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INCOME TAX ACT

BILL TO AMEND—THIRD READING

Speech by:
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[*Translation*]

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BILL TO AMEND—THIRD READING

Hon. Diane Bellemare: Colleagues, I will try to be brief, but I do want to speak at third reading of Bill C-30. Before I begin, I would like to congratulate all my colleagues who spoke before me on this budget bill. The speeches have all been very interesting and have raised important questions. I share many of the concerns that have been raised, especially regarding the fact that this bill has not been thoroughly studied in committee.

As I told Minister Freeland in Committee of the Whole, I will be voting in favour of this bill. I would nevertheless like to share some concerns that could be studied more thoroughly going forward. My comments will focus on taking a critical yet constructive look at the government's strategy for dealing with this period of inflation.

Many colleagues who rose to speak yesterday at second reading reminded us of what experts are saying about what caused the inflation that we have been experiencing for over a year now. All of the major international research institutions, such as the Organisation for Economic Co-operation and Development, or OECD, the central banks, like the Bank of Canada, and the macroeconomics experts that the Standing Senate Committee on Banking, Commerce and the Economy has been hearing from over the past few weeks on the state of the economy agree that this inflation is being caused by supply chain issues.

In other words, the current inflation is a supply problem, not a demand problem. Were it not for the supply chain disruptions that have been going on since 2020, inflation would not be exceeding the central bank's targets.

The disruptions in the supply of goods and services are the result of a combination of factors, such as the temporary halt to production due to the pandemic, the war in Ukraine, and specific climate considerations that contributed to reducing the production of certain foods. We all hope that these factors are temporary. That is why the central banks are saying that the inflation will be temporary.

In its latest report, from September 2022, the OECD is still saying that the causes of this inflation are temporary. According to the OECD's economic outlook, inflation is hitting the global economy and has spread beyond the food and energy sectors, but it will ease. However, some supply problems, for gas in particular, may persist as a result of the conflict between Russia and Ukraine.

For the time being, as confirmed by central banks, inflationary expectations did not get out of hand. Furthermore, the witnesses we have heard from so far at the Standing Senate Committee on Banking, Commerce and the Economy confirm that there is no wage inflation in Canada.

However, despite the fact that current inflation may be temporary, the prices that have gone up could remain at those higher levels. In other words, even if price increases stabilize, prices will still be higher than they were in the past. It will take a lot of market competition for prices to come down. Moreover, with wages rising in many sectors in a bid to shore up purchasing power, a drop in prices is becoming less likely. In short, when inflation stabilizes, price levels will be higher. I want to emphasize that, and it will soon become clear why.

There are definite losers when it comes to inflation, namely the most vulnerable citizens, who tend to live on fixed incomes. Bill C-30 is aimed at individuals and families whose incomes are not increasing by much and who are struggling to make ends meet. That said, inflation also creates winners. Among these winners are governments, particularly the federal government, whose revenue is going up because of inflation. Goods and services tax revenue has gone up significantly and, most likely, permanently.

Now I'd like to talk about strategies recommended by the OECD and experts to get through this temporary period of inflation. The main recommendation is to reduce overall demand to alleviate price pressure caused by supply shortages. That's why authorities such as the OECD and the International Monetary Fund recommend higher interest rates to cool demand and ease price pressure. That is what the Bank of Canada and most central banks are doing.

These organizations also recommend temporary income transfer measures to boost the purchasing power of low-income individuals. That is exactly what the federal government, the Bank of Canada and many other governments are doing. Bill C-30 is therefore consistent with the OECD's recommendations.

Is this strategy really effective? Are there any alternatives?

Some people are beginning to question the effectiveness of this strategy. Various tools exist to temporarily reduce demand, and monetary policy is not the only tool. In a context of inflation caused by ongoing supply chain problems, using monetary policy can be very costly. It would be like using aggressive chemotherapy to treat a localized cancer at an early stage, which could kill the patient.

Some economists consider this strategy to be dangerous. Witnesses who appeared before the Standing Senate Committee on Banking, Trade and Commerce shared their concerns with us. David Dodge, the former governor of the Bank of Canada, sent a clear message that increasing supply should be the focus for the medium term and acknowledged that short-term fiscal measures could also help reduce demand.

Professor Trevor Tombe from the University of Alberta, whom Senator Woo quoted, also questioned the unintended consequences of using interest rates to curb inflation caused by supply shortages. According to his study and others like it that he cited, raising interest rates can have a boomerang effect on inflation. Economist Jim Stafford also shared his concerns about using monetary policy to curb inflation.

In fact, a rapid, substantial interest rate hike may reduce demand, but it could also exacerbate increases in the cost of rent and other prices and services. It could even hinder our production system's ability to fix supply shortages and to support the investments that are needed with respect to climate change. According to David Dodge, the only advantage of using monetary policy to reduce demand is that it is quick. It also relieves elected members of that responsibility.

As for the interim household income support measures also recommended by the OECD, they are by definition temporary. We might even question whether they are truly helpful for the most vulnerable citizens, given that we know that many people do not file tax returns and are therefore ineligible. These measures are politically beneficial, however, and the cost is temporary.

I consulted the latest financial reports from the Department of Finance, including *The Fiscal Monitor* for March 2022. For 2021-22, GST revenues were $45.5 billion, an increase of 48.9% over the previous year. Obviously, inflation is not the only reason for this increased revenue. It is also due to a return to normal consumption patterns post-COVID.

If we compare 2021-22 to the pre-pandemic years, we nonetheless see a significant increase in GST revenues. The fiscal reference tables that are published every year show that, for fiscal year 2019-20, the year before COVID-19, GST revenues reached $37.4 billion, and roughly the same amount was recorded in each of the preceding five years.

When we compare pre-COVID years to the fiscal year that ended in March 2022, there was an increase of $8.1 billion, or 21.7%, in the federal government's revenues. This increase will be permanent. When inflation stabilizes, GST revenues will increase more slowly, but will remain high because prices will not go down.

In this context, Bill C-30, which, according to the Office of the Parliamentary Budget Officer, proposes temporary assistance that will cost $2.6 billion, represents a rather restrained measure in contrast to the GST revenues taken in by the government. The government could have done more by making the supplement permanent, given that the incomes of vulnerable groups are not going up while prices are not coming down. The government could have temporarily reduced the GST by an amount equivalent to the increase in revenues. A reduction in the GST would have had an impact on inflation because it would have reduced the cost of the market basket.

France, along with other European countries, chose to lower electricity and gas rates and prices. According to a study conducted by France's national institute of statistics, this measure reduced the rate of inflation by three percentage points, from 8% to 5.1%. It is an important measure.

All in all, the federal government has followed the recommendations of the OECD, which suggested adopting temporary income support measures rather than reducing taxes, but is that enough for poorer Canadian families that are struggling to make ends meet? I am not sure.

These same low-income groups are the ones that will bear much of the economic costs of the monetary policy. It must be said. The monetary policy lowers interest rates but creates other costs.

As you know, Canada's monetary policy will slow the economy even though it has already begun to slow. That is already happening in the United States, where there have technically already been two consecutive quarters of falling output. It is generally the most vulnerable groups that pay the price of an economic slowdown. As you know, an economic slowdown is accompanied by job losses. More people draw on employment insurance benefits and, once again, it is lower-income workers and small businesses that, proportionally speaking, pay a lot more than other groups for EI. Is that fair? The answer is obvious.

Finally, like other senators and like Senator Dupuis, I would have liked to see the studies the government did that prompted it to choose this strategy. I would have liked to understand the regional impacts and GBA+ impacts of this strategy. In essence, my goal is to question the information we get from organizations about fighting inflation and to promote more creative solutions going forward.

The government could have done better, but I'll vote in favour of Bill C-30 because families need it. Nevertheless, I think budget measures like Bill C-30 are just short-lived band-aid solutions to a problem that calls for strategic supply-side measures to address supply issues responsibly and permanently. I urge the government to show us its supply-side strategy.

Thank you for listening. *Meegwetch*.