for this year, quite a bit lower than what was forecast in the budget, and I encourage you to particularly look when Mr. Goodale delivers his economic statement to see. Hopefully, he will have lowered his forecasts for debt charges.

We think our forecast is a little bit aggressive, probably. We have \$33.2 billion for this year, but I do think it's going to come in between \$33 billion and \$34 billion, quite a bit less than the \$35 billion that is in the current forecast.

● (1125)

Interestingly enough, on the budgetary balance, the bottom line there is \$19.7 billion. So the budgetary balance was running at a pace of almost \$20 billion, with the results received through that September *Fiscal Monitor*. With October, they're still running at \$17.5 billion.

Again, we're not forecasting that the budgetary balance this year will be as high as \$20 billion, or even \$17.5 billion. As a matter of fact, we're forecasting that it's only going to be \$12.4 billion. You might think I'm a pessimist, but if you compare our forecast with the others, we have the highest forecast fiscal balance for this year. But just to put our \$12.4 billion in the forecast, that can accommodate a real slowing up of the information that we have to date—as I mentioned, right up to date with *The Fiscal Monitor*, running at a pace of \$17.5 billion against our forecast of only \$12.4 billion.

If we turn to the table on our fiscal results, which you'll find at table 5 on page 21, I'll just very quickly explain why we have the fiscal forecast we do and how it compares with previous ones.

Again, I mentioned our revenue forecast of \$208 billion. That's significantly higher than the \$200 billion in budget 2005. It's a combination of our now seeing nominal GDP to be a bit higher than previously, but also, as I think Paul alluded, the revenue-to-GDP ratio came in a bit higher than was forecast last year. That means the government is able to get more federal revenue dollars per dollar of nominal GDP than what any of us forecast. That's what happened last year, and we've made some accommodation for that in our forecast.

Likewise on debt charges; they're running, actually, to be on \$33.6 million for this year. That's the pace they're running on, and I think that's about where they're going to end up, which is significantly lower than the current forecast. Again, our surplus of \$12.4 billion for this year is higher than what we had before. That's a combination of the revenues being higher because of the economy and that revenue-to-GDP ratio point that I just made, but we've also lowered our forecast for debt charges for this year. So that bumps up our forecast of the underlying surplus to \$12.4 billion.

I do want to draw your attention to our forecast of the planning surplus, which is \$9.4 billion. That's \$12.4 billion minus the contingency fund of \$3 billion, which gives you \$9.4 billion. Now, the practice of the government has been to drop the reserve for economic prudence at this point in the year. After all, we're almost to November, so we think that makes good sense. To keep it in there would be excessive prudence, I would say, since we're sitting one week away from November. As well, when Mr. Goodale delivers his economic statement, I believe that economic prudence reserve will be dropped, as it was last year. So we've given you a set-up for reserves that is more comparable to what you're going to see from Mr. Goodale shortly, I assume.

I have just a couple of points on 2006-07. The underlying surplus is forecast at \$8.9 billion and the planning surplus at \$4.9 billion. That leaves about \$5 billion left for planning purposes after you've made the allocation for the reserves. We've provided a forecast for 2007-08. I believe it's important to take a look at that year. Again we have an underlying surplus really about the same as what we have for 2006-07, and a planning surplus of \$4.6 billion.

The key point to make here is that when Mr. Goodale comes before you with his economic statement, he may or may not have some fiscal action in that. If he doesn't, you can be sure that he will in the February budget.

Given these forecasts, how much fiscal action can the federal government afford? To answer that question, you have to look at the planning surplus line. You really have to look at the lowest number that you see in there going out several years. If he makes a commitment to cut taxes, he certainly wants to be able to maintain that tax cut. He doesn't want to go back in a year and say, sorry, I could afford it last year, but I can't this year; otherwise, I'll have a deficit. Likewise, he doesn't want to tell the group, yes, you can have some program spending money—and then have to take it away from them in one or two years. That's why he has to look at the planning surplus, and he has set aside his reserves. The point to make is that the planning surplus this year is pretty large, almost \$10 billion, but he can't come in front of you and make a commitment to tax cuts of \$10 billion. The planning surplus for next year looks like it will be about \$5 billion or a shade under that, as well as for the following year.

• (1130)

So by our forecast, Mr. Goodale is in a position to come forward in November if he so chooses—or if he decides to wait until February—and say that fiscal conditions permit him to make a tax cut in the order of \$4 billion to \$5 billion and to have it sustained, and/or some combination of tax cuts and sustained program spending in the order of \$4 billion to \$5 billion. That's what you should be looking for. I believe that's what he can afford.

How he makes his choice between tax cuts and spending is obviously a political choice, but I did put out a paper a couple of weeks ago that pointed out—and it's consistent with what Paul was saying—that those personal income tax revenues are booming in. We think, in fact, that they're going to boom in above that 7% range for this year; like Paul, we think they're going to come in pretty strongly going forward.

The point is that if the federal government doesn't cut personal income taxes, either in the economic statement or the budget, the personal income tax burden going forward will be higher. In other words, Canadians will be paying a higher fraction of their personal income in personal income taxes. That's why I think it's very important for you to understand that if he needs to cut personal income taxes in the order of magnitude of \$1 billion to \$2 billion a year—that's not a large amount, but that's the amount that's going to be required in terms of successive cuts of between \$1 billion and \$2 billion each year, meaning next year, the year after, etc.—just to keep the personal income tax burden constant.

I will also add that we're expecting him to have an economic statement focused on economic growth and productivity. He really cannot have credibility on that theme if he has a statement that shows the personal income tax burden to be growing. Likewise, he has to have some cuts in taxes on business investment. Those are absolutely essential for him to have credibility, I would say, on a theme of economic growth and prosperity, and the order of magnitude that he could afford could take him right up into the \$4 billion to \$5 billion category if he decided to use all of his fiscal room for tax cuts. I wouldn't recommend that and I don't think he will, but to use \$2 billion or \$3 billion would certainly be affordable, and I think it's a necessity to have credibility with the theme he's expected to bring in front of you.

With that, Mr. Chairman, thank you.

• (1135)

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

Just as a quick comment, on table 2 on page 15, some of the additions don't add up. If you look at your total expenses for 2005-06, they don't add up.

**Dr. Dale Orr:** Page 15?

**The Chair:** Yes, on table 2, because I think you only take certain information.

**Dr. Dale Orr:** Oh. I didn't make the point that in our forecast of expenses we're including Bill C-48. We're assuming that's going to go forward.

**The Chair:** I understand, but again, if you add up the revenues on table 2, they don't add to up the \$200.4 billion, your total—

**Dr. Dale Orr:** No, in terms of “Monitoring *The Fiscal Monitor*”, they're running at that pace. I will check to see if that's wrong, but these are—

**The Chair:** It's just that the totals don't add up, that's all.

**Dr. Dale Orr:** I'll check them and get back to you.

I see. The revenues that I've shown you here are not the total. There are other revenues, so they're not expected to add up. We have just given you the highest categories of revenues. There are others. I should have put an “other” category in there. Sorry.

**The Chair:** Thank you.

Mr. Vaillancourt.

[*Translation*]

**Prof. François Vaillancourt (Professor, As an Individual):** Thank you, Mr. Chairman, for having invited Mr. Bojourquez and myself to appear before your committee.

My three colleagues have already said a number of interesting things; I will try to avoid repeating too many of them, so as not to waste your time. There are three main points to consider. First, our report takes a more academic approach than that of my private sector colleagues, whether they represent management or labour. This report contains more details: the econometric approach, the data, and so on, so that if the committee wants to undertake this work at some point, it will have information that it could not otherwise obtain. That is the general approach.

We have attempted to add something to every brief that we have prepared for this committee. Our July report took into account a comment on macroeconomic forecasting. In the September-October report, we focused on direct forecasting for public accounts rather than national accounts. We have also tried to make allowances for rising oil prices in our revenue projections; that is not the case for the expenditure forecasts. This is what we brought forward in preparing the two most recent studies for your committee.

Let's start with the revenue projections. If you look at the chart prepared by Mr. Orr, there is a difference of \$0.9 billion between the lowest estimate which is ours, at \$207.1 billion, and the Global Insight and CCPA projections, which are the highest. Your four consultants are very close to agreeing on the revenue forecasts for 2005-2006. In our case, there was a \$100 billion mistake out of

\$200 billion, for 2004-2005. Our other colleagues were also confident in their numbers. So things seem to be going well on the revenue side.

With respect to expenditures, our forecast is somewhat weaker, at \$163.7 billion, but not much higher than the others, whose average is \$162.9 billion. That is \$1 billion more. With respect to the debt, we are \$1 billion higher, which means that, with somewhat weaker revenues and slightly higher expenditures—debt and general—there will be a somewhat lower surplus, in the order of \$8.3 billion, with an average of \$10.6 billion.

As an academic, I must admit that I have my doubts about the relevance of surplus forecasting, because even though we may predict the revenues, we cannot necessarily forecast expenditures. I don't think any of my colleagues accounted for the financial commitments made by Atomic Energy of Canada in reducing the 2004-2005 surplus. It was creative accounting at its very best. We might wonder, in fact, what the Department of Finance would have done without the reserve. What else might we have found? It would be very interesting to see the list of the 10 possibilities for the Department of Finance—perhaps we could ask them—to reduce the surplus when it is too high. It was a very clever idea.

I wondered what I would say when I came before you. I know that Mr. Tim O'Neill felt that the people assembled here are useless and irrelevant. That is one opinion, but I think it is wrong. Instead of trying to forecast the surplus, or the result of a series of accounting exercises, should we not try to forecast how much money would be available for the government without any long-term commitments such as debt servicing, individual transfer payments, and a reasonable allowance for salaries? In business, there are cash assets available for reinvestment or expenditures.

Mr. Orr's forecast was \$5 billion. I am a little more cautious, but it does seem reasonable. With respect to the future mandate of your forecasters, I wonder if you should be asking them to reproduce the Department of Finance figures, or whether they should project and produce the correct figures, since there might have been too much tinkering by the Department of Finance, either before or after, which would affect the relevance of the figures as they relate to expenditures. I don't see how one could correctly forecast expenditures, whether they be in the public accounts or national accounts category.

Thank you.

• (1140)

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

Mr. Solberg, you have seven minutes.

[*English*]

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



Thank you very much to our forecasters. I have to say how impressed I am with your work and insights. I don't think it's an overstatement to say that this is a really important step forward, not just for the finance committee and those of us interested in ensuring that we have the proper figures to work with when we're trying to talk about public policy and to prescribe different ideas for the government when it comes to how to spend these surpluses and how to deal with revenues, and those kinds of thing, but also, I think, a major step forward for democracy in a country where people pay taxes or are compelled to pay taxes. I think it should give them some comfort to know there's somebody watching the government, that there is actual involvement of their elected officials in ensuring that this money is actually going to the proper place. We can't do that without having accurate data.

I just want to go back and remind you that it was back on December 1, 2004, when the House passed a Conservative Party motion, supported by all opposition parties, to bring this into being. We've made big progress since then; we've had some great discussions about this kind of thing. I think it's really put the finance department under a little bit of pressure to maybe be a bit more up front about where we're headed in the future with these numbers. As you're economists, I don't have to tell you that competition is always a good thing; it does cause the Finance officials and, I think, the minister to be a bit more responsive. We'll find out for sure, though, when we have that economic statement coming up in a little bit here.

As my friend Mr. Penson pointed out just before we sat down, how can the country go wrong when you're bringing this kind of information before parliamentarians, as opposed to allowing it to be massaged in the back rooms of the Department of Finance?

At any rate, thank you very much again for bringing this information forward; it's enormously valuable.

Mr. Orr, I want to start with you. You mentioned in your presentation that personal income tax revenues were growing quite quickly. Is that the reason for the quite big difference between what you were forecasting for a surplus and...? A number of months ago you were saying \$5.1 billion, but now you're talking of a bigger surplus than anybody else, at \$12.4 billion. Is that the primary reason, or are there other reasons as well that you'd like to point to?

• (1145)

**Dr. Dale Orr:** Well, it certainly is a combination of reasons. Part of the uplift is because of personal income tax. About an equal amount is due to corporate income tax; even then the upward revision is about equally spread between the fact that we are forecasting the economy to be a little bit stronger, and thus personal and corporate income taxes within that, too. The other reason is that the government simply extracted more revenues last year given the economy; the revenue-to-GDP ratio came in higher than was forecast, meaning that they were able to extract more per dollar of GDP than either we or they were forecasting at a given set of tax rates.

**Mr. Monte Solberg:** Okay.

I don't have much time, but I want to follow up on something that Ellen Russell said and the others have alluded to as well, which has to do with cooperation from the department. I'm wondering how

much cooperation people have received when it comes to some of these numbers. Are we getting the type of cooperation that you need to present as accurate a forecast as possible?

**Ms. Ellen Russell:** I've experienced no difficulty when contacting the finance department and being given information. The difficulty is making sense of the information one is given. If I am questioning whether budget surplus is lowballed and I ask for details in order to follow my suspicions, it's very likely that the finance department will give me information consistent with their position that there is a lower budget surplus than I would believe. The volleys of questions can go back and forth, but they can give me ever more detailed information that still has a bias implanted in it, and this tends to lowball the surplus.

So I don't think the answer is having a hot line to the finance department, as that won't solve this issue. You need insider information, which the finance department is not forthcoming about.

**Mr. Monte Solberg:** You made reference in your remarks to an entity within government that would, I assume, provide this information unmassaged or without a bias built in. Is that what you were getting at?

**Ms. Ellen Russell:** It's the only way I can see to empower an entity within government that can require that the finance department disclose promptly whatever changes might be occurring that affect the size of the surplus. They have the capacity to demand that. I can't get on the phone and require the finance minister to take me into his confidence about the latest developments in the finance department and at the same time be insulated from the political pressures that happen within the finance department, which O'Neil very clearly showed has a systematic bias to lowball a surplus.

**Mr. Monte Solberg:** In other jurisdictions, they are actually compelled by law to provide that information. For instance, the Congressional Budget Office works because there are laws in place that require officials who have this information to pass it on without exaggeration, and in a timely manner. The pure numbers go directly to the Congressional Budget Office. That is the sort of information that you would love to have in a timely way, so that you can provide the best possible forecasts.

**Ms. Ellen Russell:** The more information, the better.

For example, if the Auditor General makes a ruling about the accounting treatment of something, that would go instantly to this entity I'm proposing, as it would go to the finance department.

• (1150)

**Mr. Monte Solberg:** But if I might suggest it, are you saying it should be a government entity or one that answers to Parliament? Of course, if it is a government entity, then that suggests that somebody who has a political axe to grind is somewhere in charge of it.

**Ms. Ellen Russell:** I do not propose to be able to design this entity in the ideal manner. I understand that there are questions, as you've raised, about how best to design it. Please, go through those thoroughly. Just get an entity up and running so we're not chasing our tails and hoping to forecast something we don't know enough information about.

**Mr. Monte Solberg:** Does anyone else have comments on the issues of cooperation, timely manner, and that kind of thing, with Finance?

**The Chair:** We'll get back to them, Mr. Solberg.

[Translation]

**Mr. Pierre Paquette (Joliette, BQ):** Thank you, Mr. Chairman.

I would like to start by thanking you. Your documents are extremely valuable. It is the first time that I have attended this committee. I am filling in for my colleague Yvan Loubier, and I am extremely interested in this subject. Following on what Mr. Solberg said, the surplus is, for us, an illustration of the transparency that should be part of the federal government's public finances. Over the past years, there was a \$67 billion unforeseen surplus, with \$46 billion coming from the employment insurance fund.

We consider this to be a misappropriation of funds. What we have just heard helps us to better understand the situation. How could the federal government systematically underestimate its revenue or expenditures, to the tune of \$67 billion that it applied to debt reduction? I must emphasize that the public had no say in the matter.

Two consultants said that the corporate taxes had been underestimated. In one case, the Conference Board stated that the profits were not properly accounted for. Was that the conclusion arrived at by the other consultants? We are told that over the last eight years, revenue was underestimated seven times.

Let's move on to expenditures. Mr. Vaillancourt says that they cannot be forecast. It is obvious that events such as SARS, or a hurricane, cannot be predicted. Nevertheless, a certain number of spending choices were made at the end of the fiscal year, either through manipulation of the numbers or political involvement.

Many of your presentations deal with certain decisions. For example, Ms. Russell, you said that certain expenditures recorded for this fiscal year should have been amortized over time. I would like to have heard more about that.

And generally, I would have liked to hear our four witnesses on the subject of the \$3 billion contingency fund. Mr. Manley had even set money aside for economic prudence and was never able to explain why. According to your studies, with \$3 billion, would the federal government have enough leeway to undertake a more realistic forecasting than it does now?

[English]

**Dr. Dale Orr:** I'm happy to tackle that one, because I do have a recommendation for you. It relates to trying to help everybody do a better job of these end-of-year adjustments.

It wasn't really unique to this year. In the previous year, you remember how the government went from the \$1.9-billion to the \$9.1-billion surplus. That was very much because some government crown corporations and agencies had a lot more earnings than what they told the Minister of Finance about earlier on. I think it's really important that you impress upon the minister and upon the finance department that when he delivers a budget, he must get absolutely up-to-date information that would relate to that budget from people like the post office or EDC. It was surprising that these people had several billion dollars out there that they didn't tell the finance minister about when he was delivering that budget of 2004. That situation could be improved, which would minimize the surprises we get in the year-end adjustments.

This year, as Ms. Russell pointed out, the adjustment was very large. In fact, it was \$8.2 billion. Now, \$2.5 billion of that they did warn us about, but the other \$5 billion they didn't. Before the minister delivers the budget, hopefully he will have canvassed everybody. In this case, there was money put aside for AECL. Might he not have known about that in February rather than in August? It seems such a large amount of money to have been accrued over a long period of time that he wouldn't have known about that, or he should maybe have known about that when he delivered the February budget.

Also, you're talking about transparency. I did write a paper—I think you're in receipt of it—on the pending bill on the unallocated surpluses account. What the government is proposing to do here is to spend money in August and have it recorded back into the previous fiscal year. That's the option they want to create for themselves with this bill, which is a move in the wrong direction, and I attract your attention to it. They will have floated it in front of Parliament, and Parliament will have in fact passed the right of the minister to do this. He can't to it unless Parliament is presented with these options and passes it beforehand, but that's what they're asking to do. They're asking, in February or March, for Parliament to give him that option, if he so desires, to spend money in August and to have it recorded in the previous fiscal year. So there needs to be a lot of cleanup of this year-end adjustment process, and this proposed act is a move in the wrong direction in that respect.

On the issue of reserves, the contingency reserve is there. It's serving us well. It's there for a good reason and falls to debt reduction if not needed. I'm saying to maintain a reserve for economic prudence for the 2005-06 fiscal year, remembering that basically in all of this analysis it's the 2005 economic year that we use as the base for all of the analyses for the 2005 fiscal year. We have quite a bit of information on that now, so I think it's timely to drop the reserve for economic prudence at this point.

• (1155)

**The Chair:** I just want to remind the witnesses that the members only have seven minutes for questions and answers, so if you could keep the answers concise, it would be very helpful. Thank you.

Mr. Darby.

**Mr. Paul Darby:** I have just a few brief comments to add, and I'll try to answer questions as well.

First, the year-end adjustments are certainly an issue with respect to post-forecasts of the surplus, but they don't really affect the work we do here now. What we do here now is tell you what we feel is available in terms of money to be spent to the end of the fiscal year for new initiatives, tax cuts, or further debt reduction. Let's keep in mind that year-end adjustments are one-time auditor impacts on programs that have already been announced. So there's the whole issue of the money that is being sent to Newfoundland and Nova Scotia, and whether that is all going to be expensed in one year or over ten years. The real heart of the matter is that the government felt it was an important and new initiative to increase the transfers to those two provinces. These year-end adjustments don't affect the long-term underlying surplus. They are going to be with us and available for long-term funds going forward, so let's not get too hung up on that issue.

What's really crucial, as has already been pointed out, is that we're telling you now what we feel that planning surplus is, what those available funds are. If the finance department comes in a week or so with a very different number, that'll be an interesting discussion.

Secondly, we need to revisit the whole issue of economic prudence and contingency. I would suggest to you that some of the underlying structural forces operating on the cyclical nature of the Canadian economy have changed, potentially suggesting that the amount of prudence is too high. But we could certainly do more work as consultants—obviously there would be a fee attached—where we could examine....

I think this is part of the research we originally arrived here to help the committee undertake. What is potentially an appropriate level of prudence, given the variability in the economy, and the variability in our forecasts on the revenues and surplus situations of the federal government? We are not necessarily here to just keep cranking out these fiscal balances. So prudence is something on which we could certainly illuminate the committee.

In addition, the amount of money that is spent on debt reduction is a political choice, and I leave that to you.

● (1200)

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

[Translation]

**Mr. Pierre Paquette:** I have something to say about that. I agree with you, paying down the debt is a policy choice. But for a number of years, Paul Martin told us that he had no choice, that it was the law. The Auditor General was asked to find the law, but it did not exist. The opposition will perhaps eventually force the government to become more disciplined in the use of public funds.

[English]

**The Chair:** Thank you.

Mr. McKay.

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

I appreciate Mr. Darby's hustling. Having been in private practice, one is always worried about one's next contract.

It does reflect an interesting shift in the focus of the debate, because back in February when the budget was being written, you had a range of surplus projections of about \$7.3 billion. Global Insight was basically agreeing with the government at that point, and Mr. Vaillancourt didn't offer an opinion. CCPA, being its usual enthusiastic self, was at the top end of the range.

Since then, based upon *The Fiscal Monitor*, which you all monitor, there's not much argument that the revenues have been brisk. I think it's helpful you all agree that on the basis of *The Fiscal Monitor*, it looks like we will have some extra money. But who knows at that point?

What I can't quite fathom is the objection to the government exercising proper governmental discretion in terms of its decision on the surplus. First, all the statements are audited by the Auditor General, and she signs her name at the end of the statement. So we've covered off the accounting issues.

The wait time reduction fund, the early learning and child care, and the medical equipment were all disclosed in the budget. Whether other analysts accounted for it or whether they didn't account for it is their decision.

With respect to the offshore revenue agreements, there was some discussion as to whether it would be booked over time or whether it would be booked in one year. When the budget was being written, that was still a live discussion. When the offshore agreement was finally concluded, the Auditor General essentially told the Department of Finance that they have to recognize this in one year, not over the eight years they thought they were going to be able to recognize it. I don't see what the objection is.

It is the same with Atomic Energy of Canada Limited. Liability discussions go on in all areas of government at all times. When you recognize those liabilities, it is basically on the advice of justice...and your insurance, I suppose. To have a liability recognized at this point is based upon the best advice that the government has. You don't prematurely recognize your liability. Otherwise, for obvious reasons, you can tip your hand to the entity with which you're negotiating. I can't quite see what the objection is, unless you want the surplus discussions to trump everything.

Take a theoretical liability, for instance—any legal liability. No defence lawyer is going to want to have the plaintiff's lawyer know how much is provisioned for the liability. No one would do it in the private sector, so why would you do it in the public sector? In our litigious society, there are continual potential liabilities.

I want to ask two questions.

First, I don't disagree with your analysis. But the discussion with respect to the government's discretion on the allocation and final decisions on the surplus, surely to goodness, is the government's decision; it is not anybody else's decision.

The second question I want to ask is with respect to the anticipated appearance of Governor Dodge here tomorrow. It seems to me that he is not quite as enthusiastic on revenues going forward. He has raised interest rates, and in his realm of monetary stimulus, he seems to be pricking the balloon a little bit.

● (1205)

Have any of you given some thought as to how that might affect government revenues going forward in the near term, to the end of the fiscal year 2005-06, and short term—I would say to fiscal year 2006-07?

Initially I was going to address my question to the CCPA, but maybe you could start with it and broaden the responses.

**The Chair:** Okay. Who's going to want to answer this? You'll have to raise your hands, because I have limited time.

Ms. Russell, and then Mr. Darby.

**Ms. Ellen Russell:** There were two parts to your question. I'll start with the end-of-year adjustments.

It is at minimum hugely convenient that a government that has been criticized for having lowballed its budget surpluses has all of these end-of-year adjustments that push it in the one direction of having a lower budget surplus.

**Hon. John McKay:** [*Inaudible—Editor*]...an upfront, disclosed bias. We say that.

**Ms. Ellen Russell:** If the government were announcing new information that came on stream or information that could suddenly now be disclosed that would affect these end-of-year adjustments the moment it was possible to disclose it, then I would have a more charitable impression of this end-of-year adjustment process, because I would realize that we were getting information as soon as it was possible.

We got a lot of that information in the annual financial report, which seems to me to keep Canadians in the dark for longer about what's really going on in terms of the financial resources at the command of the government.

**Hon. John McKay:** With greatest respect, there are a whole bunch of things that go into the decision to (a) recognize the liability, and (b) time the liability, and frankly, you don't want to be out of the gate too quickly on either point.

**Ms. Ellen Russell:** But it didn't all happen the evening before the annual financial report was released.

**Hon. John McKay:** No, these things build up over time, I agree.

**Ms. Ellen Russell:** My impression, is that...for example, in terms of the offshore revenue issue, I believe that decision took place in August. We could have had quite a bit of heads-up time in order to adjust our thinking about the surplus had we known at that point.

**Hon. John McKay:** And you could also presume that there's a fair bit of discussion that goes on as to whether you do a one-shot recognition, as the Auditor General thinks—

**Ms. Ellen Russell:** No, but if that decision had been taken as of August, we could have known at that point. I'm assuming that those debates took place prior to August, and then as of August we could have known. And then it would seem much more—

**Hon. John McKay:** The decision was taken in August and revealed in September. I don't see that's the issue.

**The Chair:** Can I get Mr. Darby to answer that question?

**Mr. Paul Darby:** Very briefly, Mr. Chair, there are two issues.

On the end-of-year adjustments, as I've already stated, the issue from my perspective is that obviously, from a looking-back perspective, they change the numbers, but for looking forward to get a sense of the underlying amount of money that's available to be spent, they're not necessarily all that relevant.

Secondly, on the issue of whether to expand, for example, the transfers to Newfoundland and Nova Scotia all in one year or spread them out over a 10-year period, originally the government was looking at expensing it all in one year, then moved to expensing it over a 10-year period, and then, under the advice of the Auditor General, moved it back to expensing it all in one year, which from my perspective is fine, and the Auditor General in her wisdom makes that decision.

The important decision was to transfer those moneys in the first place, and that's the kind of exercise this committee can now also become involved in. What should we do with the money going forward? I honestly have no objections to some of these adjustments, given that they're driven by the Auditor General. I think what's much more interesting are the underlying policy decisions that are made.

But if I could just beg the indulgence of the chair again, briefly—and I don't want to sound like I'm hustling all the time—it once again brings under question the utilization of the contingency fund, because for example, private firms set funds aside in contingency reserves for the kinds of liabilities we deal with under the AECL portfolio. Is the \$3 billion sufficient to cover these unexpected contingent liabilities that may arise? Is it not? Could we do some work on that? Is it automatically going to the debt, and then any AECL problems we may have get added on the top afterwards—which seems to be the approach. In that case, what is that contingent liability? I think we need some discussion around that.

And don't forget economic prudence is added on to the top; concern about whether or not the economic outlook is worse than we thought is added on to the top of that contingent fund. So I think there needs to be some discussion there.

Finally, on the impact of the Bank of Canada's lower forecast on our surplus estimates, it's probably around \$400 million for this fiscal year.

● (1210)

**Hon. John McKay:** I have one final point, Mr. Chair.

Hang on. I know what great discretion you had with Mr. Paquette.

**The Chair:** Order.

Everybody wants to get in on this. I have to stick to a time limit.

I have Ms. Wasylycia-Leis, Mr. Penson, and then Ms. Boivin. Let's go.

**Ms. Judy Wasylycia-Leis (Winnipeg North, NDP):** Thank you, Mr. Chair.

Thank you again to our independent forecasters for this last instalment, giving us a fairly accurate forecast for the future, as much as it's possible.

We've now heard four reports from you. Each and every time, we have found your numbers and analyses to be very helpful. We've also noticed that there has been and continues to be a fair discrepancy between what we're getting from government and what we're getting from you.

I think we get the feeling that we continue to be manipulated, and that games are being played, to the government's advantage, to try to find a way around the actual forecasts you've presented today. For example, when the political heat became too great in terms of the low-balling and the huge surpluses, we saw a government that suddenly found a convenient way this summer in August, without any public exposure, without information.... There were these demands that had to be taken up at that moment, and this huge surplus of whatever you had forecast originally was down to \$1.6 billion. We get the feeling that no matter what we do, we'll continue to be a victim of government manipulation.

Some of you have said you've had some difficulty getting help from the finance department, and getting full cooperation from folks there. I want to ask each and every one of you whether or not you think it is now time to move from you, as a transitional approach to getting accurate forecasting, to a full-fledged, independent budget office with its own research and ability to get the figures that are needed, without necessarily having to kowtow to the finance department. It is something we have to resolve as a committee. It was mandated in the Speech from the Throne last year. So I want to ask each and every one of you your views before you depart this room—it may be your last time—about the next phase. Should it be another round of all of you, or should it be an independent budget office?

Who wants to start?

[Translation]

**Prof. François Vaillancourt:** We've just learned that if we listen to you, this will be our last contract. I think that an independent office could be an interesting strategy. Rather than have economic advisors, there should be brokers, with a few full-time staff members and a series of experts whose services could be retained for a few months, or who could work on contract. A large full-time staff quickly becomes cumbersome and they tend to fall into certain habits. New blood is always a good idea. It does have some appeal. One could seek advice from former finance department employees. It's worth a try.

With all due respect to Mr. McKay, I believe that the government has the right to decide what it wants to do with any surplus, as my colleague from the Conference Board said, but it warrants some discussion. I believe that a number of Canadians would have given AECL a lower-priority environmental mandate than the one that was conferred upon it by the government last August. But there was no public debate on that. That is one of the main problems. Information allows for debate and can perhaps lead to more enlightened decisions. Discretion is one thing, but informed discretion is even better.

• (1215)

[English]

**The Chair:** Mr. Orr.

**Dr. Dale Orr:** I'm not going to provide an overall comment on the process we have here versus an independent one. It would just depend very much on how that alternative was set up. I don't think that's one of the more important or pressing issues in fiscal policy. So I'll leave it at that.

I do think a better job could be done in February, when the minister delivers his budget, of making sure he's absolutely up-to-date on the fiscal situation in the various agencies and crown corporations, pending accruals, and that sort of thing. That's where I think some really significant improvements need to be made. That has to come through your working with the minister, not the department. That's really the key area where improvement needs to be made.

**Ms. Ellen Russell:** One of my major concerns with this trend toward contingent surplus allocation in the recent legislation that is being considered is that if this trend continues, then more and more will be riding on what the estimated budget surplus is. Up until this point, it has been pointy-headed people who got into debates about how big or small it is, but nothing was explicitly riding on it. Now something will explicitly be riding on it. So then it becomes very important that the government gives Canadians the best possible information, because the debate about how spending and tax measures will go throughout the year will be predicated at least in part on how the contingent surplus formula will be implemented at the end of the year.

**Mr. Paul Darby:** I have already stated on the record that we're in favour of an independent budget planning, surplus forecasting organization, probably along the lines, at least to begin with, of an organization that Mr. Vaillancourt has already outlined. There are issues around internal bias that we need to neutralize. There are issues around the availability of confidential information that would make for more accurate year-end availability of moneys forecasts. The issue you brought up with respect to legal liabilities that are outstanding with the federal government is obviously confidential information, but an independent budget office would be privy to that information.

Finally, there is research that needs to be done, that could be done in an independent fashion to come to bear on such issues as long-term economic growth, long-term revenue prospects, issues around optimal tax rates, issues with respect to optimal contingency, optimal prudence—all of which research could be profitably and well done by an independent body.

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

Mr. Penson, then I have Monsieur Desrochers and Ms. Boivin.

**Mr. Charlie Penson (Peace River, CPC):** Thank you, Mr. Chairman.

I'd like to thank the fiscal forecasters for the good work they're doing. This process is evolving; it's getting better as we go. Quite frankly, Mr. Chairman, it seems to me, through *The Fiscal Monitor*, that even people in Finance are responding with better numbers. When the minister delivers his update shortly, I think his projections for this current fiscal year will be along the lines of what you suggested. It seems to me that it may not have ever happened if it wasn't for this committee and the fiscal forecasters that are doing the fine work they're doing. So congratulations on that.

Maybe we should offer a reward, some type of incentive, for those who get the numbers the closest, Mr. Chair.

Mr. Orr, I want to talk to you a little bit, because you've identified a bit of a problem. In response to Ms. Wasylycia-Leis, you've addressed some of it, but I want to go further. In your report you talked a lot about the direction of year-end adjustments. I was fascinated by your perspective on it. You said, and I quote:

From the fiscal policy analysis perspective two important questions emerge. First, should the government have known about these adjustments at the time of Budget 2005? A similar issue arose in fiscal 2003/04 when several crown corporations had very large surpluses which they did not tell the Finance Minister about until after fiscal year end. Second, if, going into the end of year adjustment process for 2004/05, there would have been a very small surplus, would we still have had \$8.2 billion in negative end of year adjustments? If so the Finance Minister would have had to report a deficit for fiscal 2004/05.

Mr. Orr, what are you really saying here? We need to get to the nub of this. I think you've addressed part of it, but there's a lot of flexibility here. What do you suggest we do to close that up?

• (1220)

**Dr. Dale Orr:** There are two parts, as I mentioned. On the first part, I encourage you to pressure the finance minister when we get into February-March to tell you absolutely everything he can. And he should canvass the public service inside out and backwards, especially the crown corporations and agencies, with respect to the status of their revenues and pending accruals so that you have absolutely up-to-date information in the budget. That will reduce the unanticipated year-end numbers.

And of course that gets particularly important if you pass, as a government, this proposed legislation on unanticipated surplus. I argue it's in your interest to keep those unanticipated surpluses as small as possible.

Second, what is the discretion of the finance minister in these things? I'm just raising the question; I don't really know. But when you see him, ask him whether if we had been at a zero going into year-end we would have had a negative year-end adjustment for AECL. Would this have been the right year to do that so that Finance officials would have gone to Mr. Goodale and said, "I'm sorry, Mr. Minister, but because we've had to make that negative accrual, you're going to have to report a deficit for this year"? Ask him that.

I don't know the answer. I just think that's a good question.

**Mr. Charlie Penson:** Mr. Orr, I think you've raised a very important area here, because it seems to me that the finance minister has a lot of flexibility to play. Especially when it comes to the crown corporations, it would seem logical that the finance minister would consult with the corporations to find out what their fiscal situation is near year-end, because it will influence the surplus or deficit, whatever we're in.

So you're suggesting that there be better information flow and that he report that to parliamentarians?

**Dr. Dale Orr:** Yes, and I think if over time we do a better job of this, then what happens is that better information gets incorporated into the planning surplus, and that is very much why we're here. We're here to try to tell you how much the government has in terms of its discretion once it's laid aside these reserves, because it's from that planning surplus that they can make these sustained commitments to tax cuts or program spending. It's all part of trying to get the most accurate estimate, because that way you can get more involved in your discussion with him and in making those key decisions.

That's the point.

**Mr. Charlie Penson:** I think on the point that was being debated here earlier about whether a government should have the ability to book certain things at year end, at least parliamentarians now know by having better information what our current financial situation is. The government may still choose to do that, and I think that was the point Mr. Darby was making as well, but at least there's better transparency as to what the current status is.

Mr. Darby, I would like to just address this to you. When you talk about those year-end adjustments, under the new budget allocation bill that's being proposed, that's going to really change that, isn't it?

• (1225)

**Mr. Paul Darby:** Yes, definitely.

Now, I think we also have to remember, though, that the new budget allocation act deals only with unanticipated surpluses after the fiscal year is over. In the fiscal year that just ended with a surplus of \$1.6 billion, the new budget surplus allocation act is completely moot. It has no impact. If you work before the end of the fiscal year to generate surpluses that are less than \$3 billion, you don't have any money to allocate.

We would argue in general that the new surplus budget allocation act probably is not the best of ideas, in the sense that it is rather inflexible in how any unexpected surpluses would be allocated, and we would imagine that there may be priorities facing Canada that would argue for a more flexible approach, depending on the current context. But what I think is good about the budget allocation act is that it at least begins to have the discussion around whether we should have a mechanism in law through which we can allocate unexpected surpluses to something besides just debt, and that's another discussion that really needs to take place here.

**The Chair:** That's it.

Thank you, Mr. Penson.

Mr. Desrochers.

[Translation]

**Mr. Odina Desrochers (Lotbinière—Chutes-de-la-Chaudière, BQ):** Thank you, Mr. Chairman, and thanks to our expert witnesses.

I have sat on the Public Accounts Committee as well as on the Finance Committee. The situation is always the same, regardless of who the Minister of Finance might be. Whether it is Paul Martin, John Manley or Ralph Goodale, they are always off the mark when it comes to budget forecasting. A great deal of time is spent consulting people before the budget, but when there is a surplus, no one is consulted, and the government does whatever it wants to do.

If the Department of Finance were to have some type of structure with quarterly updates, would this allow us to have a better handle on things? Would it improve transparency if the Minister of Finance were to appear before the Standing Finance Committee, or even the House of Commons, once or twice a year, in order to discuss the surplus?

I'd like to hear what each one of you has to say about this.

**Prof. François Vaillancourt:** In theory, yes. In practice, I'm not so sure. Would the information be any better? Would very important information be made available, for example, accumulated losses to reduce corporate taxes payable, or the lack thereof? Earlier someone suggested that there should be performance pay for the various forecasters. I think it was either the chairman or vice-chairman who made that suggestion.

**The Chair:** It was the vice-chairman, and he will pay for it out of his personal budget.

**Prof. François Vaillancourt:** I wonder if the Minister of Finance should get a performance bonus.

**Some members:** Oh, oh!

**Prof. François Vaillancourt:** When his forecasts are closer to the mark, he could earn a little extra cash.

**Mr. Odina Desrochers:** That would be quite a change, Mr. Vaillancourt.

**Prof. François Vaillancourt:** There would be more leeway if the forecasts were more accurate.

Seriously, you must simply continue to ask questions, and invite people to appear. For example, Mr. Orr's question on the lack of communication between crown agencies and the Department of Finance must be dealt with. You have to try to determine why that happened, and work on the various mechanisms. It will only take two or three years to see an improvement.

**Mr. Odina Desrochers:** May I ask for your opinion, Mr. Orr, or would someone else care to respond?

[English]

**Dr. Dale Orr:** I certainly think Mr. Vaillancourt has given you some good advice here. If you could get the minister and officials to report to you quarterly, in theory that could solve what I see as some of the more serious problems. Maybe you could raise that with him.

[Translation]

**Mr. Odina Desrochers:** Indeed, I would like to have a quarterly update. The current annual update creates distortions between the forecasts and reality, which only serves to undermine the government's credibility.

I agree with what you and Mr. Vaillancourt have said, Mr. Orr, but for some time now, we have been asking the corporations, the foundations, etc., to provide more accurate figures. We can't seem to get them; even the Auditor General has a hard time getting them. So, if we were to ask the Minister of Finance to give us a quarterly update, that might encourage him to tighten up his forecasts.

• (1230)

[English]

**Mr. Paul Darby:** There are two things. You are getting a semi-annual update now, of course, with the November statement. So I think it's fair to say the Department of Finance is coming twice a year, and four times a year would presumably be better. That would place a burden on Department of Finance officials. I can't comment on that, but there would be a cost.

You could potentially gain substantially from more frequent reporting, due to the fact that you would get more timely impact statements. For example, if oil prices spiked to \$70 a barrel and corporate profitability in Canada was changed in some fundamental fashion, then indeed you might be able to get, in a more timely fashion, a more accurate forecast that would take into account the impacts of unforeseen events. I think there would be some benefit to that.

[Translation]

**Mr. Odina Desrochers:** Do I have any time left, Mr. Chairman?

**The Chair:** You have 30 seconds.

**Mr. Odina Desrochers:** Only 30 seconds? Thank you, Mr. Chairman.

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

Mr. Holland.

[English]

**Mr. Mark Holland (Ajax—Pickering, Lib.):** Thank you, Mr. Chairman.

Thank you to all those who've come today to speak before the committee.

I have a couple of questions. The first would come to a statement, Mr. Orr, that you made, when you said government really should utilize the lowest numbers in the forecast to make sure that over time the expenditures it's engaging are sustainable. In other words, there was a time—and we saw it, and it almost buried the country—when you would use the most optimistic projections, and lo and behold, they didn't unfold, and you still had to keep your commitments. That runs you into deficit and debt and all kinds of problems.

If it is the case, then, that we're looking to achieve sustainability and the government is going to use the lowest number, and it's going to be the most prudent one to make sure it's able to fund its commitments, then when we're in a period such as we've been in, where you see—there was a chart put up here by the Conference Board—a period of time from 1993 to 2005 with absolutely exponential growth in corporate profits; when you see that exponential rise, which I think was beyond anybody's participation, and I don't recall seeing anybody in 1993 saying you're going to see a rising line like that for corporate profits, then obviously, if you combine the prudence of what the government is going to do with that kind of dynamic, it's going to result in surplus.

In fact, inherent in using a lowest number to make sure you can maintain your commitments is the creation of a surplus. So I think we need to get away from saying it's a bad thing. The question is how we manage that surplus. What do we do with the surplus when we have it? Obviously we want to try to make sure our numbers are as accurate as possible, but we need to be able to sustain our commitments.

One thing we could do is meet every quarter, or every week, and say, we think we have a little bit more money, so let's spend something on this program. The next quarter comes, and we've now stated a liability we don't have money for in the next quarter, so we shut it down. The next quarter we have the money again, so we start up the program again, but the next quarter we don't.

How do we manage this? The government has put forward one particular suggestion, which is to say that in the event that there is a surplus we're going to allocate it in a particular way.

Mr. Orr—because it comes to you—what would you say would be the process of an appropriate surplus? How would you like to see it structured such that we didn't wind up making liability commitments that put us into a precarious situation down the road?

Also, recognizing—just as a last statement—volatility, from last time to now you've gone from being the most pessimistic to the most optimistic, a change of \$7.3 billion. When we're talking about surpluses coming in that kind of range, it's a massive change in a short period of time. I don't know whether you have any comment on that.

**Dr. Dale Orr:** I think we—and when I say “we”, I mean the government and the way they're handling the difficult situation of trying to anticipate how much money they have for making their sustainable commitments—are doing a lot of things right. The notion of setting aside the contingency fund and the economic prudence that grows over time have, I think, served us well.

The arguments I'm advancing go to making the planning surplus as realistically high as it really is when the minister delivers his budget. In other words, if Finance officials meet with the minister every quarter, that wouldn't be to make budgets or program spending decisions every quarter; it would be to try to have an up-to-date reading, so that when he delivers the budget there isn't money sitting out there that could be counted in the planning surplus and therefore could and should be part of your discussions on how much is available for tax cuts or program spending—in other words, that there aren't people like the post office or EDC out there with a lot of money that the finance minister isn't aware of on the plus side, or that there aren't accruals that need to be made within a few months. He should try to be as up to date with these as he possibly can be when he delivers his budget in February.

Apart from that, I think there's a lot of volatility, but that's why the reserves are there, and that's why it's the planning surplus he should be looking at when he makes these decisions, as opposed to the larger underlying surplus.

•(1235)

**Mr. Mark Holland:** Mr. Darby, you made a statement that we need to spend more time looking at things like the contingency reserve and what is appropriate. Right now it stands at \$3 billion. If

we're forecasting revenues in 2005-06 of \$208 billion, that represents about 1.4% or thereabouts, so we have 1.4% of room inherently built into it. You can say \$3 billion sounds like a lot of money, and then you say, well, economies do change.

We've been on a great trend, but it doesn't last forever. When the trend starts to go in the opposite direction and our projections, instead of being too conservative, end up being too optimistic, and instead of things surprising us on the upside, they surprise us on the downside, we have to have that kind of discussion and talk about what is appropriate. We have to acknowledge that there are periods of time when we are going to have larger surpluses, and acknowledge as well that there are going to be periods of time when we're not even going to be able to submit the contingency reserve, as we hope. We may even be into periods—hopefully not—when we're going to see small deficits.

But that's a discussion, Mr. Chairman—and I don't have a lot of time to explore it now—that we really need to have. I think we need to be honest in the arguments we're having as well.

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

Mr. Solberg, and then Ms. Minna.

**Mr. Monte Solberg:** I want to thank my colleague for raising an important point, because he's touched on something that's very germane.

Mr. Darby mentioned a minute ago that the finance department comes here twice a year with the budget and of course the update, but Mr. Orr, Ms. Russell, or Mr. Vaillancourt, or whoever wants to comment on this, the process is much different. The Department of Finance asks a dozen or so economists to analyze numbers on a national income accounts basis. They then take these numbers and convert this to a public accounts basis. They have some flexibility. What they do is take what they call a consensus.... But it's not really a consensus, is it, because sometimes there are big discrepancies among economists about where the future may be going with respect to something like oil prices or what's happening in China, these kinds of things. Some may say that the economy is going to go up, and others may say it's going to go down, but you can't just average that and say, well, the average is this kind of growth. One side or the other is going to be right, but you will not determine that through this so-called consensus that comes from these economists who appear before the finance officials.

When we have the four of you here and you say, here's what the upside is, and someone else says, it's going the opposite direction, doesn't that give you a much better idea of what the possible upsides and downsides are for the economy than pretending there's a consensus, when in fact really there almost never is a consensus on these things?



**Mr. Paul Darby:** No, you're absolutely right. This forum is a much more interesting forum in terms of wanting to have a debate around the various views of the economy or the fiscal capacity of the government going forward. Clearly it's, in some sense, a less mechanistic approach. I think it's a very rich approach. I always enjoy and always learn so much coming to these meetings.

In addition, you have to recognize, though—Mr. Orr could comment on this as well to see if he agrees or not—that some of the frustration the external consultants and forecast economists feel with respect to the so-called consensus exercise is that when the finance department goes from our fiscal estimates on a national income accounts basis to our fiscal estimates on a public accounts basis, that is not a transparent process. There are often very large differences. It is not always clear why those differences are being built into the budget forecast, and that has caused some frustration among the economists who have been involved in that so-called consensus exercise.

I don't know, Mr. Orr, whether you have comments on that.

• (1240)

**Dr. Dale Orr:** Yes, I will make a couple of comments.

First, as clarification, yes, the Minister of Finance does come before you twice a year with the economic statement and with the budget. However, in the economic statement he doesn't always give you a fiscal update. Sometimes he does and sometimes he doesn't. If you were to be successful in having him come four times a year with a fiscal update, that could be quite a richer process.

Mr. Solberg, with respect to the process, the economic forecast that's used in the economic update is the consensus of virtually everybody who is forecasting the Canadian economy—about 20 different forecasters. Only those people who have models of the Canadian economy, of which there are four, including the Conference Board and us, are the ones who then take that economic forecast and provide a forecast on a national accounts basis, which the Department of Finance then converts to public accounts. That's the way the process works.

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

I want to allow Mr. Vaillancourt to answer as well.

[*Translation*]

**Prof. François Vaillancourt:** I would just like to take a moment to add my voice to that of my Conference Board colleague who commented on the frustration that ensues when dealing with public accounts data.

There was an attempt made in table H-1 of the report to directly forecast public accounts. It is a matter of using as a dependent variable the government revenue expressed in public accounts on a quarterly basis and attempting to forecast them.

The outcome is interesting because this yields a weaker revenue forecast. There is a difference between a national account forecast converted to public accounts on a ratio, method and calculation basis and a direct public accounts forecast that leads to much weaker results. I don't yet know why that is. If I am awarded another contract, I will try to figure it out. This is something that intrigues me.

[*English*]

**The Chair:** Thank you.

Thank you, Mr. Solberg.

[*Translation*]

You mentioned that there was a difference, and that is what my question will be about. What is the difference between page 8, page 32 and page 33?

**Prof. François Vaillancourt:** On page 35...

**The Chair:** Table 2 on page 8 deals with your forecasts, isn't that correct?

**Prof. François Vaillancourt:** Yes. Table 2 is the official forecast for the committee.

**The Chair:** But at pages 32 and 33, tables G and H show your model with different figures.

**Prof. François Vaillancourt:** Yes. I'm getting to that.

**The Chair:** Is it because of the public accounts conversion?

**Prof. François Vaillancourt:** Yes, that's it. We attempted a number of experiments to provide you with multiple results, and I would have liked them to be more convergent than they are. Since I am being candid, I can tell you that I failed. I did not manage to come up with as good a forecast as I would have liked.

It is true that the figures are different: some include oil, some don't, in public accounts and in national accounts. But unfortunately, we haven't yet found the recipe that will give us a more accurate forecast. We are working on it.

**The Chair:** But you do have figures for 2005-2006, some \$198.8 billion. However, in your chart at page 32, the revenue is \$210 billion.

**Prof. François Vaillancourt:** The differences can be explained by other models. When we account for the increase in oil prices, the revenues are much higher.

**The Chair:** They are much higher?

• (1245)

**Prof. François Vaillancourt:** Yes, because this increases corporate profits. We saw this recently with Imperial Oil, I believe, whose corporate profits are much higher. That also applies to Ontario as well as to Canada as a whole. I'm not sure which one is the right forecast for the price of oil.

**The Chair:** That is what you are supposed to be telling us.

**Prof. François Vaillancourt:** I will reap my own windfalls first, if you don't mind.

[*English*]

**The Chair:** Okay.

Ms. Minna.

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

I want to start off a bit at the beginning with both Global Insight and the Canadian Centre for Policy Alternatives, the two, because we're talking about forecasting and being as close as possible.

Global Insight's numbers for 2005-06 are at \$12.4 billion, then for 2006-07 are \$8.9 billion, and for 2007-08 are \$9.6 billion, and yet the Centre for Policy Alternatives' are \$11.4 billion, \$12.5 billion, and then \$15.4 billion. The differences are quite considerable between the two. But if I look at the projected revenues and the projected federal expenses, you both are pretty much close to one another; there's no big difference.

So I'm trying to understand where the differences come in the actual projection. As I understand from previous discussions, the way the government puts in its expenses and revenues is where the major difference comes in; and yet these two projections are so different, even though the projected revenues and expenses are not. I don't quite understand how we could end up with such different figures.

I know you haven't done comparative notes, but we're supposed to try to get.... We're bludgeoning the government. I have done my fair share of being too high or too low, and I'd like to know how to judge in terms of which one I pick, which is accurate, or close.

**Ms. Ellen Russell:** I'm just eyeballing where the differences lie, so I can tell you what I see there, if you'd like. But then, which to pick is your eternal conundrum, isn't it?

We're very close in the first year. In the second year, the CCPA revenues look to be about \$2 billion more than Global Insight's, and their expenses are \$2 billion more than CCPA's, so that's the \$4 billion difference there.

**Hon. Maria Minna:** I don't want you to do a major comparative. What I'm saying is that if I look at 2005-06, federal revenues for Global and for the centre are pretty much at \$208 billion. If I look at 2006-07, the revenues are \$14 billion and \$16 billion—so maybe there is a \$2 billion difference. But still, given the errors, do you know what I'm saying about the exact years? Then in the expenses, you're bang on practically with \$195 billion, \$196 billion, and then \$205 billion, \$205 billion.

Anyway, I don't want to take up your whole time. Do you understand why it causes some difficulty? Maybe that's something that you might let us know.

If we're trying to assess where the right level would be, it's difficult to do that if the numbers that are coming in, when I compare the two.... Anyway, that's one thing, if you can deal with that as we go.

The other one is to Mr. Darby. You presented a chart that showed the personal taxes going persistently up 6% and then 9%. You said that would be hard to maintain and were suggesting that somehow the government would have to bring that down to maybe around 7%. I know Mr. Orr has also suggested that looking at the planning surpluses being somewhere, in the long term, around \$4.9 or \$4.6 billion or so, that could allow a \$1.5-billion to \$2-billion cut in personal taxes.

But I didn't hear either of you mention what is always mentioned, the corporate tax, and how that might link to the issue of productivity that we're discussing around this table. How will not addressing the personal tax, for instance, affect the productivity issue?

● (1250)

**Mr. Paul Darby:** Briefly, if I could, first of all, Mr. Orr and I were really looking at the data coming from *The Fiscal Monitor* year to date, trying to point out that we felt that our forecasts, strong as they may seem in terms of personal income tax collections, were actually rather conservative. And if I could just make a footnote in terms of an earlier comment around *The Fiscal Monitor*, in fact, we don't find *The Fiscal Monitor* a very useful tool. It often leads you down a completely blind alley. It's not that useful in terms of predicting the current surplus. The adjustments at year-end are just too high and the seasonal pattern is too strange. I think we only use it as a defence of how conservative our estimates at this point seem to be, but we certainly wouldn't use it as a forecasting tool, which is unfortunate, because it could be more useful and in the past has been.

Secondly, and to get more to the point, going further out on the surpluses, I think we have some interesting issues, because from our perspective at least, there's an underlying tendency for those surpluses to grow over time in the absence of new program spending, tax cuts, or debt reduction, for a number of reasons. First of all, as we've tried to suggest, the revenues tend to grow at nominal GDP, and that is running at around 5% going forward. You could make an argument in general that the expenditures would grow more at the rate of growth of population and inflation, which is more around 3% in fact. There obviously could be new program spending layered on top of that, but in some underlying philosophical sense, over the long term there's a tendency for these surpluses to grow, particularly if you start in a situation where you're already in surplus, because if you have your revenues higher than your expenditures, even the same growth rate in revenues and expenditures will generate a widening gap over time.

Another issue is that we have a progressive income tax system—this is getting closer to your point—so over time as income and wealth grow in the economy, the personal income tax share tends to rise. This was already pointed out by Mr. Orr.

Finally, just as a footnote, we're also paying down debt, so there is also a downward pressure on interest payments on the debt. All of these forces tend to generate ever-increasing surpluses as we go forward, and certainly you saw that in the numbers that I put up. They're not exploding by any means, but there's money out there.

The issue of the relationship between personal income taxes and productivity is extremely rich. It's going to depend a lot on your current context, and you need to know whether or not you have a sense as to whether the personal income tax burden is "too high", is somehow leading to disincentives in terms of people's behaviours with respect to work effort, to entrepreneurial effort. There was an income tax reform put in place by the federal government that lowered personal income taxes rather dramatically, and I think there was a general sense, although you would obviously get a lot of debate on the issue, that the level of personal income taxes that resulted from that reform was probably more or less in line with other countries, taking into account the benefits that you gain—free medicare and other services. Mr. Orr's point is a good one that as you go forward into the future, the personal income tax burden tends to once again creep up. I think it would behoove the government, from a productivity perspective, to review at least every four or five years whether that burden has reached levels that would be seemingly counterproductive from a productivity sense.

Having said that, at the same time, there are other issues on which the government could spend money that would have a direct impact on productivity. Strategic infrastructure spending comes to mind. I'm going on too long, Mr. Chair, and I apologize, but I think it's important that we keep in mind that there are critical spending issues as well that could increase productivity.

**The Chair:** Thank you.

Ms. Wasylycia-Leis, three minutes.

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

I just wanted, from the last speaker, to come back to why we're here. It's not, as Mark Holland suggested, to decide what to do with the surplus; we're here because we're trying to get from you more accurate numbers about what the surplus is, because we haven't been able to get that from the federal Liberals. We're talking about a process that happened because, year after year, this government lowballed the surplus. The result was an unanticipated surplus of \$80 billion, most of which automatically went against the debt because of that process. We're here to try to get full, open accounting so that we can make better decisions, not so the government can fudge the numbers one minute—as they did this summer, with Ralph Goodale saying the cupboard was bare, leading to this sudden disappearance of \$5 billion or \$6 billion down to \$1.6 billion as we enter this year. It is not to allow this minister to suddenly fudge the numbers on the eve of your report to say we've got all this money for income tax cuts. It's good insulation against Gomery. We're here, in fact, to try to get full accounting so that we can make better decisions overall.

Given that situation, do you think this legislation on divvying up the fiscal surplus—one-third, one-third, one-third, after, of course, \$3 billion is set aside for the contingency, which will go against the debt—is a useful construct for any part of this debate?

• (1255)

[Translation]

**Prof. François Vaillancourt:** Mr. Chairman, I usually have a quick answer. Indeed, that has already been said, by, among others, Mr. Darby of the Conference Board of Canada, I believe.

**The Chair:** That's correct.

**Prof. François Vaillancourt:** Personally, until we know exactly how big it is, I don't think it would be a good idea to make any commitments about the surplus at this time, until we know how the economy will evolve and what Canada's structural needs will be, or what kind of aid we will have to provide to other countries in trouble.

I think we could say that we need a mechanism to spend any money that we might find at a later date. I think that the one-third, one-third, one-third solution is far too constricting. Government discretion could play an important role on that score.

**Ms. Françoise Boivin (Gatineau, Lib.):** Since we have little time left, I would like to thank the group of experts for appearing here today. As a new member of this committee, I have found the discussion particularly interesting. As your group was the first one that I heard, I can tell you that I found your brief quite surprising.

You said something that I found interesting, Mr. Vaillancourt. You mentioned that Mr. O'Neil said that forecasters could be considered useless and you found his assessment slightly erroneous. Would that not mean that there was quite a grain of truth in what he was saying? With that in mind, I'm always a little surprised when we discuss finance, budgets and surpluses. I react like the average Canadian, that is, I wonder why we always make such a big deal about a surplus here in Canada. On the other hand, I understand that we want to know what to do with a surplus. If there is a surplus, it is because the government has been too demanding. That said, your way of seeing things is quite interesting.

I have a question on Bill C-67, even though you will, unfortunately, not have enough time to respond. I understand that you don't necessarily agree with the bill, but do you think it will affect the way in which you or anyone else forecasts the end-of-the-year surplus?

I would also like to know why you have not updated your figures. That's what I was wondering. The final results were published on September 21, in the annual financial report. For example, you state that the real surplus was \$1.6 billion, and not the \$4.4 billion that you have in your report. In light of that, are you not afraid that your forecasts might sound somewhat less credible?

**Prof. François Vaillancourt:** There is an easy way to respond to your second question. I submitted my text on September 15, because I was away during the latter part of September.

I don't think the bill will have any effect on the straightforward forecasting of revenue, debt-related expenditures and transfers to individuals. However, as everyone knows, there will be changes in the way in which the surplus is recorded and spent, because the one-third, one-third, one-third formula, or some other method will have to apply. Maybe the government forecasting is better. In the end, I don't think it will make it any easier for us to forecast the government's discretionary spending. I don't think we can do any better or any worse than we have already been doing.

[English]

**The Chair:** Ms. Russell is next, quickly, and then we're going to end on that note.

**Ms. Ellen Russell:** On one impact the surplus allocation formula may have, its interest may not be confined just to the given year's surplus. If the tax cut granted as part of that one-third is carried forward into future years, that will affect what we see as being personal income tax revenues. But we don't know for sure whether it will be carried forward to future years, because that's at the discretion

of the finance minister. So we really need to have two tracks in our minds: if the tax cut stays, and if it doesn't.

● (1300)

**The Chair:** Thank you.

Again, thank you very much. It's always an interesting discussion when we have you guys over here. Thank you, and have a good day.

The meeting is adjourned.

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