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# Standing Committee on Finance

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Chair: Mr. Peter Fonseca





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• (1530)

[English]

**The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)):** Welcome to meeting number 33 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on January 12, 2022, the committee is meeting on inflation in the current Canadian economy.

Today's meeting is taking place in a hybrid format, pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. The proceedings will be made available via the House of Commons website. The webcast will always show the person speaking rather than the entirety of the committee.

Today's meeting is also taking place in webinar format. Webinars are for public committee meetings and are available only to members, their staff and witnesses. Members enter immediately as active participants. All functionalities for active participants remain the same. Staff will be non-active participants, and can therefore view the meeting only in gallery view. I'd like to take this opportunity to remind all participants in this meeting that it is not permitted to take screenshots or photos of your screen.

Given the ongoing pandemic situation, and in light of the recommendations from health authorities as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, all those attending the meeting in person are to maintain a two-metre physical distance; must wear a non-medical mask when circulating in the room; and it's highly recommended that the mask be worn at all times, including when seated. You must maintain proper hand hygiene by using the provided hand sanitizer at the room entrance. As the chair, I'll be enforcing these measures for the duration of the meeting. I thank members in advance for their co-operation.

To ensure an orderly meeting, I would like to outline a few rules to follow. Members and witnesses may speak in the official language of their choice. Interpretation services are available for this meeting. You have the choice at the bottom of your screen of either floor, English or French. If interpretation is lost, please inform me immediately. We will ensure that interpretation is properly restored before resuming the proceedings. The "raise hand" feature at the bottom of the screen can be used at any time if you wish to speak or to alert the chair.

For members participating in person, proceed as you usually would when the whole committee is meeting in person in a committee room. Keep in mind the Board of Internal Economy's guidelines for mask use and health protocols.

Before speaking, wait until I recognize you by name. If you're on the video conference, please click on the microphone icon to unmute yourself. For those in the room, your microphone will be controlled as normal by the proceedings and verification officer. When speaking, please speak slowly and clearly. When you're not speaking, your mike should be on mute. All comments by members and witnesses should be addressed through the chair.

With regard to speaking lists, the committee clerk and I will do the best we can to maintain a consolidated order of speaking for all members, whether they're participating virtually or in person. The committee agreed that during these hearings, the chair will enforce the rule that the response by a witness to a question take no longer than the time taken to ask the question. That being said, I request that members and witnesses treat each other with mutual respect and decorum. If you think the witness has gone beyond the time, it is the member's prerogative to interrupt or ask the next question. To be mindful of other members' time allocation during the meeting, I also request that members not go much over their allotted question time. Though we will not interrupt during a member's allotted time, I'd like to keep you informed that our clerk has two clocks to time our members and witnesses.

I would like to welcome today's witnesses. From Better Dwelling, we have Stephen Punwasi, chief data analyst; from Brigil, Jessy Desjardins, vice-president of development and conception; from the Canadian Centre for Policy Alternatives, David Macdonald, senior economist; from Edge Realty Analytics Ltd., Ben Rabidoux, housing analyst; and from Option consommateurs, Sylvie De Bellefeuille, lawyer, budget and legal adviser, and Alexandre Flourde, lawyer and analyst.

Witnesses, you will have up to five minutes to address the committee with your opening remarks.

We'll start with Better Dwelling and Stephen Punwasi.

You have five minutes, please.

• (1535)

**Mr. Stephen Punwasi (Chief Data Analyst, Better Dwelling):** Good afternoon, and thank you for the invite.

My name is Stephen Punwasi. I'm the chief data analyst at Better Dwelling, Canada's largest independent housing news source. Some of you might be familiar with my work, helping to identify the extent of Canada's money laundering problems or the global vacant home crisis. For the rest of you, my expertise is in behavioural finance and the levers that impact the price of assets.

Today I'd like to talk about cats, but I was invited to speak about inflation, so let's do that instead.

Yes, inflation is indeed a global issue. However, it's not because of some outside force of nature. It's due to similar monetary policy missteps rolled out across many countries. Sovereign currency issuers, with a convertible currency like Canada, can control the value of their money and therefore inflation. The key issue is that low interest rates have been too low for too long.

At the beginning of the pandemic, central banks were worried about deflation. The Bank of Canada's primary tool for fighting deflation was to lower interest rates to increase the demand for goods, especially mortgages. The goal was to stimulate demand to overrun supply, creating a non-productive price increase, also known as inflation.

When low rates fail to stimulate enough inflation, central banks will use something called QE or quantitative easing. QE is an unconventional monetary policy tool that's used to create even more inflation. It doesn't shine your shoes. It doesn't make your coffee. It literally only has one purpose, creating more inflation.

It does this by flooding the market with money, providing liquidity to credit markets, and driving down the cost of borrowing. After all, supply and demand apply to every part of the goods and services chain, not just the final product.

For the longest time, we assumed that low interest rates were a good thing. Cheaper money lowers the cost of debt, right? The perfect example of this is housing. A few months ago, the Bank of Canada set out to prove that low rates lowered the cost of housing and, whoops, that's not what happened. It found that consumers adjusted their budgets to incorporate the excess credit available, thus inflating the price of housing across the board for everyone. Buyers didn't see lower carrying costs, but they paid a larger principal.

For the past 30 years, central banks thought they were making housing more affordable with lower rates. It turns out no one did the math until recently.

Why are these points important? In October, Canadian inflation was at 4.7%, more than double the target rate. Remember the QE program I mentioned earlier, the one with the single purpose of creating more inflation. It was still running at this point, and Canada's banks were literally writing to clients saying that the central bank was recklessly ignoring its own research. It's like the Bank of Canada stepping on the gas, and saying the car won't slow down due to external factors. The narrative it's going with is that there is a supply shortage failing to meet demand.

Let's talk about that demand quickly. This isn't regular demand, but demand stimulated by low interest rates. BMO estimates that a third of existing home sales are excess due to the low rate stimulus. Sales are just off the record high, not at an economically repressed

level that needs more stimulus. Low rates don't stimulate selling, though. They only create competition, because they are supposed to inflate prices.

Once again, the goal of expansionary monetary policy is to create inflation. Demand is supposed to outrun the supply to create that price increase.

About a third of existing homebuyers are investors. In Toronto, about a quarter of homebuyers are investors, which is a mind-blowing amount for a market of its size. They aren't fulfilling their passion for being landlords; they're looking to capitalize on a capital inefficiency. Overstimulated demand isn't just crowding out end users, but turning them into regular and profitable payments for investors.

Cheap credit isn't just limited to homebuyers with an end use. It's available to everyone. The more leverage you have, the greater your ability to borrow and exploit a system that lends you money at effectively negative interest rates.

I focused on housing inflation, but the same factors drive inflation across the board. Real estate prices are an essential input cost for all goods. Excess demand, not a shortage of supply, is an intended consequence when flooding the market with money.

To review, the Bank of Canada lowered interest rates to create inflation. When the lowered rates weren't producing enough inflation, the bank flooded the market with billions in credit via QE to generate more inflation, and now it thinks external factors are the reasons behind that inflation. We don't need Nancy Drew to figure out where that inflation came from.

Thank you.

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

We'll now move to Brigil, and Jessy Desjardins, for five minutes.

• (1540)

[*Translation*]

**Mr. Jessy Desjardins (Vice-President, Development and Conception, Brigil):** Thank you very much, Mr. Chair and members of the committee.

My name is Jessy Desjardins, and I am Vice-President for Development and Conception at Brigil.

First of all, I want to thank you for your kind invitation to appear before you today.

I admit I'm somewhat nervous because this is the first time I've ever testified before a parliamentary committee. I'm nervous but eager to discuss issues that our business and I are passionate about: housing access, the environment and the economy, three indissociable factors.

First, some background on Brigil. We are a private, solely owned family business that operates in the Quebec City region, building housing and living environments. Since 1985, we have built more than 12,000 housing units, 4,500 of which we still own and operate in the retail market. Over the years, we have acquired land on which we plan to build more than 40,000 new housing units in the Quebec City region over the next 20 years.

Many factors have contributed to soaring prices in Canada, including, of course, the impact of global inflation and, more particularly, a shortage of available housing. That shortage is the unfortunate result of poor urban planning in Canada over the past 50 years for which all levels of government are partly responsible. I agree with the Canada Mortgage and Housing Corporation, the CMHC, which appeared before you on January 21 last and stated that the housing supply was lagging behind demand, since Canada has registered the highest demographic growth of all the G7 countries.

We absolutely must build more if we want to balance housing supply and demand. However, many stumbling blocks lie in the way. Long-term planning is lacking at the municipal level and should make a more coherent connection between land use planning and public transit. Excessive municipal requirements, related bureaucratic red tape and administrative delays also increase construction costs and, incidentally, rental costs. In Quebec, in particular, various aspects of the province's Act respecting land use planning and development legitimize the "not in my backyard" syndrome cited by CMHC, which unfortunately attests to a willingness to favour special interests over the collective interest. I can provide an example of this, if you wish.

In my opinion, major housing costs must be considered in the context of total living costs. I'm specifically referring here to automobile operating costs. In addition to representing 22% of all greenhouse gas emissions in Quebec, the use and maintenance of personal motor vehicles result in significant costs to Canadian households. According to CAA Quebec, those costs amount to \$833 a month. If urban areas could increase the density of zones bordering public transit lines, automobiles might ultimately become a luxury instead of a necessity. The advent of light rail in Ottawa is an example of this.

Pressure to build more housing is being felt in all industrialized countries, resulting in a scarcity of construction materials and, consequently, inflationary pressure on prices, longer delivery delays and rising competition for materials and skilled labour. In conjunction with this shortage, increasing public infrastructure works are causing soaring construction costs and a sharp decline in the construction industry's ability to deliver habitable units on time. However, some of these projects, such as work on core public transit networks, are essential, whereas others, such as roadworks, have now become debatable since COP26, the 26th<sup>x</sup> Conference of the Parties to the United Nations Framework Convention on Climate Change.

Let's be clear: housing construction depends on an ecosystem of municipal restrictions, transport system development and hard economic reality. Like many other property developers, Brigil would like to be part of the solution.

I'll be pleased to answer your questions.

Thank you.

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

[*English*]

Those were excellent opening remarks. Thank you for all of the homes you're building.

We are now moving to the Canadian Centre for Policy Alternatives with David Macdonald, for five minutes, please.

**Mr. David Macdonald (Senior Economist, Canadian Centre for Policy Alternatives):** Thank you.

I'd like to thank the committee for the invitation to speak to you today on this pressing issue of inflation. While there were clear inflationary pressures in late 2021, the situation has gotten much worse with the Russian invasion of Ukraine. Despite this, inflation is an average of individual prices, and those prices can be examined in more detail, with possible solutions for those increases devised.

In looking at the data, we see that there are four main drivers of the high consumer price index. I'd like to examine each in turn and then move to what the federal government might be able to do to address those pressures.

The four main drivers of inflation that have seen large increases in the past year and also represent relatively large proportions of the consumer basket are homeowner replacement costs—the cost to buy a new home or a used home—the purchase of cars and trucks, gasoline and home heating oil, and food, particularly meat purchased in grocery stores.

On the first item of home purchase prices, there has been an incredible increase in house prices since the start of the pandemic due to several factors, not least of which is record low interest rates. Recently, this has led to overwhelming investor demand. Investors now make up a quarter of all new mortgage loans in major markets.

It's worth pointing out that sky-high home prices are not due to a lack of new houses. In fact, we've built more new houses in the past four years than we've created new families. Also, as there's no "one home per family" rule, with investors buying a quarter of all homes, there never could be sufficient supply, as investors scoop up second, third and fourth properties. The federal government didn't cause this problem, but it's likely the area where the federal government can have the most impact of the four areas I've mentioned.

Recent federal housing affordability measures have often focused on providing homebuyers with additional options for more leverage. CMHC's shared equity mortgage program or tax breaks for first-time homebuyers simply drive up prices further. At this point, the focus should be on investors, whether foreign or domestic, with the goal of changing expectations about the market. This isn't a problem of fundamentals. It's a problem of market psychology.

OSFI and CMHC have plenty of tools available to tamp down investor demand and moderate prices as a result. Requiring ever higher down payments for investment properties would be a good first step. Increasing the down payment from 20% to 30% on first investment properties and then requiring an additional 10% down for every additional investment property would send a strong signal. CMHC should also limit borrowed money as a means of down payments—for example, using home equity lines of credit from existing properties. More transparency in bidding and inspections can certainly help, but will likely have a limited impact on prices.

The second big driver of inflation is the price of gasoline and home heating oil. The war in Ukraine is having an immediate impact in this area. Obviously, the federal government doesn't control international oil prices, nor did it cause these prices to increase—the Russian invasion of Ukraine did. There are some steps in the short, medium and long terms that could help here.

In the short term, oil price booms will lead to record profits in the oil and gas sector in Canada; however, an extraordinary profits tax on oil and gas producers recycled into a transfer for low-income households could offset the impact of higher gasoline prices in the short term. In the medium term, we should accelerate the shift away from gasoline for personal vehicles. Unfortunately, long wait-lists for electric vehicles and key battery metals like nickel and palladium come from Russia, making this more of a medium-term goal. In the long term, we need to kick carbon out of our economy so its variable prices stop affecting the entire transportation supply chain. We need to do this for climate change, obviously, but also, it makes us far less dependent on despotic regimes the world over.

The third category of big price increases is the price of cars and trucks. This is related to supply chain issues and poor purchasing decisions by automakers early in the pandemic, particularly in the cancellation of microchip orders. This is an international problem and not unique to Canada. In the fall, production was resuming, but border disruptions, along with some key inputs again coming from Russia, threaten to prolong higher prices in this area.

The final category driving inflation is high food prices and, in particular, high meat prices. In part, this is related to the drought last summer in the prairies. However, there is also heavy market concentration, particularly in the beef sector, with only three plants in the country processing 90% of all Canadian beef. In fact, one of

those companies that runs those plants specifically cites high beef prices as the reason for its record profits in 2021. Not only are companies passing on the price to consumers, but they're adding an additional margin to pad their own profits.

Unfortunately, there will likely be a further impact from the war in Ukraine via higher wheat and fertilizer costs; however, this impact will likely take longer to materialize.

● (1545)

In conclusion, several of the key drivers of high prices are international and unrelated to government policy. Ever-increasing home prices are a distinctly domestic issue and the federal government could hold back these increases by cutting investors out of the market.

While oil prices are international, our reliance on gasoline to fuel our transportation is not. That's all the more reason to move to a carbon-neutral future in Canada.

Thank you very much. I look forward to your questions.

● (1550)

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

We will now move to Edge Realty Analytics Inc. and Ben Rabidoux.

**Mr. Ben Rabidoux (Housing Analyst, Edge Realty Analytics Ltd.):** Thank you, Mr. Chair.

Good afternoon, members. Thank you for the invitation to speak here today regarding this study on inflation in Canada, which is a particularly timely topic.

I founded North Cove Advisors in 2013 and since then have covered Canadian housing and household credit trends for institutional investors around the world. More recently, I founded Edge Realty Analytics, which I'm representing today. We work with real estate professionals here in Canada. My main area of expertise is housing, and it's on this topic that I wish to speak today.

To put it simply, housing in Canada is in crisis. I think we all understand that affordability is deteriorating, but it's sometimes helpful to look at the latest data to frame the magnitude of the problem.

The price of the typical house in Canada in February, as measured by the MLS home price index, was 29% more expensive than one year ago. This equates to an annual increase in value of nearly \$200,000 for the typical home in this country.

The problem is getting worse. If we go back to 2000, there have been only nine months where prices rose nationally in excess of 2.5% in a single month. Seven of those occurred in the past year and we have had three record-setting monthly gains in the past four months alone. February set a record, with prices rising 3.5%, or the equivalent of \$29,000 in a single month.

How did we get here? Price increases of this magnitude provide a clear signal that we have a significant imbalance in supply and demand. How we got to this point and the potential policy responses going forward are a matter of much debate, but I would like to address just a couple of the underlying dynamics that I believe have led us here.

The first is an undersupply of single family homes, which became an acute crisis during the pandemic. Canada has underbuilt single family homes in major metro regions. To frame that for you, consider that in the decades from 1970 through to the 2000s, Canada averaged a population growth of 3.1 million per decade and we completed roughly 1.4 million new single family homes. That's 3.1 million in population growth and 1.4 million single-family homes. However, from 2011 to 2010, population growth surged to 4 million, but new completions fell to 1.1 million, so we had a massive acceleration in population growth and a steep slowdown in new single family housing completions.

When COVID hit, there was an understandable and notable shift in preferences among consumers towards lower-density living, which is exactly the type of housing unit that we had been underbuilding. The consequence is that, today, when we look at the number of single family homes listed for sale in major metros, across the country, we find it's roughly 40% below decade averages. That's the first issue.

Overlay on top of that robust population growth, which has not seen a buy-in from municipalities to deliver the necessary housing. I would say off the top that one of our superpowers as a nation is our ability and our willingness to attract the best and the brightest from around the world. We have consistently enjoyed population growth that's among the highest in the G20. While we should all recognize that this is necessary to maintain long-term economic growth, we have to acknowledge that there are trade-offs, particularly when we are facing a supply-constrained housing market.

The problem as I see it is that immigration policy is set at the federal level, but the ability or, in some cases, the willingness to deliver the housing necessary to accommodate this growth resides at the municipal level. We have seen in recent years a concerted and misguided NIMBY movement—not in my backyard—which has been a major impediment to new supply growth. These voices have disproportionately influenced decision-making at the municipal level. This needs to be addressed, and I was encouraged that in the most recent election, several parties proposed policy solutions that aimed to heavily incentivize municipalities to remove unnecessary red tape and expedite approval for thoughtful developments that would bring much needed new supply to the market.

Part of the current housing crisis can be traced, I believe, to 2019. At that time, population growth in Canada hit nearly 600,000 in a single year, due in part to a record increase of 200,000 non-permanent residents, primarily international students.

I do not believe that we have the capacity in this country, even with buy-in from municipalities, to deliver enough housing to accommodate that level of population growth. Allowing population growth at this level without consideration of the real world constraints is a policy failure that cannot be repeated. We need better coordination in Ottawa to ensure that the combined population growth through international migration and non-permanent resident programs does not exceed the ability of the construction industry to house that growth.

When an asset is perceived to be in scarce supply, it naturally attracts speculation, so there are two sides. A shortage of inventory and speculation are two sides of the same coin. This is particularly true in an environment of low interest rates, where people are forced into riskier investments to earn a return.

• (1555)

Even when we account for strong population growth, home sales on a population-adjusted basis remain about 25% above long-term norms. The dollar volume of homes sold in Canada has surged to \$460 billion in the past year alone, which is more than double pre-COVID levels.

Clearly we're dealing with excess demand that cannot be explained by demographics alone. Based on land registry data, I estimate that roughly half of the increase in home sales that we've seen since 2015 is due to a rising share of multi-property owners. Investors and speculators are now disproportionately driving demand and because these investors—

**The Chair:** Can you start to conclude, please?

**Mr. Ben Rabidoux:** Certainly. There's no silver bullet, but a thoughtful basket of policies can begin to move the needle on this.

I will leave it there.

Thank you.

**The Chair:** Thank you, Mr. Rabidoux. There will be a lot of time to answer questions from members when we get there.

Now we now have Madame Sylvie De Bellefeuille and Monsieur Alexandre Plourde from Option consommateurs for up to five minutes, please.

[Translation]

**Mr. Alexandre Plourde (Lawyer and Analyst, Option consommateurs):** Good afternoon.

My name is Alexandre Plourde, and I am a lawyer and analyst with Option consommateurs.

I am accompanied by my colleague Sylvie De Bellefeuille, lawyer and budget advisor.

Thank you for this opportunity to present our observations. Option consommateurs is an association whose mission is to help consumers and defend their rights. In the course of our activities, we work with consumers experiencing financial difficulties and debt problems.

Consequently, it goes without saying that the inflationary crisis Canada is experiencing is a major concern for us. Whether it's housing, energy or food, inflation affects basic goods and services that consumers cannot do without. To live, consumers must pay rent, use electricity and buy groceries. These are not luxury items but rather essential needs that consumers cannot disregard or postpone.

Consequently, inflation is particularly problematic for low-income consumers, who have far less budget flexibility to absorb cuts to their purchasing power.

For these consumers, significant price increases therefore mean tough budget choices. Food, for example, is one of the only compressible expenses for most low-income households. As a result, consumers have no choice but to deprive themselves of adequate food in order to pay other expense items. We also see rising numbers of households, increasingly including workers, turning to food banks to meet their needs.

We are of course fully aware that inflation is a complex economic problem that will not go away, as in a fairy tale, with a wave of a magic wand. Despite all efforts by governments to juggle rising prices, we expect consumers will have to deal with declining purchasing power for years. Today, however, we propose four measures that we feel could mitigate inflation's effects on consumers and help them cope with rising prices.

The first measure we propose is obviously that the government provide more support for the most vulnerable consumers. Since low-income individuals may be the hardest hit by inflation, we propose a substantial increase in several government benefits, particularly the GST/HST credit, the Canada child benefit and the guaranteed income supplement. We believe that improving these programs would help mitigate the inflationary shock to the consumers struggling most to make ends meet.

The second measure we propose is that the government ensure that markets are competitive. It is more important than ever that businesses compete so Canadians can get the best price.

Unfortunately, telecommunications, a particularly important sector for consumers, poses a problem in this regard. Canada is still one of the countries with the highest prices for telecommunications services. We believe this situation is attributable to a lack of competition among telecommunications service providers.

To promote greater competition in this market and to exercise downward pressure on prices, we propose that the government compel the major telecommunications companies to share their In-

ternet and mobile network infrastructure with smaller suppliers at low rates.

The third measure we propose is that the government legislate greater transparency for consumer prices. Inflation has encouraged certain merchants to engage in "redeflation", a practice that consists in subtly reducing product quantities while maintaining prices so as to conceal price increases.

In an inflationary context, we feel these practices must be more effectively regulated so consumers can get the information they need to adjust their purchasing behaviour to price increases. Although Canadian regulations require manufacturers to state quantities on their products, we believe the act should go further and ensure that consumers are clearly advised when manufacturers reduce product quantities.

The fourth and final measure we propose is that the government ensure that the consumer goods Canadians buy have an adequate lifespan. Given the sharp increase in prices of appliances and other devices, Canadian legislation should promote the reparability of those consumer goods at an affordable price. To do this, we propose, for example, that the practice of planned obsolescence be prohibited, that a requirement that replacement parts and repair services be available be incorporated in the act and that Canada's Copyright Act be amended to remove intellectual property barriers to the repairing of devices.

Apart from the obvious environmental interest in reducing the replacement cycle of consumer goods, the increased lifespan of goods and devices would free consumers from having to purchase new goods and thus help them deal with price increases.

• (1600)

Thank you for listening to us. We will be pleased to answer your questions.

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

[English]

Witnesses and members, in looking at the time, we will have about 55 minutes for questions before we then will move in camera for our subcommittee meeting.

We are starting on our first round of questions. In this round, each party will have up to six minutes to ask questions.

We're starting with the Conservatives, and we have MP Fast up first.

**Hon. Ed Fast (Abbotsford, CPC):** Thank you very much, Chair.

Thank you to all of our witnesses for sharing your thoughts on inflation in Canada.

My questions are going to be directed to Mr. Punwasi.



I was intrigued by your testimony.

I'm sure you know that the Governor of the Bank of Canada was here not long ago. I certainly tried to tease out of him an admission that his quantitative easing policy might have had an influence on the housing inflation we're seeing today. He did everything possible to resist making that admission. I think he said there was no direct correlation between the two. It sounded a little bit like a weasel word, but in the end, he did admit that there might be a relationship between QE and housing inflation.

It's your view, I think, that housing inflation is directly related to quantitative easing and the low interest rates we have right now. Is that correct?

**Mr. Stephen Punwasi:** Yes. I definitely agree with that.

One of the core features of quantitative easing is that they purchase government bonds that end up impacting debt of similar terms.... With the BoC's QE program, they purchased a lot of those five-year bonds intentionally to lower the cost of five-year fixed-rate mortgages. There's no purpose for that other than to increase mortgage demand, which is actually something that the Bank of Canada said itself initially.

At another point, the Bank of Canada also released a study that said that QE resulted in greater wealth and equality and inflated the price of assets. That's kind of in conflict with what the governor said.

**Hon. Ed Fast:** Can you comment a bit on the relationship between the government's fiscal policy demands and the demands on the central bank to engage in quantitative easing?

**Mr. Stephen Punwasi:** Huh, that's a sore topic, right?

Let's use what the Bank of Canada said in one of its studies. They said, "rising levels of public debt have triggered mounting political pressure and government interference with central banks."

Essentially, there are two forms of monetary dominance that the Bank of Canada explained in its study, and global pressures from governments have pressured them out of their own mandate. When they're in control, it's called "monetary dominance", and they get to control the rate of inflation. That's sort of what they do; they only have to target that. When governments lean on a central bank, they create something called "fiscal dominance". This pressures the central bank to abandon their own inflation mandate as the primary issue and then support their spending.

• (1605)

**Hon. Ed Fast:** Let me quickly interrupt you, because that's the nub of the question I have.

Is it your position that the government's fiscal policy or fiscal dominance interfered in the decisions that the bank should have been making?

**Mr. Stephen Punwasi:** Definitely.

The central bank itself actually makes that statement in its latest study, which is literally called "The Central Bank Strikes Back!". They suggest that in the future for a crisis like this that a framework be put in place that the government can no longer threaten the credibility of a central bank by pressuring them to support their credit

markets. Instead, there has to be some sort of trade-off between the two of them. A government will have to implement some sort of framework that says they'll exercise fiscal prudence and the money they borrow will be very limited in terms of exactly what they need. That way, the central bank will support it.

**Hon. Ed Fast:** Just for clarity, when you refer to "fiscal dominance" you are referring to the government's borrowing and spending needs that the central bank then responds to. Is that correct?

**Mr. Stephen Punwasi:** Yes. There's a supply and demand issue with credit, too. If the demand for credit, which would include the government borrowing, exceeds the supply of cash, then interest rates rise on that cost. To keep credit markets stable, the central bank will inject liquidity into the market to suppress those rates from rising. The longer the government does this the longer and greater the distortions, and that becoming...in the market, where they're no longer looking at their initial mandate.

**Hon. Ed Fast:** As you know, the central bank is supposed to be independent of the government. Yet you're suggesting that the fiscal policy that the government has embarked upon with its spending plans and its need to borrow money has in fact created fiscal dominance which has driven—

**Mr. Adam Chambers (Simcoe North, CPC):** Mr. Chair.

**The Chair:** Yes, MP Chambers.

**Mr. Adam Chambers:** I'm sorry, Mr. Chair and Mr. Clerk, but for those of us online we lost about 30 seconds of audio there. I don't know if you want to go back to Mr. Fast or maybe add 30 seconds to his clock.

I don't think we could hear anything. It looked like it was for everybody online. I wanted to raise that. Thank you.

**Mr. Yvan Baker (Etobicoke Centre, Lib.):** I second that.

**The Chair:** Okay.

**Hon. Ed Fast:** Mr. Punwasi, really what I'm getting at is that I'm concerned about the independence of our central bank to make decisions in the best interests of Canadians, including those who are buying houses and taking out mortgages.

I think you've suggested that the decisions by the federal government to borrow and spend have created fiscal dominance, which in a way has interfered in the decisions the central bank has made. Am I correct in that?

**Mr. Stephen Punwasi:** Yes, definitely.

Sorry, did we miss that explanation of supply and demand with credit?

**Hon. Ed Fast:** Please....

**Mr. Stephen Punwasi:** Basically, the more demand there is for credit the higher interest rates will go. The central bank needs to inject liquidity into the market to stabilize those interest rates to keep credit growing at a rate that they feel comfortable with. They need to abandon inflation and just stabilize the market. The more the government needs to borrow and the longer it does at non-market interest rates, the more distortions, and that becomes the general market.

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

Thank you, MP Fast.

We're moving to the Liberals with MP Dzerowicz for six minutes, please.

**Ms. Julie Dzerowicz (Davenport, Lib.):** Thank you so much, Mr. Chair.

I want to thank all of the presenters for their presentations.

I'm going to start off with Mr. Macdonald from the Canadian Centre for Policy Alternatives. If I have time I'd love to squeeze in a question at the end to Mr. Desjardins at Brigil.

Mr. Macdonald, you've talked quite a bit about inflation. You've also talked about housing.

All of the reports I'm reading say that inflation has risen around the world. The key drivers behind inflation globally—this includes in Canada—are global oil prices, pandemic supply chain problems and the way the virus has changed spending habits, among other things. Would you agree with that?

• (1610)

**Mr. David Macdonald:** Yes, those are three of the four drivers that I highlighted.

**Ms. Julie Dzerowicz:** I appreciate that.

You've also mentioned that the conflict in Ukraine will increase inflation. I think the OECD actually estimated that over the next year it could go up an additional 2.5%. Do you also agree that might be the case?

**Mr. David Macdonald:** Certainly the impact was pretty immediate on oil and gasoline prices. It may well have an impact on food prices, although that's potentially longer term, via wheat and fertilizer markets in particular. It's not entirely clear what the impact of that will be.

**Ms. Julie Dzerowicz:** In terms of Ukraine and the impact of inflation there, do you think there's anything Canada can specifically do about that?

**Mr. David Macdonald:** The federal government doesn't control the price of oil or gasoline. Those are controlled by international markets.

That's not to say we can't control, to some degree, our own supply chain and personal transportation reliance on gasoline. That's not something that changes overnight. It's certainly part of a long-term strategy towards carbon neutrality. We can't change the prices, but we can change how much we use it.

**Ms. Julie Dzerowicz:** Okay. I appreciate it.

One thing I was happy to note was the fact that a number of our government benefits are indexed to inflation. CPP, OAS, GIS, GST and CCB, I believe, are just the ones that come to mind. Would you say that this is a positive thing that will help some of the most vulnerable in our country be able to at least partially weather the storm that is currently under way and ahead?

**Mr. David Macdonald:** Yes. All the major federal income transfer programs are indexed. That's not necessarily true provincially.

I think the only area where federal benefits are not indexed is on reserve, where the on-reserve social assistance matches what the provinces are providing, which is sometimes not indexed, and the federal government doesn't then index its own social assistance on reserve.

But across the major transfers, it's positive to see that all of those are already indexed to inflation.

**Ms. Julie Dzerowicz:** I appreciate your saying that. You know, we're all worried about our most vulnerable. We're all worried about the impact on them. It was already difficult during the pandemic, and I do think that this is a benefit, this is a positive, and it's important to highlight.

There are always gaps in our supports. I think it tends to be single males who don't have a job. I don't know if you have any recommendations on how we can help the particular group that might not have access to the other benefits I might have talked about in order to support them through this anticipated inflationary period.

**Mr. David Macdonald:** Federally, we have a basic income system for seniors via the old age security and guaranteed income supplement. We have a system for families with children via the Canada child benefit. But we really have no institutional supports for adults who don't fit either of those two categories. It is one of the big shortfalls in Canadian income security. A portion of those people are going to have disabilities, so some sort of Canadian disability program would be an important part of covering that group.

Another important part would be really changing the way the Canada workers benefit functions. It is a support for relatively low-income households, but it's fairly minor, and you need to have employment earnings. If you don't have employment earnings, then you can't receive the Canada workers benefit. One of the reasons that people live in low income is because they don't have employment earnings. Changing the way the Canada workers benefit functions such that it does apply to people with no or particularly low incomes would really cover off that gap in Canada's income security system.

**Ms. Julie Dzerowicz:** Thank you, Mr. Macdonald. I will say to you that this was one of the recommendations we put into our pre-budget submission by this committee.

Finally, we were talking about housing, and you mentioned that investors are buying half of all the new homes. Is that something that's happening across the country? I really appreciated your recommendation about a higher down payment in addition to an additional 10%.

Could you confirm whether half of all new homes being bought by investors is across the country? Do you have any other recommendations on how we could deal with this issue?

• (1615)

**Mr. David Macdonald:** That was actually an estimate that Mr. Rabadoux made. I was referring to the Bank of Canada study that came out three or four months ago that looked at the percentage of CMHC mortgages that were for investment properties. That's in the neighbourhood of 20% to 25% in Canada's big markets.

I think this is one of the parts where the federal government can play a very active role in moderating prices on the housing file. Part of that is to increase the down payment that is required for investment properties from 20% to 30% for the first property, and then, as additional properties are purchased, the down payment requirements go up by 10% each time. This would send a very strong signal to investors that the profit margins are going to need to be much higher, and you're going to need to have a lot more money to get into this market in the first place. That would be, I think, a more productive way, a more predictable way, of trying to restrain prices rather than providing people with additional options for leverage, like—

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

Thank you, MP Dzerowicz. That's the time.

Members and witnesses, you may or may not have noticed that we are having some technical and connectivity issues. It's not just this committee. It's happening right across the Hill with other committees. I'm sure the technical staff are doing all they can to make sure we stay up and running, but if something does happen, it is out of our control at this time.

We are now moving to the Bloc for six minutes.

Monsieur Ste-Marie, go ahead, please.

[*Translation*]

**Mr. Gabriel Ste-Marie (Joliette, BQ):** Thank you, Mr. Chair.

I want to thank all the witnesses for their participation and presentations.

My questions are for the Option consommateurs representatives, Mr. De Bellefeuille and Ms. Plourde.

Thank you for all the work Option consommateurs does for people in Quebec. You're really making a difference.

I briefly want to go back over the points you raised.

In inflationary times, we try to make the economy more resilient, but that's a lengthy process. To support the most vulnerable people in the short term, you suggest that we target the most disadvantaged with measures such as a permanent GST/HST credit rather than send checks or grant tax credits to more than 90% of the population.

Would you please tell us a little about that program? How does what you're proposing differ from the current situation? In concrete terms, how many people would be affected by what you're proposing?

Thank you.

**Mr. Alexandre Plourde:** Good afternoon.

Thank you for asking that question.

Option consommateurs is proposing measures that will actually help support the most vulnerable individuals. We aren't necessarily advocating measures that will help everyone. Inflation obviously affects everyone right now. Everyone is affected by inflation, but low-income individuals have the least financial flexibility. The choice available to a low-income person is which necessity to cut, whereas people with slightly higher incomes can cut luxuries or non-essentials, even though they also still feel the unpleasant consequences of inflation.

As you say, we're proposing that the government support the most vulnerable individuals, in particular by increasing the GST/HST credit. I don't know the exact number of people that might help, but we prefer the most progressive measures possible, ones that will help the most vulnerable by giving them more money.

• (1620)

**Mr. Gabriel Ste-Marie:** Thank you, that's very interesting.

One of my colleagues, Jean-Denis Garon, the member for Mirabel, discussed assistance measures for the most vulnerable and suggested that tax credits might be an option. As everyone knows, those kinds of credits are issued on a quarterly basis. In many instances, low-income households have cash flow problems. Mr. Garon suggested that the credit be issued every month, if that's not too complicated. People would thus receive a payment every month instead of waiting three months for the credit. It would obviously add up to the same total amount, but it would arrive more frequently.

Would that kind of measure make a difference for the people you support and advise?

**Ms. Sylvie De Bellefeuille (Lawyer, Budget and Legal Advisor, Option consommateurs):** Yes, that would help them manage their finances. When people receive money in a lump sum, they have to manage it on an ad hoc basis, but they have to meet basic needs over shorter periods of time. They buy groceries every week and have to pay their rent. Getting the credit every month would make their lives easier.

**Mr. Gabriel Ste-Marie:** I see. Thank you very much.

I liked your comment on the importance of making markets competitive. Our committee can now see that access to an affordable, high-quality Internet connection is still a challenge. That's true for northern towns like Matawinie, in my riding, and for the parliament of a G7 country, where that still seems to be a problem. At any event, we'll take note of your suggestions.

I'd like you to tell us about "redeflation", which is a really interesting term. Without directly naming any companies, do you have any specific examples, just to give us an idea of what "redeflation" means?

**Mr. Alexandre Plourde:** Thank you for that question.

"Redflation", which is also called undersizing, isn't a new phenomenon, although it's becoming more prevalent in the current inflationary climate. It's a technique that can be used for virtually any food product, and even non-food products. We've recently seen many examples in the media, involving cereal boxes, bricks of cheese and juice containers, for example. Merchants can use all kinds of tactics to reduce product quantities without consumers realizing it when they shop for groceries.

[*Technical difficulty—Editor*]. For example, they can add a bulge to a juice bottle to give the impression it contains as much juice as it previously did.

What troubles us about this practice is that it relies on consumers' price sensitivity. Merchants can successfully increase their prices in somewhat devious and unethical ways. The problem is that it isn't illegal per se for merchants to reduce product quantities. The Consumer Packaging and Labelling Act and the Weights and Measures Act require merchants to state product quantities on items for sale but doesn't force them to inform consumers that product quantities have been reduced.

What we would like, particularly in the current inflationary climate, is labelling standards requiring that merchants clearly inform consumers that product quantities have been reduced. We would also like a measure to be implemented across Canada requiring that prices per unit of measurement be displayed. That would enable consumers to compare products and be better informed on the prices they pay for each product.

In our view, that kind of measure...

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

[*English*]

Thank you.

We are moving to the NDP. We have MP Blaikie up for six minutes.

**Mr. Daniel Blaikie (Elmwood—Transcona, NDP):** Thank you very much.

I'll start by thanking all of our witnesses for being here today.

I'm going to focus my questions toward Mr. Macdonald from the Canadian Centre for Policy Alternatives.

I just want to come back briefly to the question of benefits that are indexed to inflation. I often hear from seniors in Elmwood—Transcona who are outraged when they see the relatively small increase to their Canada pension plan benefits. When you compare that to the cost of living, they rightly notice that those things don't quite add up.

I wonder if you might have a little wisdom to offer the committee as to why Canadians often feel that their benefits, while indexed to inflation, don't keep pace with the rising costs they experience in their monthly budgets.

• (1625)

**Mr. David Macdonald:** Sure. The first and obvious point is that there is a delay between the time when inflation is registered and the time that benefits go up.

The bank did a study looking at people's perceptions of inflation versus the actual number that is published. The things people buy differ. Seniors are going to buy different things than families with children, who are going to buy different things than people going to school.

The CPI is for all Canadians. It's not just for a particular group, so it's certainly possible that for seniors relying potentially more heavily on things like groceries, the prices are going up faster than the general level.

The CPI is an average of a variety of prices. It doesn't necessarily represent everyone's experience. In fact, it represents no one's experience because no one both rents and buys houses and buys cars every year. It is an average, so people can experience it very differently depending on where they are.

**Mr. Daniel Blaikie:** Okay, thank you for that.

You mentioned earlier that some beef processors, for instance, were highlighting the increased costs in beef as a reason for record profits. We know that additional money isn't always distributed fairly within the supply chain.

I just wonder if you could help the committee understand a little bit better some of those inflationary pressures on food prices. Who are the winners and who are the losers? What kinds of things might government look to do to try to make sure that consumers aren't paying an inordinate amount of additional costs for increased profits for someone along the supply chain while others in the supply chain and consumers themselves suffer?

**Mr. David Macdonald:** When we look to the reasons for inflation, outside of external supply shocks like the price of oil, often we point fingers at workers, saying that workers require wages to be too high, but there's another possibility, which is that corporations are increasing profits along the supply chain. Their cost of goods may well have gone up and they may well pass that amount on to consumers, plus an extra 2% or 5% on top to pad their own profits. That's another possibility as to why inflation might be going up.

It's worth considering market concentration in particular areas. I mentioned beef just because it's so concentrated and there are so few facilities in Canada that actually process beef. There are three major plants, two of which are owned by Cargill, and Cargill reported record profits in 2021. It's a big international corporation. They cited in part high beef prices, so it wasn't exclusively Canadian, but it just goes to show that the fluctuation in prices and consumers' general acceptance at the grocery store that prices will be higher doesn't mean that there isn't a profit margin being built in as a result of that trading up the supply chain.

That isn't a surprise to beef producers. They're well aware of the market concentration. It's not a surprise to farmers in general who haven't seen the prices they receive for their goods go up, despite the fact that the price of bread goes up for end consumers. Somewhere along that chain, someone is capturing that value and it's not farmers. It's often where those supply chains are very constrained through a couple of different parties—and the grocery store industry isn't terribly distributed in Canada either—where you see a concentration of profits.

It's well worth considering when we are seeing this big boost in inflation. People are taking advantage of it to boost their own profits.

**Mr. Daniel Blaikie:** We often look to competition within the market in order to be able to hedge against unfair profit-taking. Where there's an insufficient amount of competition in the market, what are some other solutions that Canadians might look to in order to make sure that no one particular company or no one particular player in these supply chains is making an inordinate amount of profit?

**Mr. David Macdonald:** In the short term, one of the approaches could be an excess profits tax. I know this is something that's already under consideration for the banking industry. It could also be considered for the oil and gas industry that will see, I'm sure, record high profits because of high oil prices this year. However, it could also be applied to other sectors such as grocery store chains, and so on, so that any excess amount they're making could then be recycled potentially to a transfer to low-income households, as others have mentioned here, increasing a one-time payment to the GST credit as an example of that.

That's maybe a short-term option. If we take a look at the issues around beef processing in particular, building out more local supply of abattoirs, which could be based on federal funding, is another way of distributing that market. Sometimes market concentration isn't just going to go away on its own. Often governments need to intervene to make markets fair. It's not that they will necessarily be fair. In some cases they will be, but in some cases they won't be, so it's worthwhile continuing to examine market concentration and excess profit-taking and what governments can do about it besides just an excess profits tax.

• (1630)

**The Chair:** Thank you, Mr. Macdonald, and thank you, MP Blaikie.

Members, we are moving into our second round, and just looking at the time, this will be our last round. We're starting with the Conservatives and we have MP Chambers for five minutes.

**Mr. Adam Chambers:** Thank you very much, Mr. Chair.

Welcome to all our panellists today. Thank you.

For those of you who are here for the first time, welcome. It's nice to have a diversity of voices here at this committee.

I'll focus my questions on Mr. Punwasi and Mr. Rabadoux.

Mr. Punwasi, I'll just pick up a bit on where my colleague left off, but first, I commend you and your team for your work at Better Dwelling, providing some excellent insights in a very consumable,

easy-to-read form. It's great and refreshing to see some consumable information out there for Canadians.

If the Bank of Canada didn't purchase government bonds, what would have happened to interest rates?

**Mr. Stephen Punwasi:** Interest rates would have increased at the scale of borrowing they were doing. They would have absorbed a lot of the credit liquidity in the market, and that would have increased all mortgage rates right across the board, but it would have actually increased all lending rates.

On the other hand, the Bank of Canada would have been able to focus on its actual mandate of maintaining inflation and that would have completely changed the outcome. I believe Scotiabank said that around last fall is when they should have been starting to raise rates, but they were still supporting government spending instead.

**Mr. Adam Chambers:** Okay, thanks. That's a helpful clarification. It simplifies it for me.

You mentioned inequality. Who is hurt most by inflation?

**Mr. Stephen Punwasi:** It is usually people who are paid in cash.

The wealthier you are, the less likely temporary inflation will erode your wealth because you will have better ways of allocating your money with inflation hedges. You would own a home or you would own investments that would respond to inflation.

People who are paid with cash don't necessarily get the raise they would get from their cost of living. Their groceries may have gone up 10%, but the official inflation rate from StatCan says something like 5%. If they get the 5% inflation raise, they might see their quality of life deteriorate. They're also the most likely to have cash in the bank accounts, which is not allocated to their investments.

**Mr. Adam Chambers:** Right. Economically vulnerable people are at the most risk, such as those on fixed incomes and seniors, etc.

You mentioned those who hold assets, but does anybody else or do any other entities benefit from inflation?

**Mr. Stephen Punwasi:** Borrowers would. The question is whether or not the benefit of the amount of money borrowed outweighs the negative impact of inflation.

If 70% of your costs increase, but 30% of your costs are housing and your mortgage gets deflated due to low rates, you're kind of benefiting, but you're not really. You're losing out in the end.

**Mr. Adam Chambers:** What about the federal government? Does it benefit from inflation?

**Mr. Stephen Punwasi:** They're a pretty big holder of debt, to say the least, but inflation itself is a tax, by design because those who are holding debt end up paying the liability to the issuer, which would be the state, so higher inflation means that the issuer gets to dilute the value of their own currency.

• (1635)

**Mr. Adam Chambers:** Thank you.

Mr. Rabidoux, thanks very much for your opening comments. I found the comments you provided the committee in advance very helpful.

I know you were cut off a little bit. You provided a chart that showed the relationship between business investment and residential investment. What about that chart concerns you?

You see residential investment as a share increasing substantially and business investment almost at record lows. What do you make of that?

**Mr. Ben Rabidoux:** To use an analog, if we look at total residential investment as a share of all investment across the economy—investment by businesses and government—it's about 40%.

Now, why is that number important? If we look at OECD countries over the last 20 years, really only three ever got to that level. They were Ireland, Greece and Spain in the mid-2000s. They subsequently suffered from a very severe housing downturn.

The concern is that as people pour more money into residential estate and less into the productive elements of the economy, the ability to service that debt longer term is arguably diminished. It's a big concern from where I stand. We're seeing record residential investment and very low business investment.

**Mr. Adam Chambers:** Very quickly, give us a two-second answer. You said it's a crisis. Is it a housing bubble?

**Mr. Ben Rabidoux:** Yes.

**Mr. Adam Chambers:** Thank you, Mr. Rabidoux.

**The Chair:** Thank you, MP Chambers.

We are moving to the Liberals with MP Chatel for five minutes, please.

[*Translation*]

**Mrs. Sophie Chatel (Pontiac, Lib.):** Thank you very much, Mr. Chair. Thanks as well to all the witnesses.

Mr. Desjardins, thank you for accepting our invitation to the committee. It's inspiring to hear you talk about real estate development integrated into the environment. We're going to go back to that because I was very interested in the connection you made between green infrastructure and property development.

First of all, we've heard extensive testimony in committee that a supply and demand issue is central to the problem of inflated real estate prices both in Canada and elsewhere. We also heard that today. In your introduction, you discussed specific supply constraints at the municipal and provincial levels.

Would you please tell us more about those constraints?

**Mr. Jessy Desjardins:** Thank you very much for your question.

In real estate, there are obviously a lot of restrictions on rapid housing construction these days. When you submit a project to a municipality, it can take more than 12 months to get a building permit. However, in an inflationary market such as the one we're in, a project may no longer be viable 12 or 18 months after the application's filed. Many projects are submitted but then have to be amended to reduce costs and redesigned from top to bottom.

Consequently, expedited permitting would help us more effectively manage inflation-related risk in housing construction. Faster permitting for projects near core transportation corridors could also make it easier to link all the investments that the various orders of government make in public transit. Delays are really the issue.

Furthermore, regulations, which are increasingly strict for the types of buildings that must be constructed, add further costs to those associated with mere inflation and building quality. In Quebec, residential construction represents 4.2% of greenhouse gas emissions and motor vehicles 22%. We should address the problem holistically, taking the complexity of our cities into account, and come up with collective solutions to accelerate construction.

**Mrs. Sophie Chatel:** Thanks very much. That's very interesting.

Mr. Desjardins, when you mentioned core transportation, you also discussed the importance of green infrastructure and public transit in planning new housing.

Do you have any specific examples for us?

• (1640)

**Mr. Jessy Desjardins:** Yes, definitely.

The planning of green infrastructure and major core transportation projects is an enormous incentive for real estate promoters and builders in Canada. It provides assurance of future mobility of our investments and also helps us make major cuts to construction costs because we aren't required to provide as many underground stations, the costs of which are enormous, ranging from \$30,000 to \$50,000, and sometimes even more in areas where there are restrictions. We see this in a very meaningful way in our projects, where we can reduce rents for one-bedroom units by \$400, sometimes even more. So we can do big things when we combine our projects with core transportation projects.

**Mrs. Sophie Chatel:** We talked about municipalities, but what's the federal government's role in that regard?

**Mr. Jessy Desjardins:** If we can reduce investment in motor vehicle infrastructure and enable Canadian builders to redirect that energy and manpower into the housing sector, that will reduce labour-related pressures. The federal government's role is to enable Canada to be the Canada of tomorrow, a mobile and sustainable Canada.

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

[English]

We'll move to the Bloc, and Monsieur Ste-Marie, for two and a half minutes, please.

[Translation]

**Mr. Gabriel Ste-Marie:** I'll go back to Ms. De Bellefeuille and Mr. Plourde from Option consommateurs.

Our understanding is that you're proposing, in particular, that we provide better support for the most vulnerable, that we ensure markets are competitive and that we ensure there's greater transparency on prices, that consumer goods have an adequate lifespan and that there's no planned obsolescence.

I would also note that you suggested in your prebudget recommendations that we should provide better support for social housing and promote access to ownership initiatives, in particular through collective ownership arrangements such as cooperatives.

I'd like to change direction here, but there will be a connection with your remarks, in which you ultimately showed how important it is to defend the rights of consumers, especially the most vulnerable. That requires a balance between industry and consumers. When you look at what's being done in Europe, there's good support and it's guaranteed. However, I want to discuss a case in which there's been no inflation at all in the past 20 years, and that's the support that the Canadian government provides for consumer associations. In 20 years, there hasn't been a one cent increase in Innovation, Science and Economic Development Canada's contributions program for non-profit consumer and voluntary organizations.

So I'd like to hear what you have to say about the importance of better funding for organizations such as yours to ensure a balance between industry and the rights of consumers, particularly the most disadvantaged.

**Mr. Alexandre Plourde:** Thank you for the opportunity to discuss that issue, which is a major concern.

Consumers are currently very poorly represented in Canada. Industries can well afford to pay representatives to promote their interests. That's particularly true of the industries in the federal fold, such as the telecommunications industry and the banks, and as we saw during the pandemic, that was also the case of the airline industry. These are federal industries that generate large profits and can afford to lobby to defend their interests.

On the other hand, Canadian consumer groups are often underfunded. They receive little money from the federal government. For years now, we've requested increased funding from Innovation, Science and Economic Development Canada, which is intended for consumer research and which has supported consumer associations for years. We're requesting an increase in that funding to provide some assistance to consumer associations in doing their work.

You have to understand that it's increasingly difficult to defend consumers these days, in 2022. Consumption is changing, the problems...

• (1645)

[English]

**The Chair:** We're running short on time, but thank you very much for your answer.

We'll move to the NDP and MP Blaikie for two and a half minutes.

**Mr. Daniel Blaikie:** Thank you, Mr. Chair.

Mr. Macdonald, I just want to come back to you to talk a little about housing. You mentioned earlier the role that escalating the required down payment might play in tempering the investment culture in the housing market.

I'm wondering if you've given some thought to whether CMHC mortgage insurance premiums might be different for people buying a residence as opposed to people buying an investment property. Also, do you have any suggestions for the committee on what public policy might be able to do to help combat inflation in rental prices?

**Mr. David Macdonald:** To start with your last question first, inflation and rental prices are, in many cases, directly governed by provincial governments, so what they say goes, in terms of the increases that are allowed in those markets.... In that sense, caps already exist in those areas insofar as the provincial policy says so and says whether or not there are new units—and there is a variety of exceptions to that. This doesn't help you in the sense that this is provincial government policy, not federal government policy, but it is one area where governments do have a direct influence over the consumer price index.

The purchase of housing is another one, and things like tuition and child care fees are other areas where governments fairly directly set prices that consumers pay, and those are part of the consumer price index.

When it comes to other levers that could be pulled to discourage investors but continue to allow the market to be open to homeowners, changing the premiums on CMHC insurance is another way.

I would encourage members to consider tamping down on investors in particular, in that what you're attempting to do is to get speculation, or some of the speculation, out of the markets in the hopes that this moderates or even reduces prices. It will not directly impact homeowners in the same way that an overnight rate of 3% would as the Bank of Canada increases its rates. The overnight rate affects everybody, and without keeping inflation under control with measures that the federal government can take, what's going to happen is that the Bank of Canada will act and drive interest rates for everybody—homeowners and investors alike.

**The Chair:** Thank you.

Thank you, MP Blaikie. That's the time.

We're moving to the Conservatives, and I have MP Albas for five minutes.

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** Thank you, Mr. Chair.

Thank you to all of our witnesses.

I'm going to be sharing my time with MP Stewart, so I'll be very quick.

Mr. Punwasi, first of all, it's said that, when the Bank of Canada makes a change to its overnight lending rate, it can take about 18 months before that is fully factored into the economy. I'm sure that unconventional monetary policy like QE has a very similar result.

Despite the Bank of Canada's having given forward guidance and saying it's going to be switching to quantitative tightening, what in your opinion should we expect in that space?

**Mr. Stephen Punwasi:** On the impact of quantitative easing, I guess the capital markets need to settle and all of the consumption. As this extra money is injected into the market, it will still have that impact that will take 18 to 24 months to trickle to the market.

By doing quantitative tightening, they're sending it higher but, at the same time, trying to pull it back down. It's a pretty dangerous game for them to play. You'd rather do this over a long time when you have the situation and these circumstances. Now they're gambling whether or not they need to and are risking over-tightening or doing too many movements at the same time.

Instead of looking where they're going, they're just looking at their skates and trying to control where they go after that.

**Mr. Dan Albas:** If there were a recession in the next, let's say, six to 24 months, would that make it even more difficult? Lower interest rates would be the natural alternative, and they've never been lower than they are right now.

**Mr. Stephen Punwasi:** Yes, it would be a disaster if we ended up in a recessionary environment in which we had high inflation. That would be similar to the situation in the 1970s or the early 1980s, which would not be great for anyone.

• (1650)

**Mr. Dan Albas:** Lastly, the government has said that it wants to do a lot of things: end blind auctions, enshrine the right to home inspection, ban new foreign ownership and implement anti-flipping taxes. Do you think those things will be effective, given your view of the market?

**Mr. Stephen Punwasi:** Bubbles tend to involve emotional impact, and regulatory movements like those may not have a direct impact but they temper the expectations of people in the market.

**Mr. Dan Albas:** I'll hand my time over to MP Stewart.

**Mr. Jake Stewart (Miramichi—Grand Lake, CPC):** Thank you.

My first question is for Mr. Rabidoux.

Mr. Rabidoux, do you think the current state of Canada's housing market is a healthy one? Why do you or don't you?

**Mr. Ben Rabidoux:** It's certainly not a healthy state by any means. It comes back to what I said. We have tremendous demand that is well in excess of any underlying demographics or any reasonable fundamentals, partially due to increased speculation from domestic investors and international investors. There's also an element of truth to the statement that we have not built enough, particularly as relates to single families, so it's a confluence of factors.

**Mr. Jake Stewart:** Thank you for the answer.

As the committee knows, we are a pro-immigration party. Immigration's key to having a thriving and diverse economy in Canada. That being said, do you have concerns that the government is working in silos? Do you think the government is looking at the big picture with respect to housing as it relates to population growth?

**Mr. Ben Rabidoux:** That is a big concern of mine, and I'm concerned that when the federal government is setting permanent immigration targets, it's perhaps not considering the impact of non-permanent residents, such as foreign students, who still require rental accommodations in many cases. That tightens the rental market and pushes some people out of the rental market into the ownership market, so there is a net effect of tightening the overall market balance.

We can't accommodate 600,000 people in one year, so we need to be much more thoughtful about how we do immigration policy.

**Mr. Jake Stewart:** Thank you, Mr. Rabidoux.

I have just one final question. I'd just like some final remarks or any ideas you might have on policies or solutions. I will turn the floor over to you for the last few seconds to see if you have any additional comments.

**Mr. Ben Rabidoux:** I would echo what Mr. Macdonald said with regard to tightening underwriting for investors. I think it's a completely sensible policy. I also think we've absolutely been asleep at the wheel as relates to international money laundering and that we have the most porous border when it comes to all sorts of illicit capital. That just needs to end. We need to get a backbone on that and we need to absolutely tighten down on that sort of excess demand.

In a normally functioning market it's not as big a deal, but when we're in such a supply-constrained market, that incremental demand has a big effect on prices and so we just need to tamp it down. There's sensible thinking. I'll leave it there.

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

Thank you, MP Albas and MP Stewart.

We're moving to the Liberals. MP MacDonald, please go ahead for up to five minutes.

**Mr. Heath MacDonald (Malpeque, Lib.):** Thank you, Chair.

Chair, I want to go back to Mr. Punwasi.

Mr. Punwasi, just moments ago you tweeted out:

[Canada]'s finance committee: Can government spending impact the central bank's ability to carry out its mandate, Mr. Punwasi?

Me: The BoC admits this in a paper...

\*everything goes silent\*

Mr. Punwasi, first, as others on this committee have noted, the report you have cited is a work in progress, research independent of the bank's governing council. I'm just wondering if you're aware of that and whether you would you like to clarify some of your comments.



**Mr. Stephen Punwasi:** Sure.

The Bank of Canada staff report indicates that government spending is related to that. Basic economics also tends to agree with that.

**Mr. Heath MacDonald:** Thank you, Mr. Punwasi.

Mr. Macdonald, I want to go to you. I was reading your final report and I'm very interested in the initial provincial budget estimates. You quoted that they were way off the mark. Maybe you didn't say "way" off the mark, but you said they were off the mark.

I just want to ask you about why they were off the mark and what this might do to inflation in each of the individual provinces where this happened.

**Mr. David Macdonald:** I think you're referring to a report I did that looked at changes in provincial deficits in the first two years of the pandemic.

Certainly, for this last year—the 2021-22 fiscal year that's wrapping up in a couple of days—the projected provincial deficits, initially, were \$70 billion. In this report's final estimate, they were about \$20 billion, which is a huge change in how big the provincial deficits were. Six out of 10 provinces are likely to be in a surplus position this year or next year, largely due to an unforeseen recovery in economic growth in the fall, as well as unanticipated additional transfers from the federal government—although it was economic growth that largely drove this.

This additional revenue received by the provinces, in the neighbourhood of \$60 billion over what they initially budgeted for in the 2021-22 fiscal year, is due to economic growth, but it's also due to higher inflation. Higher inflation benefits provincial as well as federal revenues insofar as those revenues stay relatively constant as a percentage of GDP. If nominal GDP goes up, whether due to inflation or real growth, you see more revenues as a result. So it was certainly partially due to increased inflation over the course of the fall.

• (1655)

**Mr. Heath MacDonald:** So with these surpluses and less debt, Mr. Macdonald, where would you suggest the provincial governments spend their money going forward?

**Mr. David Macdonald:** Often, the government's argument, for the provinces, is that the cupboard is bare, so there's nothing for long-term care and so on. That is not the case any longer. The cupboard is stuffed with cash. A lot of it is federal cash, incidentally.

I think this puts the provinces in a good position to spend on their priorities. Hopefully, those are the priorities the pandemic attempted to teach us: that we have woefully inadequate long-term care, that our health care systems simply are not resilient enough, and that we've left some big issues, like climate change, on the back burner for two years. We've certainly seen a push towards tax cuts instead of those priorities. I hope that's not what's going to continue in how those surpluses will be spent.

But it's not for lack of money, at this point, that we're making particular policy choices. The money is there for most of the provinces. Now it's a question of what the priorities are.

**Mr. Heath MacDonald:** Thank you.

**The Chair:** On behalf of our committee, the members, the clerk and the analysts—those who will be putting together this inflation report for Parliament—I thank the witnesses. I also thank the staff and the interpreters for coming before our committee.

For those who are new to committees here on the Hill, you've done a superb job. Thank you very much for all of your answers. I hope you have a great day.

Members, we'll adjourn the meeting at this time. I ask members to leave the finance Zoom public meeting. For those on the subcommittee, please reconnect to the subcommittee in camera Zoom links provided by the clerk in a separate email.





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