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Lundi 21 janvier 2008

Standing committee on finance and economic affairs

Pre-budget consultations

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Chair: Pat Hoy
Clerk: William Short

Président : Pat Hoy
Greffier : William Short

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Monday 21 January 2008

Lundi 21 janvier 2008

The committee met at 0901 in room 151.

SUBCOMMITTEE REPORT

The Chair (Mr. Pat Hoy): The standing committee on finance and economic affairs will now come to order. Good morning, everyone. We're pleased to start off our hearings in Toronto in this new year.

First of all, we would need to have the subcommittee report put on the record. Mr. Arthurs.

Mr. Wayne Arthurs: Your subcommittee met on Thursday, December 13, 2007, and Wednesday, January 9, 2008, to consider the method of proceeding on pre-budget consultations 2008, and recommends the following:

(1) That the committee request authorization from the House leaders to meet from January 21 to 24, January 28 to 31 and March 3, 2008.

(2) That the committee hold pre-budget consultations in Toronto, Sault Ste. Marie, Thunder Bay and Timmins during the week of January 21, 2008.

(3) That the committee hold pre-budget consultations in Toronto, Kingston, Guelph and London during the week of January 28, 2008.

(4) That the committee clerk, in consultation with the Chair, post information regarding pre-budget consultations on the Ontario parliamentary channel and the committee's website.

(5) That the committee clerk, in consultation with the Chair, place an advertisement, no later than the week of January 7, 2008, in a major newspaper of each of the cities in which the committee intends to meet, and that the advertisements be placed in both English and French papers where possible.

(6) That each party provide the committee clerk with the name of one expert witness and one alternate no later than January 2, 2008.

(7) That expert witnesses be offered 15 minutes for their presentation and 5 minutes to answer questions from committee members.

(8) That expert witnesses be scheduled to appear before the committee in Toronto on Monday, January 21, 2008.

(9) That interested people who wish to be considered to make an oral presentation contact the committee clerk by 5 p.m. on Friday, January 11, 2008.

(10) That the committee clerk distribute to each of the three parties a list of all the potential witnesses who have requested to appear before the committee by 6 p.m. on Friday, January 11, 2008.

(11) That, if necessary, the members of the subcommittee prioritize the list of requests to appear and return it to the committee clerk by 5 p.m. on Monday, January 14, 2008.

(12) That, if all requests to appear can be scheduled in any location, the committee clerk can proceed to schedule all witnesses and no prioritized list will be required for that location.

(13) That the minimum number of requests to appear to warrant travel to a location be eight.

(14) That all witnesses be offered 10 minutes for their presentation, and that witnesses be scheduled in 15-minute intervals to allow for questions from committee members if necessary.

(15) That the deadline for written submissions be 5 p.m. on Thursday, January 31, 2008.

(16) That, in order to ensure that all scheduled presenters are treated with respect and dealt with without delay during the committee's public hearings on pre-budget consultations, the committee adopt the following procedures:

—That notice be provided of any proposed motion that would refer to issues that would normally be included in the committee's report-writing stage;

—That notice of a proposed motion be tabled with the committee clerk in writing;

—That the committee postpone consideration of the proposed motion until the committee commences its report writing; and

—that adoption of the above notice procedure would not limit in any way the right of committee members to move any proposed motion during the committee's report writing stage.

(17) That the research officer provide a summary of the presentations by Tuesday, February 12, 2008.

(18) That the research officer provide a draft report to the committee members by Tuesday, February 26, 2008.

(19) That, in order to facilitate the committee's work during report writing, proposed recommendations should be filed with the clerk of the committee by 12 noon on Friday, February 29, 2008.

(20) That the committee meet for the purpose of report writing on Monday, March 3, 2008.

(21) That the committee authorize one staff person from each recognized party to travel with the committee, space permitting, for the purpose of pre-budget consultations, and that reasonable expenses incurred for travel, accommodation and meals be paid for by the committee upon receipt of a properly filed expense claim.

(22) 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.

Mr. Chairman, that is your subcommittee report.

The Chair (Mr. Pat Hoy): Thank you. Any comment? Hearing none, are we agreed? Agreed.

PRE-BUDGET CONSULTATIONS

WARREN JESTIN

The Chair (Mr. Pat Hoy): Now we'll move to the order of business this morning. For committee members, each presenter of the next three invited persons has 15 minutes for their presentation. I'll let them go individually, and then I'll call all three up and we'll go in rotation through each party, five minutes each, and you can ask whomever you wish a question.

We'll begin this morning with Warren Jestin. You have those 15 minutes for your presentation and there may be five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard, and then you can begin.

Mr. Warren Jestin: Good morning. My name is Warren Jestin. I am chief economist with Scotiabank and I've brought along with me an Economic Directions report specifically related to Ontario that has been jointly prepared by myself and Mary Webb, who focuses on issues pertaining to fiscal matters.

What I'd like to do is very quickly walk through a slide show that gives you an idea as to what is happening in the global economy and how it relates to Ontario's prospects over the next year to two years.

The first slide is simply looking at average growth rates for various countries. The most important take-home message of this particular slide, on the left-hand panel at least, is the deceleration in US growth that has been going on since the 1990s. The red bar is 1996 to 2001 growth; then the blue bar is 2002 to 2007; and finally, the yellow is 2008-09. This deceleration is something that most analysts in the US anticipate will continue. In fact, if you listen to some Federal Reserve experts on the potential for US growth, they're now talking 2% to 2.5%. This is very important for Ontario because, when you look back at the boom days of Ontario's economy, the US economy was growing at a much, much faster rate—3.5%, 4%, sometimes even well above 4%. So deceleration in the US is occurring. The big issue is what's happening now. We believe the US may well skirt recession in the first part of this year simply because of the size of the service sector. However, the economy there is going to be very, very weak. In fact, if the turmoil that we're seeing in financial markets continues, you may well see that the slow growth turns into no growth and perhaps even an economic decline, but we're optimistic that they will be able to avoid that.

We, however, are not optimistic at the pace of recovery of the US economy. The structural issues that the US economy faces suggest to us that slow growth will be the order of the day well through 2009 and perhaps beyond. This is a story that is very similar in Europe and in Japan. So the major industrial economies that Canada deals with are going into slow-growth or no-growth mode and they will stay there for the next couple of years.

On the right-hand panel, you will notice the emerging world, a lot of discussion on China and India and the like. I won't belabour this point except to say that while we would expect that a country like China will slow down, it will be from over 11% to over 10%; roughly 10.5% growth is our forecast for this year. Those economies will tend to stay on the fast track, China in particular, by gaining North American market share, gaining market share in Europe, participating in a very robust growth experience in Asia, which is a market that is one and a half times the size of NAFTA and is growing twice as fast, and they will also have gangbuster domestic growth—infrastructural investment; building a highway system in China that's bigger than the US highway system; building a New York City every year. That's the type of economic activity that is occurring in those economies and that will keep them on the fast track.

0910

From a Canadian perspective, this is showing up very clearly in recent trends. On the left-hand panel I'm simply showing the trend in Canadian exports since the beginning of the decade, strongest, as you would expect, in crude petroleum, natural gas until recently, with the US market having softened, and mining. At the same time, things that are particularly important to Ontario, motor vehicles, have not shown any growth, in fact a net decline, and the forest products sector has been very mixed, as you know, particularly with the impact in northern Ontario. We would expect the demand for structural products to remain very weak because the US housing market is in recession and has been so for some time. In fact, I do not think the US housing market has come close to its low point and will be in a very, very weak situation through the balance of this year and into next.

The right-hand panel is looking at Canada's principal market, the United States, and looking at market share of various countries in the US. It comes as no surprise that Canada for some time has been the number one supplier of exports into the US. We recently were passed by China. But what I've done in that diagram is take out energy exports and put another line in there, which is the line denoted "Canada X energy." You will notice that situation has been somewhat different. China has gained the number one advantage in non-energy exports for some time. Are these trends going to continue? I suspect so. Even in a slow-growth or no-growth environment in the US, the proclivity for US citizens or US consumers to look for bargain items, and the fact that China will be entering the North American market space in the auto sector in a much more significant way over the next few years, all suggest to me that that market will continue to go China's way and that they will gain market share. We will still have a very, very strong position in that market, but it will be a very, very competitive one.

Inflation is going nowhere fast, in our particular forecast. We believe that as the North American economy gears down, inflation will not gear up. There is inflation in some areas. You notice it when you go to the supermarkets. There has been inflation in agriculture because farmers are no longer producing food—they're producing food and biofuel—and there are very tight grain conditions globally. But if you look across the broad spectrum of prices, things like consumer electronics continue to go down. Flat panel TVs, for example, that might have cost $3,000 two years ago are now in the $1,500 range. There are a lot of things that are not going up in price. If we are correct and Asia is going to become a much more important factor in assembled vehicles in the North American market, that is certainly not inflationary. That will be bringing car prices down at the low end of the vehicle spectrum. So when we look forward, we don't think inflation is an issue either in Canada or the US. It is not an impediment to lower interest rates.

On the right-hand side you will notice the dichotomy that we see in prices—in the top panel gasoline, new home prices and most recently fuel. Those are the inflationary items. Then you look below—motor vehicles, clothing, consumer electronics are certainly going nowhere fast and actually having declined on balance.

So where are interest rates going in our forecast? We believe that the US will lower interest rates at least one full percentage point over the next two to three months. If we find that our forecast is too optimistic and the US actually does grind to a halt in terms of overall performance, the decline in US rates will be even larger. Effectively, what will happen is that the US Federal Reserve will keep cutting rates until the US economy shows signs of stabilizing and turning around. So one percentage point may be light in exactly what happens, but we believe that is a minimum that US rates will go down. In Canada, we have a lot of fiscal stimulus in this economy. I've travelled coast to coast in recent months and there's still an inherent buoyancy. You see it the GTA, you see it in southern Ontario in many areas, and because of that we don't think the Bank of Canada cuts nearly as much. However, given the global conditions, given what's happening in the US, I suspect that Canadian interest rates will come down a little bit, perhaps half a percentage point over the next couple of months. If the US situation deteriorates further, Canada may cut a little bit more but will lag the US both in timing and in terms of the overall decline since the shift from rising interest rates has occurred.

This brings up an important point: The US is out of sync in monetary policy with other central banks. One of the reasons we believe that the US dollar will be weak longer term is that, currently, there's a flight to safety going on; the US dollar is strengthening. I believe this is a temporary phenomenon.

For domestic reasons, I would believe the Canadian dollar goes up. We are a resource-rich country in a resource-short world. We're going to see a lot of investment in this economy. Our fiscal and trade surpluses are something that is rather unique amongst developed economies. For these reasons alone, I would expect, over time, the Canadian dollar to be gathering strength.

At the same time, the US has a massive trade deficit both in energy and with China, which, combined, total nearly $600 billion, and which are not going away any time soon. As the US finds it more difficult to borrow that money to finance its trade deficit, the US dollar will again return to a declining path. So for both of those reasons, we believe the Canadian dollar will tend towards parity—our average for this year is slightly above parity—although, as you will find as you meet economists in the next little while, there is a huge range in the variance. But even the ones that are forecasting a decline in the Canadian dollar have moved up significantly. Amongst the other major banks you'll find the forecast, at least among the majority, is in the 92- to 95-cent range on average this year; a year ago, that was in the 82- to 84-cent range. The trend is higher. This is very important for Ontario.

Ontario's performance is resilient. You feel a buoyant economy in some places, but we are simply lagging the rest of the regions in Canada and the rest of the provinces. We believe growth will remain best in the west, and that Ontario, and to a lesser extent Quebec, will tend to be lagging in terms of overall performance as manufacturing, in particular, adjusts to a very competitive environment.

On the right-hand side, however, you can see why we are able to maintain growth momentum. The construction industry, we suspect, will remain strong—not on the residential side in producing stronger and stronger performance, but in non-residential and infrastructure investment. The service sector has been strong, both in public services and in the private service sector, offsetting the declines in manufacturing. In fact, on a Canada-wide basis, the growth in construction jobs has almost equalled the decline in manufacturing jobs over the last year.

As we move on, I'll mention a couple of other things that are particularly important in the outlook. The demographic trends provide quite a challenge and quite a differential in performance across the country. Ontario, in particular, benefits from the demographic inflow. It provides inherent demand and stability to the overall economy. Other provinces are experiencing somewhat different performance, but you will notice that where people are going, at least from other provinces to the west, that trend will continue. We believe that BC and Alberta, because of their particular strength, will continue to gain population from other parts of the country and that Ontario will be, at best, flat, and probably on a negative trend with respect to interprovincial migration. Still, we will be getting very strong immigration flows from outside the country into Ontario for the foreseeable future.

This is simply a panel that shows economic performance across provinces. The left-hand panel shows unemployment rates, for example. If you drew a line down the Ontario-Manitoba border, things are better than average west of that line and at average or below to the east of that line. Almost every economic statistic is pointing in exactly the same direction.

How does that apply to retail sales or relate to retail sales? Well, a similar type of performance: The strength is in Saskatchewan, Alberta, Manitoba and BC in terms of overall growth in retail sales. As we look over the next couple of years, we believe that this pattern of economic indicators will continue, with Ontario challenged to perform at even a 2% growth level. We think it will be significantly less, toward 1.5% this year and next.

If we look at a comparison of the provinces and also the US, you can see, in the top left-hand panel in the red, that Canada is slowing—not as much as the US, which is in the blue, but again, the strength tends to be centred in Alberta and BC.

If you look at energy and its impact on non-residential construction, again, Canada leads. Ontario is actually doing better than the US, but where is the major strength? It is out west in Alberta and BC, largely related to infrastructure with respect to the resource sector.

Housing: This is a key difference between Canada and the US, and one of the reasons why we expect more resilience on this side of the border. We do not have the mess in the household sector that has led to the big declines in housing in the US. Our average households have more equity invested in their house as a percentage of the total value. Stronger job creation on this side of the border, fewer problems with things like subprime—all of these things suggest that the housing sector will be differentially stronger here. In fact, we are the mirror opposite of what's happening in the US. In the US, the strength is in the non-energy export side, and the weakness is in domestic demand. In Canada, the strength is in the domestic side because of fiscal stimulus, job creation and the flow of funds into the country from the energy sector. All of these things provide a better performance on this side of the border.

0920

Finally, on the fiscal front, I've had to put Alberta's numbers on a per capita basis on the left-hand panel to make them fit on the scale, but you can see where the surpluses are the biggest. The important thing is that Ontario is in a surplus position. That is a strategic long-term advantage that I think this country has over other countries because the surpluses allow us fiscal room to accomplish very needed things over the next few years. Currently, however, it's underpinning program spending and it is underpinning tax cuts. Again, this is an important differential between Canada and the US.

The Chair (Mr. Pat Hoy): You have about a minute left for your presentation.

Mr. Warren Jestin: Okay. In the minute that I have left, I'd like to say that there are a lot of things we could be doing at the provincial level to underpin domestic performance. What I would hope you would focus on are initiatives that improve our competitive advantage. The two areas I would say are physical infrastructure—the roads, the transportation system that we need to put in place to make us competitive globally—and also the educational system, improving the skills levels in our province. We will never be the lowest-taxed jurisdiction. We will never have the lowest labour costs in the world. However, we can have a world-class education and transportation infrastructure that effectively will help us compete in a very, very competitive global environment. Thank you.

The Chair (Mr. Pat Hoy): Thank you. And if you'd be so kind as to wait for the other two gentlemen to make their presentations, I'm sure there might be a question for you.

ROGER MARTIN

The Chair (Mr. Pat Hoy): Now I call on Roger Martin to come forward. You have 15 minutes for your presentation, and there will be questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard.

Mr. Roger Martin: Thank you very much, Mr. Chairman. My name is Roger Martin, and I am dean of the Rotman School of Management at the University of Toronto.

Ontarians worry about where the Ontario economy is heading and what Ontario will look like for our children in this rapidly globalizing world. Will our kids be competing for jobs with low-cost engineers in India? Will our kids have few options for working in an Ontario-owned company? Is it inevitable that we'll be overtaken in competitiveness and prosperity by China and India, and maybe even Russia and Brazil, the so-called BRICK countries? The compelling reason for the worry is the apparent hollowing out of Canada, wherein Canadian business icon after icon is disappearing into foreign hands, from Hiram Walker to Labatt to Dofasco to the Hudson's Bay Co. to Inco to ATI. It leaves Canadians, and particularly Ontarians in the industrial heart of this country, asking, "Is no Ontario company safe? Will they all be bought up and run as branch plants?"

To answer these questions, one has to dig deeper into the foreign acquisition of Ontario companies. I'll focus on the large companies that are most familiar to Ontarians, but analysis of the smaller companies shows exactly the same pattern.

When decomposed, it can be seen that the overwhelming majority of the foreign acquisitions are of two types: foreign takeover of a Canadian company that is not globally competitive, or foreign takeover of a Canadian company that is a legitimate global competitor, but that by the time of the foreign takeover had ceased to innovate and upgrade its competitiveness.

A company is in the first category if it did not rank in the top five in its industry worldwide at the time of the takeover by a foreign entity. Some were purely Canadian: Hudson's Bay Co., Shoppers Drug Mart, Trimark Financial and Yellow Pages, to name but a few. Many others were small players on the global scene who chose for whatever reason not to keep pace with the global leaders, or were incapable of doing so despite best efforts: Dofasco, Stelco, Labatt, Laidlaw, Newcourt Credit—again, to name but a few.

The second category, which is the globally competitive companies that cease to innovate and upgrade, takes a two-step process to identify. First, we have to ask what is the universe of foreign acquisitions of large-scale—and there I used over $1 billion in revenues—globally competitive, i.e. in the top five in their industry globally, Canadian-owned, Ontario-based companies? In the past 22 years, since 1985, only seven such companies have actually been acquired.

The second piece of that is, of those seven companies, how many had ceased to innovate and upgrade by the time they were acquired? I would argue that five of the seven are in that category: Falconbridge, Hiram Walker, Inco, Moore and AMCA. Nobody has accused Inco or Falconbridge of being innovators in their industry, and they didn't feel sufficiently motivated to collaborate in Sudbury in ways their new owners from Brazil and Switzerland are eager to start immediately. Hiram Walker had been harvesting its brands and engaging in unrelated diversification by the time it was acquired, and Moore was doing likewise. These companies make up the second category. So these two categories—non-globally-competing and non-innovating globally competing—make up the vast majority of all acquired Ontario large companies.

A third category is tiny and made up of only two Canadian-owned, Ontario-based, globally competitive companies that were actively innovating and upgrading and were nonetheless acquired by a foreign entity in the past 22 years. That's only two such companies, and of those two, only one is actually a clear example of the phenomenon. Masonite International was recapitalized by a private equity firm and left with its head office in Canada, not taken over by an industry player, so it's hard to argue that that's a clear case of hollowing out. In the last 22 years, only ATI, which was acquired by the bigger, broader player Advanced Micro Devices, was a globally competitive, innovating and upgrading Ontario company acquired by a foreign company that turned its Ontario operation into a branch office. Outside Ontario, there's only one other such Canadian case in the past 22 years, and that's Alcan, which was acquired by Rio Tinto.

So it feels terrible to Canadians when a brilliant new start-up like ATI, which had achieved number one status in its industry of graphic computer chips, gets swallowed up by a big logic-chip maker, or when a great Canadian company like Alcan that grew very aggressively, both organically and by acquisition, to be one of the top aluminum companies gets taken out by one of the world's two mining behemoths, but Canadians need to remember how Americans felt when Thomson bought Minneapolis-based West Publishing, the number one legal information services provider in the world, and how the British felt when Thomson announced the acquisition of Reuters, the number two financial information services provider in the world, and turned them into subsidiaries.

In a globalizing world, some companies that don't particularly deserve to be taken over, like ATI and Alcan, will be acquired. The real question for Canada and for Ontario is whether more will be taken over than will be built, and on that front, the news for Ontarians is overwhelmingly positive. Over that same 22-year period that those one or two Canadian-owned, Ontario-based, globally competitive, innovating and upgrading companies were purchased, 15 other globally competitive Ontario companies were grown, including RIM, Magnum, Manulife Financial, Thomson and Barrick Gold, to name but a few. The creation of new, globally competitive Ontario champions dwarfs their loss literally by an order of magnitude, and those 15 new global leaders built represent nearly half the Canadian number of 32, so this is where Ontario is so important, while in Canada, only two or three were acquired.

So the fundamental questions that worry Canadians and Ontarians have a clear answer. If Canada continues to grow globally competitive companies that get there and stay there by continuously innovating to upgrade their competitiveness, Canada will prosper and our children will have many great jobs to choose from in Canadian-owned companies. Thus, the imperative for Ontario prosperity and competitiveness in this modern, globalizing economy is to create an environment that nurtures the global aspirations of Ontario companies and supports them in continuously innovating to upgrade their competitiveness. From a defensive standpoint, that's the only way Ontario is going to have meaningful Canadian-owned companies. Companies that don't compete globally and upgrade continuously will get swallowed by foreign companies that do both. That's already absolutely clear, and, if anything, the trend will accelerate both in Canada and around the world.

From an offensive standpoint, globally competitive companies have higher productivity and greater productivity growth than non-competitive companies. They do more R&D. They can afford to invest in greater-scale operations. Ontario companies that achieve global scale, such as RIM, Thomson, Manulife Financial and Barrick, are major wealth creators for Ontario.

So what policy mix can Ontario pursue to nurture the global aspirations of Ontario companies and support them in continuously upgrading their competitiveness? Obviously, the policy mix can't do the job on its own. A big piece of the puzzle is in the performance of Ontario firms and their management teams. However, the policy mix can be more or less conducive to the goal, and it's time to aim the policy mix directly at nurturing and supporting global competitiveness.

0930

The three highest-priority areas within the Ontario environment for nurturing the global aspirations of Ontario companies and supporting them in continuously upgrading are as follows:

(1) Lowering the cost of investment. Investment is the lifeblood of upgrading. Companies invest to upgrade and improve the sophistication with which they compete, whether they invest in training their people, engaging in R&D, advertising their brand, acquiring machinery and equipment, or building production facilities. The only way to become globally competitive is to invest, invest, invest.

To encourage an investing culture, we need to improve the environment for investing, which in Ontario leaves something to be desired. In Ontario, we still have one of the highest marginal tax burdens on business investment in the world. This is simply unacceptable in an environment in which building globally competitive companies is paramount. Our tax policy needs to drive down marginal rates on business investment to among the lowest in the developed world from one of the highest. One effective and targeted way to do so is to move to cash accounting for corporate income tax purposes. There is no reason why in a pro-investment environment we should ask companies to pay for investments today and only receive a tax break on that investment as they depreciate, sometimes over a long period of time.

Second, the key motivator for making investments is to reap capital gains from those investments. In the current environment, those gains are eaten away by inflation, especially those gains that take a long while to materialize, which often happens for globally competitive companies. Why? Because the size of the gain is calculated as the difference between the realization in inflated dollars and the investment in nominal dollars, making the gain much bigger for tax purposes than it really is. To encourage a culture of investment, we should index capital gains for inflation so that inflation doesn't eat away at the net gain on investments. Now, I'll be a bit of a romantic here, but doing so would hearken back to a time when, on the basis of Canadian scholarship, Canada adopted a uniquely successful tax policy based on indexing for inflation. This was in 1971, when, on the basis of the advice of Kingston-born-and-raised future Nobel laureate Robert Mundell, Canada broke with convention in the US and elsewhere by indexing tax brackets so that Canadians in the progressive income tax system wouldn't pay higher taxes simply by having their earnings inflate them into higher tax brackets. Canada benefited enormously from this policy in the 1970s relative to the US. The US finally realized the importance of the policy innovation and indexed tax brackets in 1981. We cleverly de-indexed them in 1984. These policy changes would be aimed at providing much higher encouragement to companies to invest aggressively to upgrade their competitiveness.

(2) We've got to define and support innovation broadly. Innovation is critical to upgrading competitiveness, innovation and policy, and Ontario cannot characterize innovation so narrowly as it does. Whether or not there is a truly conscious consideration of the issue, innovation policy in Ontario construes innovation to be something that happens in a narrow range of industries—computer hardware and software, communications hardware and software, aerospace vehicles and engines, pharmaceuticals and biotechnology, and medical devices—and that innovation is all about scientists working on technology. That is where the vast majority of the funding of all sorts goes to in innovation in Ontario and in Canada.

Sadly, those sectors that I mentioned, the high-tech sectors broadly speaking, represent less than 2% of the jobs in Ontario and only a slightly higher proportion of the wages or GDP contribution. Even though the general public and policy-makers think that the numbers are dramatically higher in the high-tech-oriented US, they are not; it is a myth. Those sectors also represent less than 2% of the jobs in the US. In fact, the total size of these sectors in Ontario is exactly, precisely the same, down to the second decimal point, relative to the economy in the US: both 1.96% of jobs, not 1.97% or 1.98%—1.96%. So the US is not more innovative than Canada because it has a bigger high-technology sector; it's simply false. It is more innovative because it values, supports and expects innovation across the other 98% of the economy as well as the high-technology sector, and we don't. In Canada, the innovations that made Masonite, Four Seasons, Couche-Tard, Gildan, Magna and McCain global leaders would not be counted as innovation. But America sees FedEx, Wal-Mart, Southwest Airlines and Starbucks as innovators. They are right and we are wrong. We see RIM as a successful global leader due to technology innovation. It is a technology innovator. However, as important as technology innovation is to RIM, equally important to its success was innovation in carrier relationship strategy.

Ontario needs to recognize that all sorts of business innovations are needed across all sectors of the economy to have a continuously upgrading economy and globally competitive companies. If we want more innovation that makes a differences to the economy, we need to broaden the support for innovation. Currently, we support exactly one type: scientific research. There is no evidence—none—to support the notion that this type of innovation is more valuable in the economy than, for example, business model innovation of the sort that McCain or Starbucks engaged in to create massive value.

We should broaden support for innovation projects designed to enhance global competitiveness. If governments in Canada can make a decision to provide funding for promising scientific research projects, why not for promising business innovation projects, which would have the benefit of encouraging Canadians to think that all innovation is created equal?

(3) Paying disproportionate attention to global competitors. The government of Ontario should pay disproportionate attention to Ontario's globally competitive companies. It's not as though it pays no attention to them, but it's not at all clear that it pays disproportionate attention to them, and it's more probable that it pays attention to the large Ontario-oriented companies that have most or all of their operations in Canada. Senior officials of the Ontario government should know personally the CEOs of the 35 $100-million-plus in revenue Ontario global leaders who are in the top five in their industry worldwide. It should understand what those companies are trying to accomplish globally and be seeking to assist them in any way that's feasible and practical for a government to do. Their needs and interests are simply much more important for Ontario's prosperity than the needs and interests of the non-globally competitive companies. While it can't, and shouldn't, simply hand them cash, which has little evidence of working elsewhere, it should be particularly attentive to their needs.

In addition, it should know the companies that have credible plans to make it to a position of top five in their industry globally, because those companies represent the future of Ontario. The companies that don't have such aspirations are simply not as important to Ontario's future. They will eventually all be owned by foreign companies if they don't aspire to be global leaders. In many ways, this is the least expensive initiative in terms of tax dollars or spending but the most time-consuming for senior government officials. However, in a globalizing economy, the time they take to get to know what it takes for Ontario companies to succeed globally will probably be the most valuable time for Ontario's future that they spend.

In conclusion, it's a global game. While its emergence and evolution is unsettling to virtually every jurisdiction on the planet, Ontario should not fear the global game or feel it can't play the game and play it well. It's already producing globally competitive companies that are innovating and upgrading their competitiveness at the highest level and producing them at a rate that far exceeds the rate at which Ontario companies are being bought by foreign entities. Ontario companies that don't aspire to become globally competitive or to continuously upgrade their positions when they achieve globally competitive status will get bought by foreign entities, and Ontarians will have to get used to that. Our prosperity will be determined by the degree to which our companies aspire to play in the global game and play it well.

The government of Ontario has an opportunity and a duty to help put our ship in order in the three ways discussed above and, in doing so, help our Ontario companies set sail on the global waters.

The Chair (Mr. Pat Hoy): Thank you. You had six seconds left, so you did very well.

Mr. Martin, I've had a request by one of the members that, if you could provide a copy of your presentation to the clerk, he'll ensure that everyone on the committee gets a copy thereafter.

Mr. Roger Martin: I will do that.

The Chair (Mr. Pat Hoy): Thank you very much.

HUGH MACKENZIE

The Chair (Mr. Pat Hoy): And now, Mr. Hugh Mackenzie. You've been sitting here, sir, and you would know that you have 15 minutes for your presentation. I would ask you to identify yourself for our recording Hansard.

Mr. Hugh Mackenzie: My name is Hugh Mackenzie. I'm a co-chair of the Ontario Alternative Budget Working Group. I'm also a research associate with the Canadian Centre for Policy Alternatives. For my sins, I'm also an economist.

You have a handout that provides a sort of update and an outline of what I'm going to say, but what I'm going to try to do is to focus on things that you as a committee might actually recommend that the government do.

This is a particularly challenging time for a Minister of Finance and a financial group in Ontario because it's important that the government keep its eye on a number of things at the same time. I'll just tick off several of them.

The government has a very ambitious agenda, at least as announced, towards the alleviation of poverty. I think it's important that the government keep its eye on that objective, and I'll come back to some of the reasons why in a few minutes.

Second, while we haven't slipped into recession yet, and there's a lot of debate about whether we will, certainly the economy isn't doing as well as it was a couple of years ago, and that's something that the government has to keep its eye on. In particular, it's important that the government do the things that it can do and not do things that make things worse.

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The third thing that the government has to keep a focus on is what it is doing to influence our economic direction in the intermediate and distant future. One of the most important things that the government has to focus on is to ensure that Ontario has the fiscal capacity to meet the challenges in providing public services that are implicit in some of the remarks that were made before me today. There is a broad consensus that we need to invest much more heavily in physical infrastructure. There's a broad consensus that we have to continue to invest, and invest more, in improving the quality of our education system. Those imperatives draw heavily on Ontario's physical capacity, and we need to worry about that. We need to continue the process of rebuilding public services in Ontario.

Something that has occupied a lot of air time in the last year or so but hasn't been mentioned so far this morning and that I think is actually pretty fundamental to Ontario's medium- and long-term economic prospects is to do something to repair—"repair" probably isn't the right way of putting it because it implies that it was once working—but to address the lingering problem of the dysfunctional provincial-municipal, provincial-local financial relationship. I would describe the provincial-municipal financial relationship in Ontario as odd, and I'll get into why in a couple of minutes. The provincial-municipal financial relationship underlies some of the problems that we're having in other areas. It certainly speaks to the issue of growing poverty and inequality because, frankly, too much of the responsibility for paying for the services that are required in those areas sits at the local government level. One bit of an eye-opener in thinking about public infrastructure is to recognize that local government is actually responsible for about 60% of the physical infrastructure in Canada, and yet local government has the narrowest fiscal base. Those numbers apply equally to Ontario, so it's important that we address as a priority getting that relationship straight.

The other thing that Ontario needs to think about and take into account as it's putting together its budgetary policies this year is what the federal government is or is not doing. I don't think I'm overstating it when I say that from the perspective of worrying about the right things in the Ontario economy and worrying about the right things when it comes to public services in Ontario, the federal government is a lost cause. The federal government appears to be completely uninterested in the level of government that is responsible for about 60% of the infrastructure in Canada, namely local government. The federal government keeps saying and doing things that, frankly, are astonishing. In a global context, given the acknowledged importance of urban areas in the economic development of major developed economies, to respond to the issues of lack of fiscal capacity for infrastructure and other services at the local level by saying that the federal government isn't in the business of fixing potholes just strikes me as such a bizarre and cavalier attitude towards what is really a pretty fundamental economic problem that it's almost beyond belief. So those are the kinds of things that I think Ontario needs to worry about.

Let me focus a little bit more specifically on some of the narrower issues.

With respect to Ontario's fiscal position, it's been noted that Ontario is in surplus. In fact, if you look behind the numbers as they're currently outlined, there's actually a much larger surplus in Ontario's books for this year than is immediately apparent on the surface. I've been involved in thinking about Ontario budget issues for—I hate to say it—over 30 years, and this is the first time in those 30 years that I've seen a government increase its reserves and contingency funds during the fiscal year, so that Ontario is now holding unallocated contingency reserves, as of the most recent numbers that we've got, which are the end of the second quarter—that it has higher reserves than it had at budget time. That serves to mask what is actually a pretty buoyant fiscal situation in the current year.

Before anybody gets too excited about that, though, I think it's important that we also recognize the huge gaps that exist on the public services side and some of the ominous signs about revenue that are reflected in the numbers in the economy of the United States. On the public services renewal side, even in the areas where the government has invested significant amounts of money—I'll point specifically to elementary and secondary education—there's still a huge gap between what's needed and what's being provided, and given the importance of education in the long-term future of the province, that's a particularly difficult problem. We can see the evidence of that in the stresses and strains that particularly afflict the large urban school boards in the province, but also school boards in northern Ontario, for example, which are really feeling squeezed as enrolment declines and they're struggling to keep up with the demands. Ontario is investing more in public infrastructure, but it needs to invest a lot more. That's going to be a huge draw on Ontario's fiscal capacity.

On the economic front, this is one of those areas where I think it's important that Ontario not do the wrong thing. If there is a recession in the United States, that is going to have a direct impact on government revenues in Ontario, and I think it's critical that the government resist the pressure to cut its spending, to cut its investments in public services in the teeth of a recession. One of the things that's really quite striking when you look at the numbers for employment growth and economic activity growth, particularly in Ontario but also across Canada, over the last couple of years, is the extremely important role that rebuilding public services, not just in this province but elsewhere in the country, has had in bolstering employment growth and broader economic growth. It would be unfortunate, to say the least, if, faced with relatively short-term deteriorations in the revenue base, Ontario decided to cut its way into a balance in an economic decline, thereby sacrificing really important goals in poverty alleviation and investment in education and infrastructure.

Specifically on the question of fiscal capacity, I'm not going to let Ontario off the hook, because we've had this curious phenomenon in the last year or so of Ontario, and particularly Ontario's Premier, joining in the chorus calling on the federal government to turn over a point of GST to local governments. When the federal government decides, "No, we're not going to do that"—and the federal government's position has been pretty consistent through several governments: "We're not going to collect taxes for provincial governments. If provincial governments want to do things, they have the sovereign ability to raise their own taxes."

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The reduction of the GST had the effect for Ontario of creating tax room, an opportunity for Ontario to rebuild its fiscal capacity. It struck me as kind of odd that on the one hand, Ontario is saying there is a need for increased investment in local public services in this province—that's why Ontario supported the call for the transfer of GST points to local governments—but when the room is opened up to enable Ontario to do that, Ontario just goes dead silent. We have a critical need for increased fiscal capacity to deal with these issues, and Ontario should be thinking creatively about the opportunities that exist in this province to rebuild fiscal room and create the fiscal capacity to be able to do those things.

Unfortunately, this next comment probably falls into the area of fantasy, because I don't think the federal government is a willing player, but one of the things that my colleagues prior to me mentioned in their remarks was the issue of the relationship between the tax system and investment. One of the areas where the tax system does act in a pretty counterproductive fashion as it relates to investment is the way the Ontario sales tax relates to investment activity. Because of the way the sales tax tends to cascade, we have different effective tax rates on investments that can end up being substantially higher than the nominal 8% rate. The fact that the federal government seems to be becoming increasingly disinterested in raising revenue through the sales tax suggests that there's an opportunity for big think between Ontario and the federal government in which the federal government basically serves to increase some fiscal capacity at the provincial level by transferring fiscal capacity out of the sales tax at the federal level to the provincial level to provide a buffer in which provinces, and particularly Ontario, could do something to reform the sales tax system, maybe not going to a fully harmonized system, as is the case in Atlantic Canada, but certainly moving towards something like the system in Quebec, which gets rid of some of that cascading effect of taxation on investment.

The Chair (Mr. Pat Hoy): You have about a minute left.

Mr. Hugh Mackenzie: I'm going to conclude with some comments about the provincial-local financial relationship, because again I think Ontario has kind of gotten away with something here in suggesting that the financial problems of local governments in Ontario can in fact be visited on the federal government.

I draw your attention to the chart that I put on page 6 of the document I distributed, which shows transfer payments from the federal government to the provincial government and from Ontario to local governments over a very long period of time, from 1961 to 2003. There's a really interesting pattern that emerges here, which is that whenever we see increases in transfer payments from the federal government to provincial governments, we have tended to see corresponding increases in provincial transfer payments to local governments. That pattern persisted right through until 1997.

Then in 1997, we saw federal government transfer payments start to recover as a share of GDP as the federal government balanced its books, but provincial transfer payments to local governments—the legends here unfortunately got reversed. Federal transfer payments to provincial governments increased; provincial transfers to local governments continued to go down as a share of GDP. That ties into what I'd describe as a uniquely dysfunctional relationship between provincial governments and local governments in Ontario. When you look at the national data, Ontario is responsible for a disproportionate share of provincial use of the property tax base for provincial purposes. It's responsible for a disproportionate share of local government funding of social services and a disproportionate share of local government funding of health. Ontario is unique in Canada in the mess it has managed to create in the provincial-local financial relationship. It's something that we really need to deal with because of the importance of urban economies in our economic future.

The Chair (Mr. Pat Hoy): If you'd just maintain your seat there, I would invite the other two gentlemen to come forward. We'll now move to questions. Each party will get five minutes. If you would state whom your question is for, it would be helpful. Mr. Hudak.

Mr. Tim Hudak: Thanks to all three gentlemen for the presentations. My colleagues have questions too, so I'll direct mine to Mr. Martin. I'll ask them all at once.

A big part of your premise was foreign ownership of formerly Canadian Ontario-based companies and the types that were taken over. You talked about Dofasco or even the leaders like Inco that were taken over because they didn't innovate. Is it actually consequential to business decisions that they're foreign-owned? I wasn't sure if that was part of your premise or not.

The second part is, you talked about investments into these companies; the government has them narrowly defined in the 2% segment of the business sector. Do you think that's the proper approach—the interest-free loans governments use and direct loans that the government has used—or is better to concentrate on the marginal tax you mentioned earlier?

Mr. Roger Martin: On the first question, actually that's stuff that we're doing research on right now: to try to figure out what difference it makes for Canada whether a company is Canadian-owned or foreign-owned. So the answer to that is that we don't really know. What we do know is that when a Canadian company like RIM or Thomson globalizes and creates a huge global success, Canadian shareholders disproportionately reap the wealth benefits of that and lots of that ends up being very good for the economy. We will know much more in six to nine months about what the effects are of whether you're foreign-owned or not: the effects on employment, the effects on charitable giving, the effects on a whole bunch of other things. My bet is what we're going to find is that it varies depending on who the foreign owner is and what the Canadian operation does: Does it just import foreign stuff or does it have a global product or service mandate operating out of Canada?

On what Canadian governments, including the Ontario government, need to do on investment, I think it's sort of both. I think we've got to get the marginal tax rates on business investment down. There is no good reason in the marginal economy to try to get tax revenues that way. That doesn't mean I think all taxes need to come down, but that's a silly way to tax. I think the Ontario ministry of innovation that has been created really has to look at innovation more broadly. If we aim the power, strength and authority of the Ontario ministry of innovation at 2% of the economy, we're just being silly. We wouldn't be alone. There's lots of silliness in innovation policy around the world. It's one of the silliest policy areas in the world, where's there's silliness, silliness and more silliness. I'd rather we have the non-silly policy on that front.

Mr. Toby Barrett: I wish to thank all three presenters.

I have a quick question for Mr. Jestin on your Scotiabank briefing. Obviously the soaring loonie has hurt our exports, and I'm assuming we're in a bad position as far as imports. You state that nearly half the employment growth in the past year has been in the public sector, and you talk about how public-private sector services are three quarters of the provincial economy. Given what's going on in the States, if we did go into a recession on this side of the border, do you feel it's advisable for this government to continue to foster public sector spending? I think of that phrase—I'm just speculating. If there was a recession in the next several years, is it possible for this government to continue to tax and spend and theoretically spend its way out of a recession, if that were to happen?

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Mr. Warren Jestin: As Roger has just indicated, on the tax side, making it the most efficient and effective should be job one. Over the next year or so, given that the corporate tax revenue base is going to get squeezed with what's happening because of the loonie and with the slowdown in activity, there's not going to be a whole lot of money to make huge new decisions. In fact, I think that the extra reserve is probably going to show up to be extraordinarily prudent on a go-forward basis because we are dealing with a much tougher economy.

On the spending side, it depends on what you spend the money on. To the extent that we're including the overall infrastructure in this economy, whether—I mentioned transportation, but it could be the electricity grid. We could go down the list; it could be in joint partnership with the private sector so we get more leverage in that—everything being aimed at competitiveness, then I think the government is doing its job. If it's focused on something else and it's simply focused on helping spending on the consumer side, we don't need that. In fact, I don't think we need anything to induce more consumer spending, because consumer spending is not the problem in the economy.

The Chair (Mr. Pat Hoy): Thank you. Now we'll move to the NDP and Mr. Prue.

Mr. Michael Prue: A couple of questions. First of all, let's start with Mr. Martin. I listened to what you had to say, but I also had an opportunity to very quickly look through the handout. You are calling for no new taxes or levies, a way to find to reduce taxes on individuals and companies, the elimination of the Ontario capital tax, and on and on.

Mr. Roger Martin: What's that from?

Mr. Michael Prue: Isn't this yours, the—

Mr. Roger Martin: No. I think that's somebody else's. I didn't have a handout.

Mr. Michael Prue: They handed this out, and I thought it was yours. All right.

Do you believe, then, that tax reduction is necessary? Maybe I could just ask that.

Mr. Roger Martin: For me, the issue of taxation is not an issue of level. If you look at the overall level of our tax take as a percentage of GDP, it isn't out of line at all. In fact, it's below the average of the industrialized countries. It's just the structure of it. We have an unfortunate structure of our tax system, which has just been made more unfortunate with the two-point drop in the GST. If we're talking about silliness this morning, that's big-time silly. So no.

I think it needs to be rearranged to be more purposeful. Our tax system is kind of random and ill advised in many respects. I wish the dialogue would get away from, "Should we increase or decrease taxes?" because that makes it a more divisive issue than, "How can we make it be smarter—better for all Canadians, better for the growth of the economy and less silly?"

Mr. Michael Prue: I can see the other two economists shaking their heads. Do you agree that we need to continue collecting the same amount of taxes? Should there be reductions? Should we be collecting more?

Mr. Warren Jestin: I think you're going to find over the next few years that the government doesn't have the problem of having too much money to spend because of the challenges that we face. I agree wholeheartedly: I think it's the issue of how we tax, and making it efficient and effective. That's where we can make huge gains in our competitive structure in this economy: if we make our tax system effective.

Mr. Michael Prue: And Hugh?

Mr. Hugh Mackenzie: At the risk of creating a rare note of agreement, I guess both Roger and I must have been watching Monty Python on the weekend, because I think that, from an economic perspective, for the federal government to be cutting the GST at a time when we've got significant problems of underinvestment in public services in a whole wide range of areas is silly.

One of the things that I think is important to note is that when we talk about rates of taxation on investment, everybody naturally gravitates towards the marginal tax rate on profits. In fact, probably the biggest single contributor to the differential between effective tax rates, as they've been measured by folks at Rotman who studied this, and tax rates elsewhere in the world is found through the sales tax structure, not through the marginal rates on corporate income. Unfortunately, I think we've missed the opportunity. With the federal government's revenue base having recovered so spectacularly in the last 10 years, we had the opportunity to use the GST component of that revenue gain as a kind of lubricant for broader change in the way that sales taxation works in the country, and I think we've blown it. The general political pressure against recovering tax room means, I think, that we may have missed the opportunity to make a big difference.

I don't want to let Roger's comment about cash flow taxation go past either. I actually think that would make sense. The difficulty with cash flow taxation is the transition from what we've got now to a totally different system and also thinking about how it relates to taxation systems of other countries, which we can't ignore, because it's very difficult, in an economy as open as ours and with capital flowing around as easily as it does, to have a tax system that's dramatically different from others.

The Chair (Mr. Pat Hoy): Thank you. Now we'll move to the government.

Mr. Wayne Arthurs: Gentlemen, thank you for being here. This is my third opportunity to be at this committee in the past four or five years, and I must say that each time, I'm humbled and in some awe of what your experience, either individually or collectively, brings to this table. Hugh mentioned 30 years, and I'm sitting here going, "30 years? Some days, three seem like a long time." But there's such a wealth of information. There are a couple things I want to comment on and then ask what will be the only question, I think, this morning.

The degree of consensus seems to be around issues such as infrastructure, education, innovation—to be innovative, to retain and enhance our competitive situation on a global basis, on a go-forward basis. The investments we've committed to post-secondary education in support of that—I don't think there's probably much disagreement that we're on the right track in that regard. So I'm encouraged by what I'm hearing almost as a degree of consensus around some key issues. I hope that we can continue to do what we're doing and build on some of your comments to position Ontario as well as we can.

My question, though, this morning is around the dollar. There'll be those who would say that if the Ontario dollar is high, it's going to be a disadvantage to us, and that if it's too low, there's no real need for productivity. What's your view on the dollar in the context of—is it an opportunity for us to drive an agenda for enhanced productivity? Will business respond, will the public, the workers, respond to a higher dollar in finding a way to be more productive to enhance our competitive position or at the very least retain our position? You probably have about a minute each because I've taken some of your time away from you.

Mr. Warren Jestin: I think the important point is that we are not price setters on the currency, we're price takers. The currency is going to drive the necessity—it's actually made it more immediate—to make the adjustments. But taking the currency away, those adjustments would have had to be made, because the world out there is getting hugely competitive, even if our currency hadn't caused the sudden squeeze on earnings and the like. So in a way, it's part and parcel of the need for the things that we've been talking about to improve innovation and competitiveness in the economy.

Is it going to go away? When I travel across this province and across the country, the first thing I say is, "If you're in the export business, you may luck out and the currency goes down for a bit, but do not bet on it. Absolutely do not bet on this. Get ready for a currency around parity and see what you can do to thrive in this particular marketplace."

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Mr. Wayne Arthurs: Is it good or bad for us?

Mr. Warren Jestin: It's both good and bad, depending on your position in the economy. It is probably a cold shower that Canada has needed, in a way, to move along a much more competitive line.

Mr. Hugh Mackenzie: My quick answer would be that in the long term, it probably doesn't matter. In the short term, nobody in their right mind would argue that a 15% or 20% change in one year is healthy. That's not a cold shower, that's an ice bath, which leads me to say that nobody in their right mind would describe driving up the value of the Canadian currency as a productivity-enhancing move. It's what happened.

One of the things that I think may be unfortunate—maybe we should change the name of the currency to something else. We in Canada—and I guess to a certain extent the Australians, because they have the same problem—because our currency has the same name as the American currency, tend to get completely preoccupied with how our currency relates to other currencies. People in other countries whose currencies have different names aren't as preoccupied with it as we are. As I said, in the long term currency really doesn't matter, because in the long term the economy adjusts to these things. The problem is, when you get swings of 15% and 20% in a year or year and a half, there is no possible way to respond productively to that.

Mr. Wayne Arthurs: Do I have time to hear from Mr. Martin?

Mr. Roger Martin: I guess I would concur with the last piece of that. I think it's both good—the level is good. I'd like a dollar that starts with something in the 90s, so I don't mind the level, but this was an unprecedentedly fast appreciation. In fact, it is three times higher than the highest previous appreciation. The highest previous appreciation was around 21%, between 1985 and 1991. This was 60% between 2001 and 2007. That's so fast that you can't adjust your productivity at that pace. What I was hoping was that it would go from the low 60s to something in the 80s and then a few years later something in the 90s, and it all went very, very fast. That having been said, I think what's good for the economy in the long run would be a dollar somewhere in the 90s.

The Chair (Mr. Pat Hoy): Thank you to all three of you for appearing before the committee. We appreciate it very much.

RETAIL COUNCIL OF CANADA

The Chair (Mr. Pat Hoy): Now I call on the Retail Council of Canada to come forward, please. Good morning. You have 10 minutes for your presentation, and 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. Peter Woolford: My name is Peter Woolford. I'm vice-president of policy development and research for Retail Council of Canada. To my left is my colleague Rachel Kagan, who is our national manager of government relations with respect to the environment.

Mr. Chairman, thank you for inviting us here this morning. It's a pleasure to be back in front of the committee. It's been a couple of years since I've been here, and on behalf of Retail Council of Canada, we're very grateful for the opportunity to provide the thoughts and concerns of our members to the legislators today as you start to consider the Ontario budget.

Let me talk a little bit about the retail council, give you our perspective on the economy, and then make our policy recommendations.

RCC is the voice of retail. We speak on behalf of members who operate more than 40,000 stores across Canada. Within Ontario, retail is big business. Our members in this province operate more than 80,000 stores, they offer more than 800,000 jobs to Ontarians, and last year they sold roughly in the range of $145 billion of direct sales, so it's big business. At the same time, it's small business. Most of those enterprises are independent businesses, owned and operated by an owner and his or her partners or spouse or family.

Looking forward to 2008, we expect the Ontario economy and retail sales to grow slowly, and this is at a rate that will be the weakest in Canada. This softness is driven by the continued major restructuring of the economy, especially in the manufacturing and processing industries. Just as you heard from the gentlemen who preceded us, we see a similar pattern emerging this year in the economy. We also recognize the very real possibility that the problems in the world financial markets will spread to other parts of the United States and world economies, and in that case the outlook for Ontario could worsen significantly and, more importantly, could last much longer. That's the concern I think our members have: not that we might see a sharp recession, but that the soft conditions might continue for quite some time.

Let me turn now to talk about our general fiscal policy perspective and then some specific technical changes that we would like to see as well.

First, faced with this challenging and somewhat threatening future, fiscal policy must be focused on improving the conditions for economic development. At this point in the cycle, Ontario citizens, workers and companies are looking to the government for leadership and for support in the face of some very challenging circumstances. To help on that, we offer three recommendations.

First of all, the government must stop undercutting the economic health of individuals and companies through tax increases, and, if at all possible, find ways to reduce taxes.

Secondly, in recognition of companies' need to invest to improve their competitiveness, the government should eliminate the capital tax for all sectors. However, if it cannot do this, the capital tax exemption threshold should be increased immediately to $50 million to ease the burden on mid-sized companies.

Thirdly—and this is an old song that I know many members of this committee have heard me sing before—harmonize the provincial retail sales tax with the goods and services tax. We recognize that this is a controversial recommendation, but this one step would give all Ontario businesses a significant increase in their competitiveness. The second thing I wanted to say in this regard is that this is not a transfer of tax from companies to individuals. Yes, the tax is remitted by companies, but it then cascades through the supply chain, adding tax on tax on tax. These are all built into the prices that consumers pay and ultimately into the export prices that Ontario businesses have to present to their foreign customers. All harmonization does is make it obvious to citizens how much tax they actually pay when they make their purchases in this province. If the government decides it cannot persuade Ontarians of the need for this support for jobs and growth in industry, we would suggest, at the very least, the harmonization of the retail sales tax base, as was done by Manitoba some years ago. Finally, if the government does proceed with harmonization, we again make the request that merchants have the freedom to show prices exclusive of tax. This is an extraordinarily important element for us. Otherwise, the benefits of harmonization for retailers and consumers are lost, the domestic market is broken into fragments, and US retailers and websites are handed a marketing advantage.

Let me turn now to some specific policy points that we would draw to your attention. These are mostly technical. One of the reasons I have Rachel with me here this morning is that we've got a couple of recommendations, particularly in the area of environmental issues and levies, and if there are questions from the committee, I'd call on her to respond to those.

In the specific policy area, if the government does not harmonize, we would request once again that you clear up the mess in the tax status of herbal and natural products. This can be done by using Health Canada's classification system that comes into effect next year.

We also request that the government change the tax status of bottled water to be the same as the GST in order to reduce confusion and frustration when customers buy these products.

We recommend that the government levy the tax on business software in the same way as other provinces in order to remove the current double taxation.

We recommend that the government work with other provinces to harmonize the product stewardship programs that are operated by so many provincial jurisdictions.

Finally, we remind the government that retailers must continue to be permitted to show environmental levies separately on the sales receipt.

In conclusion, as you'll see, our themes are very similar to those of the previous witnesses. It's not necessarily about lowering taxes, although we would welcome that. It's about taxing smarter and taxing in a way that ensures that companies can grow, create jobs and employ Ontarians in worthwhile positions.

Those are our opening remarks. We'd be glad to answer any questions.

The Chair (Mr. Pat Hoy): Thank you very much. This round of questioning will go to the official opposition.

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Mr. Tim Hudak: Thank you, Peter. Welcome back to the committee, by the way. Rachel, welcome as well.

The elimination of the capital tax has been something that we have pushed for for some time. You mentioned that while we're seeing some changes with respect to manufacturing and resource-based sectors, other sectors of the economy were left out. How does the capital tax impact on the retail sector particularly?

Mr. Peter Woolford: Retailers have to invest in capital in order to operate their businesses, just as any other company does. For companies that are large and mid-sized, this tax takes away capital funds that they require to reinvest. We saw last year a new competitive challenge emerge in the form of cross-border shopping. Canadian retailers need to invest to improve their technology, to improve their competitiveness, to work with their supply partners in order to present better prices to consumers. That takes capital, and the capital tax bite is on them just as they're facing that challenge.

The other key point there is that the tax is profit-insensitive. So whether I'm a successful company or an unsuccessful company, those are dollars that must come off my bottom line. That's particularly challenging for retailers when they're facing a tough—

Mr. Tim Hudak: But when the federal government accelerated the elimination of the capital tax, it was across sectors.

Mr. Peter Woolford: Yes, it was.

Mr. Tim Hudak: Is Ontario now one of the remaining jurisdictions with the capital tax on areas like retail?

Mr. Peter Woolford: There are a number of other jurisdictions that still have a tax. Many of them are moving towards elimination. What we're trying to do simply is speed that process up and ensure that it covers all sectors.

Mr. Tim Hudak: You also mention levies that are charged, and you'd like to be able to show them on the sales slip that customers receive. Can you give me some examples of those types of levies that are hidden in the price?

Ms. Rachel Kagan: Sure. With regards to environmental levies, some examples of that would be in other provinces, like Alberta's electronic waste recycling program. That program is funded by industry. There are fees that are applied to each designated product, such as TVs or computers or laptops. The way that fee is managed, it often goes through the supply chain. It either goes up or goes down, sometimes to the consumer. In Alberta, it's actually shown as a separate line item, and the consumer is educated to know that that fee is used for the responsible diversion of that product at the end of it's life. So it's not a tax, it's just a fee for recycling. When the consumer understands that, there's buy-in and participation, and they feel that it really speaks to shared responsibility in terms of recycling. So that's a good example.

Mr. Tim Hudak: The growth rate of retail sales in Ontario continues to lag if you point out the rest of Canada. It's not just been in the last couple of years; it's been a number of years in a row that we've seen this. Your presentation talks about the decline in manufacturing as one of the causes for that. You say that it's located around southwestern Ontario and other areas that have had their manufacturing core shrinking. What about disposable income and the levels of taxation and utility costs? Are they also eating away at Ontario's numbers?

Mr. Peter Woolford: As far as we can tell, real disposable personal income continues to rise in Ontario, although at a slower rate than elsewhere in the country. It's driven, as you say, by some of the structural changes taking place in the economy. And certainly, some of the tax measures that were taken by the previous government have taken revenue away from citizens. We haven't seen as many tax measures in more recent years, but certainly Ontarians are paying more tax today than they were some years ago.

Mr. Tim Hudak: Do I still have time, Chair?

The Chair (Mr. Pat Hoy): About a minute.

Mr. Tim Hudak: You also talked about harmonizing the GST and the PST, and then you say, if not harmonizing the taxes exactly, at least harmonize the base. Why is that important to the retail council?

Mr. Peter Woolford: It's important to us, and I would think to many other business. It just makes the system administratively easier to operate. The case of bottled water is a classic case, where in your systems, bottled water, which is 600 millilitres or larger, is taxed one way at one level and a different way at another. If you simply harmonize those, you get rid of a lot of needless paperwork and errors which start to creep in. So both from an administration point of view and also a compliance perspective, I think it's a useful step. We feel that while it won't bring the economic benefits that harmonization would bring, at least it would reduce the cost of running two very slightly different systems. In a sense, if they were grossly different, it would almost be easier. It's when there are these little marginal changes that they're very hard, and they're very easy to make mistakes on—easy for customers, easy for sales associates and easy for tax practitioners to make those little glitches. Then when you get to audit time, the audits are longer, the cost is greater, the penalties are greater, and it gums up the works.

The Chair (Mr. Pat Hoy): We have time for a quick question and a quick answer.

Mr. Ted Arnott: Peter, you made passing reference to the issue of the taxation of herbal and natural products, and your brief indicates that the current regime is unclear and unworkable for retailers to administer. It's my understanding that you asked for some government action last year at this committee or a response to that issue and you didn't receive anything. Can you again explain to the members of the committee why this is such a big issue for your members?

Mr. Peter Woolford: This is something we've been working on for a number of years with the Ministry of Finance. If you go into a health food store or a drugstore and take two bottles of ginkgo biloba off the shelf, as a customer they look identical, but one says, "Effective against colds" and the other one says "that cold season is here." That makes one taxable and one not taxable. Or you take two and the labels are identical but inside the container there is something that makes a health claim. That changes the tax status of the product and it's extraordinarily difficult to explain that to the consumer. They believe they're getting ripped off by retailers who charge the tax. They get confused when they go to another retailer who does not know that product A should be taxed. So it just has created a really unfortunate situation.

The tax auditors at the Ministry of Revenue themselves acknowledge that this is simply not possible to administer effectively based on marketing claims. If there's a shelf talker, you know, one of those little tags—the women on the panel will understand this; the men probably have never been in a store. Sorry. They'll understand that if you go into a grocery store, you'll see a little shelf talker hanging off the shelf saying, "It's cold season. This product is good for colds." That becomes a health claim. It may not be on the product but it's on the shelf. That changes the tax status of the product. How can you manage that? It's just not possible.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

ONTARIO LONG TERM CARE ASSOCIATION

The Chair (Mr. Pat Hoy): Now I call on the Ontario Long Term Care Association 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. You can begin.

Ms. Janet Lambert: Thank you very much. Good morning. I'm Janet Lambert. I'm the executive director of the Ontario Long Term Care Association. With me, to my left, is David Cutler, the chief executive officer of Leisureworld Caregiving Centres. David operates 19 long-term-care homes in Ontario and is president of our association. To my right is Grace Sweatman, chief executive officer of Christie Gardens Apartments and Care Inc. in Toronto. Grace is our vice-president of government relations. Thank you for agreeing to listen to us today.

We're here on behalf of the private, not-for profit, charitable and municipal operators of 430, or 70%, of Ontario's long-term-care homes. They provide care, services and accommodation to some 50,000, or 65%, of all long-term-care residents in Ontario. The impact of the issues we will raise extends beyond them to all 75,000 long-term-care residents and their families, and the 75,000 or more staff who work in the homes. This is a constituency similar to a city the size of Windsor. In fact, our issues impact all Ontarians when you consider the relationship between the long-term-care sector and hospitals, and we'll talk more about that in a minute.

Almost a year ago to the day, Cindy Ruddy, a long-term-care-home employee, related the following during the public hearings on the government's Long-Term Care Homes Act. She said:

"About eight years ago, a colleague of mine said to me, 'You know, Cindy, we do 10 hours of work in eight, and we're expected to do it in seven and a half.' She's now retired, and I'm expecting to probably see her in a nursing home some day. I feel sorry for her, because I know how frustrated she will be when she gets in to find out that things have not changed in all those years."

The core issue in Cindy's story is funding, specifically that government funding does not allow homes to provide the level of care and services that residents need. We acknowledge that since 2001, governments have provided some funding to address overall care levels. Over that period, average daily resident care levels have gradually increased from 2.04 worked hours to 2.6. The last operating funding increase to substantively impact overall care levels was in the 2004 budget.

For the most part, however, government funding initiatives have either been to sustain existing care at levels that residents and families say are unacceptable, or they have been targeted at specific, often hot-button issues such as lifts, registered practical nurses and food. While this funding has been helpful, in the context of long-term care's reality, sustainability and targeted funding initiatives are akin to band-aid solutions. The fact is, long-term-care homes need more than a band-aid to deliver the care and services that residents and their families depend on the homes to provide.

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Let me give you some examples. Today's older, frailer long-term-care resident, who also is likely to have complex physical and medical issues and be impacted by dementia, requires an average daily care level of 3.0 worked hours or more. On average, this is 24 minutes more than homes are able to provide today. This is what families are referring to when they talk about staff being run off their feet to get residents to their meals or complain about residents having to wait to go to the bathroom. It is the significant contributor to the issues raised by the recent CBC series on resident aggression. It is one of two contributors to the Ontario Federation of Labour's concerns over incontinence care; the other contributor to the incontinence issue, which affects some

80% of residents, is the fact that government funding for incontinence products has not increased in five years.

Resident programs and activities are an issue. Homes are unable to provide the programs and activities that residents need, particularly during the evening or on weekends, with the $7.12 per resident per day that government currently provides.

Then there's nutrition. Older, frailer residents require more consultation time with clinical dietitians to ensure that their nutritional needs are being met, particularly the need for specialized diets and varied meal textures. These increasing nutritional needs ultimately mean that homes need more time and resources to prepare meals.

Completing this issues priority list is the situation with respect to housekeeping, laundry, maintenance and related accommodation services. These services are valued by residents and their families and contribute directly to quality of care in areas such as infection control. Over the past four years these services have been eroding as, cumulatively, wage cost increases alone have outstripped funding increases by almost 7%. This gap will continue to grow.

It is clear that this situation calls for an immediate comprehensive solution, not another band-aid. In October, OLTCA presented a comprehensive solution to government's 2008 business planning allocation process; it is attached to my remarks, and today we ask for your support. Our proposal asks government to increase long-term-care funding in the 2008 budget by $513 million to address all of the issues I've just mentioned.

The core of this solution is providing the capacity for homes to increase staffing in areas that will directly impact the issues. We estimate, based on current wage rates, that this additional funding would allow OLTCA member homes to add 4,350 new full-time-equivalent positions, or FTEs. A full 80% of these FTEs would be personal support workers, activity aides and food service workers, with the remainder being registered nursing staff.

The addition of these new FTEs would:

—put more staff on the front line to help residents get to their meals or go to the bathroom, to answer call bells and to provide the increased monitoring that will enhance resident safety;

—allow a PSW time to talk to, hold the hand of, or even hug a resident who needs and deserves the attention and care that one would expect to receive in a "home";

—provide for an additional activity aide in the home seven days a week, thereby supporting more resident programs and activities during the evening and on weekends;

—provide more food service workers to help prepare residents' meals, which, in combination with the additional 15 minutes of clinical dietitian consultation time that is also included in our funding submission, would foster both appropriate meal planning and preparation.

I would also add that it would help solidify the benefits of government's recent increase in raw food funding by ensuring that homes have the staffing for the extra time it takes to prepare meals from unprocessed ingredients. It takes more time and effort to prepare a chicken breast than to prepare chicken nuggets.

Of course, the additional registered nursing staff would provide more time for clinical assessment and care programs.

I'd like to note that the same recruitment difficulties that exist for registered nursing staff do not exist for PSWs, activity aides and food service workers. Since 80% of our increased staffing target is comprised of these workers, and a significant number of existing PSW and registered nursing staff would move from part time to full time, we're confident that homes can add these staff and deliver the care and service benefits to residents.

In addition to increased staffing, our request also addresses two other key areas. First, additional funding for incontinence supplies, along with the extra staffing, would enable homes to increase the average number of daily incontinence changes for those residents who need them from the current 3.5 per day to approximately five. Second, additional funding is needed to stabilize housekeeping, laundry, maintenance and related services. These latter services are funded within our envelope funding system by the other accommodation envelope. This envelope is primarily funded through the resident copayment, which the province adjusts annually based on the federal OAS and guaranteed income supplement adjustment.

We're not asking for the resident copayment to be increased beyond this traditional adjustment. There is, however, a direct relationship between these services and the level of care and services that residents need. As such, government must accept a larger share of the funding responsibility to maintain the quality of these services.

At the outset I mentioned that our issues also impacted all Ontarians, including with respect to emergency room wait times. Homes now have no choice but to rely on hospital emergency rooms to help out when issues arise. Just as importantly, families and physicians at the homes are aware of the staffing pressures and are quick to insist that a resident be taken to emergency.

Additional funding for more staff and supplies will positively impact this process. More PSWs to interact with residents will improve health status monitoring. More activities and programs will enhance physical and mental stimulation. Proper diets will strengthen residents' immune systems. More registered nursing staff means enhanced clinical assessments. Good housekeeping and maintenance mean good infection control.

With homes better able to address the underlying issues, they will have less need to use the emergency room alternative. When families and physicians in the home see that homes are able to do this, they will be less insistent that that transfer take place.

I'll close my remarks by noting that OLTCA is aware of economic forecast concerns. At the same time, we remind members that our funding issue existed when the economic forecasts were positive. It's understandable that our sector would view government's willingness to respond to the needs of 75,000 long-term-care residents and their families as one of political will rather than economic forecasts.

Let's face it: We can't escape that we are an aging society. Most of us here are aging boomers, many with aging parents. Long-term care is about the services that our parents need now and that many of us will need not too many years from now. And we're talking about the folks who helped build our society. It's up to government to ensure that there is funding for the staff and supplies required to provide these services.

Thank you very much. We'd be pleased to answer any questions you have.

The Chair (Mr. Pat Hoy): Thank you. The questioning will go to the NDP and Mr. Prue.

Mr. Michael Prue: Yes, a few questions here. You talked about the increased hours. This is on page 4: "We acknowledge that since 2001 governments have provided some funding to address overall care levels. Over that period, average daily resident care levels have gradually increased from 2.04 worked hours to 2.6." Is it in fact 2.6? I was told by a government person—and I'm skeptical of this—that it's 2.89 hours.

Mr. David Cutler: I will answer that question. The government numbers are based on paid hours, which include vacation time and benefits. Our calculations are based on actual worked hours to deliver care and services, and we think that's what counts for the residents.

Mr. Michael Prue: The government in the last term promised three or three and a half hours, I believe—it was the standard that was set—that they were aiming towards three and a half hours of care. You're asking for three.

Mr. David Cutler: That's correct.

Mr. Michael Prue: How would that bring us in line with other provinces? I know that Saskatchewan is up around three and a half at this point and some of the other provinces, PEI even, have higher standards than Ontario's.

Mr. David Cutler: We would love to get to that but we realize the economic consequences that the government faces in all sectors, so we feel that getting to three would be a reasonable start.

Mr. Michael Prue: If we got to three, where would that place us vis-à-vis the other provinces in Canada—about the middle?

Mr. David Cutler: I think about the middle.

Mr. Michael Prue: All right, and at 2.6 are we at the bottom?

Mr. David Cutler: Close to the very bottom.

Mr. Michael Prue: All right.

The second thing you talked about was the level of care, that you need an extra 24 minutes to get it up to three hours worked, or more. The monies you are requesting would be sufficient to get you there.

Mr. David Cutler: That would get us—

Mr. Michael Prue: No, I'm worried that if you got additional monies, the workers will expect pay raises at least commensurate with inflation. Has that been factored in as well?

Mr. David Cutler: That has been factored into the calculation.

Mr. Michael Prue: If there's time, it's about the whole issue of incontinence products. These are not generally available unless someone is lucky enough to have family who provide the products. Is that the case in many of the homes? They're available but they're not available in the numbers required.

Mr. David Cutler: The government does fund us $1.20 per resident per day. So the number that we provide are about three and a half per day, whereas there are cases where you may need five. But, in order to do that, we need additional staff to have the hands who can go and do those changes.

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Mr. Michael Prue: So it's not the products themselves. I know that in many of the homes, the families bring in the incontinence products. They bring in, perhaps, better products, ones that fit better and that kind of stuff. Is that not—

Mr. David Cutler: We are short both on product and staff to help us achieve that goal. It's not that our product is inferior; we are short in dollars to buy the required supplies, but more importantly, the staff to do that. So even if you gave us the money for the supplies, we don't have the staff to be able to get around to every resident. On average, 90% of residents are incontinent. We don't have the numbers to get around and do everything that needs to be done.

The Chair (Mr. Pat Hoy): One minute.

Mr. Michael Prue: I still have a minute.

Some of the unions and the TV programs have shown that old people—those, as you rightly said, who built this society, some of whom fought for Canada in times of war—lie there in their own waste, oftentimes for hours. Would you categorize that as a direct result of not having the staff? That's something I believe should be changed immediately. Are you asking this government to spend the funds so that this doesn't occur in the future?

Mr. David Cutler: That's exactly what we are asking for. We're asking for more money to be able to provide the staff so that we can adequately address the needs of the residents who deserve that care.

Mr. Michael Prue: And to keep the promise they made four years ago, I guess.

Mr. David Cutler: There was a promise made four years ago that hasn't been fully addressed.

Mr. Michael Prue: Thank you very much.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

INCOME SECURITY ADVOCACY CENTRE

The Chair (Mr. Pat Hoy): I call on the Income Security Advocacy Centre to come forward, please.

Ms. Mary Marrone: Good morning.

The Chair (Mr. Pat Hoy): Good morning. You have 10 minutes for your presentation. There may be five minutes of questioning. I would ask you to identify yourself for the purposes of our recording Hansard.

Ms. Mary Marrone: My name is Mary Marrone; I'm director of advocacy and legal services at the Income Security Advocacy Centre.

We're a community legal clinic funded by Legal Aid Ontario. We have a provincial mandate to improve the income security of people living in Ontario through test case litigation, policy advocacy and community organizing. We also work closely with 60 legal clinics across the province.

I want to start by saying that we're very pleased that this government and the opposition parties have brought the issue of poverty back onto the political agenda. We applaud the government's commitment to a comprehensive poverty reduction strategy. The Premier's establishment of a cabinet committee on poverty reduction and the appointment of the Honourable Deb Matthews as chair are very important first steps.

But this budget is crucial. At the Income Security Advocacy Centre we are deeply concerned that the citizens of this province who rely on social assistance not be forgotten, not in the five- or 10-year plan that we expect will emerge from the government initiative and not in this budget. We're concerned that the safety net that is supposed to catch the most vulnerable has developed so many holes and has been dropped so low that it bumps into the floor of destitution that it was supposed to protect us from.

We will be providing more detailed written submissions to you before the end of the month, but today I want to focus on two things that this budget must do. The first is to adequately fund public consultations on the poverty reduction strategy initiative. This is so people's voices and concerns can be heard. This will help ensure that the strategy is one that will address the key concerns of those whose lives it is meant to improve. It will ensure that all dimensions of living in poverty are addressed, and that it includes a reform to a social assistance system that has broken in ways that have been documented time after time. Doing this properly requires consultation and it requires money, but that money is a smart investment because a consultation process may find that there are some strategic changes that can be made that are, in fact, cost-neutral.

The second thing this budget needs to do is to provide some significant immediate relief with respect to social assistance rates and to protect all existing allowances and benefits while we develop the poverty reduction strategy, because for people on social assistance, every dollar counts. We understand that social assistance is not a popular program. We understand that previous governments have successfully stigmatized those who rely on it, but benefits have eroded to a degree that a significant increase is necessary, and it's the right thing to do.

We're not going to end poverty with this budget, but we have to lay the groundwork for the poverty reduction strategy to succeed.

When we're talking about social assistance recipients, who are we talking about? There are two programs: Ontario Works and the Ontario disability support program.

I want to talk about the disability support program first, otherwise known as the ODSP. People who rely on this program have long-term needs, and most will never be able to leave this program for full-time work. If you're on this program, your medical condition and disability have been verified to death, sometimes literally. The gate-keeping for this program is so tight—some would say dysfunctionally so—that 60 legal clinics across the province spend most of their resources successfully appealing negative decisions to get the benefits that their clients are entitled to. Government should stop spending so much money trying to keep people off ODSP who are entitled to be there; that money can be redirected to benefits and supports. It would also save the legal aid budget and the health care system the money that is wasted on often unnecessary tests and specialist reports.

ODSP rates remained unchanged from 1993 until 2003. The 7.16% increase since 2003 has not quite kept up with inflation. That means that a single person on ODSP receives an annual income of $12,386; that's including all available tax credits. That represents 70% of the after-tax low-income poverty line. It would require a rate increase of 43% to reach the after-tax poverty line. Families with children fare a little bit better, largely because of child benefits. In contrast, seniors receive regular cost-of-living increases to their income security programs; improvement to seniors' benefits is one of the reasons national poverty rates have dropped. I would suggest that people with disabilities deserve the same treatment and respect.

What about Ontario Works? As Canada's and Ontario's social safety nets shrink, more and more people have come to rely on Ontario Works. We need reform to better support those who are able and ready to re-enter the workforce, but we also need to acknowledge that many people in this program have long-term needs that require other kinds of support.

A report produced by the Honourable Deb Matthews in 2004 outlined the diverse needs that are currently being served. We need to make it easier to move into the labour market for those who can and to make benefits adequate for those who can't.

Ontario Works currently includes people whose disabilities are so severe that they're prevented from successfully navigating the application process for ODSP, or people with disabilities that don't quite meet the threshold for ODSP but face multiple obstacles to employment and have very little prospect of returning permanently to full-time work. It includes a large number of single mothers with dependent children. It also includes women and children fleeing domestic violence. While critics of social assistance often denounce the dependency fostered by welfare, they ignore that it can provide the necessary independence from abusive spouses who threaten the safety of women and children. Those benefits need to be adequate to restore social assistance as part of the exit strategy from violence.

What do their incomes look like? These social assistance recipients saw their benefits cut by 21.7% in 1996, where they stayed until 2003. Since then we've had a small increase of 7.1% that has not kept place with inflation. What does that mean in dollars? A single person on Ontario Works receives $560 a month. With tax credits, that income goes to $606 a month. That's not just below the poverty line; that's a fraction of the poverty line. It's 44% of the after-tax poverty line.

In dollars, it means that the $560 that's supposed to cover shelter and basic needs doesn't even cover rent. The average for a bachelor apartment in Ontario is $665. If that single person makes a sensible decision to share because they can't afford the bachelor apartment, then their rates are reduced even further.

What about families? A single parent with two children receives $1,166 a month. With current tax credits and federal and provincial child benefits, that amount doubles, but it still remains only 76% of the poverty line. This government must show good faith in its intention to reduce poverty in this province by bringing in an immediate double-digit increase to OW and ODSP as a down payment towards future improvements, and it must index those rates so that low-income people don't fall any further behind.

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The next issue I want to address is the Ontario child benefit. This is a very important new program that we supported when it was introduced with last year's budget. It's a step forward, in that it recognizes that low-wage working families also need support in raising their children. It matters to social assistance recipients because it will be a benefit that stays with them if they're able to enter the workforce. The monthly cheques begin to roll out this July, but they're only going to roll out gradually, and they're not going to reach the maximum benefit of $92 a month per child until 2011. But at the same time, social assistance will be restructured. Beginning in July or August 2008, just after receiving their first OCB cheque, parents on social assistance will see their rates reduced in response to the OCB. This fall they will not receive their back-to-school and winter clothing allowance that they rely on for clothing and back-to-school supplies. Because of this reduction, by 2011, improvement for families on social assistance will only be $50, not the $92 provided by the OCB. Parents on social assistance should receive the same net benefit for their children as working parents—$92 a month per child—without having their assistance cheques reduced.

Low-income families should not have to wait until 2011. Implementation of this benefit should be accelerated. And the winter clothing allowance and the back-to-school allowance needs to be reversed. Low-income families need that money.

As we head into an era that we hope is new in the way of positive steps towards a reduction of poverty in this province, let's be very careful that we don't cut any allowance, benefit or program, no matter how small, until people on social assistance receive benefits that have actually lifted them out of poverty.

The Chair (Mr. Pat Hoy): Thank you. Now we move to the government.

Mr. Wayne Arthurs: Mary, thank you very much for your presentation this morning and for being so precise in some of the recommendations that you're making for the consideration of government and of this committee as it does its work.

We're fortunate that appointed to our committee is the parliamentary assistant to Minister Deb Matthews. I think it's a recognition as well, as we go through this process, that we need to ensure that she has direct feedback on some of the issues that we're going to be hearing about at various locations. So I'm very pleased to have the parliamentary assistant join us on this committee. She'll certainly be taking some of these comments directly back to the minister to make sure she hears them face to face, as well as the presentation. As well, we look forward to the written presentation, which will help all of us in our deliberations.

Certainly, we've made some progress, both directly and in policy, over the past four years—clearly not as much as many or all of us would like to see in that regard, but some considerable progress, I think. The Premier's establishment of a cabinet committee on poverty is an important step in that regard to keep it in front of the key decision-makers at the end of the day, in the context of policy development.

I'd like to hear a little bit more, though, in a more generic way, on the public consultation process as you might envision it, since that's where you started your presentation, and about how important that's going to be. I'd like to hear some of the things you would like to see happening in that public consultation process to ensure that the Legislature and government is getting all the effective information they will require in their decision-making on a go-forward basis.

Ms. Mary Marrone: We assume, and we've heard, that you will be consulting with policy experts in this area, and we think that's very important, but we also think it's very important that you speak to low-income people themselves. This means going out into communities. It means travelling around the province to accessible locations and making it easy for low-income people to come and speak to you. Their day-to-day experiences should be what inform the development of a poverty reduction strategy.

A number of studies have said that the two things that people on social assistance talk about the most are the inadequate rates and the poor treatment they receive at the hands of their caseworkers. Much can be done to improve their lives through changing some of the rules. Some of the worst rules were taken away in your first term of government, but many punitive rules continue to exist. There are a number of changes that could change the lives of people that don't necessarily cost any money, but it's in the detail, it's in the richness of the experience, that you're going to hear about that.

Mr. Wayne Arthurs: So you'd be recommending that in addition to talking to experts in the area, which is obviously an important part of everything that happens, the government ensure that we talk as directly as possible to those who are either accessing those resources currently, who might at some point need to access those resources or know others who are accessing these resources, to ensure that we're getting the best information possible for decision-making.

Ms. Mary Marrone: Absolutely.

Mr. Wayne Arthurs: Thank you.

The Chair (Mr. Pat Hoy): Thank you for your presentation. If you provide any further written information, the whole committee will share in that.

Ms. Mary Marrone: Thank you very much.

The Chair (Mr. Pat Hoy): Present it to the clerk, or mail it, or however.

CANADIAN BANKERS ASSOCIATION

The Chair (Mr. Pat Hoy): Now I call upon the Canadian Bankers Association 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'd ask you to identify yourselves for the purposes of our recording Hansard.

Mr. Luc Vanneste: Good morning. My name is Luc Vanneste and I'm the executive vice-president and chief financial officer of the Bank of Nova Scotia. I am also the chair of the Canadian Bankers Association financial affairs committee, and it is in that capacity that I am appearing before you today. Also joining me is Karen Michell, vice-president, banking operations, at the CBA.

Thank you for the opportunity to talk to you about the CBA's recommendations for the 2008 Ontario budget. Our industry's recommendations for the upcoming budget focus on the need to promote greater economic prosperity in Ontario. We believe that one of the most effective means by which to do this is through creating a more competitive tax environment.

Banking is a core element of the Ontario economy and one of the largest contributors to provincial GDP. Banking and financial services is a growth sector for Ontario. In the recent speech from the throne, the Ontario government highlighted that financial services is a sector experiencing growth that far outpaces that of our closest competitors.

Banks are one of the largest employers in the province. In total, the banking industry employs nearly 140,000 Ontarians. Ontario accounts for over half—approximately 56%—of all banking industry employment in Canada. The banks' contribution to the Ontario economy is much more than our physical presence. Banks are the key source for financing for businesses and entrepreneurs across the province. Also, it is important to remember that banks are widely held businesses, with individuals being investors in banks through CPP, through their RRSP and other pension funds. When banks do well, Ontarians do well.

Ontario is Canada's banking capital, and it shows. This slide shows that the contribution of deposit-taking intermediaries—banks, credit unions etc.—to Ontario's GDP is 4.3%. This is the highest in the country.

The importance of financial services to Ontario's trade balance with the rest of Canada is growing. In 1997, financial services accounted for just over a quarter of Ontario's net trade surplus with the rest of Canada. By 2004, it accounted for 40%. Why is this important? More and more, financial services are what Ontario sells to other Canadians and increasingly it is what Ontario sells to other countries, and that is how we create highly skilled, high-paying jobs for Ontarians.

As I mentioned earlier, our 2008 budget recommendations focus on the need to create a more competitive tax environment in Ontario. Taxes, meaning corporate income taxes and capital taxes in particular, are critical decision-making factors for potential investors, including those in our industry. Tax competitiveness is a key factor in productivity growth. A more competitive tax environment spurs investment, which improves productivity and creates jobs.

The CBA's first recommendation is that the government should reduce the general corporate income tax rate to make it competitive with other key jurisdictions in Canada. In looking at this slide, you will see that the general corporate income tax rate of 14% undermines Ontario's competitiveness against its key provincial counterparts. It's also a key component in the marginal effective tax rate on capital, which influences the decision of firms, investors and entrepreneurs about whether to make a new investment here in Ontario. Comparing to other provinces actually understates the tax challenge that Ontario faces because Canada's overall business tax environment has a long way to go to be competitive with other developed countries. In short, Ontario lags Canada and Canada lags its competitors. While there have been very positive moves at both the federal and provincial levels, there is still considerable room for improvement.

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The next slide, which is slide 10, shows the percentage GDP growth over the last five years and illustrates why Ontario needs to lower corporate income tax rates if it wants to increase investment and employment and stimulate long-term growth. Quite simply, tax is a factor when making an investment decision. Although cutting taxes often leads to fears about decreased government revenues and decreased services, as someone helping to make investment decisions, I can tell you that the opposite is true. Creating a more competitive tax environment by which to increase revenues means attracting, growing and retaining investment in the province. This helps to pay for the government programs that the people of Ontario need, value and deserve.

Making Ontario's corporate income tax rate competitive should be the key principle guiding Ontario's tax policy. The government has opted to phase in reductions in the federal corporate income tax rate over several years, and we encourage Ontario to do the same. Even if there were an announcement that this would be done within the next two to three years, it would have a positive impact on current business planning.

Capital tax is also a barrier to investment and growth, as you heard earlier. Economists and businesses across the country are universal in their view that capital taxes are the most inefficient form of taxation. The Ontario government has recognized this and has legislated the elimination of the capital tax. We were particularly pleased to see the acceleration of the rate reductions and we certainly encourage the government to continue to accelerate the elimination of the capital tax as much as possible.

In summary, the financial services industry plays a large and strategic role in Ontario's economy. However, both national and international jurisdictions offer highly competitive tax environments with many of the same natural advantages that Ontario enjoys. For that reason, Ontario cannot be complacent. The results of a competitive tax regime are widely known: higher productivity, a higher standard of living and greater revenue for governments—revenue to support health care, education and infrastructure investments that are vital to our standard of living.

Therefore, we recommend that Ontario set as a strategic economic goal achieving a 10% corporate income tax rate by 2012. In supporting that goal, we recommend further accelerating the capital tax phase-out before 2010.

Thank you, and I would be pleased to answer any questions you may have.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning goes to the official opposition.

Mr. Ted Arnott: Thank you very much for your presentation. I found it interesting that you would feel compelled to inform the committee that the levels of tax and tax competitiveness are in fact big considerations for companies when they're considering investment decisions. Those of us who are sitting here from the Conservative caucus understand that. I hope that the other members of the committee understand that as well going forward. It's absolutely critical to our future economic success in this province.

You mentioned the issue of capital tax and you've called upon the committee to encourage expediting the elimination of the capital tax. Again, that's something that we've pushed for within our caucus in opposition, as well as the other issue that you mentioned about tax. I'd like you to expand on it, if you will, so as to give us some additional advice in that regard.

Mr. Luc Vanneste: Capital tax is effectively a tax on investment. For the banking industry—and let me clarify here. I'm not just talking about banking here, I'm talking about a corporate tax rate for all Ontario corporations. Some have a lower tax rate than others, but this is not just about the banking industry. This is about the economic prosperity of Ontario and, indeed, the country as a whole. Capital tax taxes capital. It has a greater impact on banks than it does on other institutions. We are a regulated institution. We are required to carry certain amounts of capital, according to the superintendent of financial institutions Canada in our particular case. When we have the turbulence that we currently have in the world markets, that becomes an even greater focus area for the regulator, and moral suasion comes into play in terms of what the levels of that capital should be. If that capital—which is great for the comfort of investors and people doing business—grows, there's a greater tax, which is a greater cost that needs to effectively get passed on to consumers, whether those consumers are retail consumers, corporate consumers, commercial, small business, whatever. It is a cost of doing business, and it seems counterintuitive. Why would we tax capital when indeed, from my perspective, the real challenge here is to grow the size of the prize, to grow the tax prize? Encourage investment, and that will create the economic environment where you are investing in Ontario, you're creating jobs, you're improving productivity, and the entire pie increases, which then enables the province to do what it wants to, from a spending perspective, to eliminate or decrease deficits. The real focus here is to increase the size of the pie, not to say, "Let's do one thing versus the other." The prosperity will drive that size of the prize.

The Chair (Mr. Pat Hoy): Mr. Hudak.

Mr. Tim Hudak: Thank you, Chair, and thanks to my colleague Mr. Arnott.

Would you know off the top of your heads the proportion of capital tax that is outside of the manufacturing and resource sectors in Ontario? If you don't know, maybe I'll ask that through the clerk, Chair, at the conclusion.

Mr. Luc Vanneste: We certainly can get that information, but I'm sorry; I don't have it here.

Mr. Tim Hudak: No problem. It would be helpful.

Then again, as you know, the original schedule for capital tax elimination under the previous government was 2008. The current government increased those tax rates, and now we're on, I think, the third or fourth schedule within their mandate. They're accelerating now, finally, for resource and manufacturing, but not for other sectors like financial services.

The other point you bring up in your presentation is reducing the overall corporate income tax rate to make Ontario more competitive. You point out that in 2002 we had the third most competitive tax regime with respect to business taxes, or second best, I think it was, and now—

Mr. Luc Vanneste: Second best, yes.

Mr. Tim Hudak: —we're third worst in all of Canada. The current government has argued, though, that they don't think they should reduce the corporate rate provincially until the federal government brings theirs down to the provincial rate of 14%. Do you find logic in that argument?

Mr. Luc Vanneste: Certainly, in my role with the CBA, I'm consistent in my message in terms of reducing corporate income tax rates at both the federal and the provincial levels. I certainly hope that at both levels we are heard, listened to, and action is taken, but I would not encourage the Ontario government to say, "Well, let's not do this until we see what the federal government does," because at the end of the day, if one party does it versus the other, it still impacts the investment decisions that we make. So if you take a look at corporations in Ontario who have the ability to invest in different places in the world, if the tax rate is higher in Ontario than it is in other provinces, or outside of this country, that is a factor. I think the ideal situation is for both of them to move in the same direction—i.e., down. It doesn't necessarily have to be in tandem, but the overall tax rate should be decreased for corporations, because when you're making those investment decisions, the reality is, whether you're a financial institution, whether you're an auto manufacturer or whether you're a small business that's in the exporting game, you're going to look at the tax rate. You cannot avoid it.

The Chair (Mr. Pat Hoy): Thank you. I understand you're committing to find the information that Mr. Hudak asked for.

Mr. Luc Vanneste: That's correct.

The Chair (Mr. Pat Hoy): If you could provide it to the clerk, and then the whole committee would have that. Thank you for your presentation.

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MYCHOICE.CA

The Chair (Mr. Pat Hoy): I call on mychoice.ca to come forward, please. Good morning. You have 10 minutes for your presentation. There may be five minutes of questioning following that. I would ask you to identify yourselves for the purposes of our recording Hansard.

Ms. Arminda Mota: Good morning. My name is Arminda Mota and I am here today as president of mychoice.ca.

Mychoice.ca is Canada's largest smokers' rights group, with 45,000 members, 25,000 of whom are from Ontario. As you may know, we are able to operate thanks to funding from Imperial Tobacco Canada.

Despite the enormous taxes we pay, smokers are not eligible for any of the funding that governments give to anti-smoking groups to address tobacco control issues. Indeed, we are not even permitted to attend government tobacco-control conferences, nor are we allowed on the advisory panels that propose how we should be treated and what might or might not work for those who wish to quit or cut down their smoking. We therefore have to rely on funding from industry. We are not alone in this regard. The anti-tobacco groups get funding from the pharmaceutical industry over and above the government funding they receive courtesy of smokers' tax dollars. The pharmaceutical companies that sell nicotine replacement and cessation products are in direct conflict of interest, yet no one questions who they fund and why. For example, Pfizer funds tobacco control conferences. Anti-smoking advocates often speak out in defence of Pfizer products. Recent examples include their defence of a new quit-smoking drug that has been linked to depression and suicides.

In our case, however, the funding from Imperial Tobacco Canada comes with no strings attached. The company is not a member of mychoice.ca. We do not speak on its behalf and we do not represent its interests or seek its approval for any issues we raise. We are an arm's-length, registered non-profit group. Our members are all individual people. The issues we raise are the ones that concern them directly because they impact their daily lives.

The first issue I am compelled to raise today is that of taxes. Taxes make up 70% of the average cost of cigarettes, and are now higher in real terms than they were in 1993, when the federal and Ontario governments slashed them.

Smuggling rates are at epidemic proportions again. Police and anti-smoking groups agree that illicit products now account for 25% to 30% of tobacco consumption in Ontario. I have with me dozens of stories on this problem that we have collected over the past year. It is not an exhaustive list, but you may find it of interest. Police say that the many arrests they have made have barely created a dent in the problem.

Mychoice.ca does not condone buying illegal products. We share the concerns of others about the contents of these products, their sale to children and youth, and the organized crime that benefits from this black market demand. We do, however, understand why so many people still see this as a victimless crime and feel justified in buying these products. History shows this is what happens when governments overtax people and treat them as second-class citizens with extreme laws.

We were pleased that after hiking taxes four times in three years, the Ontario government refrained from doing so again in the 2007 budget. We urge the same restraint to be shown by the finance minister in this year's Ontario budget.

The next point I would like to address is the economic impacts of the Smoke-Free Ontario Act's more extreme measures. On behalf of our members and others who are tired of being dismissed for raising genuine concerns, I would urge this committee to review the impacts of this ban. I would urge you to seek a report by an impartial third party not associated with the government, the anti-smoking groups, the tobacco industry or the pharmaceutical industry.

When this committee studied Bill 164 before recommending its passage into law, it was treated with the same contempt as the public in terms of being denied all the facts. This committee and the Legislature as a whole were deliberately misled by the government, its ministers and anti-smoking groups. We were all told that there was no evidence of real problems in other jurisdictions that have implemented such bans and that, if anything, economies improved when such bans were introduced. What we were not told was that the government possessed a number of expert reports from the Ministry of Economic Development and Trade that warned of losses of $500 million a year to the province's gaming revenues alone. The reports detailed gaming losses of $186 million in

2004 that have already resulted from new smoking bans in municipal jurisdictions in Ontario. They warned that there would be particularly devastating impacts for casino border cities such as Windsor and Niagara Falls if a province-wide ban was implemented, and they warned of negative impacts for charities. The reports also detailed how studies designed to show positive impacts from smoking bans in other jurisdictions had biased the results to hide impacts on bars and taverns, yet these reports were kept secret until several months after the Smoke-Free Ontario Act became become law, despite the fact that mychoice.ca submitted freedom-of-information requests for any such documents way back when the legislation was first introduced.

In light of this, there is little reason for mychoice.ca or the public to accept at face value any statements made by the government or anti-smoking lobby groups about this issue. There is little reason why this committee should either. The attitude of the law's proponents was, "Don't worry, it's only smokers. The rest of the economy is doing well. It will all work out." The reality has been quite different. Everybody in some way is suffering the consequences of a law that removes all choice for those who wish to use a legal product or provide some compromise on where it can be consumed.

In addition to the loss of hundreds of millions of dollars in gaming revenues, taxes have been lost as businesses closed or downsized. Tens of millions of revenue dollars have been lost by charities. The losses to provincial casinos have been so devastating that the government has broken its own rules: It has spent millions of dollars to build state-of-the-art heated smoking shelters adjacent to its casinos in a bid to keep at least some smokers coming back. Yet struggling bar owners that try to put up even cheap shelters are charged and fined for trying to survive.

The Canadian Restaurant and Foodservices Association reported last year that for bars, taverns and nightclubs, sales were down 24%, or $182 million, since smoking bans started coming into force in Ontario in 2001, and 18% of establishments had closed. It reported last January that sales were down 8%, or $21 million, in the first five months of the province-wide ban coming into force in June 2006. Meanwhile, charity bingos have been devastated. In Windsor alone, dozens of charities have folded or are on the verge of collapse in the wake of bingo hall closures and cutbacks. The significance of these losses on the economy, jobs and charity services can no longer be denied. They are now being compounded by the negative impacts of the strong dollar on manufacturing and tourism in this province.

The law is now being used to seek bans on smoking in cars, with a view to eventually seeing such a ban extended to private homes. We could get into a whole debate here about the need for such laws to protect children. Obesity is now the biggest health threat facing our children, so are we next to pass laws against parents feeding their children fattening foods? How about having police set up roadblocks at fast-food drive-throughs and conduct home refrigerator spot checks?

As for the health issues, let me stress that we believe an independent review of the impacts of the Smoke-Free Ontario Act absolutely should include an inquiry into the evidence being used to justify existing bans and new proposals. A few years ago, the anti-tobacco lobby group focused on evidence of the dangers of smoking itself, and some possible links to health risks associated with long-term, intensive exposure to high quantities of second-hand smoke. Now they claim that even a moment's exposure to smoke on an occasional basis can be deadly. They have traded science and facts for emotional claims and fearmongering to drum up support for extreme laws that would never otherwise be contemplated, measures such as total outdoor bans, bans in cars and bans in homes. Their arguments, however, defy logic and science.

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For your interest, I have provided copies of two recent reports. The first is by a leading activist for smoking bans in the United States, Dr. Michael Siegel, who has become so alarmed at the false science and claims now being made that he has carefully dissected the allegations and demonstrated their inaccuracies. The second is by a leader in the field of tobacco control and harm reduction, Professor Brad Rodu, who has been extensively published in such prestigious journals as the Lancet. This article looks at the science, or lack of it, used to produce smoking death statistics and questions why the claimed rates remain barely unchanged over the past 20 years despite an enormous reduction in smoking rates.

I am not for a moment suggesting that we turn back the clock and allow smoking everywhere. The point is that we have gone beyond science and reason and are now allowing increasingly wild and unsubstantiated claims to be used to justify extreme, unfair laws and the mistreatment of smokers.

Thank you for allowing me to appear here today. I'll be able to take your questions.

The Chair (Mr. Pat Hoy): This round of questioning goes to the NDP.

Mr. Michael Prue: The questions I have relate in total to the last two reports that you said were attached but were not. They're coming, are they?

Ms. Arminda Mota: Yes, they are.

Mr. Michael Prue: Okay. And then the statement here at the top of page 3: "The government possessed a number of expert reports from the Ministry of Economic Development and Trade." Do you have those reports?

Mr. Sean Durkan: We don't have them with us, but I can send them. They were released under freedom of information. There were a number of stories on them when they were, but we can forward those to the committee. These are reports released by the government, eventually, under freedom of information.

Mr. Michael Prue: The only thing that it appears to me, other than you're very angry with the government and very angry at the—

Ms. Arminda Mota: I'm passionate. That's totally different.

Mr. Michael Prue: Okay. The only thing you appear to be asking for in this report is that the government not increase the taxes on cigarettes in this budget year. Would that be fair, that that's your major ask?

Ms. Arminda Mota: No. Our main request, besides the one not to raise taxes again this year—because, as you all know, smuggling rates are at the highest ever, 25% to 30%. What we are asking for is an independent inquiry, not done by government or by the tobacco industry or by anti-smoking lobby groups or by the pharmaceutical industry, that will take a look at how this legislation came to life—what kind of science was used to pass the legislation and what all the facts are about the economic losses that were predicted before and that happened since the ban came into effect. But basically, our main request is to ask for an independent inquiry so that we know all the truth.

We need to assess how we treat smokers in this province. Are we still full citizens or are we just second-class citizens? If the government wants to continue to mistreat smokers, as they are doing so far—the rules that are good for the casinos should be good for everybody else. Why is the government breaking its own rules and allowing those luxury shelters when a businessman in any other place can't do anything? We're just asking the government to be fair. If you guys don't want to have any smokers in the province, please ban tobacco.

Mr. Michael Prue: When you ask for an independent inquiry, the only type of independent inquiry of which I am aware that is at arm's length from the government would be a royal commission. Are you asking that the government set up a royal commission to investigate itself?

Mr. Sean Durkan: Can I jump in on this? The committee can review economic impacts and the results of economic actions that have been taken by the government. I think maybe the use of "inquiry"—change the word to "review." You do have the power to have experts called to look at the issues. I don't think we're calling for a royal inquiry that's going to cost hundreds of millions of dollars to do. I think what we are calling for is that this committee do its job and actually look at what the economic impacts have been, look at what it was told and misled about, and look at whether the laws are now justified or whether they need to be amended somewhat to take into account the impacts that are now taking place. I'm not sure that requires a royal inquiry. I would have thought it would fall under the jurisdiction of the committee to review actions that have been resulting from the moves by government, budgetary and otherwise.

Mr. Michael Prue: But the committee itself can only do so with the concurrence of the Legislature, which is stacked by the government members. See, what you're doing is you're asking the government members to investigate themselves.

Ms. Arminda Mota: No. That's why we're asking for an independent review. The government can mandate an outside resource that would be completely independent to do so, and I'm sure there would be a way to do it, if there is a willingness.

Mr. Michael Prue: Thank you, Mr. Chair.

Ms. Arminda Mota: If I might just add, as you may well know, people can't smoke in retirement homes, for instance. If you have a citizen from Ontario who has been smoking for the past 50 years and he is now 84, you're forcing him outside with this weather to smoke while you know there are already dead people. I would like all of you to think about that before you go to sleep, because when this kind of legislation that doesn't respect people at all—we don't encourage anybody to smoke; that's beside the point. We are taxpayers, we are full citizens, and we deserve to be treated as such, because democracy is not the dictatorship of the majority as far as I know.

The Chair (Mr. Pat Hoy): If the gentleman with you could identify himself.

Mr. Sean Durkan: I'm sorry. My name is Sean Durkan and I'm the assistant to Ms. Mota.

The Chair (Mr. Pat Hoy): Our recording needed that. Thank you.

CAMPAIGN 2000

The Chair (Mr. Pat Hoy): 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.

Mr. Michael Prue: Mr Chair, I have been handed copies of some of the documents. I'd ask if I could give them to you and have them distributed.

The Chair (Mr. Pat Hoy): Oh, the clerk will do that.

Ms. Jacquie Maund: Good morning, everyone. My name is Jacquie Maund and I'm the coordinator with Ontario Campaign 2000, based at the Family Service Association of Toronto. I am joined by a parent spokesperson with Campaign 2000, Renée, who is an expert in terms of raising a family on low income. Renée would prefer not to use her last name to protect the privacy of her family.

We're here today to talk about child and family poverty in Ontario. The latest Statistics Canada data find that one in every eight children in Ontario is living below the poverty line. That's 345,000 children, a poverty rate after tax of 12.6%. Many families in Ontario are living in deep poverty. An indicator of that is the fact that, according to the Ontario Association of Food Banks, 123,600 children on average used a food bank each month last year. Campaign 2000's research shows that the two key reasons behind Ontario's high rate of child and family poverty are a weak social safety net, and low wages and poor working conditions in the labour market.

Our name, of course, dates from the 1989 resolution to end child poverty by the year 2000, so we've been studying this for a number of years.

If we look at social assistance rates in Ontario, they're seriously inadequate. A single mother with one child on social assistance in a large city receives benefits that are $9,000 below the poverty line. Low wages and poor working conditions mean that social assistance poverty is often replaced by labour market poverty when a person is able to move into the labour market and get a job. Our research, based on Stats Canada data, shows that almost half—41%—of all low-income children in Ontario live in families where at least one parent is working full-time, full-year, but unable to earn enough to lift their family above the poverty line.

Campaign 2000 was very encouraged at the last provincial budget to see the focus on child poverty and the introduction of an Ontario child benefit. We're also very pleased that the Ontario government has committed to develop a poverty reduction strategy for Ontario, with targets, and will release that strategy before October of this year. In fact, I've also given you copies of a document that Campaign 2000 produced last summer where we outlined some targets for that strategy and some components that, based on our research, we feel the strategy should include.

We know from international evidence that the economic benefits to investing in poverty reduction are great. Countries like Finland, Sweden and Denmark have the lowest rates of child poverty in the world. They have high rates of public investment and they rank among the five most consistently competitive economies globally.

The 2008 budget is an opportunity for the McGuinty government to make a down payment on its promise on poverty reduction, so we are calling for recommendations in three areas. I'll talk a little bit about the labour market, and then Renée will talk about the social safety net and other family supports.

Campaign 2000 is calling for an increase in the minimum wage to $10.25 now—not in 2010, but now. We want that wage to be indexed permanently to inflation so that it increases with the cost of living, because we believe that any adult or parent who's working full-time, full-year at minimum wage deserves a living standard out of poverty, which is not currently the case.

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We're also calling for an updating of the Employment Standards Act to protect people in precarious work. Right now, people who are working contract work, temporary work or are self-employed are not covered by the Employment Standards Act. We're calling for the Ministry of Labour to fully enforce the law to make all employers follow minimum employment standards in all workplaces; specifically, to hire 100 new officers to increase inspections for employment standards violations and ensure that employers who break the law are caught and fined.

Thirdly, we're calling on the Ontario government to develop a good jobs strategy for Ontario to both preserve manufacturing jobs and support the kind of good jobs at living wages that are needed if poverty reduction is to become a reality.

I turn it over now to Renée.

Renée: Good morning. My name is Renée, and I am a current recipient of the Ontario disability support program. I have three hidden disabilities which sometimes hinder my ability to work full-time in the market, but I am able to work part-time here and there. When that opportunity strikes, I do take it. I have two children and I'm on my own, so I could tell you a few things or two about living on these low, inadequate social assistance rates.

The first thing we need to do is to strengthen our social safety net. We need to permanently index social assistance rates to inflation and increase the level of benefits by a double digit in 2008. As part of our poverty reduction strategy, social assistance rates must be indexed as the federal benefits are indexed. Provinces like Quebec and Newfoundland and Labrador have done this.

Secondly, we need to establish an independent committee to determine the just rationale and criteria by which social assistance rates are set, with the goal of ensuring a decent standard of living. Rates should provide for the cost of the nutritional food basket as determined by health authorities, and shelter allowances should reflect the local rents as defined by CMHC.

We also need to speed up the implementation of the new Ontario child benefit. In 2008, the net benefit for a parent with one child will only be $30. We would also like to encourage investment in family supports such as early learning opportunities and child care in the non-profit sector. Having child care and subsidized housing has helped me to be able to go and work when I'm healthy enough to do that.

We're also calling for reinvestment in social housing; rehabilitation of the aging housing stock; for municipalities to get help in rehabilitating the housing stock; for the provincial government to take back responsibility for taking care of public housing; and for housing allowances to allow low- and middle-income earners to afford the high cost of shelter.

I'm ready to take any questions.

The Chair (Mr. Pat Hoy): Thank you. The questioning will go to Mr. Arthurs.

Mr. Wayne Arthurs: Both Jacquie and Renée, thank you for being here this morning. I appreciate this. I appreciated your earlier comments about the encouragement that you're finding, if I can phrase it that way, in some of the initiatives the government has been taking and what the proposals are to go forward. I know that Minister Matthews is both working but also looking forward to her opportunities, as the chair of the cabinet committee on poverty, to see some real progress. Clearly, the Premier is committed to getting the targets in place as early as possible and then seeing the implementation of those. But that doesn't mean that nothing has happened or that nothing should happen in the interim.

There are some areas that are of interest: Certainly the Ontario child benefit is intended not only to provide support for those who find themselves on either disability or Ontario Works payments but also for lower-income families generally, to provide a more level playing field for children generally, which I think is an important part of what we're doing.

I was interested, Jacquie, in a couple of your comments in a more general way, and I'd like to hear a little more about updating the employment standards protection. We talk a lot at this committee at times about community and social services responsibilities and others, but sometimes we don't really get to address around this table as often some of the other ministries that can play an important role in ensuring that people maintain adequate work or don't run risk in work that will interfere with their capacity to have gainful employment. Can you provide a little more insight on proposals around updating employment standards as they relate to precarious work environments?

Ms. Jacquie Maund: Sure. Research shows that 37% of all jobs now in Canada are considered precarious, so they're either part-time, contract, temporary or self-employed. And while part-time workers are covered by the provincial Employment Standards Act, those other types of workers are not covered. They have no recourse if their wages are unpaid, if they're not paid for statutory holidays. They have no protection under provincial labour legislation. There are detailed reports on this prepared by the Workers' Action Centre that I can give you. So we're calling for the Employment Standards Act to catch up to the changes that have happened in the labour market over the past 25 years; it needs to be updated. It's not a quick, one-off kind of thing; it needs to be reviewed and updated so the precarious workers have access to the same labour protections as do those of us who are full-time, permanent workers.

Mr. Wayne Arthurs: Are you making efforts as well to ensure that this information, these needs are in front of the Minister of Labour, the ministry directly, as well as through this kind of a process?

Ms. Jacquie Maund: Yes. We're a coalition, so many of our partners are also meeting with the Ministry of Labour, and we would hope that as members of the Liberal caucus you too would be bringing this information up with the Minister of Labour, who I believe is not on the poverty reduction cabinet committee.

Mr. Wayne Arthurs: Right. It's a good opportunity, as the new Minister of Labour and a new minister, to get his ear early on for these types of things. It's not often where you're almost first in line to get someone's ear in the sense that that becomes a priority, more so maybe, than some other things that might be there.

Thank you very much for your presentation this morning.

The Chair (Mr. Pat Hoy): Thank you both.

COUNCIL OF ACADEMIC HOSPITALS OF ONTARIO

The Chair (Mr. Pat Hoy): I call on the Council of Academic Hospitals of Ontario 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.

Mr. Joseph Mapa: Thank you very much and good morning, everyone. My name is Joseph Mapa. I'm president and CEO of Mount Sinai Hospital here in Toronto. Today I'm here in my capacity as chair of the Council of Academic Hospitals of Ontario; the acronym is CAHO. Joining me are my colleagues Mary Jo Haddad, president and CEO of the Hospital for Sick Children and chair of the Toronto Academic Health Sciences Network, and to my left Mary Catherine Lindberg, the executive director of CAHO.

For those of you who may not be familiar with our organization, CAHO provides a focal point for strategic initiatives on behalf of our members. Our membership includes the 25 academic hospitals in the province that are fully affiliated with a university medical or health sciences faculty.

Academic hospitals are large and complex organizations. We provide a broad and multi-faceted set of services. Patients from all corners of the province are sent to our hospitals to receive highly specialized care normally not available in their local communities.

Fulfilling our responsibilities demands significant financial and staff resources. Notwithstanding the current level of investment made to our hospitals, our cost pressures are growing.

Academic hospitals are leaders in Ontario's health care system in terms of the concentration of medical specialists and the availability of specialized care and technologies. Our hospitals are the only facilities in the province that offer training in specialty areas; for example, neonatal intensive care, neurotrauma, transplants. Training programs conducted within our organizations accommodate students from all health care related disciplines at the college, undergraduate, graduate and post-graduate levels. We train the future doctors of Ontario. We also have 19 internationally known research institutes that have become multidisciplinary research and development engines for Ontario.

Recent changes in the health care sector have presented new challenges to academic hospitals in terms of their unique and multi-dimensional role and value. We welcome the opportunity to work through these changes and complexities in the future.

In the brief time allotted, we will be addressing the following three objectives:

(1) to clarify some of the questions about our changing role,

(2) to enhance awareness of the value of our organizations to the health care system and to the provincial economy overall, and

(3) to table some of the current challenges confronting our organizations.

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Our changing role: Academic hospitals have long been recognized for discharging three primary responsibilities:

(1) the provision of highly specialized, sophisticated tertiary and quaternary clinical services. We are the go-to hospitals for the very sick and injured;

(2) the education and training of future physicians and many other health care professionals such as nurses, social workers and OTs. With few exceptions, virtually every physician in this province has been trained in one of our hospitals; and

(3) the conduct of health research, including basic, clinical and applied research. Our hospitals and their research institutes conduct more than 80% of all research in Ontario.

This three-pronged mandate results in a complex set of local, regional, provincial and, in some cases, national and international working relationships that connect us to other academic hospitals, community hospitals, universities, specialized health networks and several provincial ministries that support the various aspects of the academic hospital mandate.

Our value: Apart from understanding the complexity of our traditional three roles, it is important to understand that the roles being played by academic hospitals are changing. These changes are impacting our costs. They're also, however, generating new opportunities and value across the health care system enterprise. This value rests in the critical role we play in supporting the rest of the system through, for example, innovation in clinical systems delivery and leadership in health human resource planning and education.

There are four key points to be emphasized here. First, our hospitals are experiencing a marked shift in the complexity of our patient caseloads, as you can imagine. An increasing proportion of our caseload is focused on the care of patients from across the province and, in some cases, the country, requiring highly specialized and complex care. For many patients, we are the place of last resort.

Our caseload data show an increasing level of patient acuity. The increase in patient acuity is attributed to a number of factors, including, as you would imagine, the aging population, changes in the treatment of chronic diseases, and the realignment of hospital services within the province.

Second, our hospitals are among the first to employ breakthrough therapies, technologies and other advances in medicine. We also play a key role in facilitating the knowledge transfer of these new innovations to other organizations along the care continuum. Pressures to apply new modes of treatment contribute to advancements in patient safety and make medical care better and safer for our patients. However, these applications are also very costly. In fact, in some cases, the growing influx of emerging new medications and other forms of treatment that are now available to care for certain patient groups threaten to overwhelm the capacity of our hospital staff to keep up to date and to conduct critical reviews of new medications and treatment modalities.

Third, the size and scope of activities that our hospitals engage in are significant drivers of economic growth. For example, academic hospitals play a key role in stimulating a robust life sciences sector in Ontario, generating new innovations in health care and providing quality jobs for Ontarians.

Our institutions also employ over half of all hospital staff in the province. We train more than 80% of medical trainees, 90% of residents and 99% of clinical fellows in all subspecialties.

The economic impact of our research mandate is also a significant economic driver. Nearly half of Ontario's academic hospitals have established commercialization offices that transform medical discoveries into jobs and new opportunities which in turn generate more jobs.

According to a recent survey, more than 50 new and successful companies have been created as spinoffs from academic hospital research. A number of academic hospitals hold several patents for world-class discoveries, and some are even licensing their discoveries. The Hospital for Sick Children alone, for example, has 24 such licences.

Fourth, academic hospitals are leaders in advancing health system reform, contributing to innovations in key areas, including patient safety, improved access to care and operational efficiencies across the care continuum. Of particular note is the leadership role being taken by our hospitals in developing shared information systems—IT. Other examples arising from our leadership in health reform include advancing new systems of accountability and performance measures—new metrics; spearheading initiatives to reduce medical errors and promote adoption of evidence-based practices; addressing concerns about the supply, mix and distribution of health care professionals, an indispensable asset to the future of health care; and last, creating, assessing and diffusing new technologies.

We believe that enhancing understanding of these emerging roles is crucial to understanding the scope of our activities as well as the costs and value associated with our work.

Before I conclude, I want to table two specific issues with the committee, particularly in the context of your mandate.

The first issue relates to the need for stable and predictable funding to support the multiple roles being carried out by the academic hospitals of Ontario. The impact of local health integration networks, otherwise known as LHINs, and the devolution of power to these entities set the stage for a new funding paradigm for hospitals. It also poses tremendous challenges in terms of ensuring the stability of academic hospitals and the provincial programs they provide. The funding of academic hospitals and the activities driving their costs is extraordinarily complex, but in simple terms it's essential and indispensable. It is vital that we understand and respect this complexity as we move forward. We play a crucial role, a role that, for the sake of our patients and the communities we serve, must not be compromised. To this end, we are committed to working hand in hand with our LHINs to provide better care for patients and to ensure a viable climate for academic growth and productivity.

The second issue relates to health research. As mentioned previously, academic hospitals and their health institutes constitute a significant portion of the province's health research efforts. In fiscal 2006, over $850 million was invested in health research, primarily through grants awarded to our scientists to conduct research. The research institutes conduct over 80% of the health research in the province, four times more than that conducted at Ontario universities. The institutes support a workforce of over 10,000 scientists, clinical investigators and other researchers and have been a major source of world-class medical breakthroughs in areas such as genetics, treatment of cancer, medical imaging and minimally invasive surgical techniques.

Nationally, Ontario is now lagging behind a number of other jurisdictions, namely BC and Alberta, in terms of its commitment to sustaining and strengthening its health research enterprise. We need the government to invest in health research. To begin with, we have proposed that the government contribute $52 million in annual funding to provide the annual salary support necessary to attract and retain highly qualified scientists—the engine and human resource that drives research. This investment will have tremendous impact on health research in this province, particularly in terms of retention and recruitment of world-class scientists.

At a time when Ontario's manufacturing sector is suffering, the time is right for the government to invest in the health research enterprise to create jobs and opportunities for the knowledge economy of tomorrow.

Lastly, we want to reiterate and underscore our support for the establishment of a provincial health research agency. This agency would be mandated to set health research priorities building on the existing health research infrastructure. Providing a focal point for health research in Ontario is essential to achieve improved health outcomes, strengthen a knowledge-based workforce in a post-manufacturing economy and leverage a reputation for leadership in commercialized health care technologies.

Let me end on a philosophical note. Bill Gates has been quoted as saying, "Never before in history has innovation offered promise of so much to so many in so short a time." We believe this statement applies well to the work of academic hospitals and the health research they conduct to benefit our patients and Ontarians. Let's work together to harness the best of what we have to offer. The health of Ontarians depends upon it.

Thank you for your time. We would be pleased to respond to any questions you may have.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning goes to the official opposition. Mr. Hudak.

Mr. Tim Hudak: Thank you for the presentation. It's great seeing Mary Catherine Lindberg back again, a fellow Niagaran. Mary Catherine's presence here reminds me of Pacino's line in The Godfather III. Every time she tries to get out, they keep dragging her back in. Welcome back to the committee.

I'd be interested in a few things, if you don't mind. You mentioned 25 or 26 hospitals you consider academic research centres. We also have other groups that will make presentations or submissions, like the GTA/905 Healthcare Alliance, for example, for growth-area hospitals. So a lot of your members will be in both groups. Help me reconcile your proposals versus theirs.

Mr. Joseph Mapa: Sure. The parent group, the Ontario Hospital Association, that I think is presenting to you imminently—I think in the next couple of weeks or so—will talk about cross-hospital issues such as operational funding, such as the role of LHINs in terms of jurisdictional planning, such as IT as far as enabling technologies that all of us share in common.

What we're here to talk about is the unique role of academic hospitals, because our mandate includes, in addition to the things I talked about, training, education and research. Those are unique roles that define the academic hospital, whether it's here or in any jurisdiction across North America—in fact, throughout the world. So we are here to differentiate our role and to try to ensure that we impress upon you that this role is essential in a sophisticated and prosperous economy. That's what we're trying to do.

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Mr. Tim Hudak: Maybe you can shed some light as best as possible on the role of LHINs and the influence they have on the funds that flow to academic centres. Obviously you're concerned because, if I understand the model, the funds are transferred to LHINs and they'll make decisions within their regions.

Mr. Joseph Mapa: You know, I'm not concerned about LHINs. I think all of us respect LHINs. In fact, Mary Jo and Mary Catherine and myself, I think it's safe to say, support the concept of a LHIN and the philosophical underpinning of LHINs, which is about the improvement of health, which is about regional planning, which is about efficiency, productivity and the smart way to do things. That's not what this is about.

What we are concerned about, as an academic constituent in Ontario, is that whatever change takes place, whether it's LHINs or whether it's a new provincial research agency, academic hospitals and their role be respected and that their integrity be maintained. So whenever we have an opportunity or a forum to express our position and our role, we do so. We're going to work with LHINs. We work with LHINs already and, in fact, we influence LHINs. We try to make sure they evolve in a positive way for all health care. So it's not about our concern about that. I think LHINs create a challenge, as anything new, any new paradigm creates, and I think that's where you get a lot more advocacy during these new times.

Mr. Tim Hudak: Your second point, $52 million in annual funding for the salary support: Is it currently financed under the individual hospital allocations through the ministry, does it come from chairs from academic programs? How is it currently financed?

Mr. Joseph Mapa: Most of the research now is financed through two forms. One is external funding from agencies such as the national institute of health research or—

Ms. Mary Jo Haddad: Heart and Stroke.

Mr. Joseph Mapa: Heart and Stroke and so forth. But in our province, unlike, for example, other jurisdictions in the States and Quebec and Alberta—most of those jurisdictions understand the other side of it—hospitals now are paying, and it depends on the hospitals or the institutes, about 30% of every dollar for research, up to 40%. This is, for us, unsustainable because we have to raise those monies through fundraising. Fundraising, by the way, can go into critical equipment, IT and the things that other organizations will come here and actually ask for.

Because we believe in the research enterprise as an enabler for health care and patient care, we spend a lot of time raising money for that. It's unsustainable, it doesn't make sense. So what we are asking for is a sustainable source of funding for research salaries, for our researchers, that enables us first of all to keep that enterprise robust and second of all enables us to channel our energies to raise money—which we will, by the way; we do this and we do this well, I hope—for other purposes which I think are equally important.

So that's what it's about.

Mr. Tim Hudak: A last question—

The Chair (Mr. Pat Hoy): Thank you, and thank you for your presentation.

ONTARIO CONVENIENCE STORES ASSOCIATION

The Chair (Mr. Pat Hoy): Now I call on the Ontario Convenience Stores Association to come forward, please. Good morning. You have 10 minutes for your presentation. There may be five minutes of questioning. I would ask you to identify yourselves for the purposes of our recording Hansard. You can begin.

Mr. Dave Bryans: Good morning, everyone. My name is Dave Bryans. I'm president of the Ontario Convenience Stores Association, and I have the luxury of being president of the Canadian Convenience Stores Association at the same time.

On my left is Steve Tennant. He's national director of the We Expect ID campaign. Steve also has 30 years of retailing experience, which he'll bestow upon you shortly. On my right is Chris Wilcox. He's general manager of Quickie Convenience Stores out of Ottawa and also chair of the Ontario Convenience Stores Association.

First, I want to thank the committee for seeing the Ontario Convenience Stores Association and listening to us and hearing a few of the suggestions we have today.

A quick review of the four areas we'd like to discuss—and we will be sharing the podium; it won't just be me speaking. We want to talk to you about the rapid escalation of contraband tobacco as it relates to this province, and the cost to retailers and to the Ontario government. It's growing, and we'd like to discuss that.

We also want to talk about our responsible community retailing initiative, and that's known as We Expect ID, and we'll discuss that with the committee very quickly. Steve Tennant will touch on that. Chris Wilcox will then take you through the impact on tobacco display bans for convenience stores throughout the province. Finally, we want to talk about one significant way that the government could assist our sector in allowing the sale of alcohol or soft alcohol—beer and wine—in convenience stores in Ontario.

But first, a quick overview of who are we, a little bit of background. You must be saying, "Wow, who are all of these people sitting up here?" Well, we represent a $6-billion industry here in Ontario. We're very proud of it. We employ over 70,000 employees, people at our stores, and close to 85% of all of our employees are new Canadians—a very, very important facet. Convenience stores are actually one of the first job experiences for many young people in Ontario, and always have been—including myself, by the way—so that sort of sets the tone. There are over 10,000 convenience stores in the province of Ontario, and they're located in every town, city and community in this province. Most of these stores are owned and operated by small family-run businesses, and all of them are within your own ridings as well.

We represent the Ontario Convenience Stores Association, over 7,000 convenience stores, and there are 10,000 convenience stores in the province.

Finally, just to help update you, over 1.2 million Ontarians visit a convenience store each day. The entire population will visit a convenience store every 30 days. So we have a pretty broad base of talking to the consumer for you.

The first area I want to talk to you about, and I'm going to touch on it, is contraband. Here's a great opportunity for this committee and for this government to now recoup over $500 million lost provincial tobacco tax dollars, and I'll just touch on it. Contraband or illicit cigarettes—some people in the room are very familiar—are products that are untaxed and moving illegally around the province. It's a very serious problem in Canada, but it's getting worse by the day, especially here in Ontario and in Quebec. It is cheap, they're easily bought, and they lack any government taxation, inspection or control. The illegal sale of contraband cigarettes has robbed our industry and the Ontario government of hundreds of millions of dollars. Don't fool yourselves: Provincial tobacco tax makes up a big part of the taxation that's being lost, and so does provincial sales tax. We estimate that the lost revenue to the Ontario government to date is about $600 million a year and growing. Just as an example, all governments in Canada are now losing 1.6 billion in tobacco tax dollars. If we don't control it, if people don't take the political will to change it, it will be over $5 billion in five years.

Contraband tobacco is causing serious harm to the convenience store industry. People don't come in to buy gum, chips, pop or lottery tickets. Our sales are way down, and that is in every community. You can ask within your own communities. An industry-wide survey determined that there has been over a 25% decrease in convenience store business over the last two years because of contraband. Contraband, or illegal, cigarettes sell for about $6 to $10 a 200 bag—carton—versus the legal market of about $65 for a carton of cigarettes, tax in. It's impossible to compete with the illegal cigarettes that are sold for 10 times less than the legal price here in Ontario. Studies have shown that contraband is widespread throughout Canada, but growing particularly in Ontario and Quebec. Nearly one in three cigarettes smoked in Ontario, 31.5%, is now illegal and contraband—a shocking number of people who are avoiding taxation in this province, and we're closing our eyes to it. This is up from 23.5% in 2006, or a 23% increase in one short year.

In fact, what should be of most concern to all of us is that its illegal, organized distribution networks have even reached our high schools, and many youth now have access to cheap products. In a recent study that was conducted by the Canadian Convenience Stores Association, it was determined that 35% of all cigarette butts collected at high schools in Quebec were being smoked illegally by students, and 24% of all students who were surveyed in Ontario and who smoked were smoking untaxed products in this province. As earlier stated, this happens with absolutely no government inspection, no testing, no quality control, no health warnings, no oversight, and no taxation.

It is a complex problem. There's no easy solution; I'm not here to tell you that. But we need the action of this government urgently. We need the government to work with us on tax levers and increased enforcement to deal with the issue.

I'm sure you will bring up questions at the end. Now I'm going to turn it over to Steve Tennant to talk about the responsible community retailing program that we're very proud of called We Expect ID.

Mr. Steve Tennant: Good morning. We Expect ID was created in 2007 by the Ontario Convenience Stores Association for the Ontario Convenience Stores Association. It's a zero-tolerant sale age-verification program that our members take very seriously. We fully recognize that we must be zero-tolerant on all age-restricted products, age-restricted products being tobacco, lottery, and alcohol in many of our cases, because we have the agency stores, but it's lots of other products like fireworks, movies and games. We currently have the program in 5,000 of our member sites, roughly half of the convenience stores in the province, and are trying to reach out to the true independents, the one-off shops in every single community.

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What we're expecting with We Expect ID is, working with the Ontario Lottery Corp., we've instituted that when you go to make a purchase of an age-restricted product, you must present photo ID. If you present your Ontario driver's licence, we can swipe it through the lottery terminal. It quickly and easily verifies—your age pops up on the screen. It's very quick, it's already met all of the privacy issues, it's very clean, and it's much better than the program that otherwise would have to be used, as is being used in the LCBO today, where you have to verify, check the birthdate and the signatures. This is a very clean, quick and easy solution.

We take it very seriously that we must be zero-tolerant. Our members are training all of our staff in the program. We're developing our own website portal so that every store and every staff member can be certified and regulated, and we will do follow-up checks to make sure they are following all the policies and procedures as expected. The goal of the program is obviously to be zero-tolerant and to assure the public that they can trust our members that none of the age-restricted products are going to be in the hands of minors. That's lottery and tobacco, all products.

What we've asked the government to do, because it is in the government's best interest to ensure that minors are not gaining access to this age-restricted product, is to support us in developing and rolling out We Expect ID to the full province and all convenience stores and/or other retailers that sell age-restricted products. We submitted to the government a proposal for $2 million a year for the next four years to develop the program, institute it, get it rolled out, and then re-certify and check on our members to make sure they are following all procedures.

Thank you.

Mr. Chris Wilcox: If Dave and Steve have timed this correctly, I should have three minutes left, so I promise I'll be three minutes. Again, my name is Chris Wilcox.

The Chair (Mr. Pat Hoy): You don't have three minutes.

Mr. Chris Wilcox: I don't have three minutes?

The Chair (Mr. Pat Hoy): You have two.

Mr. Chris Wilcox: My other full-time job is as general manager of Quickie Convenience Stores in Ottawa.

On May 31 of this year, all convenience stores in the province of Ontario will be required by the Smoke-Free Ontario Act to cover up their tobacco displays. While our association generally supports the government's objectives which were behind the smoke-free act, the significant cost to our members of complying with the display ban was something that the government failed to consider when they wrote the legislation.

Again, our members have told us that they want to comply with the new law, but only in a way that looks professional and has visual appeal. In other words, they didn't want to end up with the shower curtains that we saw covering tobacco displays in Manitoba and Saskatchewan. In response to the government legislation and at the request of our members, we spent a great deal of time developing a back wall cover-up that meets the test of compliance, while at the same time giving our stores a professional look. In your handouts, you'll see a photograph of exactly what I'm talking about, which is our back wall solution to the new rules.

However, what was forgotten in the rush to write these new smoke-free rules was the significant cost to our members to retrofit their stores with these cover-ups. We estimate the cost of these cover-ups conservatively in the $5-million range, or roughly $500 per store across the 10,000 convenience stores in the province of Ontario. These are dollars that many family-owned convenience stores simply don't have, and so I'm here before you today to ask the Ontario government to work with us to ensure that the convenience stores across this province are not saddled with this expense on their own. One also shouldn't forget that the legislation is coming into effect at a time when our members are being especially hard hit by rising energy costs and minimum wage rules.

The second item I would quickly address is the sale of beer and wine from Ontario convenience stores. Our sector has been severely battered by the flood of contraband tobacco, which has eroded our revenues, all the while having to cope with rising labour and energy costs that I touched on moments ago.

It would be a tremendous boost to our sector if we were allowed to sell beer and wine in our stores. I can speak from personal experience because of the 11 stores which my chain operates in Gatineau, Quebec. We've sold beer and wine from our Quebec stores for over 30 years without incident. On average, we have three more full-time positions in each of our Quebec stores than we do in our Ontario stores. This is strictly to handle the additional sales volume and bottle returns that come from being able to offer beer and wine in Quebec dépanneurs. Multiply this increased labour factor across the 10,000 convenience stores in the province of Ontario, and imagine the economic stimulus that would have.

Just like the bringing of wine to your favourite restaurant was viewed as a natural evolution, so too would this be seen as an idea whose time has come to Ontario, and it's one which the government can implement to support our sector without costing it one thin dime. I think it makes common sense, and I think the majority of Ontarians would support it.

Mr. Dave Bryans: As you can see, we want to work with the government. We've always wanted to work with everyone in the room. We want to build a presence and help small business as we move forward here in Ontario, because it's important to the communities you all live in. We want to develop a strong, compliant tax base for this room and for the future of Ontario. Finally, we're proud of We Expect ID, because it's a great program and it's a great time for our government to stand behind zero-tolerant age programs for youth in this province. Thank you, and we'll take any questions.

The Chair (Mr. Pat Hoy): The questioning will go to the NDP.

Mr. Michael Prue: I have several questions. I was intrigued by the amount of money that you said you could buy a carton of 200 cigarettes in Ontario for: between $6 and $10, versus $65. I have never heard the price categorized that low. Where is this coming from? Last year, we were told it was around half the price, and somebody actually brought the cigarettes from a reserve to where we were in Belleville to show us what was purchased that morning; it was about half the price.

Mr. Steve Tennant: Yes. It's supply and demand side. The price is actually going down, and they're competing with each other. Most of that product is simply packed in freezer bags, baggies. There's 200 cigarettes. Most of it is being produced in upper New York state on First Nations lands and then smuggled through Cornwall, through Quebec. As you get further through the province, the price goes up with the difference away from the manufacturing plants. So where you can buy it for $6 or $8 in Cornwall and Belleville, by the time you get that to Thunder Bay, it may be $20 for that same bag.

Mr. Michael Prue: Okay. You said it's a complex problem, and I agree it is, but the only rational way that I can see to stop it is to have police, customs officials, interdicting the cigarettes as they're crossing the border, and then police taking this as a serious crime where it's being retailed. Do you have any other suggestions, other than more police and law enforcement?

Mr. Steve Tennant: Enforcement and regulations are certainly one of the steps to stop the free flow of illicit trade through the province. The other side is tax policy changes. Here in Ontario, no provincial tobacco tax is being collected for product shipped to the native reserves or manufactured on the native reserves. The western provinces treat it differently. First Nations treaties are respected and they do get their product tax-free, but it's on a rebate system. The product that is shipped or manufactured is fully taxed, so Ontario would be collecting all of its taxes, and then First Nations peoples would get their rebates back. That's how it's being handled in the western provinces, and they have much less of a problem with smuggling.

Mr. Michael Prue: In terms of police enforcement, I can only speak anecdotally of one circumstance in my own riding where the neighbours were complaining. A guy moved into an apartment and was selling cigarettes at all hours of the day and night. People were knocking on the door at 4 in the morning to get contraband cigarettes, and the police seemed very reluctant to actually get a warrant and arrest him. Even after they did, he started up business the next day, and they were reluctant to come back. Do you see this as a problem the government has in enforcing its own laws?

Mr. Steve Tennant: Absolutely. A lot of this product is coming off of First Nations lands, and all levels of government and all levels of law enforcement are very reluctant to be confrontational with First Nations. I know that in North Bay, the chief of police has recognized the issue, sees it, and has categorically stated that there is no way he is going to do anything or take any action. He does not want any direct conflict.

Mr. Michael Prue: Just to shift gears a little bit, in terms of the issue on the convenience stores and the $500 or so it costs to put in these dark market, back wall solutions, this is the first I've heard that retailers are asking the government to foot the bill. Why is it that retailers should not be footing the bill? Five hundred dollars does not seem a lot of money per individual store to continue to sell cigarettes.

Mr. Chris Wilcox: It's not only chains we're representing here. We represent thousands of mom-and-pop stores across the province, and $500 is a lot, especially at a time when they're facing higher energy costs and labour costs. The cheapest solution would be just to stick up a shower curtain, which is what they did in Manitoba and Saskatchewan, and none of us want that. In fact, the health ministry has told us that that's not an acceptable solution, that they want something different, so we've come up with what we thought was the most cost-effective, professional looking fixture we could. For some stores it's going to be $500 and for other stores it's going to be more. I tried to come up with an average across the province. I was trying to come up with a conservative figure, not something that was outrageous. We've heard it costing some chains as much as $5,000 to renovate their whole front ends. But a typical mom-and-pop would spend roughly between $500 and $600 installing the solution that we've come up with. We think it's a reasonable request, especially since this was imposed upon them by the smoke-free legislation.

The Chair (Mr. Pat Hoy): Thank you for your presentation before the committee.

We are recessed until 1 o'clock.

The committee recessed from 1212 to 1304.

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

WELLESLEY INSTITUTE

The Chair (Mr. Pat Hoy): Our first presentation of this afternoon is the Wellesley Institute. If you could come forward.

Mr. Bruce Crozier: A fine-looking gentleman, if I might say.

Mr. Michael Shapcott: Thank you very much. You have my vote, sir.

The Chair (Mr. Pat Hoy): You have 10 minutes for your presentation. There could be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard.

Mr. Michael Shapcott: Thank you, Mr. Chair. My name is Michael Shapcott. I represent the Wellesley Institute. If I may say, we do wear bow ties at the Wellesley Institute. But in addition to that, we're a community-centric independent policy and research institute dealing with the social determinants of health. In particular today, I wanted to make some submissions to the committee in terms of housing and homelessness.

Of course, the number one issue on the minds of this committee and indeed most Ontarians is: What's happening with our economy? Is there going to be a recession in the United States? Is that going to drag Ontario down with it? I think that if there's one thing we can say for certain about the economy, we can say that President Bush has taught us three very important lessons.

One lesson he has taught us is that what happens in the housing sector doesn't stay in the housing sector, that what triggered the current financial crisis—downturn, softening, recession, whatever words we're using today—was in fact the subprime mortgage crisis, which didn't just contain itself to the estimated two million households that will be losing their homes as a result of that crisis but has now spilled out into the broader economy. I think that's an important lesson we have to pay attention to that what happens in the housing sector does affect the broader economy.

The second important lesson I think we can learn from the United States and apply here to Ontario is that the deliberate policy in the United States of neglecting housing policy and simply letting the markets do whatever the markets choose to do has had enormous repercussions. We know that many of the people who were forced into the clutches of rather unscrupulous mortgage brokers in the United States were there because they were desperate; they had no other options. There is no national affordable housing strategy in the United States, and that's what forced them. There's also the additional factor there that fortunately we don't have as serious an issue with here, and that is that we know that there are estimates that as high as 40% of the people who were lining up for these subprime mortgages were doing it in order to pay off uninsured medical expenses. So we do know that neglecting housing policy has very costly implications.

The third very important lesson that we can learn, thanks to President Bush and his policies, is that when the economy sneezes, low, moderate and middle-income households face hypothermia. Even before these current financial troubles there had been deteriorating conditions here in Ontario on both the ownership side of the housing sector and the rental side. This has created widespread housing insecurity and growing homelessness. Evictions in Ontario were at record highs in 2005 and then again they set another record in 2006. This housing insecurity, growing unaffordability and growing homelessness not only affect the individuals who were involved but also disrupt communities. It's a drag on our regional and provincial economies.

I want to remind the committee that the last time Ontario went into an official recession we actually had a provincial and national housing program and we had income assistance programs that provided some form of social safety net for people who became victims of these broader macro economic forces. That social safety net was slashed in the mid-1990s and now low, moderate and middle-income households in Ontario are facing the prospect of a looming recession with a badly frayed and chronically underfunded social safety net.

There is, however, good news. The good news is that there are solutions available for this committee to adopt and for the government to implement which will not only help the individuals directly affected but will provide substantial economic and social benefits, including jobs, and taxes for municipal and provincial governments. So the housing solutions will not only help us to meet our challenges but they'll also help the province to weather the troubled economic times.

I'd like to, if I may, make several specific recommendations to the committee and then some general observations. They grow out of the state of housing in Ontario in 2008, and I've provided some detail in the written submission.

First of all, we know that on both the owner's side and the renter's side of the housing sector in Ontario we're in trouble. We know that new construction began to taper off starting in 2004, that new rental supply in particular remains desperately short of the need and that average rents in Ontario have outpaced the rents that most tenant households can afford to pay, and that goes back almost a decade now. Eight of the 10 least affordable rental communities in Canada are in Ontario; that's according to Canada Mortgage and Housing Corp. We now know that, according to RBC Economics Research and others who study the ownership market, the price of owned housing is growing out of reach even of middle-income households. So we've got a crisis that has been brewing even before whatever happened south of the border sweeps over Ontario.

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We also know that Ontario does have plenty of fiscal capacity for solutions. No matter how you measure it, the province of Ontario is spending less on housing now than at any point in the last 15 years. In fact, Ontario's housing record is the worst in Canada when compared to other provinces and territories. Back in 2001, the Ontario government joined with all the other provinces and territories to sign the affordable housing framework agreement, and it promised at that time that it would ramp up provincial housing spending to match new federal dollars. That was to be a $2-billion program across the entire country. On page 12 of our submission, at the very end, there's a very troubling chart which shows that since that agreement was signed, you'll find that every other province and territory in Canada has increased its spending—some marginally, but at least increased—except for Ontario, where the spending has dropped by more than $700 million. So Ontario has the worst record of any of the provinces and territories in terms of housing spending.

A third observation we'd like to make is that housing solutions will help Ontarians and also help the Ontario economy. So we're recommending four very specific solutions that we'd ask this committee to adopt and in turn we would ask the government to give favourable consideration.

First of all, we think the government should complete the upload of affordable and social housing program funding that it started in the 2006 provincial budget. The overall cost of that is estimated to be about $600 million.

Secondly, to assist renter households who are trapped in the affordability crisis, we recommend that the government offer 45,000 rent supplements to lower-income households to help them maintain their housing—an estimated cost of $220 million.

Thirdly, we'd recommend that this committee adopt a proposal for a new provincial social and affordable housing program and provide capital grants for an annual total of about 8,300 new truly affordable homes to meet the current and growing need—estimated cost, $830 million.

Finally, Ontario urgently needs a social housing rehabilitation and renovation fund to deal with aging social housing stock, and we estimate that at $260 million annually.

Those are our four major recommendations, but we have some other recommendations I'd like to quickly touch on before moving to questions.

First of all, as I mentioned, the province does have the worst record among the provinces and territories of Canada for housing funding, but it gets even worse than that, in that Ontario not only is not spending its own money but it's not even spending federal money. In particular, last year the federal government allocated, through an off-reserve aboriginal housing trust fund, $80.2 million to Ontario to build off-reserve aboriginal housing—and if there's one group in our province that is bearing an unfair burden in terms of housing insecurity, it's aboriginal people living off-reserve. There's one year left before these funds are clawed back by the federal government. This committee needs to send an urgent message to the government that those funds need to be allocated to aboriginal housing providers in order to build aboriginal housing.

Second, we'd like to encourage this committee to see these recommendations as being an immediate down payment on a provincial poverty reduction strategy. We're encouraged that the provincial government and other political parties are now talking about the need for a comprehensive poverty reduction strategy, and we know that there's some time that's necessary to work out the details, indicators, timelines and so on. In the meantime, we think that the upcoming provincial budget is an ideal time for a down payment on a provincial poverty reduction strategy, so we join with many other groups that are making presentations to you in urging that.

We also would note that there are a number of non-fiscal measures that the government can adopt that don't directly impact on budget 2008 but which would have a very major impact in terms of easing housing insecurity and homelessness in Ontario. I'll just simply list them: ending vacancy decontrol; authorizing mandatory inclusionary zoning for housing; and finally, supporting the renewal and enhancement of federal housing and homelessness initiatives.

I appreciate the opportunity to make those submissions. I'm happy to go into more detail in terms of the facts and figures. In our report, we've brought together the latest research from government and non-government sources to give you a better perspective on what's happening in terms of housing and homelessness in both the ownership and the rental sector, and we think that helps to support our request today for additional funding for housing and homelessness initiatives.

The Chair (Mr. Pat Hoy): This round of questioning will go to the government. Mr. Arthurs.

Mr. Wayne Arthurs: Michael, thank you for being here this afternoon. You probably weren't here this morning—I can't remember who all was here and who wasn't—but among our presenters we had our economic experts as well. One of them, Hugh Mackenzie, commented on infrastructure as an important component of the competitiveness of the province and the like, and in that context talked about the relationship between the province and municipalities, and municipalities having a larger share of that cost but the least amount of resources available.

I say that just to sort of pre-empt my question, because two of your pre-budget submissions deal with the upload of affordable housing, social housing, program funding and the funding of the social housing rehabilitation and renovation fund. Currently, the municipalities and the province are in the midst of a fiscal review panel process, and I know from my municipal background and the years I spent there that one of the ongoing and significant issues for them is the cost of affordable housing and, importantly, within that, retaining that physical infrastructure, the rehab renovation capacity of municipalities. They would like to see, I think to a large extent as one of their priorities in their deliberations, that some of these costs or all of these costs be returned to the province. In doing that, though, there's always the risk that you extract, then, the community-based management of support housing that I think is best delivered at that level as opposed to being delivered from the province on down. The old Ontario housing model—we're well beyond that now.

Can you comment for me on, as you see it, the role of the municipalities, whether you agree or disagree, continuing an integral role, and in doing that, how we would manage the fiscal relationship? It's always this pay-for-say issue that crops up, whether it's the province or municipalities, that nobody wants to pay if they don't have any direct say in how that money's being expended. Can you comment on those elements of your submission and their relationship to municipalities in particular?

Mr. Michael Shapcott: Absolutely. The review process is an important process, although I think that there's general agreement that social spending costs, including the social housing programs, do rightfully belong at the provincial level, but administration can safely stay at the municipal level.

We actually have a long history in Canada and in Ontario. If you go back to Ontario in the 1980s, we saw the emergence of the affordable housing programs in 1985, 1986, 1987 and into the early 1990s, where the programs were by and large funded at the provincial level but delivered locally; and again, national housing programs and successful housing programs of the 1970s and 1980s, before they were cancelled in 1993, funded nationally but delivered locally. So I think that the precedent is very clear and is there.

I would simply say that your government—of course, we think this is the right step—in the last provincial budget did a partial upload in terms of 905. There were some particular concerns there because they were paying an extra share, if you like, for social housing in Toronto because of some of the issues that were created by the downloading process. That helped to deal with that particular inequity, but we think the funding and the administration can be separated without damaging the program.

Mr. Wayne Arthurs: Thank you.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

Mr. Michael Shapcott: Thank you very much.

CANADIAN MANUFACTURERS AND EXPORTERS

The Chair (Mr. Pat Hoy): Now I call on the Canadian Manufacturers and Exporters to come forward, please. You have 10 minutes for your presentation. There might be five minutes of questioning. I would ask you to identify yourselves for the purposes of our recording Hansard.

Mr. Ian Howcroft: Good afternoon, Chair and committee members. My name is Ian Howcroft, and I'm vice-president of Canadian Manufacturers and Exporters, Ontario division. With me is Paul Clipsham, CME Ontario division's director of policy and research.

On behalf of CME, I'd like to thank the committee for the opportunity to provide our input into the development of the upcoming provincial budget. Before we comment on some of the specific recommendations, I'd like to make a few comments on manufacturing and the current challenges that manufacturers are facing and dealing with.

Canadian Manufacturers and Exporters, Ontario division, is the voice of manufacturing and exporting in Ontario. Our member companies account for approximately 75% of the province's total manufacturing output and are responsible for about 90% of the province's exports. CME represents a broad variety of industry sectors, including a significant portion of small and medium-sized enterprises. In fact, about 80% to 85% of our membership is comprised of SMEs. In Ontario alone, our sector contributes almost 20% of GDP, and approximately $300 billion to the Ontario economy.

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Further, the manufacturing and exporting sector provides employment to almost one million individuals directly. A point many people don't realize is that there's almost 1.5 to 1.8 million who are indirectly dependent on manufacturing for their jobs. Many manufacturing jobs are highly skilled and highly paid. Manufacturing jobs pay wages 25% above the national average.

Every dollar invested in manufacturing generates $3.25 in total economic activity, which is the highest multiplier effect of any sector. The sector is also responsible for over two thirds of private sector investment in research and development, something that's crucial for the future of our province.

Notwithstanding these impressive statistics, the manufacturing sector has been very hard hit over the last couple of years. One cannot read a newspaper without noticing an article about the impact of the rapid increase in the value of the Canadian dollar and what it's done to Canadian and Ontario manufacturers. In this recent run-up, the dollar increased by about 12% in value in a matter of months, in many cases removing some company's entire profit margins. While there's been some recent pullback, there is still a great deal of uncertainty, and we expect the dollar to be at par, or close to par, over the next year.

Global competition, increasing input costs and skill shortages are some of the issues that have made manufacturing more difficult. CME works to assist our members better find solutions to these challenges and ensure that everyone recognizes the importance of manufacturing and what it contributes to the economy, to our standard of living and to our quality of life.

The government is to be commended on its commitment to a strong manufacturing sector. By adopting CME's recommendations to create the Ontario Manufacturing Council, implement accelerated depreciation on manufacturing and processing equipment, and eliminate the capital tax for manufacturing activities, the government is taking steps to address the challenges facing the sector. We look forward to moving forward with the council, and are pleased that our president, Dr. Jayson Myers, was asked to vice-chair the council.

While these are laudable efforts, they will only likely provide a brief respite in the eye of this perfect storm. According to CME's 2008 management issues survey, manufacturers and exporters continue to grapple with the impact of the rapidly appreciating dollar, rising business costs, skills challenges and competition from emerging markets. The impact of these pressures is evident in the numbers: In Ontario, there are, as of October 2007, 30,000 fewer manufacturing jobs than in January—that's down 3%—and 173,000 fewer manufacturing jobs than five years ago. In November 2002, we hit our peak of over 1.1 million direct manufacturing jobs.

Urgent action is required to reverse this trend and create a robust investment climate for manufacturing and exporting businesses. The actions of the government should be based on the following tenets: a competitive taxation system, cultivating a highly skilled workforce, and world-class infrastructure.

Creating a competitive taxation system is not out of reach in Ontario, and we have seen some positive recent changes in the fall economic statement. Additional changes can stimulate new investment, foster innovation, encourage training, reduce administration and even improve the environment by investing in more efficient technologies. In order to remain globally competitive, Ontario needs to look carefully at the total tax rate paid by business and act to reduce it accordingly.

The level of the Ontario tax burden continues to be viewed as an unnecessary and unproductive cost of doing business in Ontario. A recently published report by PricewaterhouseCoopers and the World Bank, entitled Paying Taxes, ranks Canada as 99 amongst 178 countries in terms of the total tax rate paid by business. These costs are beyond the capacity of individual companies to control, and a major impediment to attracting new investment and sustaining economic growth. The total tax rate is not the determinant of a competitive tax regime, however. The time it takes to file taxes is becoming increasingly important to investors as this adds to business costs and distracts from value-added activities.

CME recommends the following actions to reduce the total tax rate and administrative burden on businesses principally engaged in manufacturing and exporting activities: reduce the general corporate tax rate to 8% for manufacturers; proceed with the extension of the accelerated depreciation provisions; address inequities in the property tax system; and move to a value-added tax for Ontario.

We believe that the government has a unique opportunity at this time to leverage the most economic gain by proceeding with targeted tax reforms in each of these areas. We believe the economic spin-offs from these reforms will garner the biggest bang for the buck and will provide the right incentive for future investment and growth.

A highly skilled and dynamic workforce is critical to our success in the 21st century in the global economy. Ontario will not compete globally on rock-bottom prices. In order to compete and win, manufacturers are moving towards higher value-added products and processes, each requiring ever-increasing levels of skill to design, develop, manufacture and service these products. Therefore, it's imperative that the conditions exist to cultivate a highly skilled workforce and a culture of continuous learning.

To stimulate employer-sponsored training, we recommend enhancing the employer tax credit and creating an employer-sponsored training program.

To recognize the time limits here, I will ask Paul Clipsham to talk in greater detail about some of the other specific recommendations that we want to make, and we'd be pleased to answer any questions on the points that we're raising right now.

Mr. Paul Clipsham: I just want to delve into a couple of the recommendations that Ian has put forward. Inequities in the property tax system are widespread in Ontario, with industrial taxpayers bearing a disproportionate burden. A 2007 presentation to CME by Walker Poole Nixon analyzed industrial, commercial and residential tax rates across seven jurisdictions in Ontario. On average, industrial rates were 35% higher than commercial rates and nearly 400% higher than residential rates.

Whatever the historical rationale for charging these disproportionately high rates, it clearly no longer exists. Conversely, CME would argue that a strong case can be made for disproportionately low property tax rates for industrial customers. Competition for manufacturing investment is now global. Other jurisdictions offer property tax incentives to attract new manufacturing investment. Every dollar invested in manufacturing in Ontario generates $3.25 in total economic activity, the highest multiplier of any sector. Manufacturing also results in high-wage jobs—25% above the national average. If we connect the dots accordingly, all that adds up to greater tax revenue for government, which can be reinvested in infrastructure, education, health care and social programs.

Furthermore, the province needs to move quickly to eliminate the capping and clawback mitigation measure. The clawback results in some taxpayers paying more than their CVA taxes—that's current value assessment—so that other taxpayers pay less. This is neither fair nor equitable and should be eliminated immediately.

I also want to talk a bit about the value-added tax. Improving Ontario's taxation system is critical to improving Ontario's tax competitiveness and the performance of Ontario business. CME strongly supports the measures to harmonize the tax collection system between the Ontario and federal governments. Once the government has completed the harmonization of corporate tax collection, there will be an opportunity to encourage the federal government to remove the SR&ED tax credit from the tax base at the federal level and move towards a highly advantageous value-added tax system. CME feels strongly that the government of Ontario should fully harmonize the current Ontario retail sales tax with the federal goods and services tax to create a value-added tax system.

A 2006 study by the C.D. Howe Institute entitled Business Tax Reform: More Progress Needed stated that "if Ontario wishes to address its uncompetitive position ... it has to consider a VAT." Harmonization would increase the competitiveness of Ontario business. It will reduce the cost of doing business in Ontario by streamlining tax compliance and make our products more attractive in the export market by reducing product costs. The current sales tax regime weakens the competitiveness of Ontario goods in the domestic and international markets.

We also feel that the corporate minimum tax is not a significant source of revenue for the government and represents an administrative and financial burden for businesses in Ontario. Therefore, CME recommends that the CMT be eliminated in an effort to simplify the process.

The Chair (Mr. Pat Hoy): You have about half a minute left for your presentation.

Mr. Paul Clipsham: Just two other points before concluding: We also feel that the logistics infrastructure, which was mentioned earlier, is critical to the manufacturing sector. We feel that there are multi-modal opportunities that are underutilized and under-invested in in Ontario that should be looked at in greater detail. Also, energy infrastructure is critical to the manufacturing sector. More effort is needed to invest in that infrastructure.

Canadian Manufacturers and Exporters is encouraged by the government's commitment to deficit reduction and a balanced budget, and we know that much more must be done today to avoid a further downturn in the manufacturing sector. We strongly support the decision to mirror the federal government's accelerated depreciation measures and feel that the duration should be extended to ensure equitable access for all manufacturers.

CME challenges this government to improve the competitiveness of the tax regime further, to grow existing investment and stimulate new investment in manufacturing and exporting. While the manufacturing and exporting sector is surviving a barrage of unprecedented challenges, a strong partner in the Ontario government is essential to return growth in this most important sector.

Thanks very much for your time.

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The Chair (Mr. Pat Hoy): Thank you. This round of questioning will go to the official opposition.

Mr. Ted Arnott: On behalf of the Progressive Conservative caucus of Ontario, we want to express our appreciation for your presentation here today.

It was two and a half years ago that I met with your former president, Perrin Beatty, and he was expressing concern about the pending crisis in manufacturing. He said that there were huge competitiveness challenges that the sector was going to be facing, and that without an immediate response and appropriate action from the provincial and federal governments there was going to be a serious meltdown of jobs. Since that time, two and a half years ago, we've experienced the loss of about 150,000 manufacturing jobs. All of this was predictable. We knew it was coming. You knew it was coming. We tried to get the government to recognize the challenges you're facing, and unfortunately we weren't able to get them to take the appropriate action.

I appreciate your presentation here today, but I would call upon the government members to get behind you and to ensure that this committee's report makes reference to the specific suggestions that you've brought forward. I think it's absolutely critical for the future of the province that the manufacturing sector be supported through this difficult time.

The government, in its defence, would argue that they have a number of funds that they've set up to support manufacturing jobs, and there are a couple of them, a-few-hundred-million-dollar funds. But we would question their effectiveness and whether or not they're actually truly leveraging the investment that the government would claim.

How do you feel their approach to supporting manufacturing is working with respect to these industry funds that they've set up, and would you agree that more steps need to be taken in terms of making our tax system more competitive as an alternative to these hundreds of millions of dollars of taxpayers' money that are going to some of these companies, and others not receiving that kind of support?

Mr. Paul Clipsham: We're pleased with some of the actions the government has taken to help deal with some of these challenges to manufacturing, but we think there's a lot more that can be done. We don't think it's an either/or. We think that some of the funds, the manufacturing council, and some of the tax measures made to date are the right things to do. However, we think there's a lot more that has to be done to make Ontario truly competitive, and significant changes still have to be made to the corporate taxation system, as we've outlined in our report, if we want to be able to rely on manufacturing as the engine of the economy in the future. We think that has to be done if manufacturing is going to continue to be the huge contributor that it has been over the last 50 years. So we would encourage additional changes to be made to the tax system to supplement and support some of the complementary, positive changes that have been made to date.

Mr. Ted Arnott: How would your proposal to bring in a value-added tax differ from the current goods and services tax, the GST, and would you suggest and propose that there be a harmonization of the GST and PST as part of that proposal?

Mr. Paul Clipsham: Yes, we've long argued that there should be a harmonization between the federal and provincial tax, that type of approach. We have met with ministry officials in Ontario and across the country and other jurisdictions to continue to get more harmonization, not just on the administrative side, but also on the tax issues themselves.

Mr. Ted Arnott: We heard today from Roger Martin, who is the dean of the Rotman School of Management, and you may have had a chance to see his presentation. But he focused on suggesting that provincial policy needs to be encouraging globally competitive companies to expand their innovation and their upgrading to ensure they are competitive, and that's what government policy should be focused on. Would you agree with that statement, and would you support the suggestion that he's brought forward in that respect?

Mr. Paul Clipsham: Yes. It's a global world out there. We can't work and operate in isolation. We have to be cognizant of those global challenges, and we've been saying that all along. We have to improve our competitiveness, we have to continue to reduce costs, and we have to look to other markets. We certainly appreciate the American market next door to us, but we have to look for other alternatives and other alternate markets because that's where the growth will come from, particularly with what's happened in the last couple of weeks and the last couple of years. So we would agree that we have to try to become a lot more globally focused and a lot more globally successful, again, if we're going to have a competitive manufacturing sector here in Ontario and in Canada.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

COALITION AFTER PROPERTY TAX REFORM

The Chair (Mr. Pat Hoy): I call on the Coalition After Property Tax Reform to come forward, please. Good afternoon. You have 10 minutes for your presentation. There may be up to five minutes of questioning. I would ask you to identify yourself for the purposes of our recording Hansard, and you can begin.

Mr. Bob Topp: Thank you and good afternoon. My name is Bob Topp, and I'm chairman of CAPTR, the Coalition After Property Tax Reform. We appreciate the opportunity to appear before this committee today.

CAPTR is an Ontario-wide alliance of urban and waterfront ratepayer coalitions as well as two major seniors' organizations, and represents over one million Ontario property owners. It was formed early in 2006 to lobby for property tax reform in Ontario. Over the past two years we have held extensive discussions with officials at Queen's Park and with representatives of all three major political parties. Our primary concern is with the use of pure assessment to distribute taxes amongst residential property owners.

The reliance on volatile real estate markets, combined with imprecise valuation methods, results in major and unpredictable taxation shifts from one neighbourhood to another and from one property to another. It can create financial hardship for long-term homeowners whose properties happen to be located in hot market pockets. The impact is particularly onerous in urban and waterfront areas where real estate markets are widely divergent.

Representatives of all three political parties have recognized the need for more stability in the system for distributing property taxes. Prior to the recent election, both opposition parties were prepared, if elected, to introduce major reforms either limiting assessment increases or freezing assessments until property sale. The government in its 2007 budget introduced amendments whereby assessments would be carried out every four years, with increases phased in over the subsequent four-year period. While this will cushion the shock of a major increase, it does not, in our view, properly deal with the volatility inherent in the CVA-based system. In fact, by reducing the frequency of assessment, homeowners over-assessed due to inadequate sales data, inaccurate assessment or hot market conditions are stuck with that valuation for the next four years. This is of particular concern if real estate values decline, as they have south of the border and as many expect, and Ontarians are left for four years with high and distorted valuations.

In the 2005 assessment, 400,000 properties had assessment increases of over 20%, compared to the average Ontario increase of 12%. That valuation, which is the last valuation we had, covered a one-and-a-half-year period. We then had a two-year freeze on valuations which ended a few months after the election. As a result, the upcoming assessment covers three years, 2005 through 2007. In many parts of the province, real estate markets remained buoyant over that period. There is no question that there will again be a wide range of assessment increases, particularly in urban and waterfront markets, with a resulting shift of tax from one area to another and from one property to another. There will be huge distress, in our view, among Ontario's homeowners this fall when they receive their assessment notices. Seniors, whose numbers are growing, will be particularly angered when they find themselves exposed to large and unpredictable tax hikes. This will be true with each new assessment now that valuations will only be carried out every four years.

Our organization, CAPTR, has commissioned a study in an effort to predict from an analysis of real estate markets the range of assessment increases which will be faced in 2008, this fall, by urban and waterfront homeowners. From data we have seen already, it's clear that there will be large disparities in valuation increases and these will result in major assessment-related tax hikes for countless thousands of property owners across the province. We will present that analysis to the finance minister in the near future in an effort to convince the government that further stabilization is needed now to protect property owners from major and unpredictable assessment-related tax increases in 2009.

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We continue to recommend that a limit be placed on assessment increases so that homeowners can forecast their property tax obligations over the long term. Taxpayers will still be faced with inevitable increases due to rising costs faced by municipalities, but can work through local governments to attempt to keep those at a reasonable level. What is hugely unfair, in our view, is to find your tax bill escalating without selling your house, without any additional income and without any additional services because MPAC has decreed that, over the past few years, your property has jumped in value by 40% while one a few blocks away was only up 20%.

Throughout North America, some form of market value assessment is used broadly as a basis for distributing property taxes. We do not suggest that Ontario move to some entirely new system; what we do believe is that the market value system requires a degree of stability. This has been recognized in some 20 jurisdictions in the US and Canada which have shown leadership by limiting either assessment increases or tax increases. There are plenty of precedents, and they are well known to the government. We also believe that limits to assessment increases will protect homeowners at all value levels. They will not, as some will argue, benefit the wealthy at the expense of lower-income homeowners.

In conclusion, CAPTR will continue to push for an equitable property tax regime in Ontario. We believe the situation is urgent with the next assessment notices arriving this fall. We will share our market analysis with the government and make every effort to bring greater stability and fairness to the system on behalf of our coalition members and all Ontario homeowners. Given that Ontario has among the highest property taxes in the Western world, a fair system for distributing the tax load is essential. It is our hope that this committee will recommend to the government that it take immediate steps to stabilize the property tax system. Thank you.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning will go to the NDP. Mr. Prue.

Mr. Michael Prue: Thank you very much. Good to see you again, Bob.

Mr. Bob Topp: Nice to see you, Michael.

Mr. Michael Prue: You didn't deal with this at all, but it is a huge concern: We have the highest property taxes in the world in Ontario. That may be a shock to some of the new members on the government side, the reason being that so many of the services of Ontario have been downloaded to the municipalities and to the property tax system. Would you recommend that the government upload those services which have nothing to do with the property tax, such as welfare, public housing, health, child care? The list goes on.

Mr. Bob Topp: Absolutely we would. We've left it out of this presentation because we wanted to focus, and we've tried to over the last couple of years, our efforts on the specific area that we talk about here: the distribution of the tax load.

Clearly, if taxes are lower, all Ontarians who happen to own property will benefit. Our concern in focusing there, Michael, with uploading, is that the Association of Municipalities of Ontario has stated that they need to get those things out of the property tax base so they can put things in there that are essential to maintain infrastructure and cover other costs that they see are growing. So we're not sure that even if the uploading is completed, we'll see a significant decline in municipal taxes for the average taxpayer.

Mr. Michael Prue: The second question relates to a statement you've made here, and I believe you're correct: "We also believe that limits to assessment increases will protect homeowners at all value levels. They will not, as some will argue, benefit the wealthy at the expense of lower-income homeowners." I remember, in the last government, several of the ministers standing up and saying, "This will benefit Rosedale, not Rexdale," when suggestions were made either to cap, which the Conservatives said, or to eliminate until time of sale, which was the NDP position. Can you explain a little bit further what you mean, that it will not benefit the wealthy at the expense of lower-income homeowners? I think there's some reluctance on the government side to believe that.

Mr. Bob Topp: We were puzzled with those comments, and they were made on a number of occasions by the former finance minister and others, because our analysis shows the exact opposite. In fact, if you look at the 2005 assessment, the lowest increase in Toronto—Toronto is divided up by district—was in Rosedale. That's just one assessment. We did an analysis which showed that the major beneficiaries of a cap would be homeowners with homes valued at under $300,000.

If you own a million-dollar home and you are capped at 5%, you may save more dollars than the guy who owns the $300,000 home, but do you save more if his saving is 10% and your saving is 10%? I think you have to look at that closely. I think a 10% tax saving to someone in a $300,000 home is just as important to him as a 10% saving to the guy in the million-dollar home.

We're continuing to look at those numbers and we have a study being done independently at the moment and we're going to take another look at it, but from all the data we've seen so far—and we asked the government for information to support the statement they were making and they were not forthcoming with that information. So I don't know where the analysis came from.

Mr. Michael Prue: Is there still time?

The Chair (Mr. Pat Hoy): One minute.

Mr. Michael Prue: In the minute that's still left, I'm particularly worried come September for people on fixed incomes, particularly the retired, who have purchased their homes, and find themselves oftentimes in a house that's worth many times more than what they paid for it and who simply want to live there until they die. That was their goal, that was their intent. Is there something else the government can do to make sure that people don't lose their homes through no fault of their own by escalating property values?

Mr. Bob Topp: I think it's a very good question, and if you look at the city of Toronto, where we happen to be right now, you see pockets in Toronto that have been hard hit and where a lot of seniors are living, where a lot of low-income people are living—Parkdale would be one example, and I've attended meetings out there—who are absolutely furious at the exposure that they have in this tax area. I think that a stabilization, a restriction or a limit on the amount of tax, on the amount the assessments can increase, and that limit put in place before assessment notices go out this fall, is what's needed to protect all people, including seniors—particularly seniors and low income. If they can look ahead and see that their assessment isn't going to go up by more than 3% or 4%, then at least they can figure out what their taxes are likely to be and take steps to protect themselves.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

CANADIAN FEDERATION OF STUDENTS-ONTARIO

The Chair (Mr. Pat Hoy): I call on the Canadian Federation of Students-Ontario to come forward, please. Good afternoon. You have 10 minutes for your presentation and there may be five minutes of questioning following that. Please identify yourselves for the purposes of our recording Hansard.

Ms. Jen Hassum: Sure. Hello, committee members. Thank you for agreeing to hear from the Canadian Federation of Students today. My name is Jen Hassum and I'm the Ontario chair of our federation. Beside me is James Beaton, who is our provincial researcher.

The Canadian Federation of Students represents over half a million students from across Canada, with 300,000 college and university students represented in Ontario alone. Today I'm here to discuss with you the state of our current post-secondary education system and the students within it.

We have also handed out our pre-election position paper, which contains policy and research, and a copy of my presentation today.

Today I'll be talking about three things, and I also have recommendations. They include: funding; tuition fees and system design. I will begin by reviewing why post-secondary education is one of the most important priorities for your government.

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More than serving as a critical tool for personal empowerment and social development, our post-secondary institutions also power Ontario's economy. Ontario receives 150% return on its investment in post-secondary education. Over 400,000 jobs are directly or indirectly tied to Ontario universities, and since over 70% of new listed jobs require post-secondary education, this number is going to grow.

Post-secondary education isn't an option for students any more, it's a necessity. The benefits are many on an individual and social level. Increasingly, a post-secondary education is needed just to obtain an average income. Productively employed, well-paid graduates not only hold jobs, but create jobs and economic opportunities for other Ontarians. The higher income of graduates provides increased funds for the provincial tax base that governments can use to support local and provincial government programs, which benefit all citizens.

But despite these important considerations, Ontario's funding for post-secondary education is the third-worst in Canada. This has resulted in some of the highest tuition fees and graduation debt loads in the country. For example, in the last 15 years, tuition fees have increased four times the rate of inflation. Graduates with mortgage-sized debt loads delay starting families and purchasing cars and houses, which not only diminishes their own quality of life, but this undermines Ontario's economic advantage.

The Reaching Higher plan, which was touted as the solution to years of government underfunding, will leave Ontario well below the national standard of funding by the time it runs out in 2010. In fact, according to the Council of Ontario Universities, once we account for inflation and enrolment growth, we are actually further behind under the Reaching Higher plan.

What are the results of this underfunded post-secondary system? They include increased fees, climbing student debt, bulging classrooms and deteriorating infrastructure. These are problems we still grapple with today even after Reaching Higher.

The Reaching Higher strategy for higher fees and higher student debt planned indefinite tuition fee increases of about 5%—the average. But the fees for some programs are going to be much higher than others. For example, some graduate programs and professional degrees will experience tuition fee increases of 36% every four years. International students continue to face complete uncertainty with indefinite tuition fee increases year in and year out under a deregulated system.

A significant portion of Ontarians are deeply concerned about the lack of opportunities available for themselves and their families under the current system. According to a recent Harris/Decima poll, 88% of

Ontarians think tuition fees should be reduced or frozen. The same poll revealed that two thirds of Ontarians said that lowering tuition fees and student debt should be the number one priority for the Ministry of Training, Colleges and Universities.

The Canadian Federation of Students looks to a two-level solution to stopping tuition fee increases. Luckily, the federal Conservatives have already begun to recognize the importance of taking this on as a serious issue. In the 2007 budget, there is an extra $800 million for post-secondary education in the 2008 budget year; $315 million will be Ontario's share. Taken on its own, this single injection from the federal government is enough to roll tuition fees back to 2004-05 levels next year. With this, we recommend creating a fee increase protection fund with this federal money, but we also think that Ontario can go a long way in helping out and should also contribute to the welfare of post-secondary education and the students within it by contributing to this proposed fund. In fact, we're calling on the Minister of Finance to ensure that any underspending within the Ministry of Training, Colleges and Universities is transferred into this fund. For example, according to last year's estimates, that amount would have resulted in $100 million being contributed to that fund.

But tuition fees are not the only problem that students are facing. Ancillary fees constitute some of the fastest. growing fees in colleges and universities. Between 1996 and 2004, college ancillary revenues jumped by 240%. Ancillary fees now make up one quarter the fees that college students pay. Unfortunately, some of these ancillary fees being collected are in direct contravention of the Ontario government's own binding policy. That is why there is currently a class action lawsuit against the colleges that has been launched by students which seeks to reclaim $200 million of fees that were illegally collected from students and their families over the course of four years. Therefore, we call upon Ontario to offset this illegal stream of revenue by injecting $50 million into the college system immediately and ensuring that government and college administrators adhere to their own binding policy.

Students across Ontario are also concerned about transparency and accountability in the government and the post-secondary education system. In other provinces, most notably British Columbia, implementation of generally accepted accounting practices has resulted in the inclusion of college and university fee revenue in provincial budgets. Students believe that there would be a number of advantages in adopting this practice in Ontario. One significant rationale is that it makes public institutions, which are regulated by the government in many different ways, accountable to the government itself through the budgetary process.

The federation also recommends a number of system design changes to improve the efficiency of our post-secondary education system. Credit transfer between institutions is very difficult right now, but there are almost no system-wide mechanisms for credit transfer between colleges and universities. Increasing mobility between colleges and universities would establish clear pathways, thereby reducing costs for students by moving them through the system more efficiently and flexibly. In jurisdictions where credit transfer systems exist, savings for the system are realized by shorter times to completion for students. The federation estimates that improvements in credit transfer would save the system roughly $100 million a year alone in government grants, just by allowing students to apply some of their credits to secondary degrees. The total cumulative savings to students is also rather large: according to us, $40 million a year.

In summary, the current government promotes Reaching Higher as the most significant investment in education in over 40 years. While this new investment is welcome, Reaching Higher's impact fails to make up for the years of underfunding and will only bring Ontario up from second last in the country to the middle of the pack. We think that Ontarians deserve more than mediocrity. While our institutions are treading water and students are drowning in tuition fees and growing student debt—we've touched upon what needs to happen in this presentation. In reaching beyond Reaching Higher, we urge the committee and the government to listen to the message from students, who are the most experienced as activists: If you would like to be an activist government in addressing poverty, then your policies on post-secondary education must also challenge poverty by reducing tuition fees and providing equality of opportunity for all Ontarians.

We thank you for your time and we look forward to submitting our detailed written report later this month and to your questions following the presentation.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning goes to the government. Mr. Arthurs.

Mr. Wayne Arthurs: I have a question, and there may be some other members of our caucus who want to ask questions as well, particularly on the commentary with respect to the federal government. I'm going to take it directly out of your presentation. You have "a two-level solution to stopping tuition fee increases. Luckily the federal Conservatives have already begun to recognize the importance of taking on this serious challenge. The 2007 ... budgeted for an extra $800 million for post-secondary education in the 2008 budget year; $315 million would be Ontario's share."

Do you really believe it was Jim Flaherty's intention, as the federal finance minister, in providing additional monies for universities, with a share of $315 million for Ontario, that it be used for freezes or reducing tuitions, given Mr. Flaherty's fiscal—he'll call himself about the farthest-right fiscal conservative you're going to find. Do you really think this was his intention in providing additional money into the system: that it be used for freezes or reducing tuitions?

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Ms. Jen Hassum: I don't necessarily think that the tuition fee issue is an ideological issue. We have seen provinces under Conservative governments reduce tuition fees, and I know as well as everyone else in the room that this is a provincial arena and so it is up to the provinces to decide how they are going to use those federal monies. So, really, it's in the name of post-secondary education but it is up to the members yourselves to decide how to invest it. We're recommending that you invest it in students to help with the current tuition fee increases.

Mr. Wayne Arthurs: Okay, so what you're saying is that you appreciate and recognize the federal government's engagement in the process. But in my words, I wouldn't think Jim Flaherty would be interested in tuition decreases or freezes as such.

That's really my one particular question. I understand what you're saying. I've put my children through college and university systems. Obviously, I shared responsibility, as much as families can do that with their children, to help support them on their way through.

The other thing I would ask: I'm particularly interested in the systemic changes you're talking about, and that's credit transfers, both between colleges and between colleges and universities. I'm not hearing much about credit exchanges between universities because they're such independent organizations when they're set up. But I know as a parent, when my kids were going through college and university—one has just finished recently—it would have been such a bonus if there had been a higher degree of capacity to move those credits around. It would have helped with the financial burden, because it would have meant that they could have spent a couple of years in one location and maybe finished off their degree closer to home, or started it closer to home and gone somewhere else to finish it, apart from the broad experience they might have gained, more so than they were able to achieve in the time they had. Do you want to comment a little more on the systemic issue of credit exchange or credit equivalencies, which I guess is in addition to an exchange strategy?

Ms. Jen Hassum: Sure. Basically, what we have been modelling our position on system design on is systems that exist in British Columbia as well as in Alberta, where every single post-secondary course is actually evaluated and therefore there is better flexibility and efficiency within the system if you switch from college to college, university to university, university to college and college to university. That way it eliminates duplication.

So often, students will complete a college degree or go midway, the same things with universities, and do an exchange. There shouldn't be any kind of duplication whereby, for example, a friend of mine who went to Algonquin College in Ottawa would then apply to Carleton University and the University of Ottawa. Her one sociology credit, which she obtained at Algonquin, was worth the equivalent of one sociology credit at the University of Ottawa but only half at Carleton. Why is there this sort of system, or lack of system, when what we could be doing is having a system much like that in British Columbia whereby quite often students will pay almost half the tuition fees and attend a college in their hometown for two years and then transfer to a larger university institution to finish up the remainder of their credits?

It's not just a question of duplication and flexibility, but it's also an access issue, because students from more rural areas are six times less likely to attend a university than those who live in urban areas. Tuition fees are also a barrier, and student debt. Having the ability to pay half as well as to live at home in your own community, because a lot of community colleges are spread geographically throughout the province, we think would be a really good way to address some of these issues, through a credit transfer system.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair (Mr. Pat Hoy): Now I would call on the Ontario Home Builders' Association to come forward, please.

Good afternoon. You have 10 minutes for your presentation. There may be five minutes of questioning following that. I would ask you to identify yourselves for the purposes of our recording Hansard.

Mr. Brian Johnston: Mr. Chairman, members of the committee, good afternoon. My name is Brian Johnston. I am past president of the Ontario Home Builders' Association. I'm also president of the Monarch Corp. Our company has built more than 30,000 new homes and condos across Ontario since the company started building in the 1930s. In 2007 alone, our company sold over 2,000 houses and high-rise condominium units in Ontario. Monarch is a member of a number of local home builders' associations in the cities of Ottawa, Durham, Hamilton, Waterloo and Toronto. I also serve on the board of directors at the Tarion Warranty Corp. I am a volunteer member of the association, and in addition to my business and personal responsibilities, I am dedicated to serving the residential construction industry.

Joining me on my left is Mike Collins-Williams, who is the director of policy at Ontario Home Builders' Association.

The Ontario Home Builders' Association is the voice of the residential construction industry in the province. Our association includes 4,200 member companies involved in all aspects of the industry that are organized into 29 local associations across the province of Ontario. Together, we produce 80% of the province's new housing and renovate and maintain our existing housing stock. Our industry contributes over $30 billion to the economy every year, which is over 5% of the provincial GDP, and is actually larger than the now-declining auto industry. I should also point out that beyond economics, shelter is of course a fundamental human right.

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 what should be a fairly stable housing market across the province in 2008. The Canada Mortgage and Housing Corp. has reported 68,123 housing starts in 2007 and is forecasting virtually identical numbers for 2008. I should, however, point out that regions that have an economic base supported primarily by the manufacturing sector, such as Windsor and Oshawa, have experienced very significant declines in housing activity. Due to the strength in the resale housing market, which hit record highs of over 210,000 resales and an average price approaching $300,000 per unit, 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.

Let me talk to you about the housing issues that are on our minds and that we hope will be on your minds for consideration regarding the upcoming provincial budget.

The first point I should make with respect to the upcoming provincial budget is that the residential construction industry is not asking for any handouts or direct support, nor do we receive any subsidies from the province. In fact, we are one of the key drivers of the provincial economy and provide your government with billions in tax revenue to support programs important to our quality of life in Ontario.

The provincial government should be congratulated for running two consecutive balanced budgets. We are aware that there are many competing demands on the pocketbook of this government, and while it is difficult to make the choices, this government has done so. We take a sympathetic view to the province's concerns with regard to the federal-provincial fiscal imbalance when we see the province making hard choices. OHBA is doing our part to support provincial interests by advocating for Finance Minister Flaherty to loosen the reins on federal infrastructure funding for Ontario.

Our members are very concerned about potential harmonization of the PST and GST. The federal government has made it fairly obvious in their words and actions that the province of Ontario could address a portion of the fiscal imbalance and give a small boost to the manufacturing sector through a harmonization of these taxes. Meanwhile, we have heard loud and clear from Finance Minister Duncan that harmonization is not on the provincial agenda. I'm raising this issue with you today as we all know that the federal government has the fiscal means to make the province a very lucrative offer if it chooses to do so.

By way of background, let me tell you that in provinces where the GST and PST are already harmonized, costs have risen drastically, costs which ultimately are passed on to the home buyer in the form of higher prices. Since most inputs to housing are not currently subject to PST, inclusion of new housing at the rate established for other goods and services will increase the effective cost of housing and be detrimental to housing affordability.

Mr. Flaherty says he thinks Ontario should embrace harmonization because it would offer some relief for manufacturers in the province. Our question is, should this come at the expense of the new housing and renovation industries? My recommendation to you here today is that the province should proceed with extreme caution when entertaining any schemes that will increase the cost of housing and add fuel to the fire that is the underground renovation business.

The second major housing issue which I would like to address today is infrastructure funding. The Ontario public, home-buying consumers and home builders across the greater Golden Horseshoe are encouraged by the bold Move Ontario 2020 transportation plan outlined by the provincial government. Ontario desperately needs this kind of vision, and the province made some initial investments in the fall 2007 fiscal update. Now it's time for the heavy lifting with additional investments, and we need to start seeing shovels in the ground soon for some of these projects.

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With respect to the municipal funding of infrastructure and the Provincial-Municipal Fiscal and Service Delivery Review, I have a couple of recommendations for you to consider. The residential construction industry was very supportive of the transfer of two cents of the existing gas tax initiative during the first mandate of the McGuinty government. We believe that this was a successful program to encourage additional investment in local transportation infrastructure. Outside the GTA, the province must continue to invest in water and waste water systems, support rural roads, support infrastructure in Ottawa, support the manufacturing sector by enhancing border crossings, and make the Niagara to GTA corridor planning and environmental assessment study a top priority.

The residential construction industry and our new homebuyers pay the capital costs related to growth through development charges while supporting the economy through both direct and indirect jobs and the tax revenue generated for all three levels of government. Our members are, however, gravely concerned that many municipal politicians have viewed new homebuyers as an easy target for additional taxes, levies and fees, while artificially suppressing property taxes to appease existing ratepayers. Homebuyers should certainly pay their fair share of growth, but they should not be a substitute for the general tax base.

There are a number of accountability and transparency issues with the current legislation, and I strongly believe that, despite the strong lobby from the municipal sector to open the Development Charges Act, the current legislation has served municipal finances very well. This is clearly evident in the very significant development charge increases homebuyers are facing on a near-annual basis in cities and towns across the province. Housing affordability and the fair taxation of new homebuyers must be an important part of any future discussions we have on this issue.

The last issue I'd like to briefly discuss is that our industry worries about the broader economic climate that we operate in. The higher Canadian dollar has impacted Ontario manufacturers, and we are now seeing the fallout in the form of plant closures and job losses. Furthermore, the economic situation south of the border, triggered in part by a collapse of the housing industry, should be a major concern for all Ontarians. As an aside, OHBA is not predicting any of the American housing issues to spill over the border; however, our concern lies with the broader impact on the provincial economy. Quite simply, 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 we 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.

Let me conclude by stating that our industry is fairly healthy today. However, the slowing economy and a number of government policies and regulations have had detrimental impacts on housing choice and housing affordability. It's in the best interest 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 the most important to them.

Mr. Chair, members of the committee, to summarize, the housing market should be fairly stable in the coming year. However, housing affordability is a continuing concern, and we need the upcoming budget to continue 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 you may have.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning goes to the official opposition.

Mr. Ted Arnott: Brian, thank you for your presentation and for the advice that you've given this committee leading up to the provincial budget. We really do appreciate it.

You mentioned the issue of municipal infrastructure and the needs that exist in the province of Ontario. Certainly in my riding of Wellington–Halton Hills, we have a significant number of communities that have real infrastructure challenges that they need provincial support to meet, and we just don't have the local tax base that is necessary to complete the projects that we know have to be done.

You mentioned the sharing of the gas tax. As you know, the federal government shares a portion of its gas tax with all municipalities, large and small, yet the provincial government has chosen and seen fit to only share a percentage of the gas tax with larger municipalities that have transit systems. Would you agree with me that the provincial gas tax should be shared with municipalities large and small, recognizing the smaller communities that have substantial and immediate infrastructure needs?

Mr. Brian Johnston: Not knowing 100% the philosophy behind the gas tax for large urban centres versus smaller ones, I can understand the philosophy of attempting to back transit systems in large communities. I suspect that the smaller communities are, if I can use the word, being ignored primarily because they don't have that lobby on their behalf. I would suspect that there's an argument to be made for smaller communities to have a portion of that tax as well.

Mr. Tim Hudak: Thank you for the presentation. It's always good to hear from the Ontario home builders.

One of the issues that we've talked about before is the affordability of housing. I believe that one of the most important Canadian values is home ownership. You mentioned the land use control policies that have come into effect. What are we seeing so far in terms of home affordability? What are you worried about the most?

Mr. Brian Johnston: I don't think there's any doubt that house prices in the province are moving ahead of inflation. As a developer in the industry, I often find it interesting that developers are very critical of government policy that slows the developer or the builder down. My general response is, as a developer, you're always complaining when you've got the land and you're having trouble getting it through the planning system, but as an industry, conversely or ironically, if you're a landholder, you benefit from a very tight planning system, and this province has a very tight planning system. I think that there's a broader philosophical issue that needs to be discussed, and that is, is a tight planning system in terms of housing affordability in the best interests of the residents of Ontario? I would tell you no. I can tell you that that's not the case. Our association is always working to try to reduce the red tape, recognizing that there is a necessary level of bureaucracy, but to some extent it's so excessive. I had one home builder tell me that we're the second most regulated industry in the country, and that is next to the nuclear power industry. I find that a little hard to believe, but that was just an example of the level of frustration you find with developers and builders. So that legislation is just one example of it.

Mr. Tim Hudak: Just in the interests of time, Chair, I have three last items, and I'll just ask them all at once.

First, thank you for the promotion of the Niagara-GTA corridor—very important to my constituents in west Niagara, Glanbrook and upper Stoney Creek, and I agree strongly.

There are two things you mentioned that I'd like you to elaborate on: first, the conservation authority encroachment you mention on page 23 of your report; secondly, you talk about the importance of the OMB enforcing new policies and plans against expected challenges to conformity exercises on page 21. Could you elaborate on those two? I know my colleague from Haldimand–Norfolk is concerned about what really amounts to extortion payments on developments along the Grand River tract in the Caledonia and surrounding area that are impacting on your members.

Mr. Brian Johnston: I'll talk about the Grand River tract. I just find it ridiculous. I think that it's totally unacceptable. I agree with many observers that merely telling developers not to pay this fee is nowhere near what needs to be done with regard to that issue. I think that the province needs to get serious about it and take more aggressive action. It's all well and good to tell a developer not to pay the fee, but if they're having problems getting on to their land, if they're fearful for their own personal safety, if they are concerned about the taint that is being imposed upon their landholdings, I don't think that cuts it. I don't think saying "don't pay the fee" is anywhere near enough in terms of dealing with that particular issue.

What was specifically the question about conservation—

The Chair (Mr. Pat Hoy): You only have about 30 seconds left.

Mr. Tim Hudak: Conservation authority encroachment on development issues.

Mr. Brian Johnston: Oh, yes. It's a never-ending—my concern about conservation authorities is a lack of accountability. There need to be lines of authority within organizations so that we can actually talk to the conservation authority about what it is they want us to do, because sometimes they tend to run away with what it is they want, without any sort of lines of authority to do so.

The Chair (Mr. Pat Hoy): Thank you for your presentation before the committee.

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ONTARIO NON-PROFIT HOUSING ASSOCIATION

The Chair (Mr. Pat Hoy): The Ontario Non-Profit Housing Association. Good afternoon, gentlemen. You have 10 minutes for your presentation. We certainly appreciate your being here in a timely way. There may be five minutes of questioning, and if you would please identify yourselves for the purposes of our recording Hansard. You can begin.

Mr. Hugh Lawson: My name is Hugh Lawson, and I'm the president of the Ontario Non-Profit Housing Association.

Mr. Sharad Kerur: I'm Sharad Kerur. I'm the executive director of the Ontario Non-Profit Housing Association.

Mr. Hugh Lawson: Good afternoon, Mr. Chair and members of the committee. As I mentioned, I am the president of the Ontario Non-Profit Housing Association. I'm also the director of corporate planning and performance for the Toronto Community Housing Corp.

With me here today is Sharad, and he will assist with any questions that might exist at the end of the presentation.

Our association represents 770 non-profit housing providers in 220 communities across Ontario that range in size from four units of rental housing to 58,000 units. ONPHA members operate more than 160,000 non-profit housing units and provide housing for approximately 400,000 people, such as the elderly, low-income families with children, the working poor, victims of violence and abuse, people living with developmental disabilities or mental illness, and the homeless and hard-to-house—so a wide range of people.

At the outset, let me say how pleased we are to see issues related to affordable housing and a commitment to poverty reduction finally taking a priority position on the government's agenda. In fact, we believe that while these issues are largely regarded as being social in nature, they play a critical role towards the continued improvement of Ontario's economy and its position on the global stage. It's not hard to understand, and many studies have borne out, that safe, decent, affordable housing and reduced poverty promote healthy communities, provide better-educated children and result in a more prosperous society.

Over the course of the next four years, this government has committed itself to the goals of a provincial poverty reduction strategy and an affordable housing strategy that includes a mix of non-profit and co-op housing. We recognize that it will take time to develop these concepts into workable and measurable targets, indicators and programs. But we, along with our sector colleagues, are already working on ideas to assist the government in meeting its goals and look forward to the consultation processes where we can discuss these ideas in detail.

But today, with the more immediate focus being on the upcoming 2008 provincial budget, our members would like to table with you three areas where we believe the government can take immediate action; namely, fixing social housing that is in dire need of capital repair, funding an extension to the current affordable housing program, and providing a housing allowance program for special priority households that are in need of emergency housing.

On the capital repair front, there is little doubt that social housing is indeed a public asset, and, as with any asset, the primary public objective must be to protect and preserve the existing investment, which is valued in the billions of dollars. To do otherwise means having to deal with a replacement value for the 250,000 existing social housing units in Ontario of between $25 billion and $30 billion.

This is an urgent issue. Any further delay only increases the overall risk that society will ultimately pay for the delayed maintenance. In fact, during the most recent election, all three parties recognized the issue and committed to making this issue a priority.

As a result, we recommend that the 2008 budget commit to a loan facility that would leverage at least $1 billion worth of capital needed to address the repair and regeneration needs of the social housing sector in Ontario, with the first target of the facility being the former public housing stock which has reached an age of 40 to 60 years old. This housing is consistently being assessed as the most vulnerable and in need of emergency repair and regeneration and comprises nearly 40% of social housing stock in Ontario.

We support the creation of such a facility and to have it administered through the Social Housing Services Corp., which is already legislatively mandated by the province to administer and manage social housing financial programs. Likewise, a long-term capital planning program for the dedicated supportive housing portfolio administered by the Ministry of Health and Long-Term Care and the Ministry of Community and Social Services should also be put into place, as these supportive housing units are key community assets that similarly need to be maintained in a state of good repair.

It is important to note that the actual annual cost to the government would be the annual cost of forgiven interest and principal, not the full value of the loans themselves, and that what we are requesting is for the government to help the housing sector meet the gap between the financial resources they currently have and the financial resources that are needed to bring the housing stock to a state of good repair.

Given the time-consuming nature of capital repair projects, this program would ramp up slowly. We also believe it could be structured so that the annual cost to the province of forgiven payments over the next five years would be in the tens of millions and not the hundreds of millions that is commonly believed.

Our second request is that the provincial budget include funding to extend the current affordable housing program as the government begins its consultations on the affordable housing strategy and poverty reduction strategy. The government made great strides during its previous mandate to re-enter the housing business by signing the Canada-Ontario affordable housing program agreement in April 2005. Since that time, a number of new units of affordable rental housing have been or are about to be developed. More importantly, momentum and sector capacity is being rebuilt.

But if there is one thing history has taught us, it is that the on-again/off-again program environment and the ever-changing administrative and legal requirements around housing programs constitute a serious obstacle to the provision of a steady state for affordable housing, especially non-profit housing. An unpredictable and ever-changing environment prevents the system from learning and retaining expertise. This is the crux of the capacity-building challenge we hear so much about.

Third, for this budget we recommend that an emergency housing allowance system be developed to provide financial assistance for special priority households in emergency need of housing. This would additionally help take pressure off the existing chronological waiting list system. It's well known from documented studies that the gap between income and housing affordability is widening. It's therefore not surprising that other studies show that the number of people on social housing waiting lists is high and the wait times are long. These factors, taken together, show a high demand for affordable housing and a limited, if not shrinking, rental supply. Contributing to this problem is the provincial rule that special-priority households, notably victims of violence, are added to the waiting list in such a way that neither their emergency needs nor those of others who have been on the waiting list for years have a chance of getting the housing they need. We suggest that an emergency housing allowance system would enable priority households to get the housing, whether social or market, that they need immediately so they can separate from their abuser. This would then permit the provincial rule on the waiting list system to be lifted. Such a change to the system would introduce more fairness and transparency to the allocation of social housing spaces while still ensuring a fast response system for high-priority applicants.

Finally, our association also wants to encourage the government to pay strong heed to the recommendations of the Campaign 2000 group, as they are essential to meeting the goals of this government. As an association we strongly support their recommendations for an effective poverty reduction strategy, including increasing the minimum wage to $10.20 per hour in 2008, strengthening the social safety net by permanently indexing social assistance rates to inflation along with a double-digit increase in rates for 2008, and investing provincial funding in early learning and child care services and affordable housing.

We have also, in our written brief, made a number of other suggestions on courses of action the government should be mindful of. These essentially form a road map and game plan over the next several years towards utilizing the community-based housing assets we've all contributed toward over many years to help shape our province for the betterment of all Ontario citizens.

Thank you for the time to speak today.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning will go to the NDP. Mr. Prue.

Mr. Michael Prue: Thank you very much. I'd like to start with the $1 billion that's needed for repairs. You categorize it as a loan.

Mr. Hugh Lawson: Yes.

Mr. Michael Prue: Is this a repayable loan by the municipalities? By the housing corporation? By the people who live there? Who would repay it?

Mr. Sharad Kerur: It would essentially be a forgivable loan. The housing sector needs about $1 billion to $1.5 billion worth of capital to be able to effect repairs. There are two categories of repair that are needed. One is for the old public housing, where there are in fact no reserves, and the other is for the non-profit and co-op housing assets where there are some reserves, but over a period of time these reserves will dwindle and can't be replenished at a regular rate. So what we're looking for is for the provincial government to actually provide, in partnership with municipalities and non-profit and co-op providers, a filling of the gap between what is needed to fix the housing stock versus what's already there, over a period of, we assume, between 10 to 15 years.

Mr. Michael Prue: All right. Just so everybody understands this: Over 10 to 15 years, the money would be given, but the repayment of that would not necessarily happen. Some of it is forgivable; the province would just simply pay.

Mr. Sharad Kerur: The province would essentially pick up a portion of the interest cost and the principal cost, while non-profit providers would in fact pay a portion of the capital repair costs up front in terms of what they have available in their capital reserves. Municipalities, on the other hand, would still be responsible for providing subsidies under the Social Housing Reform Act subsidy formula, which includes providing a capital reserve contribution under the operating subsidy.

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Mr. Michael Prue: There are some who would argue—not me—that the housing that was downloaded is now a municipal expense; it's now the responsibility of the municipality. I believe that the province has an obligation to pay, because of the way the housing was downloaded in very poor condition and foisted upon the municipalities. What's your position?

Mr. Hugh Lawson: Our position is that the province needs to assist in terms of tools to make it possible for housing providers to do this and for municipalities to do this. The tools are things like the capital facility that would allow us to access funds that we can't access right now. We're limited in what we can do given the rules that were set in place. This would make a great deal of difference because we do need access to a significant amount of capital funds.

Mr. Michael Prue: Would it make any sense at all for this to be uploaded, for the province to take back the whole role of social housing? The province has a lot more money than municipalities and a much easier way of getting money, i.e., from taxes of various types as opposed to just the property tax. Does it properly belong back with the province?

Mr. Sharad Kerur: Let me answer that. There's a two-part answer to that. First of all, one of the things that has been of benefit in terms of the download to municipalities is the fact that the administration can be far more responsive to local community needs in a much faster way. So that's been a positive thing. The negative thing is the fact that a lot of the housing—in fact, all of the housing is financially responsible on the property tax base, which is the bad side of the equation.

We think that what is needed is rather than dealing with the whole uploading issue, both the funding and administration, if the provincial government were to assume the costs of those components of the housing file that touch on income redistribution, that would go a long way in terms of being able to sort of right-size the boat. In effect, I think what we're looking for is for all orders of government to take a role and a responsibility on the housing file in Ontario.

The Chair (Mr. Pat Hoy): Thank you for your presentation.

CANADIAN ASSOCIATION OF ACCREDITED MORTGAGE PROFESSIONALS

The Chair (Mr. Pat Hoy): Now I call on the Canadian Association of Accredited Mortgage Professionals. Good afternoon. You have 10 minutes for your presentation. There could be five minutes of questioning. I would ask you to identify yourself for the purposes of our recording Hansard.

Mr. Jim Murphy: I'm Jim Murphy, president and chief executive officer of the Canadian Association of Accredited Mortgage Professionals, or CAAMP, as we call ourselves. CAAMP has over 11,000 members across Canada, with over half here in the province of Ontario. CAAMP represents all facets of the mortgage industry including lenders such as banks and credit unions—which are regulated provincially, as you know—mortgage insurers, title insurers, and mortgage brokers and agents. CAAMP has also established the accredited mortgage professional, or AMP, designation as part of our ongoing commitment to increase the level of professionalism within Canada's mortgage industry through the development of educational and mortgage standards. Over 3,500 of our 11,000 members have their AMP designation.

For the purposes of this afternoon, I would like to address three issues: (1) the state of the residential mortgage market, both nationally and here in Ontario; (2) an overview of new legislation in the province that's affecting the mortgage brokerage industry; and (3) comment on tax policies affecting the housing industry.

The past year has been full of media stories on the mortgage meltdown south of the border. It is important to note that this is very much a US story. Subprime mortgages in the US account for roughly 20% of all outstanding mortgages, while it's much less here in Canada. They also have a very large preponderance of what are called adjustable rate mortgages, or ARMs, that reset after a certain period of time. The consequence for millions of American households were and are, as we read every day, rising rates all within an environment of actual declines in US housing prices, the first time in a generation. The resulting credit crunch has had an impact here in Canada, there's no doubt. There are fewer lenders offering products because of the risk that many investors now associate with certain mortgage products. It's important to understand that Americans, generally speaking, securitize their mortgages, which is, they sell their mortgages to the market, and investors are obviously looking at what that investment is these days in terms of the increase in foreclosures, the increase in arrears rates.

It's important to note that in Canada our situation is different. Our subprime, or as we describe it, alternative lending market, is much smaller at 5%, we do not have the degree of ARMs or teaser rates that reset after a certain period of time and our arrears rates continue to be at record lows. Our underwriting guidelines that are used by lenders are much more thorough and we continue to see, including here in Ontario, rising real estate prices.

Research CAAMP has undertaken, a copy of which you have in your packages that were distributed, shows that at the end of August 2007 there was nearly $800 billion in outstanding mortgage credit in the country, of which nearly half was here in Ontario. During the past two years, mortgage credit has increased by an average of $77 billion, or over 11% per year. Our survey also shows that a majority of Canadians, some 80%, remain happy with the terms of their mortgages, thanks in large part to good interest rates and new mortgage products such as longer amortization rates. Our industry helps Canadians and Ontarians meet their dream of home ownership.

The second issue I want to talk about is the new legislation, Bill 65. The tremendous growth of our industry is reflected in the passage of new legislation that will govern the mortgage brokerage industry in Ontario. Mortgage brokers and agents in Ontario account for roughly 30% of all mortgage transactions in the province. Bill 65 is the first rewrite of the act in some 40 years and reflects the growth and changes that have occurred in the mortgage industry. The overall intent of the legislation and one CAAMP supports is to increase professionalism in the industry by raising the bar on several important standards such as licensing and increased and enhanced education requirements. All of these will directly benefit consumers.

Recently—last week—the government released the final set of regulations under the legislation. They are important and cover such issues as enhanced disclosure, cost of borrowing, licensing, and mandatory errors and omissions insurance coverage, among other items. We will be responding to the draft regulations in due course. The government today announced an extension in the comment period on that by three weeks.

CAAMP congratulates the government on its openness and accessibility when drafting the legislation and the regulations. They have listened and they have consulted extensively. It has proven to be a very good process. I'd just acknowledge Mr. Arthurs as the parliamentary assistant to the minister—both the former minister and the current minister—for his availability and his response to these issues.

Mr. Tim Hudak: He should be the minister, if you ask me.

Mr. Jim Murphy: What's that?

Mr. Tim Hudak: He's due for a promotion.

Mr. Jim Murphy: Based on our legislation, absolutely.

Finally, let me address the second CAAMP report in your packages, the paper entitled The Perils of Non-Indexation—Three Tax Polices Affecting Canadian Housing Markets. The paper reviews three tax policies that impact on purchasing a home by consumers: the federal GST, which is applicable on new housing; the federal RRSP homebuyers' plan, which allows first-time buyers to access $20,000 from their RRSP plan for a down payment on a home; and provincial land transfer taxes, where they exist. They don't exist in all provinces.

In short, CAAMP advocates the indexation of these three tax policies. Provincially, in Ontario, this means that the land transfer tax schedules should be indexed annually. Ontario has a graduated schedule where the first 0.5% is paid on $55,000 of the purchase price of a home or condominium, 1% on the amount from $55,001 to $250,000, 1.5% on the amount from $250,001 to $400,000 and a flat rate of 2% on purchase prices above the $400,000 threshold. This schedule has not changed since the early 1990s. As a result, the province has gained more and more land transfer tax revenue as prices on homes increase, to the point today where the province of Ontario takes in excess of $1 billion from land transfer tax.

CAAMP acknowledges the recent extension of the land transfer tax refund to all first-time buyers in Ontario in the recent economic statement in the fall, and not just to those who purchase new homes but to resale homes. However, Ontario's refund program is still less generous than British Columbia's, where first-time buyers receive a refund for homes priced up to $375,000, while Ontario's maximum refund of $2,000 equates to a home or condominium priced at $227,500.

The overall schedule should be indexed each year, as it is done for personal income taxes. We recommend indexation should also be done for the federal tax policies, both the GST and the RRSP homebuyers' plan, to reflect rising prices. This is particularly true in the city of Toronto, which will be hit by a second land transfer tax next month. These are one-time, upfront costs that will have a large impact especially on first-time homebuyers at closing.

Thank you for your time. I would be pleased to answer any questions you may have.

The Chair (Mr. Pat Hoy): Thank you for the presentation. This round of questioning goes to the government.

Mr. Bruce Crozier: Good afternoon, Mr. Murphy, and thank you for coming to our pre-budget hearings today. We're pleased to have you here.

I want to note a couple of things. You did mention Bill 65 and the first revision in some 40 years, and we want to thank you and your organization and others for participating in leading up to that new legislation. If there are any other comments you'd like to make about that, I'd be pleased to hear them.

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We've heard a lot, of course, about the subprime lending in the United States. Anybody who reads or listens to the media would have some appreciation for the problem they've had there, and I'm pleased to hear that that is a much smaller part of the mortgage market in Canada than it is in the US. Perhaps you could just tell me how that happened, whether it was coincidental or whether it was planned.

Secondly, this morning it was mentioned that a significant amount of that subprime lending or borrowing was to pay for non-insured medical expenses. I wonder if you've heard that. That then makes me ask the last question: When people do access the subprime market, or the other term that we had here, is that oftentimes to cover other kinds of expenses?

Mr. Jim Murphy: Thank you very much for your comments in regard to the legislation, and we will be responding in the next couple of weeks. I think we're almost there in the regulations. There are a couple of issues that the government has reviewed and, from our perspective, responded favourably to. We're still in dialogue on a number of issues in the regulations. As they say, in legislation, the devil is always in the regulations, but the government and the minister's office and the parliamentary assistant have been very open to input.

Subprime deals with credit and somebody's creditworthiness. If somebody has poor credit but a good income, they usually can qualify, and that's very common in the United States. There are many reasons in the US why subprime was 20% of the market and it's only 5% here. Part of that are some of the tax policies in the US. You can deduct your interest on a mortgage in the US but you can't here in Canada. Canadians are much more conservative. For example, interest-only mortgages are much more common in the US than they are here in Canada for that very reason, from a tax policy perspective. I think Canadians are just much more conservative. Americans tend to securitize their mortgages. Americans sell their mortgages, so they will package mortgages. We just heard about Countrywide, which is the largest lender in the US. It was just bought by Bank of America. Countrywide is the largest mortgage provider in the US. It would securitize its mortgages; it would sell its mortgages. It may go to a bank in Germany, it may go to a hedge fund in Singapore, and they would buy that. For Canadians, because of the position of our banks, usually mortgages show up on your income statement, so it's not securitized and they're not necessarily sold.

What happened, of course, is that these low introductory adjustable-rate mortgages, these teaser rates, reset after a year or two. Some people who should never have been in the home ownership market have seen increases from 6% or 8% up by 2% or 3%, and they're just not able to make those payments. As a consequence, your arrears or default rate rises, and now the big issue in the US, of course, is foreclosures, and we're seeing many municipalities and communities devastated by that increase.

That's not the case here. Our arrears rates are low. We have seen some trends in terms of people refinancing their homes. They do see the rise in value within their home, and so they will take the opportunity to refinance, and home equity loans and those sorts of things have become much more common. So we are seeing some of those trends.

In terms of all the new mortgage products that have been introduced in Canada in the last couple of years, the most favourable, or the one that's been taken up by the population or the consumer, home buyers, is the longer amortization, which is an important issue because it speaks to affordability. A longer amortization of 30, 35 and 40 years on your mortgage means that you have lower payments upfront, but you pay much more over the term of the mortgage in terms of interest. We did research in the report that I provided to you that shows that 37% of all mortgages taken out in Canada last year were more than 25 years in terms of amortizations. That's a huge trend and a huge change within the industry, but it speaks to the affordability and people wanting to get into the home ownership market and build equity.

The Chair (Mr. Pat Hoy): Thank you for the presentation.

Mr. Bruce Crozier: Some day, we'll talk about reverse mortgages for folks who are my age.

Mr. Jim Murphy: That's covered in the legislation.

Mr. Tim Hudak: I just wanted to note for the record, Mr. Murphy, you missed a chance to tell Mr. Crozier he has many years before he has to start worrying about those types of things.

Mr. Murphy, you brought up an important point about indexing the land transfer tax, as well as the LTT refund. I wonder if research could get back to committee, telling us what that would be under a standard inflationary measure today, an inflationary measure for the housing sector in particular. I know it's a bit of a task to decide on that measure, but I'd be interested to see what those levels would be now that we are 12 or 13 years down the road from that implementation initially. Again, to make sure I'm clear, Chair, it's on the land transfer tax schedule, the inflationary impact on what it would be today if it had been indexed, and then secondly the LTT refund, similarly, if it had been indexed.

The Chair (Mr. Pat Hoy): Have you got that?

Ms. Carrie Hull: Not quite.

The Chair (Mr. Pat Hoy): You can chat with research, but that would be all right, to move forward on that.

Thank you.

CALEDONIA CITIZENS' ALLIANCE

The Chair (Mr. Pat Hoy): For the committee, I'm advised that our 3:30 presentation is ready to present and is seated: Caledonia Citizens' Alliance. Sir, we appreciate you being here early. If you would identify yourself for the purposes of our recording Hansard, and you will have 10 minutes for your presentation and five minutes for questioning following that. Go ahead.

Mr. Frank Stoneman: Thank you very much. Good afternoon, everyone. My name is Frank Stoneman, and I am the co-chair of the Caledonia Citizens' Alliance.

The Caledonia Citizens' Alliance is a group of Caledonia and area citizens who have informally and voluntarily responded to the illegal First Nations occupation of the Douglas Creek Estates development. The alliance functions as a voice and advocate for recovery and renewal for the community, businesses, households and service clubs by providing information, support and planning.

On February 28, 2006, a group of protesters from the Six Nations Indian reservation stopped construction on a 600-home residential development in Caledonia called Douglas Creek Estates. The group declared that the land was never legally surrendered back in the 1830s, despite the fact that the federal government has a legal and court-proven valid surrender from that period in time. The developer sought and received a court order to remove the protesters on March 26, 2006. An attempt was made by the OPP to remove the protesters. The result was a violent confrontation, which has been followed by numerous violent confrontations between Six Nations protesters, police and local residents. The province ended up purchasing the property from the developer and is now holding it in trust until a time when the protesters leave the land through negotiation.

Last year when the alliance made a presentation to the provincial pre-budget consultation committee, we made several recommendations that would ensure that Caledonia and Haldimand county would remain viable, sustainable communities. We told the government that Caledonia is growing weary in its role as collateral damage, and we asked for assistance to keep businesses open, to assist residents in dealing with an unfair and unwanted situation, and to resolve the duty-to-consult issue up and down the Grand River valley/Haldimand tract. While there have been some efforts made by the province to relieve the pain of Caledonia residents and businesses, the truth is that it simply hasn't been enough.

In the past year, over 15 businesses have closed, downsized, been placed up for sale or relocated since the occupation began. Some of these businesses, like the Oasis restaurant in Caledonia, have been tourist destinations for over 80 years. However, with tourists afraid to come to Caledonia due to the possibility of a violent eruption from the protesters, tourism-based businesses have suffered tremendously. Other businesses have downsized due to the domino effect of the lack of tourism, resulting in layoffs. The area's largest manufacturing employer, Georgia-Pacific, recently announced layoffs that affect employees with over 20 years of seniority. Job losses are mounting, and there are no prospects of new businesses opening to replace these jobs.

We warned the government that with real estate values in southern Ontario forecast for the next year to increase by almost 10%, real estate values in Caledonia would either stagnate or go into decline. Just recently, this month, the Realtors Association of Hamilton-Burlington reported that the average price increase for residential properties for 2007 is 7.4%. Caledonia may be the only place in Ontario that saw a decrease in the average home resale price over the last year. Houses that have been on the market for over a year have dropped their prices an average of 5% to 10% with no results. When municipal assessments become unfrozen, it is likely that residents who saw their resale property values drop by 10% to 25% may see increases in their market assessments of 10% to 15%. This is particularly frustrating because residents did not ask to be put in this situation, nor do they want it. This frustration leads to anger, and anger does not help in relieving tensions. We are asking for the province to assist these residents while the occupation is ongoing.

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We also ask for assistance for the municipality to help with infrastructure costs related to the illegal occupation. We understand that the province is working with the municipality on this; however, the preliminary information shows that the monies coming from the province are slated to be spent on areas outside of Caledonia, such as heritage lighting for Dunnville. Our municipality is looking at economic recovery funds earned on the backs of Caledonia residents and businesses being spent in areas of Haldimand county other than Caledonia. While all of Haldimand county has suffered due to this illegal occupation, Caledonia has carried the brunt of that suffering. It needs the most attention, and needs it immediately.

We also ask for an expeditious resolution to the duty-to-consult issue that has paralyzed development in Haldimand county. We warned that without expeditious resolution, the problem would spread to other municipalities and development will stop up and down the entire Grand River valley. Since then, we've seen the emergence of the Haudenosaunee Development Institute, otherwise known as HDI. HDI is the development arm of the Six Nations confederacy, and they've been busy contacting developers up and down the Grand River asking for development fees and royalties, which will allow the contractor to proceed with a project without the threat of an occupation stopping the project. The emergence of HDI has caused potentially new hotspots, such as the Edwards landfill site in South Cayuga and developments in Brantford, Hagersville, and Dunnville. They operate without regard to Ontario's land title registry. Even though the Premier has gone on the record to say that HDI has no legal standing in the development community, when these protestors show up at developers' projects, there is no law enforcement agency in the province that has the courage to stop them from stopping the development. If the HDI has no legal standing in the development community, why are law enforcement agencies reluctant to enforce the laws of this province when they try to extract money out of developers who have provincially guaranteed land titles?

This new issue ties directly back to the duty-to-consult issue. The developers in this province need to know that the province stands behind the land registry system, and that the province is willing to stand by their commitment to the development community. The province must clarify the role of HDI and then back those words with actions that will allow developers to develop without the threat of an illegal occupation putting them out of business.

Since we last presented, some new issues have emerged. The by-product of the occupation has been an increase in illegal tobacco retailers setting up shop on public and private lands. In fact, one of these illegal tobacco retailers is set up on land owned by public infrastructure renewal. Today in the Hamilton Spectator, it was reported that over $72 million has been lost in the last 18 months due to illegal tobacco trades. This is tax money that doesn't even reach the government coffers. We're asking that the government step up to the plate and put some teeth into the tobacco laws, and ask for some enforcement.

We've also seen an increasing feeling of resentment towards the Ontario Provincial Police. We understood that, regardless of who policed Haldimand county prior to the occupation, the OPP would be involved. However, we feel that a local force would have been a point of checks and balances with respect to the strategy of the OPP. We support Haldimand County Councillor Craig Grice's motion for the municipality to investigate the establishment of a Haldimand police force, and are asking the province to assist in the funding of a local police force in Haldimand county.

However, the biggest issue facing the local businesses and residents in Caledonia is the rehabilitation and reconstruction of the Argyle Street nine-span bridge over the Grand River. The bridge is emblematic of the local community, joining one side with the other. The bridge is the only thing that connects the south and north sides of town. The south side of Caledonia contains most of the residential and retail activities, while there are also some residential and retail activities on the north side. Having the bridge reduced to southbound traffic only during this time is going to put more pressure on our already struggling businesses. Even if some of the businesses survive this rehabilitation project, the bigger issue comes in 2014, when the bridge is scheduled to be demolished and replaced with a steel structure. This will effectively cut off the north- and south-side residents and businesses from each other, and this will be like that for up to two years. The possibility of implementing a daily bridge solution is complicated due to traffic patterns and street design and very difficult to implement in the winter when there is ice on the river.

There are alternative solutions available that can address the long-term growth strategy and reduce the impact on the local economy. We are asking the province to assist in the funding of a second in-town bridge that crosses the Grand River. We are hoping that this new bridge could be built to the east of the existing bridge a few kilometres downstream from the existing bridge. This bridge would accomplish several things. Firstly, if it is in place before the reconstruction starts in 2014, it would probably save at least 40 businesses from closing their doors. Secondly, if this new bridge is designated all for truck traffic, it would make keeping the existing bridge open an option. A rehabilitated nine-span bridge with strict restrictions on truck traffic would preserve one of Caledonia's identifying features and keep a link to our past. If there is to be growth in Caledonia in the future, we are asking the province to encourage and assist in the exploration of building a second bridge over the Grand River in Caledonia.

The Chair (Mr. Pat Hoy): You have about a minute left before questions.

Mr. Frank Stoneman: Well, that's just fine, because I would like to thank you for your time, and I'd be willing to take some questions now.

The Chair (Mr. Pat Hoy): Very good. That's why the brief with me would help me out and I wouldn't look so bad in front of you when I tell you you have a minute left.

This round of questioning goes to the official opposition.

Mr. Tim Hudak: Thank you very much, Mr. Stoneman. I know my colleague Toby Barrett had hoped to be here. I think, because of the change in the schedule with a couple of groups missing their presentations, you're earlier than you would have been. So I know he regrets he's not here to ask you questions. You may know I'm in a neighbouring riding. I'm just to the north end and to the east of you.

Talk a little bit and expand on the HDI. In my observation, it's basically extortion on local builders. You asked for the role to be clarified. Clarify what? There's no real legal standing for this group to collect revenues, is there?

Mr. Frank Stoneman: The Premier has gone on the record to say that this group has no legal standing. However, when developers are faced with 40 people showing up and shutting down their construction site because they're not paying development fees and royalties to the HDI and the Ontario Provincial Police stand by and watch, we have to really question if those words are meant. Actions speak louder than words, and developers all along the Haldimand tract are suffering because the Premier says one thing but will not enforce those words.

Mr. Tim Hudak: Can you give a couple of examples of what has actually transpired because of this inaction by the Premier?

Mr. Frank Stoneman: Absolutely. There is a development in Brantford run by Mayberry Homes that has had several visits from the HDI. He refuses to pay to the HDI their extortion requests and has been shut down numerous times for multiple days and put himself behind schedule. Meanwhile, he cannot find a law enforcement agency in this province to enforce extortion laws.

Mr. Tim Hudak: I appreciate your explaining that. I worry that because it's happening outside of the Toronto area a lot of folks don't know that this is happening in the province.

Mr. Frank Stoneman: That's true, and we really believe that if this was happening in the Toronto area, it wouldn't be happening for long. It certainly wouldn't be going on for two years.

Mr. Tim Hudak: The tobacco trade is a concern, I know, in my riding. It's moved from urban legend to commonplace, with cigarettes being sold out of trunks to high school kids. They probably have better access to tobacco products at a cheaper price than they've had in some time. How is this related to the concerns that the citizens' alliance has?

Mr. Frank Stoneman: Well, it's a symptom of Douglas Creek Estates and also part of a bigger problem. In today's Hamilton Spectator, Minister Duncan wasn't aware that $72 million in lost tax revenue has gone out the window because of the sale of illegal tobacco. That's a province-wide problem. Our localized problem is that illegal cigarette retailers are setting up on private and public lands without the permission of the owners and they're no longer being inspected by the federal government, as per a letter sent from federal health minister Tony Clement to Mayor Marie Trainer that indicated that federal inspectors no longer go on the reserve to inspect compliance with the Tobacco Act out of fear for their safety.

Mr. Tim Hudak: I know there are concerns of constituents in my area too in terms of trade-offs to settle the situation in Caledonia. Provincial parks, for example, would be put up and transferred to Six Nations or the confederacy. My constituents largely have viewed this with great concern, about what's going to happen with these duels like we have in Dunnville and in the Niagara area. Have you been kept in the loop on these conversations? What do you know about these land trade-offs?

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Mr. Frank Stoneman: Information is tough to get on this situation. We really have to poke and prod, and we attend many meetings to try to collect as much information as possible. However, the residents and businesses of Caledonia are being relatively kept in the dark regarding the status of negotiations, what's being offered. We really only pick up information from the media. We've found over the last two years that this situation has been ongoing, that the media isn't exactly a credible source for information.

Mr. Tim Hudak: We are now hitting the three-year anniversary of the occupation of Douglas Creek Estates. It's at the end of February, if I'm right.

Mr. Frank Stoneman: Yes, February 28. That's correct.

Mr. Tim Hudak: What signs of progress have there been in the negotiations? What has changed in the last now going on three years?

Mr. Frank Stoneman: We've seen no tangible evidence that there has been any progress in the negotiations. In fact, it has regressed. It seems that every time an offer is put on the table, there isn't even a response coming back as to whether it's accepted. From my understanding, the first offer on the table was $125 million. That has been neither rejected nor accepted by Six Nations, but for some reason they came back with a smaller offer of $25 million for a smaller piece of property.

We're not in the business of solving land claims. We're in the business of being residents and businesses, and this is really interfering with our abilities to do that in a country where this should not be a problem.

So, to answer your question more directly, no, we don't get enough information, we don't know what the status is. It actually leads to rumours and speculation, which then turn to violent confrontations. That's not the way this is going to get resolved.

The Chair (Mr. Pat Hoy): Thank you for your presentation. We appreciate your being here early so that the committee can continue to do its work.

Ms. Sophia Aggelonitis: Could we get a copy of the briefing?

The Chair (Mr. Pat Hoy): Yes, I assume—

Mr. Frank Stoneman: Yes. We don't have copies here; we will be forwarding them within the next week.

The Chair (Mr. Pat Hoy): If you would send it to the clerk, he'll make sure everyone gets a copy.

25 IN 5: NETWORK FOR POVERTY REDUCTION

The Chair (Mr. Pat Hoy): Next is 25 in 5: Network for Poverty Reduction, if you would come forward, please. Good afternoon. 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.

Rabbi Arthur Bielfeld: Good afternoon. I'm Arthur Bielfeld. I am a member of a coalition of anti-poverty groups called 25 in 5, a rather remarkable coalescence of groups from across Ontario that have come together for one purpose, and that is to see if the time has come for a poverty reduction program which is targeted, which has benchmarks, which has clear measurements, and which will finally begin to produce the kinds of changes in our environment which we all know have become so important and are wreaking havoc with so many parts of our society. All of you, I suspect, have seen the United Way report, and we are aware of the increase in poverty, where one in three of the inhabitants of Toronto live below the established poverty level, whether it's by the bread-basket level or the LICO, low-income cut-off, level.

I'm also here in my capacity as the co-chair of the Campaign Against Child Poverty. For the past 10 years, I had the privilege of working with the most extraordinary woman, and I wanted her to be present at this meeting for a very special reason. Her name is June Callwood. She's here because, in so many respects, June was a physical presence of remarkable stature, and she did more, I think, to raise the level of poverty on the public agenda than almost any other person with whom I'm familiar.

June, as you perhaps also know, passed away last April. I was privileged to be in her room when the Premier, immediately following the reading of the budget, came up and presented her with his own copy of the budget, which contained for the very first time some initiatives that in some way reflected June's dedication to eradicating poverty in Canada and in Ontario. It was just an extraordinary moment. The Premier was moved, I was moved and even at that most difficult time in her life—she was only a few weeks or a week away from her death—June was deeply moved.

I left with Premier McGuinty but she motioned me to come back, and when I came back she said, "Arthur, just don't give up. Don't give up. He's a good man. There are other good people out there and this time we're going to see it through." I think she was thinking of this 25 in 5 program, which finally puts the details—but I want you to understand what's at the bottom of this picture. It was one of the last things she said: "If any of you happens to see an injustice, you are no longer a spectator, you are a participant, and you have an obligation to do something."

There it is. As a rabbi, as a Canadian, as a member of this province, I can't think of any other way to put it more clearly and more directly.

I am a rabbi. And let me just say one thing more before I turn this over to Cindy Wilkey, my partner in 25 in 5. One of the organizations that is an endorser of the 25 in 5: Network is the Toronto Board of Rabbis. I have to tell you that for 40 or 50 rabbis to agree on anything is a remarkable achievement. We don't agree on social policies, we don't agree on ritual or religious policies, but on one area we are united and unanimous, that poverty is a scandal in Canada. I'm not going to review the figures in Ontario.

Around the Campaign Against Child Poverty table we have the United Church, the Anglican Church, the Jewish community, the Indian community, we have the Muslim community, the Catholic community. There is a core of faith groups that in so many respects can't talk to each other when we sit around a table because we genuinely disagree on issues, but on this we are united. I can only say to you, I hope that you as our elected officials are listening and are now prepared to take this to a new level, where we have some hope of levelling the playing field and giving all the kids in Canada and in Ontario a real chance.

Ms. Cynthia Wilkey: I'm Cynthia Wilkey. I work with the Income Security Advocacy Centre. Our organization is one of over 60 groups and individuals that have come together to form the 25 in 5: Network for Poverty Reduction. This is a growing network. Excitement is high. People are really responding to this initiative.

As we know, report after report has documented that despite our record levels of economic growth, poverty has persisted at the same high rates for an entire generation. For aboriginal populations, racialized communities, newcomers, single mothers and persons with disabilities the situation is even more dire, with adult and child poverty rates that can be many times the Ontario average.

The need for action is nothing short of urgent, but an Ontario poverty reduction plan is not simply about those who are poor, it is about bolstering the opportunities for all Ontarians and ensuring that all hands are on deck to meet our common economic challenges. It's about ensuring that middle-income families can be prevented from falling into poverty to begin with. It's about preserving and rebuilding the middle-income opportunity so people living in poverty actually have a place to move into. Ultimately, it is about how we ensure the social and economic well-being of our communities and the whole province.

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Poverty is expensive. Just as it is much more costly to treat a disease than prevent one, it costs more to provide emergency hostels than affordable housing; more to take a child into the care of child welfare agencies than to make sure families have adequate incomes; more to cope with school dropouts than to train our youth for the jobs Canada needs to fill in the coming years; and more to treat the long-term health effects of poverty and social exclusion than to make sure every child is given the best opportunity to be healthy and connected to his or her community.

Reducing poverty is good for economies, as is preventing poverty by maintaining a strong social safety net. Denmark, Sweden and Finland are three of the most economically competitive nations in the world. They have the lowest child poverty rates and strong social supports.

The 2008 budget provides the first test of the government's resolve to deliver an effective and meaningful poverty reduction strategy. There are crucial priorities that need immediate attention, and a significant down payment on those priorities in the 2008 budget will set the tone for a meaningful consultation process in the months ahead.

This first budget should, first of all, dedicate sufficient funds for an effective consultation on targets and priorities for the poverty reduction strategy. A broad, inclusive and solutions-oriented consultation process will be critical to building wide support for a comprehensive strategy. This budget should dedicate sufficient resources for the consultation to support multiple avenues of input to make inclusion of groups most likely to experience poverty a priority, to reflect geographic diversity, to allow for partnerships with local communities, to bring politicians and ministerial staff out into the province to hear directly from Ontarians, and to position these consultations as the beginning of a process that will support ongoing conversations between government and the community in the coming years.

Secondly, this budget should deliver the funding required to implement in 2008 the programs promised during the past election campaign, namely a dental plan for low-income Ontarians, a full-day junior and senior kindergarten program, and the development and funding of a new affordable housing strategy.

Thirdly, this budget could and should start the process of funding initiatives that will signal the necessary direction for Ontario's poverty reduction strategy. We are not starting from zero. Core components of a poverty reduction strategy have already been identified and enjoy broad support. Start with the principle that working full time, full year should bring a worker out of poverty. We need to have a minimum wage at $10.25 this year. The Employment Standards Act needs to be updated to address changes in the labour market, and it needs to be more vigorously enforced. Workers need proactive measures to remove employment barriers based on discrimination.

We also need to develop an effective labour market strategy for Ontario. Addressing restructuring in the manufacturing sector has to be a top priority. We need to create the kinds of jobs that can bring and keep Ontarians out of poverty.

Affordable housing and quality child care have to be top provincial priorities as well, and real income security for adults and children is a crucial need in this year. We would like to see the implementation of the new Ontario child benefit accelerated and a full net benefit going to families on social assistance. Individuals and families on social assistance need to see more money in their pockets to meet household needs.

We need to specifically identify and implement programs that can effectively address the poverty experienced by racialized communities, women, aboriginal people and persons with disabilities.

As the network has said before, the success of poverty reduction ultimately depends on a firm commitment to invest what is needed in what works. The 2008 budget will be an important signal of whether Ontario is serious about making this important investment.

The final point I'd like to leave you with is that the federal government also has a role to play, and it is important that the province continue to press the federal government to do its share in a poverty reduction strategy. To start with, the EI program needs to be seriously restored and extended so Ontario workers get better access to both EI payments and, as importantly, the skills training that goes to those who are eligible for EI. And the federal government needs to come back to the table with funds for affordable housing and early learning and child care.

This budget is the opportunity, as we've said, for this government and this Legislature to get poverty reduction on the road in a serious way for Ontario. We look forward to working with you for this budget and the next budget and the budget after that. This is a long-term process. It's the start of a new conversation and a new process for Ontario. We need everybody behind it and we need serious investment in this process.

Thank you very much. Our submissions include a list of our steering committee and our members. We're looking forward to hearing from the committee and, eventually, the budget.

The Chair (Mr. Pat Hoy): Thank you. This round of questioning goes to the NDP. Mr. Prue.

Mr. Michael Prue: Thank you very much; a very good report. I just have a question, though, because we heard earlier from one of the signatories to your report from the Wellesley Institute. Mr. Shapcott was here. Mr. Shapcott was unequivocal in stating that, and I'm going to quote from his report, "virtually all the new housing funding in Ontario in the last two years has come from federal housing and homeless dollars. Even the provincial housing allowance program that was announced with great fanfare in the 2007 provincial budget was funded entirely with federal dollars." He goes on to say, "Every province has increased its housing spending except Ontario," and he shows that it's about $700 million that has not been spent in Ontario.

The reason I'm asking this is, you are saying two things. One is the development of funding of a new affordable housing strategy. Would you agree that in the last four years this province has not had any strategy at all?

Ms. Cynthia Wilkey: There has been a program, but my understanding is that the funding has been federal funding. In terms of taking up provincial responsibility for funding affordable housing, there has not been a program. There hasn't been the kind of investment that is needed.

Mr. Michael Prue: So you're calling on this province, then, to join the rest of Confederation and do something about this.

Ms. Cynthia Wilkey: Absolutely. We're asking for money to be in this budget not just for a strategy but also for bricks and mortar and other housing supports. That is provincial dollars. We recognize, though, that housing is something that both of the senior levels of government need to participate in. And at the moment, neither are putting new money in.

Mr. Michael Prue: Yes, but even when the federal government did participate, this province chose not to, in effect.

My understanding—and you may have details on this—is that the province, in the last four years, created 268 units of affordable housing. That is the housing that rents for $500 or less a month. Would you have any facts or figures on this?

Ms. Cynthia Wilkey: I'm not a housing expert, so I certainly would defer to housing experts.

Mr. Michael Prue: Okay. You also have made a statement here, and I'd like you to expand on it. It's on page 3, about halfway down: "Giving adults and children real income security by speeding up the implementation of the new Ontario child benefit"—I think which we all agree with, but you go on, "giving families on social assistance a greater share of the OCB and putting more money into the pockets of individuals," etc. My understanding is that this much-vaunted OCB program will continue to claw back money from those on social assistance, in much the same way as the federal program was clawed back. Is that your understanding as well?

Ms. Cynthia Wilkey: Our hope had been that the Ontario child benefit program would be used as a vehicle for returning the clawback dollars, the NCBS clawback dollars, to families on social assistance. There was a large mobilization around that before it was announced, when word was seeping out that it was going to be created.

That mobilization was partially successful. Every year, as the OCB grows, families on social assistance will see a net increase, but it will be smaller than the net increase that families who are not on social assistance will experience. So, to that extent, the NCBS clawback will be reduced, but it will continue to exist. It will not be eliminated. That's the issue that we're raising here. We think that, dollar for dollar, the OCB should be an increase in income for every family, regardless of their source of income.

Mr. Michael Prue: Thank you.

The Chair (Mr. Pat Hoy): Thank you for your submission.

Ms. Cynthia Wilkey: Thank you for your time. I know it has been, I am sure, a very long day.

1520

TORONTO AND YORK REGION LABOUR COUNCIL

The Chair (Mr. Pat Hoy): Now I call on the Toronto and York Region Labour Council to come forward, please. Good afternoon. You have 10 minutes for your presentation and perhaps five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard. You may begin.

Mr. John Cartwright: Good afternoon. My name is John Cartwright. I'm the president of the Toronto and York Region Labour Council, which represents about 195,000 women and men who work in every sector of our economy in the province's capital and in the largest and fastest-growing region of the province, York region.

Clearly, your committee understands the context of the budget preparations in the same way we do, that the drastic loss of manufacturing jobs is a crisis for the people of Ontario; that growing poverty and disparities in our society is a crucial issue which the government has pledged to start addressing; that the environmental imperatives of the 21st century are upon us and each and every party in our society has to play proactive roles; and that you are still, as a government, saddled with some of the vestiges of the Common Sense Revolution that need to be overcome.

When you look at the package that I've provided you with, the first thing you'll see is this map of the disparities of income in Toronto. I was born in London, Ontario. I spent a lot of time with my family in the north, although at the wrong end of Lake Superior, the lower end. That little portion of red, in Scarborough, is where I grew up. That is now an area where the population has had a decrease of more than 20% in real wages in the last two decades. The next two pages are from the report of the United Way, which I think a number of your deputants may have mentioned, about the drastic loss of real incomes of working people in the city of Toronto compared to the 905—which, again, my council represents parts of—or Ontario or Canada. It's a tremendous loss of real earning power, and that's leading to significant social problems.

What are some of the things that the government needs to address? I'm going to talk about some of the investments I'd like you to make, and I'm also going to talk about some of the savings that can be realized.

First, we're part of a group called Fair Deal for Our City, which talks about the need to fix the mess that the Tories left around downloading. There is a task force coming. It's supposed to be reporting at the end of February—we hope it reports by the 29th—about the costs of social service uploading. It's not rocket science. Everybody, from the board of trade to the real estate board in Toronto to the labour council to social justice groups, agrees that property taxes have no business paying for social service costs. We need that done this year so that some of the smaller cities can start applying that to this year's budget, and certainly Toronto and other cities starting in 2009.

For 10 years now we've called for the province to once again bring back the traditional funding formula for transit: half the operating subsidy. While we appreciate the money that was brought to the TTC and other transit properties most recently, it's not a guaranteed formula. It's a one-off: "Please smile now, and we'll talk in the future."

We also have identified the backlog of repairs that are required for the social housing downloaded by the province. In the case of the Toronto Community Housing Corp., that's worth $300 million. You can spend money subsidizing people living in housing that's crumbling and sit there and wonder why it's costing so much, or you can go out and retrofit those buildings and bring them up to scratch around energy efficiency and comfort and so on and have a much better bang for your buck. I'm a construction worker, a carpenter, by trade, so I know that when you spend money investing at the start, you save 10 times as much as you'll have to spend afterwards if you're coming back to fix things.

Some of us in this city were treated to, sadly, a report for the Toronto school board by Julian Falconer, which talked about some of the systemic issues that are leading to more and more violence in our schools and the tragic shooting of that young boy at C.W. Jefferys. Ironically, his aunt was in this building with me when we launched a $10-minimum-wage campaign, because she has not had a job that pays more than $10 since she lost her job at a factory after free trade in 1989. That's the situation that many hundreds of thousands of Ontarians find themselves in: working in jobs that pay less than 10 bucks an hour. They are not good jobs but many of them are jobs that are for multinational companies that are making billions of dollars in profit. Obviously we need to start providing decent incomes for families—for young men particularly, to feel that there is something in the system for them to buy into rather than poverty jobs. Also, the Falconer report speaks to the need to restore education formula funding and to have that formula in a place that restores the kind of services that were stripped out of the Toronto board—for social workers, for psychologists, for school community advisers, for others who are crucial if working-class families, poor families, immigrant families are to feel that the system works for them. You can pay for a school community adviser to go out and engage Somali parents or you can pay 10 times as much to incarcerate that 16-year-old boy. Those are your choices. I'm going to suggest, as the finance committee, your appropriate choice is to invest in prevention instead of investing in incarceration.

A number of us, of course, spoke to Rozanski when he did his famous study on education funding under the previous Conservative government and came back and said, "You've got to put the money back in." Sadly, there are still areas where this provincial government has not yet met his recommendations, and we'd urge you to do that.

Finally, on the broader social infrastructure, there is an urgent need to reestablish a respectful relationship with the social service agencies that serve hundreds of thousands of people in every city in this province from Windsor to Pembroke to Kenora and Dryden. There will be representations to you—in fact, we have it in our package here, the Heads Up Ontario! report from the Community Social Services Campaign calling for a new funding accord between the province and the agencies and the sector to match what has just been achieved with the federal government around integrity of funding, stable funding, core funding, and continuing to ensure that people who are on those front lines can make a decent living and aren't asked to sacrifice year after year for no money.

Let me talk about jobs for a minute—near and dear to my heart. We've just gone through a huge battle in Toronto around subway cars. Some of us stood up to city hall and took a lot of crap from certain people, saying those jobs should be open to Canada, that those subway cars should be built in Canada. They said, "Why would you care about jobs in Thunder Bay? This is Toronto." We said this is about one economy. We now have most recently a decision by the Toronto Transit Commission that said they're going to put out a procurement for $1.2 billion worth of streetcars and they brought in a requirement for 25% Canadian components based on some expert advice which we think was tragically flawed.

I wrote to the Premier a year ago and asked the provincial government to take a position requiring the same as happens in the United States—a 60% made-in-USA policy that's required. Every transit vehicle that's bought in the States meets a 60% requirement of components and assembly. We can do the same thing here. The response I got back was not satisfactory. We are asking this government to step up to the plate and stand up for Canadian jobs. Every city and town in this province is going to be buying transit vehicles in the next decade. They need to be made here in Canada, not in Belgium, not in Mexico, not in China. There needs to be a policy. Of course, if you're going to spend billions of dollars in public money, why wouldn't you support Canadian jobs rather than tax cuts for corporations? So investing through public policy is a much more appropriate form of achieving goals than shoveling tons of money in tax cuts to corporate leaders who will then offshore work.

Likewise, you'll see in our package—pardon the picture on the front—a series of recommendations around manufacturing jobs, a series of recommendations around green jobs. We believe that investing in green jobs—we're glad that this provincial government has finally taken notice of that. We think it's crucial that green job investment is tied into made-in-Canada. I'm a construction worker. We don't do energy retrofits and put in components made in Mexico or China. We want those components built here in Ontario. There are also recommendations around housing and social justice, and I echo some of the concerns raised by previous deputants.

1530

You'll see a recommendation to the Toronto school board. This was done two years ago by a group of our own experts, front-line teachers and support workers pulled together by the labour council, people who had helped build an equity agenda in the Toronto board. We took that to the Toronto board. It was endorsed. The chair, though, said, "There's nothing here I disagree with, but we don't have the money to make any of it happen." Two years later, we have the Falconer report, as I said, after tragic shootings. These things should have all been put in place, but they didn't have the money because the education funding formula wasn't in place.

You see at the end the notice of a public-private partnership around transit in London, England, that cost half a billion pounds, just in consultants' fees and lawyers to write up the contract. This government is starting to go down that slippery route of P3s and I want to tell you that I think it's a disastrous route to go. I think that every experience, once you get past the glittery, glowing reports from lobbyists, shows that they cost more and deliver less. You've all read in the papers about the Brampton P3 and what a mess that is. This is a cautionary tale about what you do in transit if you're thinking about putting some money in there, sadly.

Finally, what's the front page in our recommendation about? The front page is about poverty reduction and the role of unionization. Historically, allowing working people to make a decision to have a collective voice so that they can collectively improve their standards across not only their own workplaces but sectors is how we've had prosperity in this province.

Again, you can save a lot of money. We don't want you to put money into working income supplement programs to subsidize the Wal-Marts of the world. We want you to give working people the right to have unions in their workplaces so they can raise the standards for themselves and across their entire sectors. We think that's a great public policy investment that will provide much of the anti-poverty and poverty-reduction program that this government so earnestly seeks to achieve.

The Chair (Mr. Pat Hoy): Thank you for the presentation. We go to the government and Mr. Arthurs.

Mr. Wayne Arthurs: Thank you, John, for your presentation. Don't apologize for the picture; it's actually quite good.

Interestingly enough, we've had a number of presentations throughout the day. I was doing a quick count of those who specifically were addressing us as organizations in the context of poverty in the province of Ontario. I think we've had at least five. In addition to that, we've had some that were a little more specific, that would address the human needs. Whether it's just a coincidence by those who have requested to speak or more so, I would tend to think, a very clear indication to us that as we move forward we're going to be hearing more, I think it's appropriate as a follow-up to all of the activity and discussion that's gone on over the past months and years, but certainly over the past number of months. It's encouraging that we're getting a variety of viewpoints.

I want to ask you something a little bit different from the context of the package. I'm not sure how familiar you would be with some of the content or the like, or your comments. From this Heads Up Ontario! component, one thing that struck me as interesting, just in the quick scan, was the whole issue around volunteerism. It speaks here about how the Coalition of Voluntary Organizations of Ontario was organized in the 1990s but dissipated when funding ended—a recognition of the importance of volunteerism.

I think volunteering in our community is incredibly important. Everyone tends to put numbers around it—"In the absence of volunteers, it would cost this much to run an organization"—but I think it goes deeper than that as we try to address the issue of poverty, apart from the dollars that we need to put into the system to help people move out of poverty, to provide the support networks in the community, to provide the role modelling and the mentoring that volunteering often presents to people. Do you have some comments, some thoughts on what we should be doing more of in the context of government, beyond what's mentioned here about a couple of initiatives, more that we should be doing to support volunteerism? Doing the volunteer awards on an annual basis somehow just doesn't really cut it. As much as I like going to those things, and having taken pride in presenting certificates or pins to my constituents and thanking them for their good work, it somehow doesn't really cut it in the context of what we should do as government.

Mr. John Cartwright: I'm on the board of the United Way of Greater Toronto, and just last week we celebrated raising $108 million, coming from front-line working people earning very little to some of the top corporate CEOs. We're grateful for all of that and we're grateful for the amount of time that volunteers put into agency boards all across this province. But that can't be a substitute for people earning decent incomes. In the community and social services sector, we've had a situation where for so long, people who get into that as a profession, whether it's child care or social service work, are played upon, saying, "Well, of course you care about your clients. That's why you won't take a wage raise this year," or next year or the year after that, or you won't have benefits. Well, in female-dominated sectors, it's inappropriate for us to say that to working people, that because you care about your clients, you're going to forestall wages that will allow you to raise your family. A lot of front-line workers at newcomer-serving agencies are barely above the poverty line themselves.

One of the corporations—I won't mention the name; it was awarded something last Thursday night at the United Way—had also, in the last year, offshored 300 of its call centre jobs. They've taken 300 people who used to earn a decent wage here in Ontario, they've shut them down, and all of that work is now performed from the Philippines. So on the one hand, do we give a corporation an award for helping the needy, when on the other hand there's 300 fewer jobs to provide for those kids who are today graduating from schools in tough neighbourhoods, whether in Toronto or in Garden River outside of Sault Ste. Marie or up in Dryden? You can't exchange those things.

I did want to say that the $10 minimum wage—and I didn't say this, so you've actually reminded me—is crucial. We say that it should have been $10 last year. It comes up, by the way, on April Fool's that we get the next increase. A lot of people won't be missing the significance of that. Last year, $10 was agreed to be the threshold of poverty wages. There's no reason that this government should allow wealthy corporations to pay poverty wages in the 21st century and then turn around and ask the taxpayer or volunteers to fill that void that's being created because companies and corporations are not doing their fair share about supporting living wages for working families in this province.

The Chair (Mr. Pat Hoy): Thank you for your presentation before the committee.

The Ontario Restaurant Hotel and Motel Association?

With that, the committee will recess for five minutes and wait for them to come in. I ask you to stand by the room, because they could walk in at any minute, and we have a plane to catch.

The committee recessed from 1538 to 1543.

The Chair (Mr. Pat Hoy): We'll bring the committee back to order now. We've been advised that the 3:45 has cancelled, so we are now adjourned.

The committee adjourned at 1543.

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