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Jeudi 14 décembre 2006

Standing committee on finance and economic affairs

Pre-budget consultations

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Chair: Pat Hoy
Clerk: Douglas Arnott

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 14 December 2006

Jeudi 14 décembre 2006

The committee met at 0906 in room 151.

SUBCOMMITTEE REPORT

The Chair (Mr. Pat Hoy): The standing committee on finance and economic affairs will now come to order.

Our first business of the morning should be to have the subcommittee report for the record.

Mr. Wayne Arthurs (Pickering–Ajax–Uxbridge): Mr. Chair, your subcommittee met on Wednesday, December 6 and Tuesday, December 12, 2006, to consider further the method of proceeding on pre-budget consultations 2007, and recommends the following:

(1) That the committee clerk distribute to each of the three parties a list of all the potential witnesses received at the November 28, 2006, deadline that were not selected for Toronto but have indicated a willingness to travel to alternate locations.

(2) That the committee clerk distribute to each of the three parties a list of all requests received since the November 28, 2006, deadline.

(3) That, after scheduling the selected witnesses, the committee clerk be authorized to schedule the potential witnesses for alternate locations if they are still willing to travel.

(4) That, after scheduling the potential witnesses for alternate locations, the committee clerk be authorized to scheduled any late requests on a first-come, first-served basis if they can be accommodated.

(5) That the deadline for requests to appear be extended to Friday, January 12, 2006, for the locations that are undersubscribed.

(6) That the committee clerk, in consultation with the Chair, be authorized, prior to the adoption of the report of the subcommittee, to commence making any preliminary arrangements necessary to facilitate the committee's proceedings.

The Chair: Any comment? Hearing none, shall the report be adopted? Carried.

PRE-BUDGET CONSULTATIONS

MARY WEBB
JACK MINTZ
HUGH MACKENZIE

The Chair: Now we'll move to our regularly scheduled agenda this morning. For the committee, and particularly for the people presenting this morning, you have up to 30 minutes each for your presentation. Following those three presentations—we expect another person to arrive—there will be questions of up to 10 minutes for each caucus in rotation. Somewhat different than last year's format, members may ask a question, but we won't have rebuttal from the other persons. If they do want to solicit a rebuttal, they would ask a second question.

We will begin this morning with Scotia Capital. I believe you're ready. If you would introduce yourself for the purposes of our recording Hansard, then you can begin.

Ms. Mary Webb: Thank you, Mr. Chair, members of the committee. It is certainly an honour to be here. My name is Mary Elizabeth Webb. I'm a senior economist and manager with Scotiabank Group.

Distributed to you should be two pieces. The first is a paper entitled Ontario—Another Year of Moderate Growth Ahead, and the second is a copy of the slides that we're showing just behind us.

Canada's economic growth is forecast to slow to less than 2.5% in 2007, following a 3% average annual pace from 2004 to 2006. The pronounced east-west dichotomy will continue, with much of central and Atlantic Canada still grappling with new competitive realities, while much of western Canada benefits from high demand for its resources. Scotia Economics looks for Ontario's economy to advance by less than 2% in both 2006 and 2007. From 2003 to 2005, Alberta's and British Columbia's expansion surpassed Ontario's by about 1.5 percentage points annually, and the average gap over 2006 and 2007 is expected to widen to 2.5 percentage points.

Faced with several persistent, simultaneous headwinds, Ontario's broad diversification remains a source of resilience. The first slide takes a look at the global growth that we're anticipating. The grey bars are the average growth that we're expecting in 2006-07. You'll see that China is in the 10% range, Indian is over 8%, Japan and the eurozone are much more subdued—in the 2% range—and NAFTA is close to 3%, partly because of the strength of Mexico.

The resulting boost from Asian growth to global energy and industrial commodity markets is positive for western Canada but largely negative for the other provinces as businesses and households grapple with elevated input costs. The second graph on this slide takes a look at real GDP growth for the four largest provinces. As you can see from the grey bars, this year we expect Alberta to be close to 6% versus Ontario at less than 2%. Quebec will be not much stronger than Ontario.

WTI oil prices, though moderating significantly from last summer, are still expected to average US$66 per barrel in 2006 and about US$60 in 2007. Global competition in many areas of manufacturing and services is expected to remain intense, with China overtaking Canada in the US market when our energy exports are excluded.

On the first slide here, the two red lines are Canada, and you will see the second one, the bottom one, is Canada, excluding energy. It has fallen below the China line in terms of US import market share. What's driving our Canadian exports is, in fact, energy. That's the top red line. You can see that some of the other things, such as vehicles and parts, have moderated significantly, as have forest products.

Canada's annual trade balance in energy now exceeds $50 billion, but our positive balance on non-energy goods has virtually disappeared.

The Canadian dollar has dropped below 90 cents US in recent months, offering some respite to Ontario exporters. In 2007, however, our dollar is expected to again test this threshold, given the combination of soft US dollar underpinnings and the fact that we have a gold-medal performance in Canada, with twin fiscal and merchandise trade surpluses.

The first chart shows the path of the loonie, and we do expect it to move back towards 90 cents, particularly going into 2007. Much of the US dollar's drop has been relative to the euro. We expect it will also drop relative to the yen next year and, of course, to the dollar.

Moderating US markets, particularly in housing, are adding to Ontario's hurdles. US real GDP growth is forecast to slow from 3.3% this year to 2.4% in 2007. Ontario's ties to the US are tight, even though the share of its international exports heading south has fallen from 93% in 2000 to 87% during the first three quarters of 2006. Shipments to the US this decade have fallen about 10%, while trade with other countries has expanded.

Canadian inflation is forecast to remain subdued. This is the first slide. As you can see, when you look at areas such as gasoline, the increase is significant. When you look at imported products, particularly electronics, the actual price declines are very marked.

The dichotomy also exists on the regional side. To date in 2006, Alberta's CPI inflation is twice Ontario's 1.9% pace, its average hourly wage rate has climbed to 7% compared with Ontario's 3% increase, and the rise in non-residential construction costs in Calgary and Edmonton averages over 10% compared with Toronto's 6.7% jump. The Bank of Canada does not gear monetary policy to either regional or sectoral price and wage pressures unless they threaten to drive national inflation expectations. Not until late next spring is our central bank expected to edge rates lower as evidence gathers of softer growth. A broadly similar response is anticipated from the US Federal Reserve. Investors' bias for safe, liquid investments has already pushed bond yields lower, though the shadow of a US trade deficit wider than US$800 billion persists.

The second graph shows our forecast that, for now, Canada and US central banks are on the sidelines, but we're looking for a drop of 75 basis points in Q2 and Q3 next year and 50 basis points in Q2 and Q3 in Canada in 2007.

For the Ontario economy, substantial drag from the external sector is expected to dampen growth below 2% in 2006 and again in 2007. The increased net outflow of Ontario residents to western Canada mirrors the perceived shift in economic opportunity. As the province's export performance weakens, imports, encouraged by the stronger Canadian dollar and domestic demand, should continue to expand. The result is expected to be net export volumes for 2006 falling to about half the 2002 level. Gains in consumption, business investment and government outlays, however, should sustain the province's forward momentum.

Ontario's manufacturing employment for the first 11 months of 2006 is now about 8% below the same period two years ago. Together, Ontario and Quebec account for much of the national manufacturing job loss. In addition to challenges in the automotive sector, pulp and paper mills are struggling with higher expenses, sluggish North American demand and increasing capacity in other countries. Lumber and building products are expected to face a further decline in residential construction in the US and central Canada in 2007.

I'd like to just review with you the text box that we've put in our paper on the automotive sector, for several reasons. The first is, our automotive sector is responsible for about 44% of Ontario's international merchandise export receipts. But the second is that there are both positive and negative aspects to the automotive experience that I think are worth noting.

The forecast pullback in Ontario's motor vehicle production is expected to trim an annualized 0.4 percentage points from the province's real growth during the second half of 2006, and a recovery is not forecast to begin before mid-2007. Existing inventories remain high, prompting one producer to schedule further downtime in early 2007. While the drop in Canadian vehicle sales from 2005 to 2007 is expected to be relatively modest, US vehicle sales, which account for nearly 80% of Canadian output, are expected to drop 9%. Downsizing by the Big Three in Ontario, however, has been proportionately less than the US experience. Ontario surpassed Michigan in 2004 as the leader in North American vehicle production, and it has the benefit of investments across the automotive sector totalling $7 billion, including a new transplant assembly facility beginning to ramp up production in 2008.

Ontario in 2007 also faces lower medium and heavy truck production, following an estimated 10% surge in North American output in 2006 as trucking companies rushed to renew their fleets ahead of a stricter engine emission standard that will be introduced in the United States and Canada as of January 1. Orders have already slowed, and one Ontario plant is now indicating significant layoffs early in 2007 in Ontario. In addition, US data indicate that slowing economic growth and a loss of market share to railways are dampening freight volumes as well as limiting the gain in prices paid for transported freight.

Over the past two years, employment by Ontario's auto parts producers has dropped by more than 10,000 to 90,000. Although additional capacity is planned to produce parts for transplant facilities that now account for one third of Ontario's vehicle production, Ontario's parts industry will continue to be pressured by the strong Canadian dollar and the increasing focus on global sourcing.

Mexico's situation as the only growth market in North America offers an interesting contrast. Its vehicle output and sales set record highs in 2006. In Mexico, currently there are only 0.22 vehicles per capita, so their sales outlook is bright. To revitalize its economy, Mexico has signed more free trade agreements than any other nation in the world. As a result, automakers view Mexico as an attractive assembly base from which to export vehicles duty-free. However, even with Mexico's anticipated expansion, Ontario's projected vehicle assembly capacity by 2009 will still be larger, at an estimated 3.1 million units.

Looking at Ontario's export performance, there are several bright spots, including significant gains for electronic and communication equipment and industrial machinery and strong demand for metals and minerals. Encouraging is the 28% surge over the past three years in the volume of machinery and equipment investment, with much of the increase in IT and telecommunication equipment. The indication so far is that machinery and equipment investment is continuing to climb in Ontario this year. A continuing opportunity for Ontario, recognized by the government, is interprovincial trade as demand for industrial products surges in Western Canada.

0920

The downturn in residential construction in Ontario is expected to steepen in 2007, though housing starts will remain well above the low witnessed during the mid-1990s. Underpinning housing demand is the province's 50% share of Canadian immigration. This is down slightly from a couple of years ago, when it was significantly over 50%, but Ontario still accounts for half of Canada's immigration. The story of net interprovincial migration, however, the second graph on the first slide, is not as positive. As you can see, there is an outflow from Ontario to Alberta and, to a lesser extent, to BC. This is similar to the experience of Quebec and Atlantic Canada, as well as Manitoba and Saskatchewan. The second graph on this slide looks at unemployment rates. As you can see, labour shortages are surfacing in western Canada. Alberta's unemployment rate is just over 3%. So there is significant opportunity for workers east of Alberta to migrate to these two western provinces.

Public sector infrastructure projects, however, are expected to support Ontario's construction sector for a number of years, boosted by the province's five-year $30-billion 2005 ReNew Ontario plan, its 2006 $1.2-billion Move Ontario proposal, and major power generation and transmission investments. Consumer spending, though still expected to be solid in 2007, will reflect moderating housing activity and job creation, as well as the absence of the major federal tax relief that we witnessed in 2006.

The services sector continues to offer broad support, fuelling Ontario's positive employment growth outside of the manufacturing sector. Wholesale trade and transportation continue to expand, bolstered by rising import volumes, while functions such as wealth management fuel financial services. From Ottawa to Windsor, Ontario has one of the largest high-tech concentrations in North America. The University of Toronto and its affiliated research institutions, for example, contribute to Toronto's prominence as a medical R&D community and a leader in bioinformatics and genomics.

Turning to Ontario's fiscal position, in fiscal 2005-06 the federal government and the provinces in aggregate each posted a hefty $13-billion surplus. Revenue growth, with an extra lift from Canada's resource boom, once again exceeded expectations, and a shrinking debt service, relative to receipts, continues to leave more room for new initiatives. For Ontario, the welcome surprise was a $298-million surplus for fiscal 2006, the province's first black ink since fiscal 2003 and only the sixth positive balance in the past quarter century.

For fiscal 2007, the government's mid-year review acknowledges the province's weaker growth trajectory, both in terms of real growth and the GDP price deflator. Annual increases in provincial nominal GDP—that's the broad base that underlies Ontario's own-source revenues—will likely average well below 4% for the three years to 2007. For fiscal 2007, positive prior-year adjustments and an estimated gain of about $570 million from the Teranet income fund initial public offering are expected to hold the projected deficit at about $1.95 billion, and if the $1-billion contingency reserve is not required, the deficit would narrow to less than $1 billion. Greater difficulty is anticipated over the following two years, with the province raising the possibility that the books will not be balanced in fiscal 2008 or, at the latest, fiscal 2009, as outlined in the 2006 budget. Such an outcome would put Ontario increasingly out of step with most of the other provinces that have balanced their books and are now focusing on reducing their net debt. While Ontario is not burdened with an unfunded pension liability, its direct debt is still expanding.

The first slide indicates the annual change in billions of dollars in Ontario's total revenues and program spending. The blue bars are the total revenues, and you can see the slowdown we're anticipating. You can also see the slowdown that the province is projecting to try and narrow the deficit.

With limited fiscal flexibility, a careful balancing of priorities is demanded to stretch government revenues as far as possible. Over the next two years, the government will be called on for further initiatives to bolster growth and cushion the fallout from industrial restructuring. The Ontario government has already made substantial commitments for health, education, training and infrastructure investment, making it difficult to accommodate big-ticket requests to further enhance our province's competitiveness. In addition to competition from south of the border, Ontario faces the challenge of jurisdictions such as Saskatchewan, Manitoba and New Brunswick making significant progress in trimming their tax burdens with multi-year tax reduction strategies.

In the government's current fiscal plan, program spending growth decelerates from an annual average of 8.2% over the past three years to 5.2% in fiscal 2007 and an average of less than 3% in fiscal 2008 and fiscal 2009. This plan will only begin to meet the wide range of demands if significant rebalancing is undertaken. With Ontario's competitive challenges, priority on longer-term efficiency and productivity-enhancing investments is necessary, emphasizing the strategies yielding the largest marginal benefit. A key benefit of Ontario's consolidation of hospitals, colleges, and school boards and authorities is the greater opportunity for collaboration and saving.

Ontario's corporate income tax collection agreement with the federal government illustrates the potential savings for government and the private sector from selected reforms. Additional tax reform, not reduction, could be as ambitious as harmonizing the provincial sales tax. It could also be a string of more modest measures, such as accelerating the elimination of the capital tax, a potentially revenue-neutral measure over the medium term.

Even with substantial reform, Ontario will be hard-pressed to meet all its needs, particularly with respect to the greater Golden Horseshoe's potential under current federal-provincial fiscal arrangements. The softness in Ontario's near-term growth prospects underlines the province's longer-term challenges. Over the past decade, a number of events have eroded Ontario's fiscal capacity. Analysis by the federal government's Expert Panel on Equalization and Territorial Formula Financing confirmed this situation. That analysis estimated that Ontario's per capita fiscal capacity in fiscal 2008 was only 59% of Alberta's, 94.5% of British Columbia's and only 2.4% above Saskatchewan's. On a per capita basis, Ontario's contribution to federal coffers is second only to Alberta's. Scaling back Ontario's contribution should be considered, given the competitive hurdles that continue to face Ontario.

Considerable opportunity exists in restructuring and streamlining the entire federal-provincial fiscal framework. An important first step would be to reduce, as quickly as possible, the regional bias favouring equalization recipients in a number of federal programs outside of equalization and social program transfers. One example is employment insurance. The original intent of the Canada-Ontario agreement was to bring federal funding for Ontario for several key programs, such as immigrant settlement assistance, closer to the national average. With Ontario still accounting for over 40% of Canada's output, its competitive adjustments are key to our national growth outlook.

The final graph in the slide presentation does show each region's contributions to federal revenues less federal spending. As you can see, what happens on a per capita basis is that Alberta's is greater, but because of our much larger population in Ontario, our contribution is, in absolute terms, far larger. In the latest year for which we have data, which is 2004, the net contribution is $21 billion.

Thank you very much.

The Chair: Thank you for the information and presentation. Now we'll move to our second presenter of the morning, the Joseph L. Rotman School of Management, University of Toronto. If you would introduce yourself for the purposes of our recording Hansard, and you have up to 30 minutes.

Dr. Jack Mintz: Thank you very much, Mr. Chairman. I'm Jack Mintz. I'm a professor of business economics at the J.L. Rotman School of Management, the University of Toronto. It's a pleasure for me to be in front of the committee again.

I wanted to mention that I have some background tables that I'll just make some passing reference to, but the committee members might want to have copies of that for background at least.

0930

At this time of year, academics like me are engaged with marking papers and examinations. On top of my mind is grading, so I cannot help but put a mark on Ontario's current economic strategy. If I were to sum up my impressions at this date, I would mark it a C, a passable grade for an undergraduate course although a failure for a graduate course. I tend to be a very hard marker, and just to be fair, if I was marking the previous government's record, I probably wouldn't give it a much better mark because I don't believe that leaving large deficits is very good for fiscal responsibility and indicating where an economy is going. So I would have been equally hard on the previous government as well.

Certainly, Ontario has its challenges ahead but the current approach to economic policy will make it difficult for Ontario to keep up with the average of other jurisdictions, never mind booming economies around other parts of the world. I do think, however, it would not be hard to change course to seek a better balance in its policies that is more focused on economic growth.

Now, why do I come to this conclusion? The current strategy for the government is to invest—and I say "invest" in quotation marks, which is a very vague concept—in various public programs, with some higher taxation and deficit reduction. In the past three years, estimating a correction for consolidation of hospitals, school boards and colleges, program spending increased annually 7.5% to $79.8 billion for 2006-07. Provincial revenues have risen by an almost Alberta-like 8%

annually to $87 billion, in part because of the $2.5-billion health tax introduced in 2004. Meanwhile, the provincial deficit, virtually eliminated with consolidation of the broader public sector this year, is projected to reach $1 billion this year, and I'm not including the reserve in that calculation.

This approach to economic strategy is not leading to stellar performance. Ontario's economic growth, less than 3% annually in the past three years and only 1.7% in the current year, is lagging the world economy, the United States and many countries like Spain and Ireland. As pointed out, it's also lagging Canada as a whole, even though Ontario is a big part of the average in Canada. Without doubt, a rising Canadian dollar and higher oil prices are pinching growth, but other countries such as Korea and Australia have a trade-weighted exchange rate that is also rising, but better economic growth than Ontario. I would argue, especially since I do a lot of reading about Australia, that one of the reasons that Australia has done reasonably well over the past number of years has been due to very sound economic policy that has led it to much better economic growth than one would expect for a country of its type.

Government spending on health, education, social services and infrastructure alone will not make Ontario an economic success. Private capital investment is critical to help pay the freight. More capital spending by businesses will result in greater adoption of new technologies and higher output per worker, allowing businesses to pay more income to workers and taxes to governments. On this score, Ontario is doing poorly, and you can see this in terms of the first table that's in my background handout. Its investment per worker, rising in recent years in part due to federal business tax cuts, is only 75% of the OECD average and two thirds of that in the United States. Ontario's investment per worker is sharply below Canada by $1,500 per worker, lagging Alberta, British Columbia, Saskatchewan and Newfoundland.

A good case can be made that education, innovation and infrastructure, the focus of the current economic strategy, make important contributions to economic growth. However, so does private investment, and Ontario needs to put more balance in its fiscal planning to encourage greater business activity.

This, of course, gets to taxation, which is one of several important forces that drive private investment. Ontario's tax system needs repair, and tax reform should be a significant part of its overall strategy, which is presently not the case. The key will be to follow what many countries have done and that is to reduce taxes on mobile factors—capital and skilled labour—in favour of consumption, environmental levies and user-pay-related taxes.

To illustrate the problem, Ontario's effective tax rate on capital investment for non-resource companies, accounting for corporate income, capital and sales taxes on capital purchases, is 42.2%, fourth highest of over 80 jurisdictions in the world. Ontario joins Congo, Argentina and China with high rates of taxation on private investment, although in developing countries, such as China, it's not unusual for governments to grant tax concessions to lower effective rates. Ontario's effective tax rate on capital is higher than that in all other provinces in Canada, especially New Brunswick, Newfoundland and Alberta. Industries that are particularly disadvantaged relative to the United States include manufacturing, transportation, power, construction and communications.

As a large number of studies have shown now, high effective tax rates on capital reduce private investment, especially foreign direct investment. One recent study in the Netherlands finds that a 1% drop in effective tax rate on capital increases foreign direct investment by the rather significant amount of over 3%. From a business perspective, Ontario simply looks uncompetitive as a result of its tax regime.

As justly pointed out, many will argue that taxation is not the only fiscal policy that affects investment. Research and infrastructure incentives play an important role in encouraging investment. Further, health care, education and social program benefits can also improve competitiveness, although these labour-related incentives are offset by personal income, payroll, sales and health taxes. In work I have done with Duanjie Chen, we have shown that the fiscal burden on the cost of doing business in Ontario, once incorporating both taxes and subsidies related to business costs, is 28.3%, about 3.2% higher than five selected US states. I should mention that those five US states tend to be more on the high-tax side in the United States.

Ontario needs to pay more attention to its tax regime. Although the government is proceeding to harmonize its corporate income tax with the federal system and will soon be embarking on a five-year program of eliminating capital taxes, its tax disadvantages will continue well after this while other jurisdictions continue to shift burdens from investment and savings to consumption.

Some key elements to a better tax system in Ontario would be the following:

The first would be to reduce its exceptionally high general corporate income tax rate, now 14%, which, with the federal rate, is eight percentage points above the OECD average. A two-point reduction in the top corporate income tax rate would not only eliminate the unnecessarily complex special deduction for manufacturing and resource profits, but also encourage investment in other sectors of the economy. Acceleration of capital tax elimination, not only for non-resource companies but also financial institutions that play a large role in the Ontario economy, could also do more in creating a better economic environment for investment. Ontario's own property tax regime to fund education is also discriminatory against non-residential real estate, especially in Toronto.

A major reform, however, would be to fix up Ontario's retail sales tax, of which one third is taxes in intermediate and capital inputs. Ontario's effective tax rate could drop by almost eight percentage points if capital purchases were no longer taxed under the retail sales tax. While Ontario could follow British Columbia by simply reducing sales taxes on business capital, a far better approach is to adopt an Ontario-made value-added tax, joining 180 countries around the world, as well as Quebec and three Atlantic provinces. Ontario could adopt a Quebec-style reform that provides flexibility in the choice of some taxes on various inputs but at the same time is largely harmonized with the federal GST. With the recent reduction in the federal GST rate, to be followed by a further rate cut in the future, now is a particularly good time to look at sales tax reform in Ontario.

Other tax reforms are needed that I could discuss at length, such as the need to reduce the exceptionally high marginal tax rates on investment and employment income earned by Ontario residents with modest income. These rates are as high as 80% on income between $10,000 and $20,000 for seniors with investment income and 70% for single-parent employees with income around $35,000.

In terms of talking about tax reform—and I particularly use those words “tax reform”—I do not necessarily mean tax cuts. In fact, some of the things that could be achieved that would be important to the Ontario economy would be to eliminate perhaps some incentives that have been ineffective and to perhaps rely more on some other sources of tax revenue to make up for differences. The key point is that tax reform could be a very powerful way of improving economic growth in the economy by changing the mix of taxes that Ontario is currently using.

Tax reform should be on the front burner as part of an overall economic strategy for Ontario. With some brave moves, Ontario might turn itself into an economic engine that could rival many countries around the world.

With some significant changes, I’m sure that in a number of years I could give Ontario a much better grade.

The Chair: Thank you for your presentation. In the handout that we have, sir, the majority of the pages are blank. If you have or could send copies to the clerk, we’ll ensure that—

Dr. Mintz: I don’t understand that, actually.

The Chair: We’ll make sure that people get a corrected copy.

Dr. Mintz: My apologies. I don’t know what happened.

The Chair: If you would provide the clerk with the information, we’ll make sure that every committee member gets the information. Very good.

Our next presenter has not arrived yet, and in order to proceed with the questioning in a fair way after having heard all presenters, I think it would be best to recess until he arrives. We are ahead of schedule.

We will recess until our next presenter arrives.

The committee recessed from 0941 to 1002.

The Chair: The standing committee will now resume.

We have our third presentation of the morning. We appreciate you being here and apologize for starting a little bit late. You have the floor. You have up to half an hour for your presentation, and there will be questions by the committee following that. Please identify yourself for Hansard.

Mr. Hugh Mackenzie: My name is Hugh Mackenzie. I’m a research associate at the Canadian Centre for Policy Alternatives. I’m also the co-chair of the Ontario alternative budget. I guess I can give myself the title of chief economist, since there don’t seem to be any others.

What I’d like to do, because I realize that the mix-up has kind of deprived us of the opportunity to have a discussion and questions, is try and keep things pretty tight, to leave the committee time for questions both for myself and for other members of the panel.

I want to make just a few relatively simple and straightforward points, although I acknowledge they may be a bit controversial.

As a long-time observer—I hate to say how long—of budgets in Ontario, one of the enduring truths of budgets is that budget-making is an admixture of finance and storytelling, and the ratio of storytelling to finance varies with the electoral cycle. The storytelling part really arcs up in the first budget after a change in government and it tends to settle down in mid-term. Then, as you head into an election cycle, the storytelling-to-finance ratio goes up again. Since we are discussing what will essentially be the budget plan for the government’s re-election platform, it’s not surprising that the story-to-finance ratio is pretty high. So my point of departure is to look at the political story that is being set up as we head into this next budget.

One of the problems with political budget stories is that they don’t make very good novels, because we know what the last line is before we start the book. I can tell you what the signature line of this story is. The signature line of this story is, “Despite having inherited a disastrous fiscal mess when the government changed in 2003, the Liberal government heroically struggled and balanced the budget in time for the next election and is proposing a budget plan of balanced budgets for the next four years in their triumphant effort to be re-elected.” That’s the signature story.

What I’m interested in is how we get from here to there, because when you read the statements and listen to the statements of the Minister of Finance, it sounds like a very traditional plea of poverty. Mr. Sorbara has been walking around Toronto figuratively with his pockets turned inside out, explaining how potentially disastrous the fiscal situation is, worrying out loud about a return to deficits and, of course, saying to anybody and everybody who might wish the government to do something that costs money that there isn’t any money available to do it.

So we know this part of the story, we know the end of the story, and I have a pretty good idea of how we’re going to get from here to there in broad terms. There have been two innovations that have been introduced by this government in its budgeting and reporting cycle. One is that for the first time this year, in my experience, certainly in my lifetime as an analyst of Ontario budgets, which I hate to say goes back over 30 years, the provincial government tabled its budget before the end of the fiscal year. This provided the government with an enormous degree of flexibility to make decisions about what year to report expenditures in. This is a wonderful tool when your objective is to produce a nice, smooth trajectory of expenditures and budget deficits, and the government took full advantage of that, announcing significant expenditures at the end of the last fiscal year that were actually part of this year's budget but went onto the books last year. It's a wonderful tool because it allows you to manage the financial numbers so that they are on a nice, smooth trajectory. It also gives you lots of things to announce that don't cost you anything in the budget that's coming up.

The second innovation—and I fully expect that this innovation will be repeated this year. Although a specific date hasn't been announced for the budget, I would be the most surprised person in the province if the budget isn't tabled in March to take advantage of the same opportunity this year. The second innovation—and again, this is an unusual event—is that the public accounts were released earlier this year than they have been at any time in my memory. I haven't gone back and looked at the dates for public accounts, but I know that in some years they've been as late as November. More typically, they've been released in October. This year they were released at the end of August.

I think the significance of that is that the government wants to be—so I would expect that public accounts are going to be released, I would think, given the likelihood that they're going to show the carefully planned improvement relative to budget time, shortly after Labour Day, just on the eve of the next election, and the Minister of Finance will run around saying, "Miracle of miracles, we've balanced the budget."

So we know kind of what the story is, and I have a sense of the way it's going to play out. How do you get from the situation we're in right now, where the minister is going around saying that we're in danger of slipping into deficit, to the point where the budget actually gets declared balanced? When you look at Ontario finances for the end of the second quarter, which is the most recent set of data we have, there are a couple of interesting things that come out of it. Although it's a more modest number this year than it has been in previous years, one of the things that this government has done consistently during its term in office, which actually follows a pattern that was set previously by the federal government under Paul Martin, is underestimate its debt service costs. The last time we were in here talking with the committee about this, I was forecasting that debt service costs were going to be about $800 million less than the government said they were going to be. It turned out I was right. This year, I'm estimating that for the current fiscal year, they are still overestimating their debt service costs by about $200 million. It's a pretty small amount of money, but given the fact that we're talking about balances, it's probably important.

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The other big issue that emerges in looking at Ontario finances for this time is that there's an enormous amount of money in the budget still, as of six months into the fiscal year, for contingencies. You have the easily visible, bottom-line contingency of $1 billion, but you also have buried in the estimates of Management Board and the secretariat for—what are they calling it now?—the infrastructure, some blah, blah, blah?

Mr. Tim Hudak (Erie–Lincoln): Public infrastructure renewal.

Mr. Mackenzie: Whatever—infrastructure renewal of the empire. Whatever they're calling it, it turns out that between those two areas, there's about $1.3 billion in unexpended contingencies. When you add all those things together, you get about a $2.5-billion potential difference between the balance that's forecast and what they could do if those contingencies weren't spent.

I'm going to have to flip to the piece of paper here. It turns out that when you do the math, instead of the forecast balance of a deficit of $1.9 billion, if none of the reserves were used you end up with a forecast surplus of $800 million. So quite a big turnaround.

I think it's reasonable to assume that some of those reserves are going to be spent, but given the fact that that $2.5 billion in reserves was still on the books halfway through the fiscal year, I think the chances of it all disappearing are about as close to zero as you could possibly imagine.

So we see the dimensions of the potential miracle of loaves and fishes that's going to be reported by the auditor when the public accounts come out on election eve in September. I suspect that the government isn't going to expose its hand, that we'll probably see a forecast at budget time of a deficit that's somewhere between zero and 1.9, so it still looks like there are miracles happening behind the scenes because the government is working so hard.

Mr. Sorbara has learned well from the book written by Paul Martin. Paul Martin learned very early on that it's much better for finance ministers to be delivering good news than to be delivering bad news. If you start off with really bad news and then you substitute for that less bad news, it looks like good news. You can see that in the numbers of the government's budget forecasts in the two fiscal years so far that they've been fully responsible for.

For 2004-05, I've taken into account the little problem the minister had with the writing off in one year of the hydro price thing, a $4-billion turnaround. So at budget time in 2004-05, there was a forecast deficit of $6.1 billion. Without the formal billion-dollar reserve, it would have been $5.1 billion. The actual deficit was $1.6 billion.

In 2005-06, we had a forecast at budget time of $2.8 billion. Without the reserve, it was $1.8 billion; the actual was $300 million. We've got a record of creativity, if I can put it that way, in the way that budget data are presented. This sounds like kind of an odd thing to say, but it's actually as big a problem for trying to have a sensible debate about fiscal policy and the government's spending policy to have estimates that are consistently outrageously out on the positive side as it is to have estimates that are consistently outrageously out on the negative side, because it means that we're having the wrong debate, often; we think we're debating in one room, and the actual debate is in a different room.

With that kind of foundation, looking at the current fiscal year, it's even making very, very pessimistic assumptions about economic growth in Ontario. It's virtually impossible to generate a deficit based on the government's current spending plans. It's virtually impossible to generate a deficit in projections beyond the current year. So the pocket-is-inside-out story just doesn't hold up.

Before I finish—because I'd love to get into a discussion—I just want to throw a couple of things on the table that relate to some other work that I've done in the last six months which I think are relevant to the discussion we're having. One of them is that we're hearing a lot—"a lot" is putting it mildly. We're hearing a great deal, particularly from the Premier, about the fabled $23-billion gap, what is articulated as the difference between what the federal government collects in Ontario and what it spends in Ontario. In the little set of charts I handed out to you, there are a couple of charts that try to decompose the claim of the $23 billion using the data source in the provincial and national accounts that the number is based on. To cut to the bottom line, when you take out of the calculation things that are either irrelevant or really not part of the Premier's complaint, the $23-billion complaint actually turns out to be about $2 billion, which, interestingly enough, is the number that he's actually having the conversation with the federal government about.

Why do I say that? Well, part of the change in the so-called $23-billion gap is attributable to the fact that over the period that the comparisons are being made, the federal government went from a huge deficit position to a large surplus position. That influences the measurement of the gap, but it's not really a gap because when the federal government is running a deficit, the provinces, collectively, are having more federal government money spent in their jurisdictions than they are paying in taxes. So of course the gap is going to be smaller when the federal government is running a deficit than it is when the federal government is running a surplus.

The second big difference is that about half of the difference that Mr. McGuinty has been complaining publicly about is attributable not to the spending side but to the revenue side. Why does Ontario contribute more than its per capita share of revenue nationally? Because Ontarians make more money, because Ontario has a disproportionate share of corporate profits reported in this province, and on and on. It has to do with the revenue system, and Mr. McGuinty hasn't been suggesting that we abandon the federal revenue structure and substitute a head tax for it. So I assume that that's not something he's actually planning on doing something about.

The other big piece that's completely irrelevant, because he has defined it out of the conversation, is equalization itself. Mr. McGuinty hasn't been calling for the abolition of equalization.

So you end up with a $23-billion problem that actually shrinks to $2 billion. Why does that matter? Because when you stack up the issues that confront the province fiscally, $2 billion looks pretty pale beside the annual impact today of the tax cuts that were implemented in Ontario between 1995 and 2003, which comes now to about $15 billion or $16 billion and counting, even if you credit against that the roughly $2.75 billion that comes from the health tax.

So when we're talking about fiscal imbalance in that sense, we really are talking about the wrong problem. The problem, if we're concerned about generating resources to pay for additional public services in Ontario, is that the revenue system in Ontario doesn't match what we need as a revenue source. Now, Jack and others will obviously disagree with that position, but I think we ought to be having the debate about the right thing as opposed to the wrong thing.

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The second point that I wanted to make in this general context has to do with what we do as we're moving forward. Again, the fundamental issue is that—I'm starting to sound like Jack now—there's no free lunch here. If you want to provide additional public services, you have to raise the revenue to pay for it. We can have an interesting debate about whether Ontario needs to have more public services, and we can have a really interesting debate about how we ought to pay for them, if we think they're there, but at least we ought to have the right debate about the sources of revenue.

The fact is that Ontario's fiscal squeeze is not attributable to cuts in federal transfer payments. It's not now, because federal transfer payments have recovered significantly as a share of GDP. In fact, in net terms it never was, because one of the really interesting things about the Harris era in Ontario is that the pain that was created by Paul Martin's transfer payment cuts was simply shifted down to local governments. If you look at transfer payments from the federal government to Ontario as a share of GDP and compare it with Ontario's transfer payments to local governments on a consistent basis, what you find is that, as a share of GDP, federal government transfer payment cuts to Ontario were matched almost exactly by provincial transfer payment cuts to municipalities.

The interesting thing, the interesting phenomenon that comes out of those data is that that relationship of federal transfer payments to Ontario, and Ontario transfer payments to local governments, has been pretty consistent over the last 30 years, with the exception of the last five. In the last five, federal government transfer payments to the province have gone up significantly as a share of GDP, and provincial transfer payments to local governments have not. So if anybody thinks there's a mystery as to why it is that local governments are in financial trouble and why it is that we have an infrastructure funding problem, you ought to take a look at the transfer payments.

That's what I have to say by way of introduction, and I'm sure others might want to weigh in. Let's have a discussion.

The Chair: Thank you very much, and thank you to all of the presenters.

Now we will go into the question aspect of this morning. Each party will have 10 minutes. Please identify who your question is to. We'll begin with Mr. Barrett.

Mr. Toby Barrett (Haldimand–Norfolk–Brant): I wish to direct a question to Mr. Mintz. I am concerned about the overall burden of taxation and the marginal tax rate on a number of taxes in our Ontario economy. I know you've indicated direction on a number of taxes: capital taxes, labour taxes. I wonder if you could just set some priorities for us. I'm going on the assumption that there is a need for, in my view, an overall reduction in the tax burden, but a selective tax reduction on certain taxes and the positive impact it would have on certain sectors of our economy. Could you set some priorities? What might be the most important tax reductions to make, maybe in the context of other influencers like the Canadian dollar, our dismal performance with respect to per-worker productivity and things like that?

Dr. Mintz: First of all, let me just make two very quick comments. Number one, the two most important issues facing Canada as a whole, including Ontario: firstly, the competitive issue that arises from a huge new economy coming up in Asia which gives a great opportunity for many industrialized countries to take advantage of because there will be increasing world demand for products, but it's also a challenge in making sure that we can be part of that world supply chain. The other issue is demographics. We have an aging population, and there will be pressure on governments to provide support for that aging population. But at the same time, we cannot simply just raise taxes on the working population, as it will aggravate the competitiveness issues associated with a changing world that continue to go on and that will go on for quite some time. So when I put those two things together, I always put as a priority, as I mentioned in my remarks, that we need to shift the tax system from taxing investment and savings in Canada, where we still have very high effective tax rates on both investment and savings, especially savings that are outside the pension plan and RSP system, and shift it towards other tax bases, whether it's consumption, user-pay-related taxes or environmental levies.

One thing I think probably Hugh and I would agree on is that, even if you didn't cut taxes overall, certainly there's significant room for reform. In fact, I think Canada and Ontario need to think Scandinavian, because that's exactly what's happened in Scandinavia, despite their very high tax levels: They have actually moved to a system where they've adopted what are called dual income taxes, with sharply reduced taxes on corporate income, capital gains and interest dividends, and at the same time introduced new types of levies such as environmental levies to make up for some of the difference.

In terms of the overall tax level, I've always been of the view that the only way you can cut total taxes in a jurisdiction is to demand more effectiveness and efficiency out of government spending. To me, you cannot talk about tax reduction on its own without talking about how you can improve the spending side of government. This is where Hugh and I would maybe disagree a little bit, but I see that there's lots of room for more effective and efficient government spending. In my view, Canada, which devotes 40% of its GDP to spending, including interest on debt—that's still out of whack with what governments in a modern economy need to do. I look at various programs—usually I comment about things like unemployment insurance at the federal level, like Mary did, but I think even here in Ontario we're going to have to really think about how we can do things more effectively.

For example, in education, I'm a strong proponent that it's actually not a matter of more money being spent on education as much as a much better education system. In fact, when I look at the reforms that have been adopted in Alberta, where we've made a more competitive school system with school-based budgeting and open borders, allowing principals to be CEOs who can choose inputs while the province chooses the curriculum and the outputs and accountability, Alberta's doing far better on OECD PISA tests than Ontario. With US school boards running up to Alberta all the time to see what they did in terms of their accomplishments, I think that in Ontario we could have a very good education system without necessarily spending huge amounts of money on it. It's a matter of reordering some of our priorities. Also, when you look at the demographics, we're going to have fewer children, so it's going to be a lower cost pressure area, not a higher cost pressure area in the future.

On the tax side just very quickly, my three priorities—again, going back to investment and savings. Business tax side: Ontario's corporate income tax rate is too high and should be cut. That would be my first priority. The second priority is to accelerate capital tax reductions and elimination. And the third priority, which I think is a bigger one to take on, is to look at a harmonized sales tax or a value-added tax, which doesn't have to be a cut in taxes. It could be done in a way where you have revenue neutrality, but you're doing it in such a way, with a Quebec-style, made-in-Ontario VAT, that you can achieve a lot of things in terms of competitiveness and at the same time have a much better sales tax system operating. One hundred and eighty countries have figured this out in the world today, and I think Ontario can do it as well.

Mr. Barrett: Thank you.

Mr. Hudak: How are we doing on time, Chair?

1030

The Chair: You have two minutes left.

Mr. Hudak: I have two quick questions, just to follow up, Mr. Mintz, in the interest of time. Thanks again to the three of you for appearing.

Dr. Mintz: Sorry for my long answer.

Mr. Hudak: No problem. Could you comment further on the Quebec-style VAT versus simply harmonizing GST/PST as the eastern provinces did, and which would you recommend?

Secondly, we're concerned about the loss of manufacturing jobs in the province of Ontario—some 160,000 in the last two years. Is that an inevitability, given the change of the world economy, or do your prescriptions on tax reductions and capital inputs help reverse that trend?

Dr. Mintz: Let me just take the second question first because I think it's an important one. I think one of the big debates that's going to come in the future in this country and Ontario will be industrial policy. Historically, manufacturing tends to go to low-class jurisdictions. Lots of jurisdictions, whether you're talking about Chicago or Hong Kong—what they found is that they lost their manufacturing jobs, but what happened is that they still ended up growing because they got into other parts of the economy that were very significant.

We have a very good financial sector here in this province. It could be a dynamite sector if we ended up thinking about how we can make it one, and that applies to a number of other areas in the service sector. Even in manufacturing, we can still be at the very high end, because one of the things that is very important is to achieve the kind of productivity and innovation in manufacturing that allows you to produce specialized products in a world market where nobody thinks of the idea otherwise. So I think those are things that could be done.

I would suggest that having more neutral tax cuts, like the elimination of capital taxes and reducing the corporate income tax rate, is a far better way to go in industrial policy than trying to pick winners and losers. It goes back to my usual adage that governments are very poor at picking winners and losers, but losers are very good at picking governments. So I think it's very important that we keep that in mind.

Secondly, on the first question, I'm not necessarily sure that the Quebec-style approach per se is what you want to use in Ontario, but there are some interesting things that they do in Quebec. For example, zero-rating financial services I think is something we would want to consider. It doesn't say that the GST is very good at the federal level. So there may be some base changes that one would like to consider.

Also, you could keep some taxes on business inputs or do it in a way where you don't have to put all the burden back onto consumers entirely, as you would have with a harmonized GST. There are different options in doing that. In fact, I'm doing some work now with Tom Wilson at the University of Toronto where we're looking very deeply at those questions to come up with some particular approaches.

The Chair: Now we'll move to the NDP. Mr. Prue.

Mr. Michael Prue (Beaches–East York): I thank Mr. Mintz because this was the question that I was going to ask, but I'd like to give an opportunity to the other two.

Ms. Webb, in your document it says there are "several bright spots in Ontario's current export performance," and before that you talked about the 8% job loss in the manufacturing sector. Are these bright spots sufficient to reverse the trend, or are we expecting, in the next four years, or this year and into the future, that to continue? I would also like to hear Mr. Mackenzie on that as well.

Ms. Webb: I think that the trend will likely start to reverse in a substantive way after the middle of next year. The reason for that is that our motor vehicle sector is so large, at 44% of our international export receipts, and it also affects so many other sectors that while it's slipping it is hard for other things to outweigh that.

But there are some other very interesting aspects of those bright spots. First of all, some of them are in the resource sector and not entirely in manufacturing. Northern Ontario is witnessing two trends. One is a significant downsizing in forest products but, conversely, a significant upswing in mineral exploration and production. So that's a bright spot that we think will remain for Ontario through the decade.

The final thing would be, in an area such as electronic equipment, we did have a downturn in 2001. It is great to see companies coming back in the high-tech area, and very successfully. Of course, the biggest names come to mind, like RIM, but there are many other examples of other companies that are moving forward and hiring. They are on a smaller scale, in some cases, and the major motor vehicle assemblers, but in terms of leading-edge manufacturing, where they found that they can be competitive in niches, the story is very positive.

Mr. Prue: Mr. Mackenzie?

Mr. Mackenzie: A couple of general comments first. I think that in assessing what's happening to manufacturing now, we need to separate out cyclical factors from long-term factors. I'm not saying that there aren't long-term factors, but there are also—maybe "cyclical factors" isn't quite the right term. There's no question that two of the big drivers of our problems with export performance are the performance of the US economy and the value of the Canadian dollar. The value of the Canadian dollar is largely being driven by the commodity price boom around the world. There are signs that that may be beginning to ease.

I think it's important just to have a perspective on what's driving this. The clear indication of those two phenomena is that the biggest single source of job loss is in auto parts, and that's both a very mobile industry and an industry that's also extremely sensitive to exchange rates. Although the industry is changing, it's still pretty heavily dependent on the Big Three, who are losing market share significantly in the United States. So we're kind of tied to the wrong horse in some senses in auto parts. That's one of the background comments I'd make.

I think that the question of how we get from here to a more highly productive economy is actually—there's no silver bullet. I don't think there's any really simple answer. There is something to be said for tax reform that makes our tax system a bit smarter. I'm not as persuaded as Jack is by the data about the power of marginal effective tax rates in determining industrial location, but I think there are some things we could do with our tax system that would make it smarter.

As I've indicated in my remarks, I'm not the kind of person who backs away from the fact that if we want public services, we have to pay for them. There may be smarter ways to pay for them, but I think there are also issues on the spending side that matter. RIM is a really good example. RIM wouldn't exist without the investment that the people of Ontario made in the University of Waterloo, period, full stop. I think that the importance of the post-secondary education system and of public investments in research and development, particularly in primary research, can't be underestimated as we try to move into the new economy. In the previous year we were talking about this, one of my colleagues talked about Massachusetts as an example. We need to think really carefully about not screwing ourselves up on the spending side by getting too excited about blowing the doors off on the tax competitive side.

With respect to the value-added tax, in principle I would agree with Jack. The problem is, having been involved in doing the numbers in the early 1990s, one of the features of Ontario's tax system which Jack doesn't like is that about 30%, maybe more now, of the tax is paid by foreigners because the tax paid is buried in goods that are exported from Canada. So if you were to harmonize with a GST-style tax, one way or the other, about 30% of the retail sales tax ends up getting shifted from foreigners to Ontarians, and that's a pretty big lump to swallow.

I think that getting us there would be helped if the small steps that people took were the right ones. I don't think it makes sense, for example—and this sounds like an odd thing for somebody in my position to say. I don't think the federal government's proposal to cut the GST makes any sense at all from an economic perspective. It's a really dumb thing to have done. If you were bound and determined to give up $5 billion in revenue, I can think of a hell of a lot of better ways to give it up than cutting the GST by a point.

1040

The reality is that the track record for big-picture tax reform isn't particularly great anywhere; it certainly isn't that great in this province and it's not that great in this country in the last 35 years. So what we can hope for is some incremental steps that get us from here to there. I hate it when the incremental steps take us backwards.

Mr. Prue: How much time is left?

The Chair: About a minute.

Mr. Prue: Well, I have a really tough question, then, for all three of you, and you've only got a minute. Mr. Mackenzie talked about a $2-billion deficit, Ms. Webb talked about a $21-billion deficit, and Mr. Mintz, you didn't talk about it at all. In a minute, what is the real figure? Do you disagree with each other that fundamentally?

Interjections.

Dr. Mintz: I actually agree very much with Hugh's comments. I don't believe the numbers at this point. I did say that it was forecasted to be $1 billion, but we know that there could be things in the end that will end up balancing the budget.

What happened last year, of course, was that the $300-million balancing was in part as a result of the consolidation of hospitals and schools and—what was the other one?

Ms. Webb: Colleges.

Dr. Mintz: Colleges. And that pushed it into the surplus range. As Hugh mentioned, if you have, let's say, a worse performance of the Ontario economy—which I don't think will happen in the next few months—I certainly think that's something to be concerned about. I think that is something that Mary said, and I agree with that.

Ms. Webb: I only have 10 seconds now. Rather than go into the math and how it works, there are some lessons from it. One is that our federal-provincial fiscal arrangements and all the transfers back and forth are so convoluted and so complicated that it is really tough tracking them. And as we go forward with reform, rather than tinkering on an old system, a system that's more streamlined and more transparent is one of our chief recommendations. For Ontario, much of the net outflow that is in that $21 billion is not from equalization; it's from the programs that have the regional bias toward the equalization recipient provinces.

Mr. Prue: Thank you. Mr. Mackenzie? There appears to be time.

The Chair: Very quickly. The minute expired a minute ago.

Mr. Mackenzie: What deficit are we talking about? Are you talking about the budgetary deficit or are we talking about the federal-provincial?

Mr. Prue: No, I'm talking about the gap.

Mr. Mackenzie: The gap.

Dr. Mintz: Oh. I thought you meant the first—

Mr. Mackenzie: When you disaggregate the gap, what you find is that the actual gap on a national accounts basis right now is about $18 billion, not $23 billion. About half of it is attributable to the revenue side. About a third of the remainder is attributable to equalization. A portion of it is attributable to differences in transfers to people per capita. Some of that is because of the bias against Ontario in the employment insurance system, but most of it is because we have proportionally fewer old people and fewer poor old people than other parts of the country. When you disaggregate it all, the part that's left unexplained is about $2 billion, which, interestingly enough, is the sum that Mr. McGuinty has really been talking to the federal government about over the last couple of years.

The Chair: Now we'll move to the government and Mr. Arthurs.

Mr. Arthurs: On behalf of our caucus, let me thank each of the presenters for taking the time this morning to provide us with your insights and comments and to respond to our questions as well.

For prudent fiscal managers, finance ministers, working in the public interest—the public sector, the public trust—it would seem to me that they want to err on the side of caution, at least in part, when they are making their fiscal projections. Our budget now is about $85 billion, give or take a little bit.

For each of you, if you could—and I really have two questions. If we can get one in five, that will give me five for the other one.

But for each of you, maybe starting with Mary, if you would. On a percentage basis, roughly, what would be a prudent margin for our minister to take into consideration as he's making those fiscal projections so that the lining of the pocket is not necessarily always out? Is a 2% margin a good margin, 1%, less than that? Do you have any sense of what might be a reasonable expectation if one had to try to frame that in some fashion?

Ms. Webb: Not wanting to come back with another question, but a prudent margin in terms of revenues or expenditures? Either?

Mr. Arthurs: To avoid coming in with a deficit projection and saying, "Well, we thought we were going to be here, but now we're way down here."

Ms. Webb: On the revenue side, I don't think the case is particularly simple in accurately forecasting, given the current uncertainties right now. Ontario will be tremendously helped if our Canadian dollar versus the US stays well below 90 cents. That could help profits, as could a number of other factors, such as financial services. We are in a situation with our corporate income tax receipts where they have grown to be very large and they have been a huge swing and a positive factor in recent years for Ontario. So the concern has to be, could they swing as much to the negative side?

Given the external factors that I feel are very much in play now—the dollar and the depth of the US housing correction—one has to say it could easily be in the range of 5%. You'd have sort of a narrow, one deviation and then a broader, two deviation.

On the expenditure side, though, it's interesting because we have the example of several other provinces. When things are going over budget they find places to compensate or find the money or whatever. So on the expenditure side, I think that type of discipline provides a much tighter boundary. That then raises the issue, because I think a lot of the concern about—there are two concerns about a balance that is substantially off what's expected. The first is, the balance is the net result of much larger flows and therefore tougher to get right. From that point of view, we are only arguing on the wrong basis if we're not stepping back and saying, "What do we want to do with our $85-billion budget?" and taking it on the large basis, not the $1-billion basis.

The second thing is that much of our angst, particularly at the federal level, on large inaccuracies was because it was tough following what they were doing with all the excess receipts. In some cases, they were being spent and so the reforms that were being suggested were things like putting in place in the budget that if we have an overage it will be debt reduction or it will be expenditures as outlined. Perhaps that gets over a lot of the problem as well. Given the volatility of the time and the volatility in our financial markets that do impact your finances, perhaps what we need is just more careful planning and agreement on what we do if there are excess revenues.

Dr. Mintz: Just rather quickly, I think it's quite appropriate to try to use consensus forecasts of economists, which has become more common now in planning in Canada, being somewhat prudent. But I think the bigger issue is what happens at the end of the year, especially if your revenues are much more exceeding expenditure. I think the criticism that many people have had has been huge amounts of unplanned spending taking place at the last moment, where it's not necessarily clear that those are the best priorities and really fixing the problem. Also, you can never in that process allow for tax cuts, because the only kind of tax cut you can have at the last moment is just a rebate system, like Alberta did. Frankly, that doesn't change behaviour and it's a rather wasteful way of cutting taxes, when what you really want to do is plan for tax cuts that allow for it.

I'm of the view that we need to go to more medium-term budgeting, and I know this government signed on to that a couple of years ago. In fact, when I read the document I applauded it. I thought it was terrific. I think that's what has been happening a lot around the world in terms of doing budgeting, because we really have to plan for the future. Especially today, when you have the demographic problems that are coming down the road, I think that planning is becoming increasingly important, although that's a very long time that we're talking about, not five years. But I think it's really important to think ahead of where we really want to move the economy.

1050

Mr. Mackenzie: A couple of quick comments. One is that I agree with Jack that—

Interjection: That's happened about four times today.

Mr. Mackenzie: My buddy Jack.

I think that excessive prudence, structuring forecasts to guarantee surpluses under most foreseeable events, entices us to have the wrong debates. It leaves the government with whacks of money in hand that may end up being spent on things that, in a proper public debate, they might not have been spent on. For example, I just ask the hypothetical question: If we had known that Ontario was actually going to turn out to have had a surplus of $300 million last year and not a deficit of $2 billion, what do you think the debate might have been like about ending our near-criminal position on social assistance benefits? Do you think maybe we might have had a different kind of debate about that if the budget wasn't a pockets-turned-inside-out budget? It turns out that the underlying reality was very different. I'm not saying that we'd win that debate; I just think we ought to have the right debate.

The other thing—and this is my day to agree; I'm really glad you asked the question the way that you did because it gives me the opportunity to say that on the broad questions of fiscal probity, I find myself in agreement with the leader of the Progressive Conservative Party. I am not a come-hell-or-high-water no-deficit person, which I gather the leader of the Conservative Party isn't either. I think that we still live in a pretty cyclical economy. We do budgets on an annual basis. To me, it offends my sense of common sense—sorry to use the word—that in the face of cyclical fluctuations we would cut into the teeth of a recession and spend in the swell of a boom. Regardless of whether you live in the world of Milton Friedman and fiscal policy doesn't make any difference in the broad economy or not, I think just as a matter of doing things that induce stability and make sense, it makes sense to think about budgetary balances over a longer period of time than an annual budget cycle. I think that building excessive prudence into a fixation on an annual budget every year produces unwelcome consequences. It produces surpluses that governments don't know what to do with when things turn out better than you expect, and it produces cuts in spending that are really quite destructive when you're cutting into the teeth of a recession.

Mr. Arthurs: I hope I have a little bit of time left.

The Chair: No, there isn't; I'm sorry.

On behalf of the committee, I want to thank the three of you for spending a significant amount of your morning with us. We appreciate your input and information.

CO-OPERATIVE HOUSING FEDERATION OF CANADA, ONTARIO REGION

The Chair: Now I would call on the Co-operative Housing Federation of Canada, Ontario Region, to come forward, please. Good morning, gentlemen. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourselves for the purposes of our recording Hansard.

Mr. Harvey Cooper: I'm Harvey Cooper. I'm the manager of government relations for the Co-operative Housing Federation of Canada, Ontario Region.

Mr. Joseph Zebrowski: I'm Joseph Zebrowski. I'm the president of the Ontario Council, Co-operative Housing Federation of Canada and vice-president of the Co-operative Housing Association of Eastern Ontario.

The Chair: You may begin.

Mr. Zebrowski: First of all, thank you for this opportunity to make a pre-budget presentation to the standing committee on finance and economic affairs on behalf of more than 125,000 residents living in 550 non-profit housing co-operatives across Ontario. My name is Joseph Zebrowski. I am president of the Ontario Council, Co-operative Housing Federation of Canada. I'm also the vice-president of the Co-operative Housing Association of Eastern Ontario. With me today is Harvey Cooper, manager of government relations for CHF Canada's Ontario Region. He will be pleased to answer any questions you may have following our presentation.

Housing co-operators are committed to playing a significant role in meeting the affordable housing needs of Ontarians. In our presentation, we will focus our remarks on a few critical housing issues that the Ontario government should consider as it prepares its 2007 budget.

One of the fundamental problems plaguing housing in the last 10 to 15 years has been the lack of consistent policies and programs on the part of both the federal and Ontario governments. While there have been small pockets of new, affordable housing developments in several Ontario communities, there's no commitment to a long-term, sustainable approach to addressing affordable housing needs in this province.

In the coming days, the Ontario region of CHF Canada and the Ontario Non-Profit Housing Association will jointly publish Where's Home 2006, our annual picture of housing needs in Ontario. We'd be pleased to provide a copy of the report to any committee member or other interested MPPs. Some key findings in Where's Home 2006, as mentioned in our submission, are: Rents will be increasing well above the rate of inflation; 20% of all renter households are paying over half their income on rent; demand for rental housing in Ontario over the next 10 years will be in the range of 12,000 to 14,000 units annually; and this amount was produced in the late 1980s and early 1990s but has been declining to just over 2,000 units per year since 1995.

Our first recommendation: The Ontario government should speed up the delivery of the federal-provincial affordable housing program and ensure that its campaign commitments of providing 20,000 affordable rental units and 35,000 housing allowances are met.

In their 2003 election platform, the current government pledged to address the shortage of affordable rental housing and provide affordability assistance. This promise was greeted as welcome news after the previous provincial government had ended affordable housing construction in 1995.

In 2001, the federal and provincial governments across Canada formally committed to the affordable housing program. However, only a small fraction of the units promised under the program have been delivered in Ontario. Under a revised agreement signed in April 2005 with Ottawa, Queen's Park undertook for the first time to match federal AHP funding. The province is now pledging to produce 15,000 affordable housing units and 5,000 housing allowances during the life of the program.

These commitments fall short of the Ontario Liberals' 2003 housing platform. At that time, they promised 20,000 affordable units plus 6,600 supportive units and 35,000 housing allowances. These undertakings are also far below the documented need for affordable housing, with over 122,000 households on municipal social housing active waiting lists across the province.

Although the number of new units and housing allowances promised are modest when compared to the need, these commitments do mark the re-entry by the province into the affordable housing field after a decade-long hiatus. This is a significant and welcome development, but acceleration in program delivery in 2007 is absolutely essential. Failing this, it is clear that the government will not come close to even meeting its scaled-back housing goals or responding to the urgent housing need across Ontario.

There has been a lot of debate as to whether the growing rental affordability problems are mainly a poverty problem—the result of low incomes of many tenants—or a housing problem—the result of a shortage of affordable units. The reality is that both sides of the affordable housing equation, demand and supply, matter and need a government response.

Our second recommendation, then, is that the Ontario government should focus on developing non-profit and co-operative housing to ensure long-term benefit and value for the public investment.

While there is a clear need for additional rental units, it is also important to ensure that any new units remain affordable over the long term. New supply initiatives should focus on developing permanently affordable not-for-profit housing. Over time, as we note, co-operative and other forms of non-profit housing have proven to be a best buy for the public investment.

Despite some improvements in the AHP, it remains in many ways a program that favours private developers or large municipal housing companies. Housing co-ops and other, smaller community groups are at a natural disadvantage as often they do not have the financial wherewithal required to participate in the program. As a result, we face the very real prospect that the Canada-Ontario AHP will be the first affordable housing program in 30 years to effectively shut out housing co-ops.

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We are pleased to note that the Minister of Municipal Affairs and Housing, the Honourable John Gerretsen, has taken a first step to address this problem with his recent announcement of an initiative to expand the capacity of the co-operative and non-profit sectors to deliver affordable housing. We hope that this partnership will bear fruit in 2007 and that a significant number of co-op housing units are developed in Ontario.

Our third recommendation is that provincially funded rent supplements should be provided for at least half of the units to be developed under the AHP. The province should provide increases to the minimum wage and the shelter component of Ontario Works and ODSP, restore cost-of-living protection to workers' compensation benefits and end the clawback of the Canada child tax benefit.

The most glaring fault of the current AHP is that it does not serve the hundreds of thousands of Ontario households on social housing waiting lists. For reasons that are hard to understand, we have ended up with an affordable housing program that is not designed to serve low-income households on a rent-geared-to-income basis. The current program rules requiring average project rents at 80% of local market rents result in charges well above what a low-income household could actually afford.

In Toronto, for example, 80% of an average one-bedroom rent would produce a rent of well over $700 a month. This compares to the maximum shelter portion of $427 per month for a person in receipt of the ODSP. In short, the program shuts out people with very low incomes such as minimum wage earners, social assistance recipients and seniors receiving basic pension benefits.

Measures should also be taken to increase affordability, such as increases to the minimum wage and the shelter component of Ontario Works, ODSP and workers' compensation benefits, an increase in the supply of rent supplements and an end to the clawback of the Canada child tax benefit.

Our fourth recommendation is that the province should immediately release the $392 million of federal housing funds, including the $80 million for aboriginal housing, currently held in a provincial trust account and allocate this money immediately for affordable housing purposes.

Because of a dispute with the federal government about funding promised under previous arrangements, the Ontario government has set aside $392 million, including $80 million for aboriginal housing, of recently released federal housing funding into a provincial trust account. We support the province in its quest to receive fair financial treatment from the federal government. That said, the action to hold affordable housing dollars hostage pending a resolution in a standoff that may never get fully resolved is unconscionable. The province should immediately allocate the money for the purpose for which it was intended: helping to solve the affordable housing crisis in Ontario.

It is worth noting that these federal housing dollars come with fewer strings attached than previous funds, allowing the province much greater leeway to use the money as it chooses. The only federal requirement is that the funds be used for housing purposes. This flexibility gives Queen's Park a rare opportunity to meet its housing goals free of the constraints in the current affordable housing program.

The fifth recommendation is that the Ontario government should provide funding in the 2007 budget to top up the underfunded capital reserves of co-ops and non-profits operating under the Social Housing Reform Act.

The long-term viability of the social housing stock administered by municipalities is at serious risk. While this housing was under provincial administration, the province imposed a moratorium for several years on the funding of capital reserves. These reserves pay for the replacement of major building components. A series of studies have all found that the capital reserves are seriously underfunded. These different studies peg the province-wide shortfall as ranging from $500 million to $1 billion.

The province also needs to continue to press the federal government to re-invest the funding that becomes available as project operating agreements expire in affordable housing, including funding to top up the capital reserves of existing projects.

Our sixth recommendation is that the province should upload the cost for Ontario's devolved housing co-ops to the provincial level and transfer administration to the Agency for Co-operative Housing.

We are pleased that the provincial-municipal fiscal and service delivery review will provide an opportunity to revisit the larger issues associated with the transfer of various responsibilities, including social housing, to Ontario's municipalities. Recently we raised with Minister Gerretsen the notion of uploading the cost and program control for Ontario's devolved co-operatives back to the provincial level. We will be sending the province a detailed proposal on this very shortly.

The co-operative housing portfolio accounts for approximately $60 million to $65 million, or about 8%, of the total current annual cost to Ontario's municipalities for social housing. We are proposing that this cost could be assumed by the province. Ontario would then enter into an agreement with the Agency for Co-operative Housing for program administration. The agency, established for the sole purpose of administering co-op housing programs, is already administering three federal co-op programs in Ontario as well as some other provinces under a long-term contract with the CMHC.

The transfer of the co-op housing portfolio would afford the province a way to provide the municipalities with a significant but discrete measure of financial relief. Our proposal would result in substantial, immediate and long-term cost savings to the municipalities and the elimination of downstream liabilities for capital repairs, increasing mortgage rates and property taxes. It would also leave them with a more homogeneous residual portfolio which would be both simpler and more economical to administer.

Co-operative housing in Ontario is a well-documented success story. For more than three decades, co-ops have provided good-quality affordable housing, owned and managed by the community members who actually live there. We are anxious to work with the province to strengthen these communities and develop more co-operative housing to meet the needs of Ontario citizens.

Once again, we want to thank the members of this committee for giving us the opportunity to express our views today. I am open to any questions you might have. Je serais tout à fait ravi de répondre à vos questions en français, s'il y en a.

The Chair: Thank you very much. This round of questioning will go to the official opposition.

Mr. Hudak: We have how much time, Chair, for questions?

The Chair: Five minutes.

Mr. Hudak: With respect to the best way to invest in housing, do you support a model of any sense in terms of rent supplements, tax credits to low-income families, that sort of thing, to help afford—

Mr. Cooper: As we mentioned in the submission, we think a good approach is a balanced approach that touches on both the issue of lack of supply, but also, as you mentioned, Mr. Hudak, a lot of existing tenants have problems with affordability. It's not only a matter of new units being built, but ensuring they have enough to pay the rent, quite frankly, so rent supplements, anything to do to boost their affordability levels. We gave a number of examples in the brief; I won't repeat them. I think it's important the government move on both sides of the demand-and-supply equation, but to just move on one side, frankly, won't be significant enough.

Mr. Hudak: Thanks. The figure again—was it $281 million or $381 million that's been transferred from the federal government to the province?

Mr. Cooper: It's $392 million, of which $80 million is targeted for aboriginal housing.

Mr. Hudak: Which is puzzling, that the province continues to sit on those funds which have already been transferred. They're basically sitting in the provincial account gathering interest, right?

Mr. Cooper: I'm not sure about the interest component of it. As we mentioned in the brief, and I think as a number of different organizations have spoken to, part of the problem with the affordable housing program in general—we didn't get into a lot of the program features, but one of the reasons for its complications is, it's a joint federal-provincial program, so the federal government comes with different program and policy guidelines. It's also administered in Ontario by municipalities across the province. The advantage of these funds is that, frankly, they don't come with a lot of strings attached, and they could be spent quickly.

One of the examples we gave was increasing rent supplements. The current housing allowance program provides fairly shallow subsidies—an average of under $300 per month—which won't bring the rents down to affordability levels for a lot of low-income earners in this province. The province could actually strategically target those federal funds for some deeper rent supplements, which would improve the viability of the whole program they're trying to deliver.

Mr. Zebrowski: I might just underline on that that most of the evictions that we're doing in the co-op sector right now are not due to behaviour or personal conduct; they're due to the inability to continue paying housing charges. So there is a serious issue there.

Mr. Hudak: It seems like some of the federal funds are being held hostage as part of the federal-provincial spat on other issues. They've been transferred, so they have become part of the debate in the Legislative Assembly, as you know, and we've heard from other groups. So I want to give you a chance to raise the importance of investing those funds as opposed to holding them for ransom.

Mr. Cooper: We've made the point. We think the province should immediately target those funds for the housing purposes for which they were intended. As we also mentioned in the brief, we'd like to see the program speed up. We'd like to see the government meet their goals, but we give them some credit for cost-sharing the existing funding program under the affordable housing program. That said, at the speed at which they're going, it's going to be very difficult for them to actually meet their targets at the moment. So certainly a speed-up in delivery is absolutely necessary, and a big boost to that would be spending those federal funds.

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Mr. Hudak: If you prioritize between the larger cities, rural areas, northern Ontario, are there particular areas where you see the most egregious need?

Mr. Cooper: I think what the province has tried to do is, based on a per capita formula, give a certain allocation to a certain municipal area based on a number of factors. Most municipal service managers don't have a problem, it's my understanding, taking up that allocation. Most of them suggest they could probably do more. One of the issues in housing is, just because you allocate funding doesn't mean that we're going to see new homes, new rental units created overnight. We all know it takes probably 18 months at minimum to two or three years to actually build any housing development across this province. We're starting from fairly far back in terms of meeting the need. So it's not so much, "Can we allocate more to a given municipal area?" I think we can; I think we've got to improve the program and accelerate the delivery so that we can meet the need out there.

The Chair: Thank you for your presentation before the committee this morning.

CAMPAIGN 2000

The Chair: I call on Campaign 2000 to come forward, please. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourselves for the purposes of our recording Hansard.

Ms. Jacquie Maund: Good morning. My name is Jacquie Maund. I'm the coordinator for Ontario Campaign 2000.

Ms. Melanie Dignam: Good morning. I'm Melanie Dignam, supervisor at Peel Children's Aid.

The government's 2006 Ontario Economic Outlook and Fiscal Review talks about investing in people and notes that "a key driver of a strong economy and job opportunity is a well-educated and highly skilled workforce." Campaign 2000 agrees with this statement, but we are concerned that it will become increasingly difficult to ensure a well-educated, highly skilled workforce given that almost one in every six children in Ontario is living below the poverty line.

The latest statistics that Stats Canada data indicates say that Ontario's child poverty rate is 17.4%. This means that 478,000 children and youth under 18 years of age are living below the poverty line. Poverty rates for children in aboriginal, visible minority and immigrant families are double that average rate. Ontario's child and family poverty rate has been stalled since 2000, despite strong economic growth. The average low-income family is living way below the poverty line, and they would need, on average, an additional $9,000 to $10,000 per year just to bring them up to the poverty line.

Social assistance payments for parents not able to be in the workforce are woefully inadequate. A lone parent with one child has a welfare income that is only 56% of the poverty line. Getting a job is not a guaranteed pathway out of poverty. One third of all low-income children in Ontario live in families where the parent or parents work full-time and full-year.

What are some of the costs of having double-digit child poverty rates? Higher health care costs to deal with poor nutrition, obesity, diabetes and other health impacts associated with low income; remedial education, training and EI costs; the cost of placing children into care when parents cannot provide for them; increased costs to the criminal justice system. The failure to ensure that low-income children can meet their full potential will only increase as Ontario's looming large labour shortage is a reality.

The Liberal government has made important long-term investments since coming into power: $6.2 billion for post-secondary education, $32.9 billion for health and $30 billion for infrastructure. Campaign 2000 calls on the government to cement their investments in education and health with a long-term investment plan in the 2007 budget focused on addressing child and family poverty in Ontario. The government must keep the promises made during the election, and we encourage you to go further.

Ms. Maund: We have four specific areas that we'd like to propose in terms of recommendations around a poverty-reduction strategy and investment to reduce poverty in Ontario. Firstly, in the area of social assistance, we call on the Liberal government to meet its election promise to implement a cost-of-living adjustment for families on social assistance and to end the clawback of the national child benefit supplement. Right now, a lone mother with one child on social assistance receives $885 a month after the clawback. The government continues to claw back up to $122 per child per month from families on social assistance.

We definitely support the increases that have been made to date. The 3% increase to social assistance in 2004 and the 2% increase this year were certainly a step in the right direction, as was the decision to pass on the increases to the national child benefit supplement that the feds have made since 2004. But what we're calling for here is based on the belief that parents who are not able to be in the workforce deserve to be able to raise their children in dignity and decency. Specifically, we're recommending: (1) an end to the clawback of the national child benefit supplement and a maintenance of the reinvestment programs for which those funds have been used; (2) to permanently index Ontario Works and ODSP to the annual inflation rates, as have the provinces of Quebec and Newfoundland and Labrador; and (3) to increase social assistance and ODSP rates to ensure adequate incomes for recipients.

Secondly, we'd like to talk a little bit about child care, which we know is a key pathway out of poverty for families. During the election, the Liberal Party promised to invest $300 million of new funding to increase the affordability and quality of early learning and care. Given the cancellation of the bilateral agreements with the federal government, we're urging the government to step up to the plate and to keep that promise, to spend the $300 million to keep the momentum going in terms of building the Best Start program.

We're also recommending that the provincial government make a commitment to dedicate the new provincial tax revenue that will come from the federal government's universal child care allowance specifically to investment in Ontario's regulated child care system.

Thirdly, we have a comment on housing. You've just heard from our colleagues and partner about their co-op housing association. Our recommendations mirror theirs: specifically, fully honour the election promises to fund 26,000 new affordable homes and 35,000 rent supplements for low-income households and release the $392 million in federal government funds held in a trust fund for affordable housing. Our numbers show that over 70% of Ontario low-income families with children are living in unaffordable housing, paying over 30% of their income for housing.

Fourthly, in the area of the labour market, our research shows that low wages and poor working conditions are part of the reason behind Ontario's high rate of child and family poverty. Ontario's minimum wage will reach $8 an hour in February. That will mean that a full-time worker's wages at minimum wage will be only 70% of the poverty line.

Campaign 2000 believes that parents who are in the workforce full-time should be able to earn enough to lift their families out of poverty. We make two specific recommendations: (1) that the provincial minimum wage be raised to $10 an hour and permanently indexed to inflation; and (2) that there be better enforcement of the Employment Standards Act and an updating of that act so that it includes temporary, contract and self-employed workers, who currently have no labour legislation protection.

If I have a minute further, I just want to add that the question, "How should these initiatives be funded?" is often raised. We note that last year there were unexpected revenues of $2.2 billion, and a decision was made to invest a large chunk of that money in public infrastructure and transit. Meanwhile, the Newfoundland and Labrador government made a decision, despite their tight fiscal situation, to invest in poverty reduction. They made that a key plank of their 2006 budget and have indeed developed a poverty reduction plan for the province. We urge Ontario to follow suit, to make investment in children a commitment, because children are our future. Thank you.

The Chair: And thank you. This round of questioning will go to the NDP and Ms. Horwath.

Ms. Andrea Horwath (Hamilton East): I want to thank the presenters for the good work that they do in reminding everybody how important it is to deal with the crippling poverty we see in the province of Ontario.

I'm looking through some of the materials that you provided in your brochure here. In the centre, there's a chart that says, "Greater Inequality: Economic Boom for Whom?" If all of the initiatives you've outlined as being the key pieces that need to be put in place to really start addressing our continued shame of child poverty and poverty overall in Ontario were put in place, how would that chart be different?

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Ms. Maund: I can't predict how a chart would be different, but I can say that our research, looking at other countries in northern Europe that have much lower child poverty rates—the kinds of investments they've made that have made a difference focus on two areas: (1) social investments, social programs supporting families, and (2) around the labour market, ensuring good-quality jobs that pay good wages.

If we look, for example, at northern European countries, they have child poverty rates of less than 5%. If we look more recently at a country like the United Kingdom, which in 1999 made a specific promise and target to reduce child poverty—they set out a plan that takes them up to the year 2010, with specific commitments and investments. So it's not enough to make a promise; it has to be followed through with the investments. The plan in the UK is working. As of 2004, they've reduced their child poverty rate by 23%.

We're urging the Ontario government to learn from those lessons. We know child poverty can be reduced. We know what needs to be done. We just need governments and political parties to show the political will to do it.

Ms. Horwath: I missed the very beginning of your presentation, and I apologize for that. I know that my colleague Mr. Prue would have liked to be here as well to ask you some questions, but he had some other responsibilities that he had to get to, so, unfortunately, he couldn't be here to ask them.

I'm wondering if you can outline what some of the specific realities are for children living in poverty. We think about that. We hear about the statistics and the numbers, and sometimes I think people lose sight of what that actually means. I don't know whether you covered that off in the beginning of your presentation. What is the life like of a typical child we're talking about when we talk about these statistics?

Ms. Maund: I'll give you a couple of quick examples, and then I'll turn it over to my colleague who works at children's aid. Parents we work with talk about hunger as a very real part of their life and their family's life: having to go to the food bank a number of times during the month and, in some cases, having to stop doing that because the food bank only allows one visit per month;

having to skip breakfasts; not being able to provide nutritious food for their children, which of course we know has damaging effects over the longer term.

They also talk about the feelings of social exclusion that their children experience, not being able to go on field trips, not being able to go to summer camps, not being able to participate in pizza day because their parents cannot afford the money to buy a piece of pizza.

So it's a very real effect in terms of hunger, and it's also a psychological and social effect in terms of being excluded from what we would consider the mainstream of Ontario society.

Ms. Dignam: I think, just connected to what Jacquie was saying there, we do have a number here around food bank users: 40% of food bank users are children. So approximately 132,000 children every month use food banks in Ontario. It's a huge number.

In regard to the children's aid reality of things, there was a study done by London Children's Aid Society. It's an excellent study that really outlines why a children's aid society takes children in the community into their care, into the society's care. They explore the different reasons as to why, and child poverty was one of the main reasons in that actual study.

Just to give an example—there are many that I could give—around the reality of the clients we at Peel Children's Aid Society deal with: a single mom, lone parent, trying to get a job and has two kids. Even to get to that job, child care is the issue. Child care is expensive. The subsidized spaces that are there are very limited, so mom, then, remains on assistance until something else changes. That's where we talk about social assistance rates being looked at and the minimum wage, even. If she was to go out and work, the minimum wage is just so low that sometimes the reality is that you just can't get the food on the table, which is really, really tough.

When you have a situation where there is a family with two parents, one parent working, domestic violence in the home—there are just so many issues attached to the children, parents struggling with poverty and then the effects and impacts that has directly on children. It's a reality that poverty is definitely one of those issues.

The Chair: Thank you for your submission before the committee this morning.

I'm advised that neither of the next two presenters is present, so we'll recess until one of them does arrive.

The committee recessed from 1125 to 1130.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair: The standing committee on finance and economic affairs will now come to order. I believe we have here the Ontario Home Builders' Association. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard.

Mr. Brian Johnston: Mr. Chairman and members of the committee, good morning. My name is Brian Johnston and I'm president of the Ontario Home Builders' Association. I'm also president of Monarch Corp. Our company has built more than 30,000 new homes and condos across Ontario since the company started building homes in the province of Ontario in the 1930s. Monarch is a member of a number of local home builders' associations in the cities of Ottawa, Durham, Hamilton, Kitchener, Waterloo and Toronto. I also serve on the board of directors at the Tarion Warranty Corp. I'm a volunteer member in the association. In addition to my business and personal responsibilities, I'm dedicated to serving the residential construction industry.

Joining me on my right is Mike Collins-Williams, who is manager of government relations at the Ontario Home Builders' Association.

The Ontario Home Builders' Association is the voice of the residential construction industry in the province. Our association includes 4,000 member companies involved in all aspects of the industry that are organized into 31 local associations across the province. Together we produce 80% of the province's new housing and renovate and maintain existing housing stock. Our industry represents over 5% of the provincial GDP and contributes over $25 billion to the economy every year.

I know everyone here is interested in our members' viewpoint on the future health of the housing market in Ontario. Today I'm going to speak to you about the housing market and some of the challenges we face going forward, as well as our recommendations for the upcoming provincial budget.

OHBA and its members are looking forward to another healthy new housing market in 2007. The Canada Mortgage and Housing Corp. is forecasting a very healthy 75,200 housing starts for 2006, with those numbers dipping by 8% to 69,100 in 2007. Due to the strength in the resale housing market, we are once again expecting another very good year in the renovation sector. This certainly bodes well for Ontario's existing housing stock, which benefits from efforts to maintain and upgrade housing standards. The housing market peaked in 2003 and 2004, and residential construction activity will continue to moderate in the years ahead.

Let me talk about the things that are on our mind. The provincial government must be congratulated and applauded for running a balanced budget. We are aware that there are many competing demands on the pocketbook of this government, and while it may not be fun to make the choices, this government has done so. We take a sympathetic view of the province's concerns with regard to the federal-provincial fiscal imbalance when we see the province making hard choices. We would be remiss to not contrast this to the city of Toronto, which is running a $500-million deficit and whose only action appears to be calling on Queen's Park and Ottawa to give it more money. When was the last time anyone heard of cuts to the city's spending, or of plans to sell off surplus assets or lands that are held by the city or the TTC? And when they have made plans to sell lands, it takes roughly five to seven years for it to actually happen.

Our members are worried about harmonization of GST and PST. The federal government has been fairly obvious in their words and their actions that the province of Ontario could address a portion of the fiscal imbalance through a harmonization of these taxes. While I won't address the politics which may defer the final decision to do so, there is a case for this to happen. The odds are pretty good that we are going to see another cut in the GST. The federal government believes that the province should step into this freed-up tax room.

From the home building industry's perspective, there is a big "but" which I would like to highlight. It goes right back to the day the federal government brought in the GST. The GST is imposed on new housing, but in recognition of the fact that the land component of new housing was never taxed in the past, the federal government introduced something called the new housing rebate when the GST was brought in. It reduced the tax rate on new homes from 7% to 4.5% for homes less than $350,000. First of all, in Ontario, 4.5% was still a much higher tax rate than the manufacturers' sales tax that GST replaced. Secondly, the $350,000 was never indexed. The view at the time was that house prices above that level were lavish, custom-made homes and that only rich Canadians would be impacted by this.

A lot has changed in 15 years. The average price of a new single-family home in Ottawa is $381,000; in Toronto it is $456,000; and in Hamilton it is $395,000. Your average buyer is not rich; they are mortgaging their houses to get in the market and are paying too much GST when they buy a home. We need this issue to be addressed, and my message to you is that we are working hard to get the federal government to see this. We would ask that the provincial government recognize that this is an issue which would impact the provincial housing market severely if harmonization were to occur.

Our industry worries about the broader economic climate that we operate in. The higher Canadian dollar has impacted Ontario manufacturers, and we are starting to see the fallout in the form of plant closures and job losses. If you don't have a job or are worried about losing it, you will not be thinking about buying a new home. We won't presume to speak for this sector of our economy but would urge that the province listen carefully to the manufacturers when they are calling for change. There's no doubt they have to adapt, but the province must do what it can to facilitate this change.

To manage population growth and to enhance economic competitiveness and quality of life, the province must once again make significant investments to enhance both public transit systems and road capacity across Ontario. The recent bridge collapse in Quebec highlights the urgent need to be proactive and to upgrade and repair existing infrastructure across the province. OHBA was very supportive of last year's budget and, in particular, the Move Ontario investments in transportation infrastructure. However, these kinds of significant investments must occur each and every year to make up for the lost decades under previous governments of all political stripes.

I would be remiss to not mention user-pay infrastructure. We can debate the merits of the 407 toll road deal, but I can tell you that vast swaths of the GTA would be choking on traffic if that highway had not been built. We need more of this type of infrastructure if the alternative is no infrastructure at all.

OHBA does not support legislated mandatory WSIB coverage for independent operators, sole proprietors, partners in a partnership and executive officers carrying on business in a corporation. Legislated mandatory WSIB coverage will not serve to promote health and safety in the construction industry and will increase underground economic activity in the residential construction sector. Our members see this as a new cost of business, particularly small builders, with no benefit to them. In fact, 93% of small businesses in Ontario oppose this initiative, according to a survey of stakeholders conducted by the Ministry of Labour. OHBA recommends maintaining the current legislative framework for independent operators and executive officers.

We are having trouble with illegal building in Ontario. In this province, any new residential building must be done by builders registered with the Tarion Warranty Corp. Through various means, there are approximately 8,000 housing starts each year in Ontario that fall outside the purview of Tarion. Accompanying some of these starts are unreported taxable income, unremitted GST and PST, unpaid WSIB premiums and unsafe building practices. We've approached the Minister of Municipal Affairs and Housing to suggest that a task force or workgroup be set up to study this problem and propose solutions. We were pleased by the positive response we received and hope to have this task force or workgroup up and running in the new year.

Excessive regulation and overtaxation on the home building industry has pushed the price of new homes higher and higher, which in turn has put home ownership out of the reach of many families. Studies have found that the total taxes, fees and charges paid by a homeowner are up to 30% of the cost of a new home. Development charges represent a substantial portion of these fees. Therefore, OHBA recommends that province not allow new items such as hospitals or increases in GO Transit levies to be included in potential changes to the Development Charges Act.

OHBA seeks to ensure that new homebuyers pay only for their fair share of growth. To this end, we are recommending that the province consider the implementation of a third-party, independent peer review process for development charges background studies, as well as an independent audit process to ensure that development charges are spent properly.

Lastly, OHBA is generally supportive of reductions in the level of personal income taxes, which are far too high in Ontario. High tax rates encourage the underground economy, which impacts legitimate builders and renovators and creates general economic distortions. Let's not drive well-to-do Ontarians into lower-taxed areas such as Alberta; let's keep them here where we can all benefit from their spending and philanthropy.

Let me conclude by stating that our industry is strong today; however, the slowing economy and a number of government policies and regulations have had detrimental impacts on housing choice and housing affordability. As the engine that drives the provincial economy, the residential construction industry pours billions of dollars into provincial coffers. It is in the best interests of all Ontarians that the provincial government work with us to ensure that the new housing and renovation industries continue to thrive and continue to support significant reinvestment in the programs that Ontario citizens deem to be most important to them.

Mr. Chairman, members of the committee, to summarize: The housing market will experience another decline next year; housing affordability is a continuing concern; and we need the upcoming budget to invest significantly in transportation infrastructure.

I'd like to thank you for your attention and interest in my presentation, and I look forward to hearing any comments or questions that you may have.

The Chair: Thank you very much. This round of questioning will go to the government. Mr. Arthurs.

Mr. Arthurs: I have just one question. It may take a couple of minutes. I believe Mr. Racco also would like the opportunity to take a couple of minutes of our five.

You finished off your comments with encouraging investment in transportation. My specific question was going to be, and you've covered part of it: In this budget and/or in the next planning cycle of three or four years, as the government continues to invest either directly or through its partners, primarily the municipalities, where would you focus the infrastructure investment? You've mentioned transportation. Is it roads, public transit, water/sewer? Do you have a preference on how we would try to articulate that, particularly with our municipal partners, if we flow the money through that kind of strategy?

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Mr. Johnston: I would focus personally on the issue of transportation, which includes public transit. I live in the city of Toronto so I have a great deal of awareness of the issue of public transit, and we do business in Ottawa. I see the differences and the similarities in terms of public transit as well as the highways. Let's face it: The roads are choked at many times during the day.

I'm almost not worried so much about the average citizen with regard to highways; I'm also concerned about transporting goods up and down the major highways throughout the province for manufacturers or suppliers within a city core. So I see infrastructure in the form of roads as being very important. I think transit is a critical component of that, though, because you get cars off the roads and allow perhaps less vehicle traffic and perhaps reduce the need for wide highways or more highways.

I also believe that in terms of transit infrastructure, the idea of buses is not really a logical choice when it is not connected to something like a dedicated busway, which you see in Ottawa, which I think is an absolutely fantastic system. For some reason, Ottawa doesn't like it anymore. I don't know why they want a rail system. But I always admired that system because it was a system that was off-the-shelf transit utilization. You can buy buses and put them on a busway and you don't have to worry about traffic and, to a lesser extent, you don't have to worry about lights. For the average resident or somebody who lives in our neighbourhood, to take a bus and sit in traffic—a lot of people just make the decision, "Well, I think I'll take my car and sit in traffic." It's almost self-defeating.

I know there's a bit of negativity towards transportation infrastructure in the form of roads, but I think we have to address that and we also have to address the issue of transit. I really think that the city of Toronto is probably on the right track with their dedicated streetcar idea but, let's face it, there are a lot of people who don't like that idea.

Mr. Arthurs: Thank you. Is there time remaining, Chair?

The Chair: We have about two minutes left. Mr. Racco.

Mr. Mario G. Racco (Thornhill): On the same topic, public transportation: You seem to feel so strongly about it. What have you done with the feds? That's where most of the problem seems to be. They're not participating with funding.

Mr. Johnston: We are a provincial organization. That's a federal responsibility which would be left to our federal parent. We have actually contacted the Minister of Finance, Jim Flaherty, who is from Whitby, and we've told him that it's a major issue from Ontario's perspective. We met with the Minister of Finance and he said, "You guys should be helping us out on this issue," and we said, "Of course, we'll help you out with that issue." So we've contacted him and we've told him how we feel, but he's got the purse strings.

Mr. Racco: I have another question. You made a reference that the number of units in housing is going down. Is that because of cost, or is it because there was pressure in the past to supply housing because there was a shortage, and now the market is stabilizing and it's responding to new needs?

Mr. Johnston: There are two reasons, really. One of the reasons is that low-rise housing has gone up to a point where I think there's an affordability issue. You can see the shift to high-rise condominiums. That's been happening, and that's a reaction to affordability. So you're getting more and more buyers purchasing high-rise condominiums because it's just cheaper.

The second reason is in terms of the land available outside of the GTA or, actually, the city of Toronto. There's less and less available to be built upon. It's just becoming a problem in terms of the planning process. Even when you get into areas like Kitchener-Waterloo, there is less supply; you go up to Ottawa, there's less supply. It's become, I would argue, a bit of a problem. To some extent I would agree with your comment: There was some pent-up demand which was addressed. I would say those are the three major factors.

Mr. Racco: Thank you.

The Chair: Thank you for your presentation this morning.

REGISTERED NURSES ASSOCIATION
OF ONTARIO

The Chair: I'd call on the Registered Nurses Association of Ontario to come forward, please. Good morning. There's a possibility that there will be a vote during your presentation, so what we would do at that time is recess and come back right after that vote and continue on.

Ms. Doris Grinspun: Is that vote to accept our recommendations? Just in case.

The Chair: You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I'd ask you to identify yourself for the purposes of our recording Hansard.

Ms. Grinspun: Good morning. Thank you for the opportunity to address the committee. My name is Doris Grinspun and I am the executive director of the Registered Nurses Association of Ontario. With me is Sheila Block, who is our director for health and nursing policy. My remarks to you today are focused on improving the health and well-being of Ontarians, as well as caring for them when ill.

Ontario citizens seek to live in a society that values fairness and justice. We want a province where progress is made without leaving anyone behind. This is what brought many of us here to a province where people from all walks of life can share the same hopes and opportunities. Improving the health and well-being of citizens is not only a moral imperative but an economic one as well, measured by increases in productivity and decreases in physical, mental and social ills.

We urge Premier McGuinty and Minister Sorbara not to succumb to those who are urging this government to deliver tax cuts. We ask that they heed the path they began in 2003 and continue to govern for all Ontarians. As a government, you cannot improve the health and well-being of our citizens or our health care system without adequate fiscal capacity. Therefore, we are calling for a commitment to maintaining this capacity by ensuring that there are no tax cuts in the next budget.

The link between poverty and poor health is conclusive: Those who have few resources and are socially excluded are at the highest risk for sickness and early death. Health disparities related to poverty and social exclusion in Canada can be illustrated with a few examples. Life expectancy at birth, on average, is five to 10 years less for First Nations and Inuit peoples than Canadians as a whole. Infant mortality rates in Canada's poorest neighbourhoods—and that includes many around this area—in 1996 were 66% higher than that of the richest neighbourhoods. Poverty, inequality and social exclusion can and should be reduced by government policy; in fact, it must—at least with this government.

We acknowledge and support the government's increases in social assistance rates and minimum wages, the first in 10 years in Ontario. However, despite these increases, Ontario's social assistance rates remain so low that all recipients are at risk of compromised nutrition and ill health. The last five years in Ontario have recorded the lowest inflation-adjusted levels of welfare income since 1986. We are certain that this government, a government that has said over and over that it wants to close the gap between the rich and the poor, does not want its legacy to be the further deterioration of the lives of its most vulnerable citizens.

Our recommendation for increasing social assistance is more modest than trying to bring recipients up to the poverty line. We are targeting Social Development Canada's market basket measure. This will allow people living on social assistance to meet their essential needs and live with basic dignity, and will cost the government $1.85 billion per year. We understand that this is a substantial increase in budgetary expenditures. This will, however, increase total government expenses in 2006-07 by only 2%. We believe we can afford this if we want to have a just and fair society, as we say we do.

We also call upon government to meet its commitment from the 2003 election campaign and end the clawback of the national child benefit from families receiving social assistance. These families should not be punished. Benefits for children should not be determined by where their parents get their income. This benefit is available today to families who are in the paid labour force, but is clawed back from families who are receiving social assistance. We say to you, and through you to Minister Sorbara and Premier McGuinty: This is not the action that a government that speaks about a just and fair society, which we support, should be taking. This government promised a good start for all children, and we expect it to keep that promise.

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The National Anti-Poverty Organization, which we, as nurses, support in full force, estimates that a living wage of at least $10 per hour is needed to escape poverty. Let me tell you, that's less than $20,000 a year, certainly not a rich salary or a rich income. We are asking the government to increase the minimum wage, and we have asked this repeatedly, to this level.

We also want to talk about other forms of prevention and about quality of care, but let me tell you, as nurses, we know, as we just said a minute ago, that what would really make a difference is nursing. We want to continue to work with this government to implement policies that will enhance illness prevention. We are also looking for an increased emphasis on managing chronic illness in a way that allows people to live as vibrant members of our society and reduces the demands on the health care system, especially hospital care. As we aim to reduce demands on our hospitals, we also need to maintain and improve, in fact, their quality. This will ensure that Ontarians who are very ill receive the very best quality of care, and that will save us dollars.

Of particular importance to the government's health reform agenda, to the health of Ontarians and to this association is the government's commitments to nursing. Let me remind you:

—hiring 8,000 new nurses;

—increasing the share of registered nurses working full-time to 70%;

—creating a positive, rewarding work environment for nurses;

—increasing the number of nursing school spaces; and

—funding more positions for nurse practitioners.

Yes, we acknowledge that the McGuinty government has made solid progress on these commitments. The number of RNs working in Ontario increased by 3,480 between 2004 and 2005. While data to be released shortly will confirm this, we believe that 2006 will show additional positive results. More importantly, Ontario has moved from being the second worst in the nation in its share of full-time employment to being the fourth best, and we congratulate us and our government for that, and employers as well. Full-time employment is a critical element to providing continuity of nursing care and to retaining our nursing resources, especially our new grads. Let me tell you, our new grads will not go to Alberta because of lower taxes. They will stay here because Alberta has 38% full-time and we have 60%. So let me assure you not to be concerned about tax cuts.

I know that Minister Smitherman agrees with me that there is much more that we must and will do. To achieve our common goal of having 70% of registered nurses working full-time and be a step closer to resolving the nursing shortage, we must urgently implement two complementary policies.

The first is a guarantee of permanent—and I say "permanent"—full-time work to all new nursing graduates who wish to work full-time, applied to all sectors, not only the hospital sector, and all regions of the province. This will ensure that we do not lose the investment we make in their nursing education, either to other provinces or to other countries. Permanent, full-time work for new graduates is an important part of their integration into the profession and into the workplace. This will cost the government $90 million per year. However, if you think in the long term, it will pay for itself by retaining them in the province.

The second policy is what we call the 80/20: a commitment to make available to full-time registered nurses working in all sectors, who are age 55 and over, the opportunity to spend 80% of their time on direct patient care and the other 20% on mentoring new graduates and other professional development activities. This would cost the government $60 million per year, and we estimate that after two years it will start to pay for itself with retention and also reduction of overtime and sick time.

The Chair: You have about a minute left for your presentation.

Ms. Grinspun: Both of these measures will help meet the government's short-term commitments and the long-term objectives of addressing the looming nursing shortage as nurses retire.

Using the knowledge and skills of the nursing workforce more fully will increase access to preventive health care and meet the government's commitment to create rewarding work environments. Nurse-led clinics provide this type of access. They reduce the pressures on emergency rooms and allow the public to be well served. We ask the government to have five more nurse-led clinics in this province, starting with Sault Ste. Marie where we have five nurse practitioners who are underemployed or unemployed as we speak.

We congratulate Minister Smitherman for the first such clinic in this country, which is in Sudbury and the region. We ask that we move with five more. We also ask you to increase access to better work environments and quality nursing care and access to the public through the roles of nurse endoscopists, registered nurse first assists and nurse practitioner anaesthesia. We ask that we invest dollars for these on a permanent basis and not as pilot projects.

Thank you for this opportunity to discuss our priorities for the next budget. We believe that this government will continue to make progress toward meeting its commitment made during the election campaign to rebuild Ontario's public services, including nursing services. We look forward to concrete actions in this year's budget earmarked to these initiatives to improve the health of Ontarians and make improvements in the health care system by fulfilling your promises to the nursing profession. Thank you very much.

The Chair: Thank you. This round of questioning will go to the official opposition. Mr. Arnott.

Mr. Ted Arnott (Waterloo–Wellington): Thank you very much, Doris, for your presentation here today. On behalf of our party, I just want to extend our appreciation to the nursing profession in the province of Ontario for the extraordinary work that your members do.

I heard you on the radio this week talking about the report on the working conditions of Ontario's nurses. We don't have much time. You didn't mention it in your presentation. Would you like to summarize that briefly for the members of the committee?

Ms. Grinspun: Yes. The biggest challenge for nursing across this country—some provinces worse than us, some provinces better than us—is the issue of workloads, and the only way to resolve workloads or aggression to nurses is simply by increasing the number of nursing hours available to both the nursing profession and patients. That's why we are emphasizing so much the issue of not only more nursing positions but, equally important, full-time employment. About 74% of the nurses in this province we know want to work full-time. We are at 60%. That's a great improvement. We must earmark funding to increase that number. Students, new grads are the special challenge that we have.

The study by Andrea Baumann from McMaster University indicates that 79.3% of new grads wish to work full-time. It takes them up to two years to attain that employment status and, even then, only 50% get full-time. So we can't in one breath be saying we have a nursing shortage and, at the same time, not be opening the doors to full-time. The only thing we have seen working well so far is earmarking targeted funding in the issue of guaranteed permanent full-time employment for new grads.

Mr. Arnott: Thank you. Is there still time?

The Chair: Oh yes. Three minutes.

Mr. Arnott: Thank you very much. I appreciate that. You made reference to the fact that the Liberal government in the last election campaign promised to hire 8,000 new nurses and you indicated, up until 2005, which is the first two years of their government, approximately 3,500 nurses have been hired. We would appear not to be on track to achieve that goal over four years. You've indicated that there will be additional data for 2006 available shortly. If you assume that over four years we're going to hire 8,000 nurses, on average 2,000 a year, do you think there's any chance that we're going to achieve the commitment of the government over the four-year term of their mandate with less than a year to go?

Ms. Grinspun: We believe that we probably will achieve close to 6,500, if the numbers were current, because the numbers are always lagging a year behind. If we achieve 6,500—and I don't want to let anybody on this side of the table off the hook—along with that, we will see a continuing progress to full time and, equally important, guaranteed full-time permanent employment to new grads. We will be satisfied with the progress and we will expect that that progress will continue in any of your platforms for the next election.

Mr. Arnott: What could have been done that wasn't done over the last three years to allow us to achieve that goal of 8,000 new nurses?

Ms. Grinspun: Actually it's an easy answer. In the first year of government, there was earmarked funding, if you remember, on three occasions: one occasion, $50 million for hospitals with $100 million or less; one for hospitals with $100 million or more; and then for new grads. That funding that was earmarked, along with the hospital agreements, produced clear results, clear outcomes. Hence, in our presentation we say again: Any funding that you put toward the strategies, including the full-time employment guarantee for new grads or the 80/20 for senior nurses so we retain them—we'll not just gain but retain those, and that will be good for the numbers and for patients, more importantly—needs to be earmarked.

It's very clear to us that the previous government did put significant amounts of money, and we acknowledge that, but the money was not with strings attached and many times was misused or used in whatever else. We're asking that any funding be absolutely with strings attached for the initiatives that we are discussing, and we are confident that we will see the results.

Mr. Arnott: So the money must be specifically earmarked for—

Ms. Grinspun: Yes.

The Chair: Thank you for your submission this morning.

Ms. Grinspun: Thank you very much.

The Chair: The committee is now adjourned.

The committee adjourned at 1200.

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