F-25 F-25

ISSN 1180-4386

Legislative Assembly
of Ontario

Second Intersession, 37th Parliament

Assemblée législative
de l'Ontario

Deuxième intersession, 37e législature

Official Report of Debates (Hansard)

Monday 4 March 2002

Journal des débats (Hansard)

Lundi 4 mars 2002

Standing committee on finance and economic affairs

Pre-budget consultations

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Chair: Marcel Beaubien
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Hansard Reporting and Interpretation Services
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Telephone 416-325-7400; fax 416-325-7430
Published by the Legislative Assembly of Ontario

Service du Journal des débats et d'interprétation
3330 Édifice Whitney ; 99, rue Wellesley ouest
Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

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 4 March 2002

Lundi 4 mars 2002

The committee met at 1002 in room 151.

PRE-BUDGET CONSULTATIONS

The Vice-Chair (Mr Doug Galt): I call to order the standing committee on finance and economic affairs.

TD BANK FINANCIAL GROUP

The Vice-Chair: Our first presentation and delegation is the TD Bank Financial Group, Don Drummond, chief economist. There's a whole hour set aside for you. After your presentation, the remaining time will be divided between the caucuses for questions. As you begin, please state your name for the record.

Mr Don Drummond: Don Drummond, chief economist, TD Bank Financial Group.

Hopefully everybody has the handout with some charts in it. I won't spend long on each one of them, so there'll be ample time for questions. I'm going to try to work down to the economic outlook for Ontario and what I see as the status quo fiscal situation. I've got to back up a little bit before I get to that.

Particularly with 94% of exports in Ontario going to the United States, just what do I expect for the US economy? I think we've seen the worst of what the US has to offer in this cycle. That was just in the one negative quarter, the third quarter: minus 1.3%. Late last week we had their estimate for the fourth quarter: 1.4% growth. I actually think the first-quarter growth will be somewhat stronger than that, although we have to be a little bit careful with that. There's a bit of a mathematical aberration here. All you need to get a strong first-quarter growth in the US is just for them not to draw on their inventories as fast as they have been previously. That doesn't even mean they have to rebuild their inventories, just not draw them down quite as fast, and that will give us a bit of a pop to 2.5% growth in the first quarter.

I do think that some of the robustness of consumer spending in housing recently will taper off. Particularly, the strength of the automobile consumption is far beyond what the demographics would require and I think it will slip a little bit in the second quarter, but not back into negative territory. I think that by the third and fourth quarters we should get some support from the business sector. I don't think the business investment will be all that robust, but at least it should stop declining by that point and we will get a number of quarters of about 3% growth; so basically not a very sound economic background for Ontario until we get into the second half of this year.

Splitting over to Canada, to understand what's going on in the Ontario economy, I first have to explain what is going on sectorally. We of course have had divergences across sectors in previous cycles but nothing, in my experience, quite like this. I'm showing you two different time periods in that chart at the bottom of page 1: the first, January to October 2000—October 2000 was the last month we had fairly robust growth—and then November to December. Both of these bars will be at annualized rates. So the total economy went from 3.3% growth to almost a standstill at 0.5%. But that certainly was anything but even across the sectors.

Information, communications and telecommunications: we tend to think that sector has always been in the dumps. We read that in the media virtually every single day. It's important to recognize, though, that the service side of that sector, which is very big in the Toronto and Ontario economies, hasn't been doing that badly. It slowed down from 14.7% to 9.4%, but that's still a very robust performance from the service part.

Public administration has actually bucked the trend. This is largely due to expenditures earlier in 2001 in health care right across Canada. That's 4.2% real growth.

Oil and gas have gone from a positive to a negative as we've seen some postponement and cancellation of some of the drilling projects.

The two sectors that have uniquely defined this economic slowdown in terms of dragging down the rest of the economy have been the auto sector and information and communication technology manufacturing.

The manufacturing is really quite fascinating in the role it has played. It only accounts for about 1.5% of the Canadian economy and probably at most 2% of Ontario's economy, but in going from plus 40% growth to minus 40% growth, it accounts for almost half of the economic slowdown we've had from just this one tiny sector. I'll show you in a moment that unfortunately both of those sectors are overrepresented in Ontario's economy relative to their weight in the overall Canadian economy.

If you flip to the top of page 2, you can get another perspective of this dichotomy in economic performance between the manufacturing sector and non-manufacturing sector. Total employment, that black line, has actually gone up slightly over the course of the last 13 months, but the non-manufacturing has increased at a reasonable pace. You can see the huge job losses that have been incurred in the manufacturing sector. Again, within the manufacturing that has largely been automobiles and information communication technology.

On the forecast for Canada, it's not too dissimilar from the pattern of the United States. We had that one negative quarter in the third. We just last week got a 2% annualized growth rate for the fourth quarter, almost all based on the strength of consumption in housing. I think there will be modest growth in the first half of the year, at about a 2% annualized rate, and then with the US building up to over 3% growth by the second half of the year.

I'll just try to hone down a bit on Ontario right now. I spoke about those sectoral dichotomies, so it's important to know how the composition of Ontario differs from the national average. There are a couple of things that stand out. One is of course that the primary industries aren't nearly as important here. But we do have a greater importance to one of the more stable sectors, being finance, insurance and real estate. Manufacturing has a much larger weight in Ontario than the total Canadian economy and in particular that overweighting of automobiles and ICT manufacturing.

On the employment side you can also see the dichotomy. This is taking employment from the end of 2000 through January 2002, so 13 months. We've had an increase of 16,000 jobs in Ontario, so not a very robust overall performance, but a very strong performance in construction right through this period. It's been totally atypical of Canadian recessions in the past, or even economic slowdowns. Construction did quite well right through the piece. Public administration had a major increase in employment and, reflecting the increases we've had in consumption right through this piece of economic slowdown, trade has done quite well.

If you go to the immediate right-hand side, you'll see where the job losses have been concentrated, and that of course has been in the manufacturing side and somewhat in information and culture. The performance in that last year is reflecting very large increases that happened the previous year.

This is on the top of page 4, and one of the sectors that will importantly determine the outlook will be automotive sales. I do think that automobile sales will come down fairly sharply over the remainder of this year. They've been at unsustainably high levels in both Canada and the United States, so we're looking for a decline of 3.8% in Canada this year and 8% in the United States. That will lead to a production loss of 2.5%. The good news, on an algebraic basis, is that most of that has already been reflected. Production will actually stabilize over the next little while and should increase toward the end of the year, but it won't be very robust and there will just be an increase of about 2% in production as we move into 2003.

At the bottom I was just looking at the dichotomy between the manufacturing and the services of information and communications. You can see that, fortunately, in the Ontario economy the services side is over triple the importance of the manufacturing. Its output in fact has been increasing at almost a 9% annualized rate of increase, but you can see that the manufacturing side has been suffering quite a bit.

With that background for the US and the Canadian economies, I expect that following just a 1% growth rate in 2001, Ontario's economy in real terms will grow 1.8% in 2002, exceed 3% in 2003 and then average about 3% in 2004.

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I've used all that by way of leading to the table at the bottom of page 5, trying to generate my view of what would be the status quo deficit, and by "status quo" I mean anything that's legislated. I assume that stays in place. I'm assuming no policy change. This is not what I expect will be the final outcome. I would expect in a number of cases there will be a policy response, but this is just what kind of outcome could be expected if you don't have that kind of policy response.

I have to make a number of assumptions. Some of them you could quite rightly describe as being fairly arbitrary. For example, on the expenditure side, I assume that health care will increase at 5% per year right through 2005. Again, something can be done with that but that's the starting assumption, and all other expenditures I assume increase at the rate of inflation times the rate of population growth. In other words, they are constant in real per capita terms.

Revenues: as I indicated, I just use that economic forecast and assume that the legislated rate structure or tax bases that are in place right now continue. One thing we always have to remind ourselves of when we look at economic cycles is that you tend to get the revenue weakness a year after you get the economic weakness, and I think there's every reason to expect that will again be the case. Last year in Ontario, and Canada in total, there were billions of dollars collected in April and May of capital gains taxes from individuals that related to the 2000 taxation year but weren't paid until they filed their taxes. That will not happen this year. Personal income taxes in Ontario have been running pretty much even with their year-ago pace. That will fall off quite substantially when we go into April and May because there will be no capital gains. In fact, there will likely be refunds. Corporate income taxes until December 2001 had been holding up quite well. I think December was the first of many months, unfortunately, to come where we'll see that softening off due to the weakness of corporate profits in the economy.

When I put that together, coming to that underlying surplus or deficit—this is before any type of contingent reserve—I think there will be a small surplus this year, following $3.3 billion last year, and then a deficit of $3.3 billion, $2.7 billion, $2.1 billion and $1.8 billion. If the government were to continue with the contingent reserve of $1 billion, that would give, for planning purposes, a deficit of $4.3 billion in 2002, $3.7 billion, $3.1 billion and $2.8 billion.

There are two important points, and I don't want to make too much of the preciseness of these numbers. Obviously you could put a large confidence interval around that, but the two points I want to make are that that would be a very large deficit for the fiscal year 2002, and it would not just be of a cyclical nature, because I have assumed a fairly reasonable economic recovery; yet certainly on that planning basis, the deficits continue to be quite large, even by 2005, at $2.8 billion. It would be a risky strategy to think, "OK, the economy is down right now. We could just leave everything alone and it will come back." Well, this would suggest that no, it wouldn't on its own accord come back to a balanced budget, even by 2005.

Continuing on the top of page 6, it indicates that one of the main reasons for deficits emerging, in addition to the weakness in the revenues, is the assumption I made on health care spending. If it were to grow at 5% per year, that of course would be continuing to eat up the total of program spending. In fact, it would go from about 43% right now to 46% of total program spending by 2005. I don't think that is an inappropriate assumption of the 5% for a starting case because in fact in the last couple of years it has been greater than that.

At the bottom, just having a little bit of fun with the numbers—I don't want to make too much of the policy sophistication behind this but just for interest—I said, "What would be required to have a balanced budget in 2002-03 on a planning basis, in other words, to close that gap of $4.3 billion?" Well, you actually have to have spending at $2 billion lower than the 2001-02 levels. There is a whole bunch of ways you could get there, but one way would be to freeze health care—by that I mean nothing for inflation and nothing for population, so that would be a large per capita decline—and freeze education. Even after you did that, which is two thirds of the budget, you would still have to cut an average of 11% for the remaining one third of the budget.

My judgment from that is, I don't think that's in the set of feasibility. We'll get into the discussion, but my recommendation would be that barring some very large asset sales like LCBO or if somebody comes on really early and buys a lot of the power generation, you can't close that $4.4 billion with one month to go before the fiscal year. I don't think it's even reasonable to think of freezing health care and education in nominal terms. The key consideration, I would suggest, would be not so much 2002 but to get rid of the structural element of the deficit as we move further out.

Just a couple of other final things; not that that's not a difficult enough challenge as it is, but there are still a couple of policy issues that need to be addressed.

One that is in excellent shape and from which I think Ontario will reap great advantages over time is what is shaping up to be a very competitive corporate income tax regime. We're starting to see some attention being paid to that. You may have seen a KPMG study recently. There was also a study of the cost around the world in major cities to start up new high-tech ventures which also had Toronto being very competitive. A good part of that was assuming that the 8% tax rate comes into place as planned. As you can see, if you put together the federal tax rate with the Ontario rate, by 2005 that would give you 30.12%. The federal-only rate in the United States is 35%. So it would be below even a state like Texas that doesn't have its own state income tax.

The same cannot be said on the capital side, though. There is a commitment in the 2001 budget to eliminate the provincial capital tax, but the steps that have been applied so far are fairly small. I think not only is this a competitive issue with the United States but there is an interprovincial competition issue as well. Alberta has no capital tax at all and BC now only has a capital tax on deposit-taking institutions. So I think some further work is required on that side.

Progress has been made in bringing down personal income tax rates, but they are still fairly high in Ontario, particularly the top tax rate, which I show at the bottom. It should not be described as the high-income tax rate, because its threshold kicks in at the middle-income tax range. This is how much tax you would pay on your last dollar of income earned, and it ranges from Alberta down to 39%, which is at the higher end of the states south of the border but in the realm. Most of the US states, with the last Bush package, are in the 35% to 38% range, so Alberta is just a bit above that. BC actually, when they came in in August, reduced theirs quite substantially. It used to be a little bit higher than Ontario's but now they are well below. Saskatchewan is below. Ontario is sitting at 46.4%, definitely one of the higher rates.

As you can see at the bottom—actually, it was quite a surprise to me when the federal government did open up a new income tax bracket. At the federal level your top marginal tax rate doesn't kick in until above $100,000. I would have thought that Ontario would have matched that but they haven't. In fact, interestingly enough, New Brunswick is the only one to exactly match the new tax brackets of the federal government and Ontario, kicking in the top rate at $65,000. It's not really high income but toward the higher end of the marginal, of the middle class.

On page 9 I just make the point at the top that we tend to think of the high marginal tax rates as being a higher-income phenomenon. That's not the case. In fact, by far the highest marginal income tax rates are reached at fairly modest income levels. This will be a family income. If you look between $22,000 and $33,000, you can easily get a marginal tax rate of 60%, even almost as high as 70%. For people in this situation, they may very well be facing decisions of whether to go back and finish off their grade 12, go to a college, take a second job—you're only keeping one third of the money you earn from that. I think that has a very powerful negative economic impact on the incentives to work, save and invest, and some progress needs to be made on that front.

Similarly, I think there is still work to be done on some of the spending side. You will see at the bottom—

we tend to think that we have a much better education system than the United States and put more money in it, but we've been going in opposite directions now for the last 20 years. In real terms per student, the United States has increased its funding by 20% over the last 20 years and in Canada we've cut it by 30%. So we've created a 50 percentage point gap, to the point where the United States public sector spending on post-secondary education is about the same as ours where it was much less before. That has actually been exacerbated more on the Ontario side than on the Canada total side, as you can see at the top of page 10, where the per capita spending as a share of total government spending is considerably lower in Ontario than it is in Canada.

As well, you can see on the infrastructure that there's been a general decline in the importance of infrastructure. The total spending was halted somewhat by the beginning of SuperBuild, but that trend is still quite prevalent.

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In conclusion, I've just pointed out a package of problems you've got to deal with, so I'm sure shaping a 2002 budget is not going to be an awful lot of fun. But we have a very large deficit facing the province of Ontario in 2002. It's not just cyclical; there's a large structural element to it. It wouldn't be so bad if the debt wasn't quite high, but the debt is quite high. It's certainly eating up a large percentage of the revenue dollars to feed that. Although the personal income tax burden has been brought down, it is still quite high, and yet there is a need to make some strategic investments as well. So obviously a very tight rein is going to have to be made on other types of spending, and tough decisions made on the relative priorities.

That concludes my opening remarks.

The Vice-Chair: Thank you very much. We have almost 12 minutes per caucus. We'll start with the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): Thank you for the revenue forecast. The government won't provide us with any revenue forecasts, so we're dependent on people like you to give us some indication of revenues. I think it's fundamental to this committee to have some view on what's going to happen to revenues if we want to put forward some reasoned conclusions. As you pointed out, your big conclusion is that this is not a one-year challenge; it's—I think you used the term—structural.

Can you provide the committee with the basis on which you reached these conclusions? I know you've quickly summarized them, but just how did you get to the $61.7 billion in revenue?

Mr Drummond: Sure. I'm more or less assuming that revenues will increase by a slightly faster margin than the nominal growth in the economy. It tends to be slightly faster in normal times because the personal income tax system, although it is now indexed, still has a progressive structure, so it tends to go up a little bit faster than people's incomes. I've adjusted that in two respects, and both of those respects hit 2002 and 2003 quite hard. The first will be the disappearance of capital gains that we got so strongly last April and May when people did their final income tax filing. The second is that I am assuming corporations by a fairly large margin—and it is bizarre why they do this, but we've seen this in previous cycles—have actually been overpaying their taxes earlier in 2001 and 2002. So not only are we not going to get the traditional settlement period of payments from corporations, but we'll also probably see a fair number of refunds going back.

You saw that every single month from April right through to November, with corporate income tax revenues up strongly on a year-over-year basis, and yet corporate income taxes are down about one third. It doesn't make an awful lot of sense. I think we just saw the reality of that sinking in in December, and of course that's going to hit Ontario's revenues quite a bit.

So I think things like the retail sales tax and all the excise taxes will continue to do well in 2002, but I think there will be very little growth in personal income taxes, and I think corporate income tax revenues will actually come down.

Mr Phillips: So you actually think revenues might drop by 2.3% or something like that?

Mr Drummond: Yes, relative to the level in 2001-02, which in a sense is artificially high, because a lot of those revenues came from those capital gains, which didn't have anything to do with 2001. They actually related to the 2000 taxation year.

Mr Phillips: I guess that would be the first time in at least 10 years that we've actually had a revenue decline.

Mr Drummond: Right.

Mr Phillips: You don't have a forecast in here that I could see for nominal growth or for employment growth.

Mr Drummond: No, but I can easily do that for you. I am assuming that if you look at the CPI, it will be about 1.5% in 2002. It will not get back to the 2% range until well into 2003, and then stay. You referred to revenue growth from previous years, but that's quite a bit lower rate of inflation than we've had before.

The price that's actually more relevant—if you look at the deflator for the entire economy, something like the GDP deflator will actually increase less than that, because prices for, like, investment goods, which is relevant for the retail sales tax, will go up less than that. So the nominal GDP for 2002—I have a real GDP of 1.8%—would not be above 3% at a nominal rate. And the 3.4% would probably only be about 5% nominal income growth, so not nearly the type of nominal income growth that Ontario has seen in the past, even with some reasonable real GDP numbers.

Bear in mind that that works both ways. That curtails the revenue growth, but I'm also assuming on the spending side that non-health spending grows with population and inflation, so the lower inflation, there should be an offset, and the expenditure path is going to be lower than it would otherwise have been as well.

Mr Phillips: The Bank of Nova Scotia said the other day that they expected employment growth to be 0.1 in calendar 2002. Do you have an employment—

Mr Drummond: I think it will be somewhat higher than that, because we have somewhat firmer growth. But I think it will probably be only in the range of about 0.5.

Mr Phillips: If that were the case, that's about 25,000 jobs?

Mr Drummond: Yes. We've all been wrong in estimating employment growth. Recently in Canada we've had job growth of 100,000 since October, and most were expecting it to be fairly flat. We had a huge employment increase across Canada, including Ontario, in January. I think that will slacken as we move into the rest of the year and not firm up very much until the tail end of the year.

Mr Phillips: Actually, the numbers I saw for Ontario in January were under 10,000.

Mr Drummond: Yes, but still not that bad when you consider the real economic performance that's been going on in the province and the bleeding that has occurred in those large manufacturing sectors.

Mr Phillips: You've assumed the stranded debt from electricity going up dramatically. Why would that be?

Mr Drummond: That's a decrease. The positives are a decrease. It's pulling down the size of the underlying debt. That's the schedule that Ontario had in their last budget. I don't know if that continues to be appropriate, but that was the only assumption that was available to me.

Mr Phillips: So you've assumed a decrease of $700 million in the stranded debt.

Mr Drummond: Right.

Mr Phillips: You indicate that your feeling is we could be looking at a deficit of somewhere around $3.2 billion.

Mr Drummond: That will be the actual figure, and then of course in past budgets they've added a reserve on top of that. I'm assuming that if we were sitting here today doing a budget and you wanted to have a balanced budget, it would have to be $4.3 billion that you would have to find rather than $3.3 billion.

Mr Phillips: I know you're very supportive of corporate taxes being 25% lower than our competitors. I also know in the government's documents on costs of doing business in Ontario they indicate that health care costs in Ontario are about $2,500 per employee less than they would be in our neighbouring US competitive states. Assuming that we've decided here in Canada and Ontario that we'll fund health care in a different way than they would in the US—I realize you're supportive of corporate taxes being dramatically lower—do you have any advice for us on how we then find the kind of revenue we need to fund our health care?

Mr Drummond: You said the corporate income tax would be 25% lower than our competitor. It's not that much below. It would be 30.1 percentage points versus 35 in the United States.

Mr Phillips: Thirty-nine, isn't it?

Mr Drummond: OK, if you're adding in the average; I see where you would get that.

Mr Phillips: But don't you have to do that?

Mr Drummond: You also have to then work into those corporate income tax rates the capital tax equivalents. In Canada, the equivalent of Ontario's capital tax is about—if you paid the same amount of money in corporate income tax as you did in the capital tax, it would add about four percentage points to the corporate income tax, whereas in the United States they pay the equivalent of about one percentage point, so that narrows the gap too. There's the equivalent of about a three-percentage-point disadvantage. Again, that would be for a large corporation, because that's who pays the capital tax. So that would mitigate the advantage somewhat.

I guess I would approach the health dilemma somewhat differently. I wouldn't in the first instance be looking at the revenue source to fund increases of health expenditures 5% every year. I just don't think we can afford to sustain 5% budget increases in that, not only just the cost of that, but what is equally troubling with me is the percentage of health care out of total spending. It's eating into everything else the province could do. It's up to 46% of the total program spending right now. If you look at health and education together, that's two thirds of the budget.

I think there are things that government needs to do above and beyond that, and I think that if that were to continue, it would either make you as a province totally uncompetitive on the tax side or literally make you able to do nothing else but provide those two basic services.

So to me—and it's not easy—I think the starting point is to see what can be done to bring down the 5% growth.

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Mr Phillips: Even then you have to assume that US manufacturers would continue to pay something like $2,500 per employee more than Ontario. That money doesn't come out of thin air. Historically that has been as a result of us deciding we'll fund health care out of tax revenues.

Mr Drummond: If you're looking for a revenue source—the other thing you mentioned, and I set up the trap of course because I only compared our corporate income taxes vis-à-vis the United States. But as far as corporations are concerned, the United States is not the only name in the game. The United States is going to end up with the highest corporate income tax regime of all the major developed countries. The average rates in Europe are around 30%; in other words, the same as Ontario's will be at 8%. In fact, if you look at where the foreign direct investment is going outside of Canada, do you know where it's going? It's going to the Caribbean; it's going to Ireland. This is not because of direct investment operations in those; this is for tax purposes. So the United States is not the only guideline, and at some point the United States will have to bring down their corporate income tax rates as well.

If you were going to look for additional sources of revenue, I think we can fairly easily prioritize them. The last I would look for would be personal and corporate income taxes. You don't want to increase any tax burdens on things that are highly mobile and where you're really damaging the incentive to work, save and invest.

Again, I set that trap, because I just compared the personal and corporate income tax side. Of course, the United States has quite a bit higher payroll taxes than we do in Canada. That is a more neutral tax, and it doesn't impinge on people's incentive to work, save and invest to the same degree as personal income tax. Of course, it doesn't double-tax, and in some cases in Canada triple-tax, people's savings. So I would say that would be a better base to look at to fund programs, if that were needed, and I would say the sales taxes and various excise taxes would also be much better choices than going back to the personal and the corporate income tax.

Mr Phillips: Just help me out here. If—

The Vice-Chair: We have to move on to Mr Christopherson.

Mr David Christopherson (Hamilton West): I apologize for missing the early part of your presentation, but on page 6 you talk about Spending Cuts: Math 101. I assume, and please correct me if I'm wrong, that you are advocating a balanced budget as a priority for the finance minister?

Mr Drummond: I would be hesitant to advocate that, because I think it's almost out of the physical set of possibility. I would love for somebody to show me how you do it, but I don't know what point there is for me to recommend something that I don't see how you do, and I've asked many times how they'd do it. I presume they have some options, but aside from some very large proceeds from privatization, I just don't see how that's possible.

Now, I'd be the first to say that $4.4 billion could easily be $3 billion; it could even be $2 billion. There's a wide range of uncertainty, so ex post I could see it. But I just don't know how you sit here today with one month to go before the fiscal year and knock out $4.4 billion, short of raising taxes big time, and I don't mean the types of increases BC did on the sales and excise taxes. It's easy for me to sit there; I don't have to do that. But if it were me, I would be conditioning that there's going to be some deficit of some extent in 2002, and my focus would be on making sure that once that door is open it gets slammed back shut. I would be looking as much in 2003 and 2004 than I was in 2002.

What I did on the bottom of page 6 is math; this is not policy. I don't think you can freeze health care with one month's notice. I don't think you can freeze education with one month's notice, with the double cohort one year away. And I don't think that in one year you can get 11% out of the rest of the budget, because when you shut down functions—and there may be lots of things that should be shut down—you end up incurring severance charges and early retirements in the first year and you don't end up saving a lot. So in my mind, most of these things are for consideration beyond 2002.

Mr Christopherson: I don't think you're taking into account what a wizard of a finance minister we have. This is a fellow who can make homelessness go away just by passing a law saying that he no longer accepts it.

I'm really pleased to hear you say that, because it's quite worrisome when you think about the fact that it was just last week the finance minister trotted in here and said he was going to have a balanced budget, that that was an absolute priority and that his tax cuts were going to remain in place. So I'll give Minister Stockwell a lot of credit for at least being totally straight and honest with the public during the leadership debates, because he's made that very case, the one that many of us have said and that I think you've articulated here today: the numbers just don't add up if you try to do all that in one fell swoop. It remains to be seen just how the minister is going to do that.

When I look at what it would take—and I realize that what you're doing is providing a template of how you'd go about it. After what we've heard so far, the notion of freezing health care, even from this moment forward, is terrifying when we take a look at the deficits that exist in hospitals right now, the deficits that exist in the boards of education. This minister keeps saying he's eliminating deficits and providing a balanced budget, but that's not true. There are deficits; it's just that he's shifted them. Instead of it being his deficit—a legitimate, upfront acknowledgement that we're in a tough economic time—he wants to play games and say that everything is fine at the provincial level. Meanwhile, he's just pushing it down to hospitals, pushing it down to boards of education.

We've heard parents, teachers and community activists come in and talk about the absolute need for children's mental health services. There are little children who are hurting because they don't have the services, and we've got a minister who is telling us he's going to make sure the priority is a balanced budget. When did children stop being the top priority in this province and the bottom line become more important?

You note about cutting 11%; again, that's just one of those throwaway lines. But for those of us who have dealt with the provincial budget, once you remove health care and education, if you take a look at 11% of what's left, how many more Walkertons is Finance Minister Flaherty prepared to accept in the province of Ontario so he can have a bloody balanced budget?

I don't mean to yell at you. It's so infuriating. When we think about the people who have come in here making representations, and then the minister just comes in with his whole entourage and says he's the only one who really cares about the future of this province, it's frustrating. It makes one angry. Somebody needs to speak out on behalf of those families and communities that are being hurt, because the finance minister is not doing it.

Just to change gears, you talk about a milder recovery. I'm wondering, in your opinion, how much the fact that Germany is now in a formal recession, Japan is into their third recession in a decade, Britain's economy is super-soft, Argentina still hasn't sparked the nightmare scenario some thought might happen but that's not resolved yet and the whole Latin economy is really soft and it could still be triggered—with all that, what are the positives you see that even give us a mild recovery, and what is the potential and the risk we have for another major downturn as a result of some of these scenarios I've painted?

Mr Drummond: First of all, vis-à-vis the international environment, there's no doubt that that is very soft. But there's a good and a bad here. We're so intricately linked to the US economy, and of course that was a wonderful thing in the late 1990s, particularly for the automobile sector and for the rest of the manufacturers in Ontario. But of course that's what softened our economy so much in 2000 and 2001. Only 6% of your exports actually go outside of the United States. Weakness beyond the United States is obviously going to weaken the US recovery, but I don't think enough to hold them back from recovering to 3% to 3.5% growth rates. And when they do, then I think it'll lift the Ontario and the Canadian economies along with it. But it's certainly going to be one of the important features that's going to prevent us from seeing the 5%, 6% and 7% growth rates we've typically seen in recoveries.

You've said, "What will lead it?" I would say number one would be monetary policy. We've seen a totally different monetary policy in Canada and the United States during this cycle than we've ever seen before. Interest rates never got very high before the economies weakened. It certainly wasn't interest rate tightening that caused the weakness. Some quibble that maybe the Bank of Canada wasn't quite as aggressive in easing when they started, but once they started, they brought them down. If you look in after-inflation terms, interest rates are negative, and I don't think they'll be going up any time soon. I don't think interest rates will go up until toward the end of this year. Of course, we've seen the result of that. Anything that's interest-rate sensitive—consumer durables and housing—has been doing very well through this cycle. But there's a good and a bad to that, too. The good is that it kept the economy afloat while the business sector was retrenching, but the bad side is that surely by now anybody who was contemplating buying a car or a refrigerator has bought it. So that spending may get sustained, but it's not going to have a cyclical snap-back the way we've typically seen in the past, which to me is not going to preclude us returning to 3% growth rates in Ontario, but it is going to make it very difficult getting anything above that.

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Finally, the thing that will help round out the picture is that I think we're within six months of business investment stopping going down. I don't think it's going to come back roaring, but I think once they get the higher-capacity utilization rates—the one thing is that if you had to have an over-investment in anything, it's best to have it in high-tech information and communications technology, because the technology changes so rapidly that if you're out of the market for about two years you're about a generation behind in technology. So even if you've got excess capacity, at some point you've got to come back in. I think we'll start to see that by the end of the year, and that will hugely benefit Ontario because Ontario's a major producer of those sectors.

Mr Christopherson: You mentioned a couple of times, and others have too, the importance of the auto sector. One of the distinct advantages we have, of course, is a $6-an-hour advantage because of our public health system. Just projecting out, there's certainly a drive by many to privatize more and more of our health care system. I won't embroil you in that political discussion, but from an economic point of view, in terms of our competitiveness and our ability to continue to attract investment, particularly in the auto and steel industries, how important is that $6-an-hour advantage we have because our health care system is a public service rather than something each company has to pay premiums for per employee?

Mr Drummond: Sure, it's hugely important. The numbers are somewhat dated, but the most recent numbers I've seen are that the private sector part of a single car production in the United States costs the car companies about $450, and it costs about $100 in Canada. So it's an advantage of several hundred dollars. I'm sure the purpose of my being here is not health care, but I would distinguish between—when you say a private sector of health care, it's the single public payor that keeps the cost down in Canada relative to the United States. I don't think that necessarily precludes private sector administration within that single public payor. I think there are things you can do in Canada that can involve the private sector, but I think we should keep intact our single public payor.

Mr Christopherson: How's my time?

The Vice-Chair: Two more minutes.

Mr Christopherson: Thank you. One of the difficulties I have—and we'll talk about the economics, then, of health care rather than the politics of it. At the end of the day everybody's going to have to pay, whether you pay through your taxes—and hopefully we have a relatively progressive tax system so that the more you're able to, the more tax you pay—or pay it through premiums, which have no regard whatsoever for how much money you make. At the end of the day, it has always seemed to me that the advantage for my constituents in Hamilton is to have a publicly funded system, because my constituents are going to pay no matter what. Just because you remove it from Flaherty's bottom line doesn't change the fact that the health care system, as we want it, still has to be paid for. And if everybody's in—as you've pointed out, everybody who earns an income is paying through their taxes; it's a way of sharing that cost as opposed to starting to eliminate some folks. Anyway, my whole point is, is it not a fact that at the end of the day the average family, the average person, is going to pay for their health care system whether it's publicly funded or privately funded, and at least keeping it in the public system, we're not adding a profit line to the costs?

Mr Drummond: I don't necessarily agree with that in terms of the private sector administration within that public sector. British Columbia in many respects is an interesting example for Ontario. It's kind of interesting, because people don't view it that way. Their view is that they had these phenomenal deficits that sprung up, but in fact the deficit they were worrying with was $4.4 billion, the same as the one I'm projecting here. Mind you, Ontario's revenue base is somewhat higher. But, for example, one of the things they're doing—in their hospitals, the hospital sector provided the laundry service and the meal service. It was all publicly done out of the hospital administration. It was on average 25% more expensive than done in the rest of Canada, which was all private sector administration. One of their cost savings is doing that. I don't view that as a threat to the public medicare system. Those are the types of things.

What worries me—and I commented on the same thing with Mr Phillips—is that you're going too quickly to try and fund the increases in health care. I don't think, as a society, however you fund it and whatever revenue source you can do, you can fund 5% growth every year. And let's keep in mind that we're in a decade of the most benign demographics we're ever going to have. We keep talking about our aging society. It's not happening right now. This is the slowest rate of growth that we're going to have. In fact, it's slower than it was before of the 65-plus, because the people turning 65 right now were from the 1930s and we had a low birth rate and we had low immigration. So this is benign demographics, and in benign demographics we cannot have 5%—

Mr Christopherson: But if we as a nation decide that's a priority, then we can make it happen.

Mr Drummond: If you want to pay for it.

The Vice-Chair: We'll move on. Mr O'Toole?

Mr John O'Toole (Durham): Thank you, Mr Drummond. I always listen with interest when you speak. I have to comment that most of what you're saying this morning you said last Monday morning in the Financial Post, to the letter. I think your report was written a week or two ago, which is good and useful information.

I just want to mention a couple of things before I actually have a couple of questions. You said something quite interesting, that it's actually negative interest in that inflation is exceeding the interest rate right now. That's interesting too, because that's a fundamental in economics, that the interest should always exceed inflation, otherwise you should be in debt, basically.

There is a competitive environment in this whole argument. It's between us and the world, and us and the rest of North America—Mexico—let alone Kyoto and all those other longer-range policy implications of where Canada positions itself competitively.

My first point is fundamental. Our position has always been that it's the chicken and egg. We've said that fundamentally you've got to have the strong competitive economy to have the strong quality of life. The premise we've operated on is that by being tax-competitive and encouraging investment in capital and other job creation mechanisms and through other tax policies, you create more disposable income or discretionary disposable income for Canadians, and Ontarians specifically. I think the formula to date has been successful. September 11 and other events, of course, have led to some significant changes in all of that.

There's one other thing I want to establish, and maybe you could respond. We use, or I assume, a number that each percentage of change in the GDP of Ontario represents between $500 million and $600 million. That's an assumption. If you look at your numbers and GDP growth in Ontario, that becomes an important number of just where we are, whether it's $2 billion or $3 billion short this particular current year, outside of the pressures of health care. Maybe you could respond to that.

My second question would be on auto production. It's the contrary of what you said, not that I would ever presume to disagree with you. But on auto, for instance, there's fairly aggressive interest in competition about who's able to provide the best-quality product at the best price, with all the discounting going on. But there are aggressive sales numbers, the largest numbers in history in Ontario, which is mainly the heartland of auto production and very important to our economy. That case was made last week, not just by Buzz Hargrove but the manufacturers' association as well. So I'm kind of in contradiction, because that's a driver. There are many multipliers in that whole economy.

The other one is the unknown, I guess, at this point, of the whole energy sector. As we read in the paper this weekend, there's some hesitancy that this is the right time to be selling assets when there are some unknowns in the marketplace, that maybe a glut of production could be waiting, which could lower price, which would lower the value of OPG.

In a general sense, going back to the original premise—Mr Spina wanted to say something. The whole thing is, how much faith do you put in the strong economy for the strong quality of life? That's kind of the starting point to let you respond. Is that the wrong premise, or is there something else we could do?

Mr Drummond: No, absolutely. Quality of life means many different things, and I'm sure it means different things to different people, but there's no way you can have it without having a strong economy. I would also say the strong economy is a necessary but obviously not a sufficient condition. But the things you need to round out what the economy itself would produce obviously require the funds. You can't—if you ever did, you can't any more—fund that through high tax levels. I would agree that establishing a competitive tax system is very positive. As I noted, you are doing that on the corporate income tax, with the caveat of the capital tax. I would not describe Ontario as having a low personal income tax burden. In fact, I wouldn't even describe it as being a competitive tax burden. I think it's still quite high. You have nobody, in a sense, paying less than 46.4% as the top marginal rate, and you've got many people in very sensitive income levels paying way higher than that. I think more needs to be done on that, although I obviously wouldn't expect you to be able to address that in a major way in a budget right now, given the overall deficit pressures.

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On the cars, you've got to be careful when you hear somebody admit they were wrong. I thought the car sales would slacken off more in January and February than they did and I've been surprised how well they've held up. But I think you can predict fairly accurately what the long-run trend sales on cars are, and we're running way above that, not just in Canada, because remember that Canadian consumption is peanuts compared to the importance to the Ontario market of the United States. They have the youngest stock of cars ever, in terms of age or the number of miles on their cars. I just don't think that can continue forever. I don't think it's going to collapse, by any means, but I just don't think we can continue to get that boost to the Ontario economy, and we'd notice at this cycle.

This is the first cycle where Canada has had a disproportionately large reduction in production cuts relative to the United States and Mexico. With the last cycle we went through, Mexico basically wasn't a factor on the production side; it is right now. Whether they've had good planning or good fortune, they've also had some of the models that have been doing quite well. The quality problems that plagued Mexico when parts companies first went in there 10 to 15 years ago are not there any more. So that's a concern as well. But I admit, to me, it comes back to the same thing. That's why I applaud the government for taking what at the time was a bold move on the corporate income tax side, because it's not just the United States that we're going to be competing with.

Amazingly enough, it has taken this many years—we've had cars for almost 100 years—and they are finally going to common platforms for cars around the world. It's the same car in Europe. But the flip side of that means that there's no built-in hostage market, that parts for cars they are producing in Europe right now can be sourced from anywhere in the world, so Ontario doesn't have anything given to it any more; it's going to have to be competitive in all that production.

Mr O'Toole: I think Mr Spina has a question.

Mr Joseph Spina (Brampton Centre): Thank you, Mr Drummond. I want to go back to what you were just talking about, about how surprising you found automobile sales to be sustainable. I'm trying to tie that in. On page 3 you've got a substantial reduction in a number of sectors in employment change. In fact, manufacturing has dropped 68%.

Mr Drummond: Sixty-eight thousand. This is all in thousands of jobs.

Mr Spina: Right, sorry, 68,000 jobs. What I'm puzzled about is, isn't there usually a more direct relationship between the reduction in the number of manufacturing and other area jobs, transportation and so forth, and the actual jobs in the housing and automotive industries, which are, more or less, the two drivers of our provincial economy? Isn't there usually a more direct relationship between those two? Yet this seems to be almost a dichotomy.

Mr Drummond: There are two missing pieces that I have to add under that chart, the first being interest rates. That's what has kept construction going, and to a large degree, that's what has kept retail trade going as well. Although consumer debt in the United States is at a record high—Canada is not at a record high but the consumer debt levels are very high—the costs of funding that debt are very low because the interest rates are very low, and of course that has helped the housing market. It's a bit of a paradox in the first instance. How can you have such a big loss of employment in the manufacturing of automobiles at the same time you've got record sales?

Of course, the other factor I have to bring in is inventories. When this all started, the car companies had about 65 days' worth of supply of cars sitting around on their lots. They've got about 30 days right now. That's how the equation filled up. They didn't have to produce. In fact, all through the fourth quarter, when those car sales were booming, production numbers were coming down. They were selling those out of inventories.

The good news is that their inventories are very low right now, so if you thought the car sales were going to continue to hold up, then those car companies are going to ramp up their production very soon. You saw, about a week ago, that General Motors did substantially increase their forecast of car sales over the rest of the year. But even that, with a more upbeat forecast, was still down from the level they had at the end of 2001 and the beginning of 2002. So we might see the production plans firm, but I don't think we're going to be seeing large-scale increases in production, on average. Obviously, as certain models start up in plants, we'll see some plant activity go up, but on average, I think we can probably see, at best, the production stabilizing on the automobile side.

Mr Spina: One of the bars you show is public administration, 32,000. What jobs fit into that category generally?

Mr Drummond: This would be public administration writ large. It would be the Ontario government, the federal government, all the other provinces, but it also includes the health care sector and the education sector. The big growth in both the output from the public administration and in jobs has been the health care system.

We are seeing what I suspect is going to be a three-pronged cycle. For 15 years, until 1993, health care increased every single year, double digits in Ontario. Then it was flatlined for a couple of years—

Mr Spina: Under the NDP government? OK. I just wanted to be clear on that.

Mr Drummond: Then in virtually every single province in the last couple of years, you pick the province, health care spending will be 5%, 6%, 7% or 8%. Virtually no one has been able to hold it under 5%, and what you're seeing here is the tail end of that. But I suspect what you're going to see is the next cycle, because all provinces are facing status quo deficits. There are no exceptions, even Alberta. I suspect you're going to see pressure to bring that down again. Whether it's flatlined or not is another thing. I don't think that will happen, but I think that this growth you've seen in the public administration here is the last of that economic cycle.

In some respects it worked out quite fortuitously for the economy, because while the private sector was doing very poorly, the government sector was filling in with some of that job creation for a while.

Mr Spina: I have a simple question that may leave time enough for my colleague to ask another one. An alternative budget created by the United Steelworkers last year had a statement that said, "The Harris government's tax cuts are the sole reason why Ontario is facing a revenue crisis." That's a direct quote out of their alternative budget. I go to your page 5 and I look at the government's fiscal position statement. You've clearly talked about the revenue side, and we can see the jumps from 1998-99 to 1999-2000, which were substantial, and then the projected reduction in revenue. But on the expenditure side, from 1998-99 to 1999-2000, you've got a $4-billion increase in expenditure. Then it's flatlined for a couple of years and then another $2 billion this past year. So which is it? Where is the crisis coming from? Is it from the tax cuts or is it from expenditures that have gone up?

Mr Drummond: I would say probably neither. It's from the weakness in the economy and hence the weakness in the tax base. Part of that is obviously from the cuts in the tax rates, but I think that's a fairly small part of it. Not only has the real output in the economy in 2001 only gone up 1% but there has been virtually no inflation in any of the tax bases. Of course that's kept the revenues down, and as you can see from my forecast on 2002, I expect a 2.3% decline in revenues. Very little of that 2.3% is because of the tax cuts. In fact, the only ongoing tax cut now left in the system is the corporate income tax cuts and that's staggered in over a number of years. None of the rate cuts is very large in any particular year, so I would say that the number one reason would be the cyclical weakness in the economy.

Mr Spina: Would those corporate rates be enough to stimulate jobs in the short term?

Mr Drummond: I think the unfortunate answer on the corporate income tax side is that it takes a while. It has a longer-run impact. I don't mean to say that to denigrate the importance of it at all, but I don't think that's something that changes behaviour and hence brings in a lot of additional revenues in any particular year; certainly one or two years out. And remember, you're not down to the 8% rate until 2005, and neither is the federal rate down to its low level.

The Vice-Chair: Thank you very much, Mr Drummond, for coming forward. We appreciate your presentation and your spending an hour with us.

ONTARIO ALTERNATIVE BUDGET WORKING GROUP

The Vice-Chair: The next delegation is the United Steelworkers of America, Hugh Mackenzie. A full hour has been set aside for you, beginning with your presentation, and following that whatever time is left over we'll divide equally among the three caucuses. As you start, please state your name for the record.

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Mr Hugh Mackenzie: Good morning and thank you for the invitation. My name is Hugh Mackenzie. I work for the United Steelworkers of America as research director, but I should clarify that the hat I'm wearing here is my own as an economist and as the co-chair of the Ontario Alternative Budget Working Group. I hope that doesn't mean that the organization I work for disagrees with what I'm going to say, but what it does mean is that they haven't seen it.

I've handed out a written presentation. I'm not going to read through it. What I would like to do is talk through it and leave as much time for questions as possible.

Essentially my basic point today is that much of what has been said in the set-up for the budget this year has a lot more to do with the articles of faith of the Conservative Party and the way those interplay with the leadership campaign that's underway than anything you can see in the numbers underlying the economy. I want to focus on three specific things that I think deserve some discussion. One of these is the sometimes hysterical conversations that are taking place about the impact of increasing health care costs on the budgetary situation, the use of words like "unsustainable," with the purpose of pointing toward, in some cases, some rather draconian suggestions about what we need to do with our health care system in Canada. The second thing I want to talk about is the forecast for the budget for this year, because of course this year isn't finished yet, and next year. Specifically, I want to raise some questions about the $5-billion number that has been mooted about by various people in the government as the definition of the "problem" that Ontario faces in the next year. Finally, I want to spend a few minutes talking about the role of the government's tax-cut policies in Ontario's economic development.

Let me start briefly with some admittedly 10,000-foot-level but I think relevant numbers about health care spending in Ontario. We've heard a lot of suggestions that there's a crisis in health care funding, that health care costs are running out of control and that, in response to that out-of-control escalation in costs, previously unacceptable suggestions have to be taken seriously: two-tier medicine, user charges, reintroduction of OHIP premiums, the list goes on.

The number I want to cite is the relationship between health care spending and gross provincial product. The reason I pick that as the relevant number is because most of the other numbers people cite, whether they're talking about health care spending as a share of provincial budgets, for example, which is something that is often cited, or whether they're talking about year-to-year escalation, miss the basic point that the most important consideration for us is how these costs compare with our society's ability collectively to pay for them. In other words, how does the escalation in health care costs compare with the growth in the resources we have in Ontario to provide for those costs, regardless of how they're provided for?

A remarkable thing emerges when you look at those numbers, which is that there has been a remarkable stability in the proportion of GDP that's devoted to health care over the 1990s. According to data from the Canadian Institute for Health Information, public sector health care costs were at 6.1% of GDP in 1990. They cycled during the recession of the early 1990s, got as high as 6.8% when the economy slowed down, got as low as 5.8% and ended up at 6.1% of GDP in the year 2000, which strikes me as hardly an indicator of an out-of-control stress on the system.

Total health care costs did increase over the 1990s, from 8.4% of GDP in 1990; increased very quickly right at the beginning of the 1990s to about 9.6% and then by the end of the decade had dropped down to about 8.9%, an increase over the number at the beginning of the 1990s entirely attributable to privately funded health care costs as opposed to publicly funded health care costs, which again is a reflection of a number of factors that are well known about the health care system: the failure of the system to keep up with demands for eldercare; the fact that the system does not, by and large, cover drug costs, which have become an increasing expenditure. But even if you look at the total cost numbers, regardless of how they're funded, in my submission, it would be difficult to describe the change that has taken place over the 1990s as evidence of the system being completely out of control, unmanageable and poised to become an unbearable burden on government or on our society.

In concluding this, I want to make a point that perhaps should be obvious but I think bears repeating: that a lot of the discussion about escalating health care costs is focusing on public sector health care costs, not on total health care costs. The suggestion seems to be that we're actually doing something about health care costs when we cut back on public funding, and that's in fact not true. What you're doing is, you're shifting who's paying for it from the public sector, where the costs are shared broadly among all taxpayers, to the private sector.

When you shift costs to the private sector or to private payors, if I can put it that way, one of two things happens: either the expenditures end up being covered by insurance, which, when you compare multi-payor health insurance plans and the public plan, increases the inefficiency of the system, because the multi-payor plans expend a much higher proportion of their total costs on administration than the public system does—the public system is an extremely efficient payor of insurance; when you shift to the private sector, you inevitably produce a less efficient system—or, alternatively, the costs end up being borne by individuals; the services end up being distributed not on the basis of need but on the basis of ability to pay, and you run into problems with access, which has been one of the significant concerns.

The two points I would make with respect to health care costs are that, first of all, you can't find in the numbers a rampant, uncontrolled escalation in the burden of health care costs on the economy and, secondly, if we focus only on public sector health care costs, we may be doing something about the government's balance sheet, but we're certainly not doing anything either about overall health care costs or about the fundamental question that Canadians have been concerned about for the history of medicare, which is people's access to the health care system.

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Let me move on to the second point I wanted to make, and that has to do with the budget deficit projections that have been moved about. Everybody in this room knows that a couple of months ago, it appears to have been that the Chair of Management Board began talking about Ontario facing a potential $5-billion deficit in spending in the fiscal year coming up in 2002-03. I read carefully some of the submissions that were made by finance officials last week and I was extremely interested in the fact that, according to the third quarter of Ontario Finances, we've had another miracle of the loaves and fishes, and the budget deficit post-September 11, in the wake of an unpredicted quarter of negative growth in the third quarter, in the wake of all those changes, miracle of miracles, we have exactly the same projected deficit, after all that, as we did at budget time.

I went through this little analytical exercise, asking myself the question, "Is it possible for both of these things to be true, or, in fact, is either of them true?" It struck me as a little odd that we could have this wonderful, steady-as-you-go, everything's-just-fine set of projections for 2001-02 and then, immediately after that, fall off a cliff and face a $5-billion problem.

So what I did was I looked into basically two questions. I asked myself the question, what's the likely outcome of Ontario's budget balance for 2002-03, given the growth forecast that the deputy minister and the minister tabled last week at this committee and given their forecast of a $140-million surplus in 2001-02? When I take those two sets of facts, which appears to be the set of facts that the government is using in its financial planning—for those of you who are numbers freaks, I'm looking at table 1 on page 6 of my handout. The first scenario outlined there is basically the one that takes all of the various numbers that were tabled last week as givens and looks at what the implications would be. Buried in that is the assumption that program spending will increase at the rate of inflation.

When you do that, and you assume that the government is going to proceed with the corporate tax cuts that have been announced but have not yet been implemented for this year, we're looking at a deficit of just over $600 million. I've estimated that the announced but not yet effective cuts in corporate taxes amount to about $1.2 billion for this year. It would have been a bit more, but with some of them having been moved forward into 2001-02, that number has actually gone down in the last six months. If you take those out of the picture, you're looking at a $600-million surplus.

The conclusion from that analysis is that if you're looking for logical consistency here, you're not going to find it. The economic projections that the government is making and its comfortable $140-million surplus estimate for 2001-02 don't add up. Those assumptions, and the base from which we're operating, do not add up to a problem anything like $5 billion.

So then I took the analysis one step forward and said, "OK, what would it look like if you took an absolute worst case?" That basically consisted of three different pieces. One was that I did a re-estimate of revenues for this year, doing what I think is a more realistic job of taking into account the impact of the slowdown in the economy that wasn't predicted at budget time. What I essentially did there was I took the main components of the tax system, looked at the economic assumptions the government made at the time of the budget, and adjusted those for the changes to reflect the general view of the economy now. That was the first thing.

The second thing I did was that, instead of taking the consensus average of economic growth forecasts for the next couple of years that the government appears to be basing its planning on, I took the low end of those. I noticed with interest, and I'm sure Jeff Rubin is hurt, that CIBC World Markets isn't included in the list of forecasters whose forecasts are averaged to produce the consensus that the government's working from. But I took Jeff Rubin's numbers, which tend to be at the low end for 2001-02, and I think the Bank of Nova Scotia's were at the low end for 2003. So I just sort of constructed a worst case.

The third thing I did was that I assumed that spending was going to increase more rapidly than the rate of inflation. Specifically, I assumed that health spending was going to go up by 5% and that everything else was going to go up by 3%.

When you do all of those things, what you end up with is a forecast deficit for 2001-02 of $832 million and a forecast deficit for 2002-03 of $2.7 billion. That, in my view, is pushing the limits of pessimism in constructing a forecast for next year. In other words, I played the game by trying to get as close as I possibly could to the $5 billion, and $2.7 billion is as good as I could get, taking the most pessimistic assumptions that are out there about Ontario's economy in 2002 and the early part of 2003.

I would note that the 2001-02 deficit number ought not to generate a huge amount of panic, because it's still within the two contingency numbers that are still carried in the books. The third-quarter Ontario Finances still carries $450 million as a contingency on the bottom line and a further, I think, just a little over $500 million that's carried within the Management Board budget. So nothing horrific has to happen for Ontario to be able to land on the dime—no pun intended—for 2001-02.

The interesting issue is 2002-03. With respect to 2002-03, I'll make a couple of points. One is that, of the $2.7 billion, about half of it is self-inflicted. About half of it results from the assumption in this analysis that the government will say, "Don't confuse me with facts about what's going on in the economy and what it's doing to the budget. Let's proceed with the corporate tax cuts." That drills a big hole in the budget. The other half, although it's a big number—it's about $1.3 billion—is still within the range of the total contingencies that the government provides for. The government has historically provided for a contingency of about $800 million within the Management Board budget and exactly $1 billion as a bottom-line contingency.

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While there is a significant budget stress heading our way on this most pessimistic of scenarios, it's certainly not $5 billion and in my respectful submission I don't think it's cause for the kind of blind panic that's running around. I think the kind of blind panic that's running around has a lot more to do with who's supporting whom in the Conservative leadership and how they feel they can use that set of numbers in the debate over the leadership.

The final point I want to make has to do with the role of tax cuts in Ontario's economic success. The magical powers of personal income and corporate tax cuts that have been cited by the government repeatedly since it was elected in 1995 have been quite controversial right from the beginning. I think it's fair to say that throughout the piece it has been impossible to find any forecaster who would attribute anything like the power to these tax cuts that the provincial government has. Most observers, and I count myself as one of them, would look toward broad-back or economic factors as being the primary drivers of Ontario's economic success. The three critical ones in my view have been the easing of interest rates, the drop in the value of the Canadian dollar and, most important, the extraordinary growth of the American economy, which has had a huge, positive impact on employment and economic activity in this province.

If you look at outside generators, things that are outside the economy that are providing stimulus, you can't avoid the fact that, on an average basis over the period since the government was elected in 1995, the increase in exports to the United States amounts to about 80% of the increase in our GDP. It's been a huge engine, and as is often the case with these things, sometimes you only notice how powerful the engine is when somebody slackens it down. It's absolutely clear that the turndown in Ontario's economy is directly related to events in the United States and the pace of the economy in the United States.

I've made the point of talking about the general consensus, if you want, among economic observers and how different that is from the political lines that have been put forward by the government about the impact of the tax cuts on the economy in part because among the many things that Mr Christie said last week that I found interesting was his series of slides in which he talks about the triggers for recovery for the Ontario economy. He listed three. One was interest rates and, as Mr Drummond indicated toward the end of his testimony, that's been a very important driver of things like automobile sales and activity in the housing sector. The second slide focused on energy prices, and the third of the triggers for renewed economic growth that I identified was renewed growth in the US economy. I looked very hard and I couldn't find a slide for tax cuts in the presentation, and I think that speaks volumes about where the real drivers of where our economy is going are, and ought to give one pause as one contemplates inflicting on the province's budget a significant negative for what is in my view a relatively limited, if existent at all, benefit from proceeding with the tax cuts at this time.

I'll conclude just by making the observation that a great deal of what has been put in front of the public with respect to Ontario's budgetary situation over the past few months has had more to do with an event that concludes on March 23 than it has to do with the real fiscal situation that we face. As I've indicated in the projections I've done, that implies both a more positive than is justified view of 2001-02 and a substantially more negative than is justified view of 2002-03.

Having said that, I'm happy to take questions, and I note that we've got a little more time than usual. Thank you.

The Vice-Chair: Thank you very much, Mr Mackenzie. We'll start with the NDP. It's about 10 minutes per caucus.

Mr Christopherson: Thank you, Hugh, for your presentation. It's always enlightening, because many things that you touch on—even using the same set of assumptions often takes us to a different conclusion. If you listen to some people in this province, you'd think there was no opinion other than the one the government had as to credible economic policy.

I want to go back to your first area of discussion where you say public health care costs have increased, on average, in the last decade 6.1% of GDP.

Mr Mackenzie: Public sector health care costs have been relatively stable as a share of GDP at about 6.1%, yes.

Mr Christopherson: Right. Then you went on to talk about private health care costs and that they were much higher. I want you to expand on that a little bit, break that down for me.

Mr Mackenzie: If you look at the numbers, what you see is that there was a big jump from year to year in private health care costs as a percentage of GDP in the early 1990s. I haven't drilled into the numbers in enough detail to come to any clear conclusion about what that implies. I suspect it may be related in part to the extension of patent protection on drugs, which has started to push drug costs up more quickly in Canada than they were increasing before. I suspect it also reflects expenditure restraints that were brought in by the previous government in the early 1990s as the economy started to slide and those costs shifted to the private sector. I think those are probably the two critical explanations for it, because what's interesting, when you look at the numbers, is that private costs pop up in the early 1990s and then remain relatively stable for the rest of the decade.

Mr Christopherson: What would you attribute that to?

Mr Mackenzie: As I said, I think there are some external drivers to it. There has been a more rapid increase in drug costs, for example, which is a significant proportion of private sector health costs, and those costs increased pretty substantially in the early 1990s. The bump up right in 1991-92 is a little bit artificial because it in part reflects the fact that we had negative growth in the economy during that period, so it's a fraction. The denominator of the fraction has dropped, and that's going to produce the bump up.

What's interesting, though, is that unlike the public sector health care costs, which jumped up as a percentage of GDP when the economy started to slow down, then came back down, private sector health costs went to that higher percentage of GDP and then stayed there. I think that's in part the result of escalating drug costs and in part the cumulative effect over a number of years of constraints on public sector health care spending. It goes somewhere, and it goes into the private sector.

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Mr Christopherson: When Mr Drummond was talking about health care costs, he said that one of the benefits we can see to privatization of administration within health is the provision of food services. He used that as an example. I want you to touch on the economics of that, but one piece of economics that hasn't been talked about here—and I'd like you to factor that into your response—is that if there is a savings in the direct delivery of any services when something is privatized, the biggest initial change that I've been able to see is that they just pay less wages. So if you're going to pay people less money and give them less benefits, then it's easier to provide that service at a cheaper cost. But there's an impact to doing that, as we've already seen. I'd like you to comment on the implications of so many wages and the public sector side of things being held down, their implications into the private sector wages and what that does to the overall economy in terms of this accumulation of huge, vast amounts of wealth. People don't realize the accumulation of wealth in Canada compared to other nations.

So two things: one is the whole notion of introducing any kind of privatization, whether it's into the administration of services or the actual delivery of services, and what that means for us in terms of economic policy, public policy; and second, this whole drive toward privatization and what that's doing to wages, and the implications for our economy and, most importantly, the standard of living of Ontarians as wages are driven down in the public and in the private sectors.

Mr Mackenzie: Let me just make a couple of comments. First of all, in the organization that I work for, we deal with contracting out of services a lot. It's a very common kind of strategic response by corporations to cost pressures. The experience is that, at the end of the day, contracting out does not save a great deal of money. The savings are generally significantly overstated, and end up leaking out into duplicated administrative costs and higher margins for the contracting organizations. So the "benefits" I think are significantly overstated when you're talking about contracting out.

The second point I would make, specifically with respect to health care, is that in many respects, when you're talking about contracting out things like food services, you're talking about horses that left the barn some time ago. A significant proportion of those kinds of services have already been contracted out by hospitals.

The third point I would make speaks to a broader, admittedly philosophical, question and argument. One of the things that always baffles me is that anybody would think it's good politics to run around the province declaring that Ontarians are paid too much. It's as if we have a government that's campaigning against ordinary people's living standards, which strikes me as completely and utterly bizarre. I would have thought that a government that was truly interested in improving ordinary people's living standards would be campaigning for policies that enabled us to increase people's living standards, not push them down. When, for example, the government talks about the "benefits" of restricting people's rights to join unions, the principal benefit to talk about is that wages in Ontario are too high. It just seems to be kind of a bizarre thing for somebody to be saying on behalf of its citizens.

The last point I wanted to make is really a much more general point about, not so much the privatization of specific services in specific institutions, but more looking at reducing the scope of the public sector health care system and expanding the scope of the privately funded health care system. There clearly are many issues raised by the single-payor system, one of the principal ones being that one has to be very careful when you have a single-payor system to ensure that there are incentives built into the system to innovate. The one thing that's absolutely clear is that there is less overhead in a single-payor system than there is in a multi-insurer system. This is not a complicated exercise. You can look at the stats that are produced regularly on the insurance industry in Ontario and they show the administrative costs in private health insurance, drug insurance, major medical insurance—those overhead costs are in the range of 10% to 20% of the benefits that are actually paid out. And that compares with around 3% as the administrative overhead for the single-payor system.

Quite apart from everything else, the single-payor system is more efficient. Therefore, other things being equal, it's going to be more costly for us as a society to shift these costs from the public single-payor system to the private multiple-payor system.

The Vice-Chair: We're really out of time.

Mr Christopherson: I'll just make a comment, then, two quick things: if ever there was an important debate to be had, I would like to see the government engage it on that point, because they'll always argue public costs more, private costs less. You have made an argument that the exact opposite is true in the case of health care, and if ever there was a pivotal debate to be had, this would be a good day to have it. I would just urge anybody who's watching and wants to know more about a different way to look at the same set of numbers in the same province in terms of an economic future to take a look at the Ontario Alternative Budget. It's a breath of fresh air for everyone.

Mr Ernie Hardeman (Oxford): Thank you very much, Mr Mackenzie, for your presentation. I guess, just in response to Mr Christopherson, to those who are watching, if they want to look at an opposite way or a different way of preparing a budget and spending the people's money and providing service for the people, they may want to look from 1990 to 1995. There was the alternative view that they decided they could spend money they didn't have and they could burden our children with that. Of course, if we look at our budget, yours and the one that was passed last year provincially, you will start seeing that one of the major expenditures in that budget is to pay interest on the money that previous governments of all stripes spent that they didn't have.

Mr Mackenzie: Including the roughly $20 billion in debt that this government accumulated to pay the interest on money that it had to borrow to fund tax cuts.

Mr Hardeman: Again, it's my turn to question you on your presentation.

Mr Mackenzie: Yes, right.

Mr Hardeman: I would point out that I am convinced that the tax cuts in fact created more financial ability for the province and helped those working people in Ontario who are now getting more take-home pay each week because we've reduced their taxes. They can then turn around and spend that money.

I was pleased with your presentation, Mr Mackenzie, where you—

Mr Mackenzie: Now I'm in trouble.

Mr Hardeman: —came to the conclusion that in fact we don't have a problem with finances and this money we've been told is going to be needed next year to balance the budget. Mr Drummond in the previous presentation told us that, in his opinion, we weren't going to be able to balance the budget in the coming year. Your presentation suggests that not only can we balance the budget but there doesn't seem to be a problem with expenditures—

Mr Mackenzie: If I may, I don't like to have my words mischaracterized. I think what I said was that in the worst-case scenario the budget could still be balanced if the government didn't proceed with the corporate tax cuts that are planned.

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Mr Hardeman: I just wanted to go to your worst-case scenario. That is presuming that the only expenditure increase you're looking at in government services is the 5% in health care.

Mr Mackenzie: No. In the worst-case scenario, I have 5% for health and 3% for everything else.

Mr Hardeman: OK. I just wanted to point out that of the presentations we've heard in the last four or five days for this pre-budget consultation, everyone in every sector has been asking for considerably more than 3%. So I think we're going to have trouble meeting all the needs and still fitting within that one.

One I really wanted to touch on was the one about health care, and I think Mr Christopherson mentioned it. You suggested it was in the early 1990s that the spending for public health care stabilized or went down and for private health care went up. Then in the late 1990s, it went the other way.

Mr Mackenzie: No, that wasn't quite what I said. What I said was that public health care spending, broadly over the decade, has been stable at around 6.1% of GDP. There was an increase in the share of GDP going to privately funded health care in the early 1990s, and I think I speculated with Mr Christopherson that that might be partly due to increased drug costs, partly due to constraints on public health care spending which bled off into the private sector and partly it's just a numbers thing, that when the GDP goes down, as it did in the early 1990s, the fraction is going to change. But overall, if you look at the decade as a whole, what you see is relative stability in public sector health care costs as a share of GDP and an increase in private sector health care costs.

Mr Hardeman: In your analysis, is there any connection between health care spending needs and the GDP?

Mr Mackenzie: No. I'm not suggesting that there is any causal relationship, I'm simply saying that I take the GDP as a measure of our society's ability to generate resources and I see health care spending as what it is. If I were looking at these numbers and seeing the share of GDP going to public health care spending increasing by 50%, for example, over a decade or something like that, I'd say, "Whoa, we've got a huge problem here. This is running out of control." I don't see that. What I see is that public sector health care spending is relatively stable as a share of our GDP and therefore is relatively stable in relation to our society's ability to generate the resources to pay for it.

There are other measures that one might use. You can look at, for example, the share of the provincial budget that goes to health care, which I know is a favourite one of some people in the cabinet. I would just note that while that may be a reflection of the government's priorities, which can change from budget to budget and from government to government, I think the relevant measure of the impact of health care costs on our society is the relationship between those costs and the society's ability to generate the resources to pay for them.

Mr O'Toole: Just quickly, to follow up from that, I don't disagree. In fact, I'm sort of opposed to private health care. You and I both know that they've been delisting services and a lot of things for many years. In fact, many say that we spend $80 billion on health care in Canada. That includes the private sector component as well in Canada. So it's huge and growing. It is a problem.

Some of the initiatives the government has taken are important, and I think you would probably support them. I don't want to put words in your mouth, but community health or family health networks are the right kinds of things to do to make wise use and yet not restrict choice.

Mr Mackenzie: I don't want to take up your remaining time, but I agree with you on that. I think one of the things we have neglected in the single payor system is looking at innovations in delivery. I think those kinds of innovations are important.

Mr O'Toole: I commend you, and I would encourage you to bring forward solutions, because there are a whole bunch of silos out there. It's not just the doctors; the hospitals are the gateway. There's a lot of ownership there, territory. The nurse practitioner doesn't really get a fair role here. I think they provide a valuable service without adding a lot of cost.

You're tying it to actual spending. In that case, we've moved it $6 billion. We've thrown in $1 billion a year every year, if you want to do the numbers. A per cent of GDP: that's a very dangerous kind of threshold too because, whether it's all public spending, if it was tied directly to GDP there are arguments to be made that you should increase spending during economic downturns.

Really, it comes back to the fundamental argument of having the strong economy for the strong way of life. You can't argue with that. Without the proper investment tools and mechanisms to encourage investment, you can't sustain it. As much as I'm getting older—much older than you, by the way—I will need those services. I'm not trying to eliminate them.

Mr Mackenzie: I feel like I'm catching up with you, though. I have so much less hair than I did when I first appeared before this committee.

Mr O'Toole: Well, you're starting. If you tie it to GDP and the GDP goes down, what happens to health and education? Should we spend less? The problem with public sector things—which I value highly—is that they always go up. When the GM workers and the Steelworkers are on the street, they're still going, ratcheting up the—help me through this little barrier here.

Mr Mackenzie: OK. Let me say first of all that I'm not suggesting that we tie health care spending to the GDP. I'm simply looking at it over the long term.

Mr O'Toole: It's just always going up.

Mr Mackenzie: As a quick and dirty way of answering the question, are health care costs escalating at a rate that is going to cause a significantly increasing burden on our society as a whole? I think the answer so far is no.

In response to your broader point, one of the things everybody needs to think about is that the relationship between the ability to pay for public services and the quality of public services and economic growth is not a one-way street in either direction. I take your point that we're able to pay for high-quality public services to the extent that we have a strong economy.

I would also make the point, though, that in virtually every major area of public spending, high-quality public services make a contribution to our ability to grow, whether you're talking about the education system and the role that a well-trained and well-educated workforce plays in our future economic development or, in the case of health care, both the immediate cost advantage to Canadian businesses of having collectively financed health care as opposed to privately insured health care, which is a huge competitive advantage for Canadian-traded industries, or whether you're talking about the longer-term benefits of simply having a less ill society.

Again, one other factor that is not often given consideration: simply the fact that Canadian workers have access to health care irrespective of their health care insurance, irrespective of their place of employment, has a huge effect on people's sense of personal security and people's economic mobility.

In the United States, where that's not the case, people talk about the pension trap. People stay in jobs because they are building up a pension entitlement and they don't want to lose it by quitting their job. In the United States, there's a huge health insurance trap where, if you've won the lottery and you've got one of the 30% of the jobs that carries health care insurance with it, you stick with it because the consequences of giving up that benefit are potentially so catastrophic.

I think we get enormous benefits from both the soft services and the hard services. I'm not saying that the economy is a kind of a bootstraps thing, where public services generate the economic activity; that would be stupid. On the other hand, I think there is a relationship in the other direction as well.

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The Vice-Chair: Thank you very much. We'll move on to the official opposition.

Mr Phillips: Thank you, Mr Mackenzie. You know this stuff pretty well from a long while of dealing with it.

Just a detail question first; the TD Bank highlighted this issue for me. One of the reasons that their deficit number is $700 million lower than I would have thought is that they assume stranded debt in the electrical sector will go down by $700 million and therefore the deficit will be $700 million lower.

Mr Mackenzie: You mean the debt or the—

Mr Phillips: The deficit will be $700 million lower.

Mr Mackenzie: Because they're going to get rid of about $30 billion in stranded debt? We're talking about interest?

Mr Phillips: Yes. If you look at the government's medium-term fiscal outlook, it's lower by $700 million because they assume that stranded debt will go down by $700 million.

Mr Mackenzie: Yes, because they're going to sell off OPG and—

Mr Phillips: That, and probably put in place the surcharge on the stranded debt. So I could imagine that if the deficit went down $1 billion, that—

Mr Mackenzie: But that's not a tax. The surcharge on the stranded debt is not a tax, right?

Mr Phillips: That wasn't even my question, but that's fine. My question really is—

Mr Mackenzie: I was being provocative.

Mr Phillips: It's not a tax. That, actually, is my point. It is a very unusual calculation, actually, and maybe only a very few people in the province care about it. But I can see now how you could have a balanced budget by simply having the surcharge large enough that you reduce the stranded debt by a couple of billion dollars and that would offset a $2-billion deficit.

Mr Mackenzie: Yes.

Mr Phillips: You haven't put any of that calculation in your—

Mr Mackenzie: No. There are two things that I should say are reflected in there that I didn't highlight specifically. One is that I haven't made any assumptions about changes in the fiscal position as a result of electricity restructuring. I've just carried forward from the previous year. I take your point that by introducing this stranded debt recapture surcharge the government is, in effect, incorporating a portion of everybody's electricity bill into the provincial revenue system.

The other thing I should clarify is that the estimated $400 million in overstatement of income tax revenue, reflected from this calculation error that the government of Canada discovered, is not reflected in the 2001-02 numbers; it is reflected in the 2002-2003 numbers. I'm making the assumption that Ontario will be able to hold off the federal government from doing anything about this for the rest of this fiscal year but will not be able to next year. I'm making no assumption about what they do about the money that's "owed" to the federal government. I'm simply looking at the ongoing cash thing. That's a very easy thing for the federal government to do, because Ontario depends on the federal government writing the cheques for the income tax revenue. So it will simply recalculate the amounts that it pays out and adjust the numbers accordingly.

Mr Phillips: By the way, any detail that you can provide the committee on how you arrived at your revenue estimates would be useful; just the sheet that you might prepare on how you calculate the revenue.

Mr Mackenzie: Sure.

Mr Phillips: There's no mention that I can recall in your presentation about jobs, but I'm interested in how you see the job front. I know the government, during the last election, said that this plan will create 165,000 new jobs each year. I see today, looking at the January unemployment numbers, that we're at 476,000 unemployed. I don't think it's been that high for three and a half years.

Mr Mackenzie: Right; I think since 1996.

Mr Phillips: Bank of Nova Scotia predicted job growth this year of under 10,000 jobs for 2002. I think the TD Bank economist said maybe 25,000 jobs. If you're up 25,000 jobs, my understanding is that with the labour force growing at maybe 90,000, you've got—

Mr Mackenzie: You've got an increase in unemployment, yes.

Mr Phillips: Do you have any comments for the committee on what you think is going to happen on job creation in 2002 and 2003?

Mr Mackenzie: I'm a bit of a pessimist. I'm notorious within my own organization for being a pessimist, and I should explain why.

I was interested in the discussion that was taking place in the committee when I walked in about car sales and automotive production. The problem with looking at sales figures is that they're not really very helpful as an indication of what's going to happen to employment in Ontario in the auto sector. At first blush, one's understanding of what's going to happen to employment in the auto sector, which is a key driver of the manufacturing sector, is actually a pretty mechanical process. We know what the Big Three's plans are for shifts. We know that they're going to close the truck plant in Oakville, not next year but the year after. We know that Chrysler is already down one shift in Brampton and I think they plan to go down either one or two more. We know that Sainte-Thérèse will be out as of next September, and I raise Sainte-Thérèse because so many of the parts that are put into cars at Sainte-Thérèse come from Ontario.

So you can actually get a pretty precise fix on what's going to happen to auto assembly by just looking at what the plans are of the companies. Then out of that, because of just-in-time production, there's this whole ripple effect that takes place through the parts sector. You can see, looking out at the horizon, a reasonably significant downward pressure on employment in manufacturing coming from the auto sector.

Then the question is, is there something else out there that you can see coming in and pushing that up? That's where I really scratch my head and have trouble seeing it. So I think that there's a very real possibility that the weak recovery that will begin to take place in the second and third quarter of this year, if people are correct, will be essentially jobless. I think we're looking at fairly substantially higher unemployment rates by the end of the year compared with today because of the structural factors that are built into those main drivers of the system.

The other factor that one has to take into account is that lower interest rates have two impacts on economic activity. They have an impact on decisions about whether or not to do things. They also have an impact on the timing of decisions. To the extent that people believe that interest rates aren't going to stay this low forever, they are likely, other things being equal, to accelerate their purchases. My fear and concern is that we're going to see that playing itself out in the next six to nine months in housing, auto, major appliances and those kinds of things as the first blush of real incentives getting people into the housing market, getting people into the new vehicle market. As those incentives work their way through the system, people have accelerated purchases.

I hadn't heard Mr Drummond's number about the average number of miles on the fleet among cars in the United States. Statistics get more and more arcane every day. But that's an interesting number because I think that's a reflection of this acceleration that's taking place in people's decisions. There will be a hangover from that at some point, even if interest rates don't tick up. If they do tick up, I think we may see a significant hangover.

The Vice-Chair: Thank you very much for coming forward and presenting to us. We very much appreciate it.

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CO-OPERATIVE HOUSING FEDERATION OF CANADA—ONTARIO

The Vice-Chair: Our next delegation is the Co-Operative Housing Federation of Canada. Twenty minutes has been set aside for you as a delegation. What is not used in the presentation will be divided equally among the three caucuses. As you begin, please state your names for the record.

Mr Vince Hall: Thank you for the opportunity to make a pre-budget submission on behalf of the 125,000 women, men and children living in non-profit housing co-ops across Canada. My name is Vince Hall. I'm the president of the Ontario council of the Co-operative Housing Federation of Canada. With me today is Michael Shapcott, who is the manager of government relations and communications for our Ontario region office.

I live in the Stoneworth co-operative homes in Hamilton. Sixty-three families find our co-op a good place to call home. Mr Shapcott lives in the Harbourside co-operative homes in Toronto, which provide a good home to 55 families. Our two co-ops, along with the 550 other co-ops in every part of Ontario, come in different shapes and sizes, but there's one thing that makes them extraordinary: the members who live in the co-op own and manage their own homes.

Housing co-ops, like farm co-ops, credit unions and our other co-op partners, are based on the self-help principle. We work together to operate efficiently as small, community-based enterprises. We're very proud of our record of success over the last 30 years and we continue to be committed to welcoming new members into our homes, especially those who need affordable housing the most.

We take our responsibility to provide good-quality homes to low- and moderate-income people quite seriously. As one example, the Co-operative Housing Federation of Toronto has launched an initiative with the 185 co-ops in its region that places a priority on moving homeless families from temporary shelters into long-term, permanent housing in our co-ops.

Co-op members are working hard to take advantage of other opportunities for growth. Last October, Beechwood co-operative in Waterloo, a 74-unit housing co-operative developed under a provincial program in 1994, received the good news that its plans for an 18-unit expansion would be moving ahead, thanks to the hard work of co-op members and a $15,000-per-unit grant from the regional municipality of Waterloo. We want to commend Waterloo region and other municipalities that have created practical programs to increase the supply of affordable housing.

Ontario co-ops have applied for many of the 5,000 new rent supplement units that the province announced in January 2000. As of last November, 22 months after the program was announced, the government had only approved about half of the units in the original pool. We regret that the paperwork is moving slowly in this small but important program.

When we consider all the provincial and municipal housing measures and the development initiatives by co-ops, the net effect is painfully small when compared to the huge shortfall in rental housing confronting the people of Ontario. In fact, since our last appearance on February 14, 2001, in front of this committee, the low-income housing crisis has grown more desperate in most parts of Ontario.

Rental housing is a critical component of the province's housing market. The percentage of Ontarians in rental housing is increasing. In 1986, renters were 34% of the overall population. By 1999, renters were up to 40%, and you will see the chart I reference on page 3. The renter population will continue to increase. The latest population projections from the Ontario Ministry of Finance, July 2000, show significant growth. Based on these numbers, the province will need 18,400 new rental units annually to keep pace, or 368,000 units to 2019. Again I refer you to the chart on page 3.

As the need for new rental housing continues to grow, the production of rental units is in fact falling. Private investment in new rental housing dropped dramatically in 1972. Where are we going to turn? You might turn to the chart on page 4 for reference.

About half of all tenant households in Ontario live in non-conventional rental housing. The secondary market represents a large percentage of local rental markets throughout the province. Conditions are sometimes poor, even substandard, in these illegal units. Fire safety and occupancy standards are not enforced.

The Ontario Ministry of Municipal Affairs and Housing and Canada Mortgage and Housing Corp hired the Starr Group to research the secondary rental market. The final report in April 2000 stated:

"The market analysis finds that most forms of secondary rental housing have not been growing in most communities. Condominium rentals, in particular, have been declining as more owner-occupants move into the condominium market.

"Because of the lack of expansion of these markets, vacancy rates for such forms of housing are quite low in most centres. Rents for most forms of secondary rental housing have been rising sharply in most areas, consistent with the low vacancy rates in both the secondary and conventional markets."

In other words, the secondary market is offering no relief from the crisis in the private rental and social housing sectors.

In recent years, Ontario's construction of private rental housing has been less than 2,000 units annually. The tiny amount of new starts has been eclipsed by the growing loss of housing due to demolition and conversion. There was a net loss of 631 rental units in Ontario in 2000, and some communities with a net loss of rental units in 2001, including my own hometown of Hamilton, 503 units; Ottawa, 643 units; St Catharines-Niagara, 73 units, in addition to 122 units lost in the year 2000.

Sadly, the prospects of new private development remain low due to the heavy financial realities of rental construction and the low incomes of renter households.

The private withdrawal was not immediately felt, thanks to federal and provincial social housing programs, which funded the development of more than 150,000 co-op and non-profit housing units. These continue to provide quality affordable housing to close to half a million Ontarians. But the federal government cancelled new social housing in 1993 and the Ontario government stopped new funding in 1995, cancelling 17,000 co-op and non-profit units that were under development. I'll refer you to the chart on page 6.

The annual rental market reports from CMHC reveal a conventional rental market in deep crisis. A rental vacancy rate of 3% or less is a danger sign. The province's rental vacancy rate has been below 3% for more than 10 years—a full decade. Growing need set against dwindling supply explains why Ontario's rental housing vacancy rate has been stalled below 2% in recent years. Fifteen of the province's 21 urban centres are experiencing a vacancy crisis.

But even the official 2001 rental vacancy rate for Ontario at a painfully low 1.7% does not reveal the depths of the rental crisis. A comprehensive study submitted to Sault Ste Marie city council on January 28, 2002, identifies roughly 20 homeless people sleeping on the streets of that cold northern city and 112 people staying in homeless shelters. Even more troubling, the report says that nearly 20% of the entire population can be classed as hidden homeless. Counting the many hidden homeless across the province would create a negative vacancy rate for Ontario.

From 1995 to 1998, the Ontario government cut $303.8 million from its housing spending, for more than one quarter of the entire provincial housing envelope. Ontario has moved from spending $1.1 billion on housing in 1994 to practically zero in 2002. The government has said that it wants to rely on the private sector to deliver affordable rental housing but the private sector clearly hasn't and, as the numbers reveal, can't deliver, given the financial realities of development.

We have a couple of recommendations.

The Ontario government joined with every other province and territory in signing the affordable housing framework agreement with the federal government in Quebec City in November. Under this agreement, the federal government will flow $245 million in new housing funding to Ontario over five years. The province agreed to provide matching funds. Co-ops congratulated the federal government and all the provinces and territories for the Quebec City agreement as an important first step toward a fully funded housing strategy.

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Negotiations between Ottawa and Queen's Park on a new housing deal are nearing completion. While the federal government is committing $245 million in new dollars, the Ontario government has only put $20 million in new funding on the table, less than 10% of the federal contribution. The provincial government wants to claim existing spending by the Ministry of Health and the Ministry of Community and Social Services on special-needs housing and group homes as new spending. It also plans to include spending by municipalities and housing providers as part of the provincial share to reach the required provincial total of $245 million. In the short term, co-op members urge the provincial government to shoulder its entire responsibility under the Quebec City agreement to provide $245 million in new provincial spending to match the federal contribution under the federal-provincial housing agreement.

We want to point out, however, that even with the new spending under the federal-provincial agreement, the amount of housing produced will be well short of the need as projected by the Ministry of Finance. The 2,000 units per year to be funded under the new federal-provincial agreement, along with the 2,000 new units that the private sector has created in recent years, adds up to 4,000 new units, well short of the 18,400 new units identified by the Ontario government. The Ontario government would have to spend $720 million annually to fund 14,400 new units. This is a large amount of money, but in a province as rich as Ontario, a province that can afford to give tax cuts of about $12 billion annually that primarily benefit upper-income individuals and corporations, the spending envelope for housing is very affordable. Over the long term, co-op members urge the Ontario government to commit substantial funds for the creation of new social housing to meet the needs identified by the Ministry of Finance.

Recommendation number 2: we would ask you to ensure the long-term viability of existing social housing. Social housing, including co-op and non-profit housing, represents about 15% of the overall rental stock in Ontario. We may be small, but social housing plays a key role in providing good homes for almost three quarters of a million men, women and children in this province.

The Ontario government downloaded the cost of social housing to municipalities in 1998. The province is in the midst of transferring the administration of social housing to municipal service managers. In both our 2000 and 2001 pre-budget submissions, we noted that co-op members were opposed to the download. Co-ops, along with the non-profit housing providers, municipalities and others, agreed that it was not appropriate to put social housing programs on the municipal tax base.

Our members have developed strong relationships with municipalities across the province as the social housing transfer moves ahead. But our concern about the ability of the property tax base to sustain social housing remains strong. In particular, we want to draw to your attention substantial downstream costs that the province has downloaded on to municipalities, in addition to the current cost of the social housing portfolio.

Capital reserves have been chronically underfunded by the provincial government. These reserves are built up in the early years of a co-op, then used to replace roofs or make other anticipated major repairs as the building ages and requires work. It was a false economy to cut reserve funding, and the shortfall in reserves has now presented a real liability for municipal governments.

Rent-geared-to-income funds are well short of the real need across the province. Waiting lists for assisted housing are in the thousands, or tens of thousands, in most parts of Ontario. Refinancing costs would be a major financial liability for municipalities if mortgage rates move up. At the moment, low mortgage rates mean that the cost of financing when social housing mortgages are rolled over is low. But if rates go up, then the cost to municipalities will also increase.

Co-op members urge the Ontario government to re-assume its responsibility to ensure the long-term viability of existing provincial social housing programs. The province can accomplish this by either restoring funding for social housing to the provincial level or by making sure that municipalities have the financial resources through grants and other financial means to meet both the current and long-term costs of social housing programs.

Thank you for the opportunity of making this submission on behalf of co-op housing members across Ontario. We welcome your questions, and, with your indulgence, I'll defer them to our manager of government relations, Michael Shapcott.

The Vice-Chair: Thanks very much for the presentation. We have approximately a minute per caucus, starting with the government side. Mr Hardeman.

Mr Hardeman: Thank you very much for your presentation. I have just a couple of quick questions. On the non-profit sector and the co-op sector, the difference between the operation and the capital for future expenditures to cover the cost of a new building getting old, is it different in the co-op? Is it part of your ongoing operation? It seems to suggest in your presentation that the rents are geared to part of it going to future costs, where in the non-profit it's not. Did I get that right?

Mr Michael Shapcott: That's right, and practically speaking there's no difference. Co-operatives are incorporated under the Co-operative Corporations Act. We have a slightly different legal structure, but a portion of the monthly housing charge or rent that co-op members pay goes into capital reserves. Our point in our presentation was that that amount of money has been squeezed fairly tightly as a result of government directives in recent years. As a result of that there's some underfunding, which is not immediately apparent, but 10 or 20 years down the line, as our buildings age and as we need major replacements, we're going to notice there's a shortfall. That liability is on municipalities now. It's a concern of our members.

Mr Hardeman: When you set up the budget to the amount of full rent and rent-geared-to-income occupants in the co-op and the difference between your payments that are required each month and your expenses, is that covered by municipalities, and do they have a say in your operation as to how much that is to be?

Mr Shapcott: The new Social Housing Reform Act of December 2000 sets out a very complicated funding model. It would take hours to explain the model. I think the simplest way to understand it is that the provincial government will be setting what are called benchmarks, which will be very strict guidelines for all aspects of costs and revenues, and co-ops and non-profits will be expected to meet those benchmark guidelines. They haven't yet been issued by the government. Those guidelines in turn will determine the amount of money that the municipality will be required to pay in terms of assisting co-ops in their subsidy payments and so on.

The Vice-Chair: Thank you very much. Mr Kwinter.

Mr Monte Kwinter (York Centre): In your presentation you talk about the Quebec affordable housing framework agreement. The provincial government has really gotten out of the affordable housing business and they've transferred all of those facilities to the responsibility of the municipalities. If they participate fully to the amount, that will still be the case. In other words, they will have funding, but that funding will have to go to the administration of the municipalities. Is that correct?

Mr Shapcott: The final agreement hasn't been signed with the federal government, so all we're relying on are reports we hear from provincial officials. We understand that a small portion of the money for the Quebec City agreement, about $16 million, will go to rural and remote housing. That will continue to be administered by the provincial government. The bulk of the funds, however, will go to probably 10 or 12 municipalities that have the most severe housing crisis. So the province will flow the money through to the municipalities and they in turn will determine which projects will receive the funding and they will carry on the administration of the program.

Mr Kwinter: Is that it?

The Vice-Chair: Really, but go ahead if it's something very quick.

Mr Kwinter: No, it's OK. That's fine.

The Vice-Chair: Mr Christopherson?

Mr Christopherson: Gentlemen, thank you very much for your presentation. Both of you are familiar with my mom and her activities in the co-op movement, so it's a good thing that I personally agree with the position you've taken; otherwise, I'd be completely disowned by my mother, let me assure you. She loves her women's co-op in Hamilton.

Mr Shapcott: We'll communicate back to you that—

Mr Christopherson: Yes. Keep me out of trouble. Let her know I was there on this issue.

We don't have a lot of time, I've only got about a minute, but I think it's really important to point out that with the new agreement that was signed the government made as much noise as they could about how good this was for Ontario and that they were pleased that they'd reached an agreement. I'm paraphrasing. At the same time, your presentation points out that they completely abandoned the last government in North America that was actually funding the creation of affordable housing, which was the NDP government, and we created 65,000 units.

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Here you have a bit of a, I don't know if I can use the word "hypocrisy," but certainly dichotomy, that on the one hand the government seems to say that providing affordable housing is not a responsibility of government and they're very proud to be out of the business. I remember Al Leach standing up in the House saying, "We're proud to be out of the business of providing housing." Yet, now that the results and the implications of that policy are the reality, meaning increased homelessness, more and more families that can't afford the kind of decent housing they should have, now that that has happened, they want to tout that they're getting into the game with the feds. But as you point out, out of all the money being bandied about and all the money talked about here today, billions of dollars, all they're putting in is $20 million of new money and everything else is money they want to add up that's already being spent to show that that's our share of the agreement. But it's only $20 million, which relatively speaking is a drop in the bucket compared to what they're spending on tax cuts.

The Vice-Chair: We're going to have to move on to the next delegation.

Mr Christopherson: Is that correct?

The Vice-Chair: Well, you're up to two minutes now. It's time for the next delegation. If you want to make a 15-second comment.

Mr Shapcott: That is indeed correct. The provincial government has only put 10% of its matching contribution in terms of new money on the table. But I would just like to say that we have met with many government members, including Dr Galt, Mr O'Toole and many others, and I think there is a recognition that the rental housing crisis in Ontario is a serious issue. We certainly hope that the committee will take our recommendations seriously and bring them back to the Legislature and to the government.

The Vice-Chair: Thank you very much for coming forward and making your presentation.

COUNCIL OF ONTARIO CONSTRUCTION ASSOCIATIONS

The Vice-Chair: Our next delegation is the Council of Ontario Construction Associations. Twenty minutes have been set aside for you. After your presentation, whatever is left over we'll divide equally among the three caucuses. As you begin, please state your names for the record.

Mr Gary Robertson: Mr Chairman, members of the committee, my name is Gary Robertson. I'm the president of the Council of Ontario Construction Associations. With me today is David Surplis.

We're here representing the non-residential construction industry, the people who build everything other than houses. COCA has brought the views of our many thousand members to this committee for well over 20 years.

The Ontario labour market lists construction as the second-largest industry in Ontario's economy, and it is important to be here today.

The health of the construction industry mirrors that of the province and vice versa. We have always received good hearings from this committee and we appreciate our candid exchanges. In beginning our remarks today, we would like to compliment the government regarding issues where our advice has been accepted.

The contractors of Ontario have always been opposed to deficit financing and are pleased that the budgets have been balanced. Contractors have long believed that a selective cutting of taxes would be beneficial to Ontario because of pent-up demand, especially in the housing economy, which in turn triggers non-residential construction. We have been very pleased by the stimulus given our industry by the cutting of taxes.

Contractors have always said that there was a very large, but largely unseen, deficit regarding the provincial infrastructure. COCA's members in the road building sector have been very pleased by the government's commitment of $10 billion over 10 years, and our sewer and water main contractors are absolutely delighted with the introduction of Bill 155, the Sustainable Water and Sewage Systems Act.

COCA has also stressed the importance of cutting red tape, and our contractors will be very pleased with the streamlining that should result from the passage of Bill 124, introduced by the Honourable Chris Hodgson.

COCA has also pressed for the establishment of a home inside government for the construction industry as a whole. So we are delighted to acknowledge and praise the work of Ted Chudleigh, MPP, the Honourable Bob Runciman and the Ministry of Economic Development and Trade for the imminent creation of the construction advisory council. We are confident that such a council will provide government and this committee with even better advice and suggestions in the future.

We at COCA have been extremely pleased that employment in construction has averaged over 320,000 workers for the last five years, even with the downturn in economic markets. Of course, the investments of SuperBuild are responsible for a great deal of this buoyancy. The construction industry has remained reasonably competitive, but we have a serious problem with the Workplace Safety and Insurance Board that is holding us back.

The problem is this: the WSIB collects money—we hesitate to call it premiums for reasons you will soon understand—from employers on the basis of declared payroll. The board does not know the number of employees covered, and it certainly does not know their names. At the present time, money collected from the construction industry represents payroll for approximately 150,000 workers. As you have seen, however, there are well over 300,000 people working in the construction industry according to the government's own figures. It is clear that many employers are paying little or no money into the Workplace Safety and Insurance Board. Conversely, those who are paying are paying approximately double what they should.

It is our estimate, which is undisputed by the board, that there is leakage at the Workplace Safety and Insurance Board to the tune of about $450 million per year. What does that mean to our industry? It means the playing field is very unlevel, and anyone paying full freight at the WSIB is much less competitive than he or she should be. To give you an example, in one of our highest-rate groups in the industry, steel erection and demolition, a contractor with a payroll of $1 million sends a cheque for $160,000 to the WSIB. If that contractor's competitors are not registered with the board or they are declaring payroll for only a fraction of their workforce, then our contractor is at a serious competitive disadvantage in bidding that work.

As we also claim, having everyone in construction paying full freight would reduce rates considerably and make Ontario even more attractive to investors. As you know, there is a discussion paper out now on universal coverage. That answer, if implemented, would only address part of construction's huge problem.

In the year 2000, all groups in construction met with WSIB staff to come up with answers to this problem. Collectively, labour, management and the staff of the WSIB recommended that the board operate on a named insured basis and behave just like a real insurance company. We suggested other remedies as well, but what's important for you to know is that the board has not done anything and appears to be content to have $400 million more leak from its coffers every year.

There are many ramifications of this inactivity, and we are sure some of them impinge on revenues for the provincial government. Yes, it may be costly for the WSIB to move to a named insured policy, but we suggest the policy could be confined to the construction industry. We also suggest that the added revenues would quickly offset the additional start-up expenses. We need your help in getting the WSIB to move to this way of doing things in order to stop penalizing our members, especially our unionized members, who do pay into the WSIB and make the province more competitive.

If you have any questions, we'd be delighted to hear them.

The Vice-Chair: We have about two and a half minutes per caucus, beginning with the official opposition.

Mr Kwinter: Thanks for your presentation. I've heard this problem before in past years when you've come in. When we talk about this new initiative, are you talking about naming each individual worker or just the contractors who are not now registered with the WSIB?

Mr Robertson: We would be talking about naming each individual worker as well as the contractor. The contractors are already registered and named. Right now, the payroll is registered, not individual workers. In a sense, you're insuring payroll, you're not insuring people.

Mr Kwinter: The point I'm trying to make is that in your presentation you say that some contractors are not registered.

Mr Robertson: That's right.

Mr Kwinter: That's what I want to make clear: you're going to have to have every contractor who works in Ontario actually licensed and registered with the WSIB, plus all their payroll, all their employees.

Mr Robertson: The requirement now is that they all be registered. They are not.

Mr Kwinter: That's the point I'm trying to get at. How are you going to enforce this if they're not doing it? It's like the underground economy. How do you enforce that?

Mr Robertson: We all carry insurance coverage. We have our auto insurance, our home insurance. We have certificates to show that insurance in our wallets. If workers have such a thing, then they will also police the system to make sure their benefits are being paid on their behalf by those firms. If firms are not registered with the WSIB and they're not making payments, the workers will know.

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Mr Kwinter: Are you suggesting that every worker would have to have proof of insurance or they wouldn't be allowed to work and would be charged with being an illegal worker? Is that basically what you're saying?

Mr Robertson: Proof of insurance would be a mandatory requirement, yes.

Mr Kwinter: In your presentation, you talk about low taxes being a real incentive for people to buy housing, which in turn benefits the non-residential sector. We had some representations made earlier that the main driver of the housing boom is not necessarily taxes but low interest rates. Do you have a reaction to that?

Dr David Surplis: Whatever combination of factors it is, Monte, we're happy.

Mr Kwinter: I know you're happy. In your experience, do, say, lower income taxes, have a greater effect on housing construction than low interest rates? It seems that the housing boom is going counter to what you would find in the non-residential and that the manufacturing sector is really suffering. I assume that means some of the construction you normally get in the manufacturing sector is not happening. But the housing market is booming, and it seems the reason for that is because interest rates are low. I just wanted to get your reaction to that.

Dr Surplis: Interest rates are definitely at a 40-year low. Mortgage rates have been a real boon for our colleagues in residential. There's no question about that. But we were at a conference just the other day, and it seems that consumer confidence is quite high and returning again in all sectors. It's hard to measure exactly what it is, but we're just delighted that we've stayed at over 300,000 employed for the last five years.

Mr Kwinter: You talk about infrastructure being very important and that there's got to be increased expenditure on infrastructure. We keep hearing that the government is going to be faced with severe financial problems in the next budget, with estimates ranging from a $3-billion to a $5-billion deficit, or no deficit, depending on whom you listen to. Notwithstanding what that number is, there's a feeling that other than health care and education, virtually all the other sectors are going to have to be cut and not increased, and that of course is going to impact both capital and infrastructure funding. Have you looked at that at all?

Dr Surplis: We haven't in particular. That's why we cited Bill 155, the catcher of fair market return for water and waste water, for instance. We think that will help ease those pressures on the system. It won't cure them entirely but will certainly go a long way to making sure the systems are viable.

The Vice-Chair: Mr Christopherson.

Mr Christopherson: Thank you for your presentation. It's good to see you again. I want to pick up a little on the underground economy and preface it by saying it's important to remember that there's always been an underground economy to one degree or another, but it really accelerated in Canada under Mulroney when he brought in the GST. There was a psychological click that went on where people thought, "That's it; I'm being ripped off here," and being a part of or benefiting from the underground economy was given some legitimacy in some people's minds—improperly, in my opinion. It's important to remember, when we're talking about underground economy, that a lot of this was triggered by a Tory and his GST.

I'm trying to find a reason why—and it probably goes back to our government too, so it's certainly not a partisan question—over time no government has truly come to grips with the issue you raise of the number of workers who aren't covered by WSIB, then WCB, by virtue of their employers not registering them and paying premiums. At the end of the day, what is the problem? Assuming it's not an ideological thing, because I believe it goes back over all three governments, why have none of us been able—I mean there has to be something there, because it's an obvious issue. There's a benefit to all those who are working legitimately and who want to be covered. Why hasn't the step been taken by government?

Dr Surplis: If you're looking for a single-word answer, it's enforcement. There are well over 30,000, 40,000, 50,000 construction companies in Ontario. They have a very active and able force at the board—the fraud squad, as they call it. They couldn't possibly find the companies, never mind research, investigate and prosecute them in a year.

Mr Christopherson: Wouldn't it pay for itself, though? Isn't that your point?

Dr Surplis: It would, and we've even partly suggested that they put them on a commission basis to go out there. We heard last year, for instance, that on comparing the federal returns with the provincial registrations at the board, there was something like 23,000 construction companies that had issued T4s that weren't registered with the board. Just finding 23,000 companies is a huge problem.

Mr Christopherson: It sure leaves a lot of construction workers vulnerable, and I know a lot of them aren't aware of it.

Dr Surplis: No, they're not. All injured workers are entitled to benefits. It's just that nobody is paying for them necessarily. That's the problem.

Mr Christopherson: But being a part of the underground economy, if they've got a duplicitous employer, their job is less than secure in that place, I would think. If there are shenanigans going on in one area, it's reasonable to think there may be shenanigans going on elsewhere.

One more quick question: what do you see toward the end of the year? Some people are saying a recovery of one degree or another. Do you see that happening? I know you talked about jobs being sustained, but what are you seeing in quarters three and four this year?

Dr Surplis: Institutional business has been really good for us—you know, the airports and hospitals and all that—and we see that staying and perhaps a little increase as we go through the year, and certainly an increase next year.

Mr Hardeman: Thank you for the presentation. I want to go right where Mr Christopherson was, on the people who are not paying for WSIB. It seems in the process that no one gets caught not doing it until they have an injury. Have you got any idea of how well the WSIB is doing on enforcement after a corporation or a contractor has an injury of a worker and the board finds out that contractor didn't have the employee covered? What happens then? We know every worker in Ontario is covered by insurance, so they get paid. What happens on enforcement with that contractor?

Mr Robertson: Generally, once that's found out the board will go back and revisit that firm and go back in time and access them for those premiums with a penalty on top. The problem often occurs, though, that legitimate contractors bear the weight of those decisions. As Mr Christopherson indicated, if there is a problem with registration, there's also more than likely a focus on avoiding the reporting of injuries. So those workers who become disabled or hurt on the job site may move to a legitimate employer's employ to have that coverage. They may bring that injury with them and then report it under that particular case to avoid problems with an employer who's not playing by the rules. But to answer your question specifically, the board does have protocols established to go back and revisit and reclaim.

Mr Hardeman: Under that protocol, have you got any numbers as to how successful that is, and how much money—you have statistics of how much money we think we're losing in the process for unregistered applicants. Do we have any statistical information on how much we're recovering when we have injuries of those who are not insured?

Mr Robertson: They've had an amnesty program for the last while, where they invited everyone to come in gratis, without fear of reprisal in terms of any charges, to come forward and register with the board. If they came in, they would only go back to the beginning of the year to assess their premiums, on the understanding that if they were found out later, they could go back five years or more and assess them for the monies that are there. I think the numbers were $5 million.

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Dr Surplis: They've recovered about $5 million, Mr Hardeman, in the last year or so. It may be even more. It may be, say, between $5 million and $10 million. But out of $450 million, that isn't very much.

The Vice-Chair: OK. Thank you very much for coming forward with your presentation. It was much appreciated.

ONTARIO ASSOCIATION OF NON-PROFIT HOMES AND SERVICES FOR SENIORS

The Vice-Chair: We move on to our next delegation, the Ontario Association of Non-Profit Homes and Services for Seniors. Thank you for coming forward. Twenty minutes have been set aside for you. Once you finish your presentation, whatever is left over we'll divide equally among the three caucuses. As you begin, please state your names for the record.

Ms Gail Carlin: Good afternoon. My name is Gail Carlin. I am vice-chair of the OANHSS board and work for the municipality of Waterloo, operating a long-term-care facility in Kitchener. Beside me is Donna Rubin, the CEO of OANHSS.

Mr Chairman and committee members, thank you for the opportunity to appear before you today. At OANHSS we welcome every opportunity to talk about the long-term-care facility sector and the challenges that lie before us.

Those of us in the long-term-care facility sector are obviously very familiar with its structure, operations and funding arrangements. Given, however, the complexity of this system, I'd like to give a brief overview of the sector in order to establish the context in which I will then talk about the challenges that face us.

There are actually three generic types of facilities in the long-term-care sector: the first, nursing homes, of which there are approximately 326 in the province; municipally owned and operated homes for the aged or rest homes, of which there are 101; and finally, charitable homes for the aged, of which there are approximately 70.

For the most part, nursing homes are operated on a for-profit basis by private operators. These operators must obtain a licence from the Ministry of Health and Long-Term Care for each facility they operate that specifies the number of beds for each facility.

Homes for the aged and rest homes are operated on a not-for-profit basis under the Homes for the Aged and Rest Homes Act and are operated by Ontario municipalities as one of their legislated obligations.

Charitable homes also are operated on a not-for-profit basis, under the Charitable Institutions Act, by a range of religious, ethnic, community and other charitable organizations.

OANHSS, which stand for the Ontario Association of Non-Profit Homes and Services for Seniors, represents the not-for-profit facilities, both those that are municipally owned and operated and those that are owned and operated by charities. The not-for-profit sector operates a total of 25,515 beds, compared to 31,475 beds operated by for-profit nursing homes.

Recent RFPs will increase the total number of not-for-profit and for-profit beds in Ontario to 77,000 by March 2004.

Prior to 1993, nursing homes came under the jurisdiction of the Ministry of Health, while municipal and charitable homes for the aged operated under the jurisdiction of the Ministry of Community and Social Services. In 1993, with the passage of the Long-Term Care Act, all three groups were brought together under the Ministry of Health. As required by that legislation, operators of all three types of facilities must enter into an annual service agreement with the Ministry of Health that includes a budget package and documentation of the programs and services that will be provided by each facility.

The ministry provides per diem funding for each resident residing at the nursing home, municipal and charitable home for the aged. The per diem rate is identical across the three types of facilities.

This per diem is divided into what we call three envelopes: one is the nursing and personal care envelope; the second is programming and support services; and the third is accommodation.

Currently, the average per diem rate per resident is $102.62. The government portion of the per diem is on average $62.60, and then the residents themselves contribute on average $40 per day toward the cost of care.

The fee structure for residents of long-term-care facilities is regulated by the Ministry of Health and Long-Term Care and is the same throughout the province.

I mentioned that the current per diem is $102.62. This includes the one-time $30-million increase which was provided last October: $30 million spread over the six-month period from October 1, 2001, to the end of the fiscal year and the additional $30 million committed for this fiscal year. Although $60 million sounds like a large number, and it is, and we are grateful for whatever we can get, but this amounts to a per diem increase of $2.60. When broken down among the three envelopes it amounts to an increase of $1.33 per day for nursing and personal care, 13 cents for programming and $1.03 for accommodation. In human terms that means we can provide three more minutes of nursing and personal care per resident per day.

With that as background, I would like to speak to the funding challenges that face the long-term-care facility sector.

I trust it goes without saying that residents of our facilities deserve the highest level and quality of care that can be reasonably provided. I can assure you that this is the objective of every single member of OANHSS. Residents of long-term-care facilities have been productive members of society who have paid their taxes and have otherwise contributed substantially to society. Many are vulnerable because of their physical or mental conditions. We believe that society owes it to our seniors to provide the best possible care in the same way that we will expect the generation behind us to provide us with the best possible care when our time arrives.

I know that this committee, and indeed this government, must get tired of the endless requests for additional funding and claims that this or that sector or this or that activity is in crisis because of inadequate funding. Our members acknowledge that the current economic and fiscal situation makes it very difficult for government to contemplate substantial new funding for anything, no matter how urgent or meritorious. We do sympathize. Our members also work within this economic environment.

Nevertheless, it is incumbent upon us to tell you that the long-term-care facility sector is in a crisis state and does have an immediate and compelling need for substantial net new funding.

According to a recent study by Pricewaterhouse-Coopers that examined 10 North American jurisdictions, the level of service provided in long-term-care facilities in Ontario now lags behind every country, Canadian province and US state examined in this study, including Mississippi, South Dakota, Michigan, Maine, Manitoba, Saskatchewan, Sweden, Finland and the Netherlands.

Our members are increasingly frustrated and concerned that they are significantly limited in their ability to provide innovative, responsive quality care, services and programming for the residents. Residents, on the other hand, have an increasing need for more assistance with all activities of living. Dementia and mental health problems affect a majority and are on the rise, and almost all are at risk of injury and cannot cope from day to day.

Currently in Ontario our mothers, fathers and family members who are residents of Ontario long-term-care facilities have access to less than 15 minutes of care a day from a registered nurse, receive only two hours of nursing and personal care a day—that's within a 24-hour period—and are fed on a budget of $4.49 per day. I think it's a challenge to feed a family of four on $4.49 per day, let alone provide and meet the nutritional needs of the elderly on $4.49 per person.

We are failing our obligation to our seniors to provide them with adequate care.

Resistance to providing the funding required only postpones the inevitable. Because of the demographic greying of Ontario, the situation can only get worse. In Ontario the 85-plus age group is forecast to increase fourfold by 2028.

1250

The number of persons with Alzheimer's disease is expected to triple over the next 30 years. According to Ministry of Health and Long-Term Care stats, the number of people with dementia will increase 85% by 2020. We can inject substantial net new funding now or pay considerably more in the future, and the future isn't all that far away.

In addition to pressures caused by demographics, our facilities are experiencing pressures because of things that are happening elsewhere within the health care system. Because they too are dealing with funding restraints, hospitals are discharging patients with unprecedented levels of acuity. Many of these patients are admitted to our facilities and we must have the equipment and the professional health care services necessary to provide the enhanced levels of care that they require.

Total government funding to the long-term-care facility sector now amounts to $1.6 billion. We believe that funding has to be increased to $558 million in order to provide the levels of care that our residents deserve and reasonably require. This is based on the current base of 57,000 beds in the system. The total amount would have to be increased to $684 million to accommodate 77,000 beds. This will increase the per diem rate to $126.65 per resident.

Again, I acknowledge that $558 million is a large number. For that reason we are asking for multi-year funding that would allow an immediate infusion of 50% now, or a per diem increase of $12—that's $12 per day per resident—with a 25% increase to follow in years two and three.

However, I respectfully suggest that if the long-term-care facility sector were adequately funded, it would take significant pressure off other health care sectors and thereby reduce costs in those areas. One of the failures of our health care system is that we rarely approach health care in a systematic way. For example, long waiting lists for long-term-care facilities amount to bed blockers for our public hospitals. The lowest per diem operating cost for a bed in a public hospital is $400. As you can see, our proposed per diem rate for a long-term-care facility pales in comparison and would represent a considerable saving over the cost of a hospital bed.

If I can also put in a plug for the not-for-profit sector, we believe that we are particularly efficient in the delivery of care. Any surpluses that occur in our accommodation envelope are reinvested in care. We also have the significant support of a range of unpaid but deeply committed volunteers. Accordingly, the government can receive considerable bang for its buck by investing in the not-for-profit sector.

Mr Chairman, I thank you and this committee for your attention and welcome suggestions and comments.

The Vice-Chair: Thank you very much for your presentation. We have about a minute and a half or maybe slightly over per caucus, beginning with Mr Christopherson.

Mr Christopherson: Thank you for your presentation today. What happens if the per diem increases don't arrive, as a result of the demographics you've talked about? Where are we? Where are we in five, 10, 15 years?

Ms Carlin: We are struggling now to provide the care and services that these people need and acuity will only increase. That's been shown by the CMM as it has increased over the numbers of years. We will no longer be able to admit the type of client now coming into long-term-care facilities and just can't provide the day-to-day services they require, provide an adequate level of care for them.

Mr Christopherson: If you can't admit someone, then one of two things happens, assuming they don't have the personal funds to pay for it, and if they did, they could solve their own problems. But the vast majority of people won't have them. So if you don't admit them, then it seems to me there are only two things: they either go into a hospital, where as you point out they are using up $400 a day minimum, or they're just existing somewhere out there, and if they don't have family, they're alone in some room or some apartment deteriorating. Is that too bleak?

Ms Carlin: That's the difficulty, and they become a crisis in the community if they're at home and are put at the top of the list for admission to a facility. But there are already very lengthy waits for people who are sitting on the list currently.

Mr Christopherson: This will be my last question. Is it fair to say that the key thing for us, at least that I've been hearing, and I've been listening to presentations now for a number of years, is to get in now? We should have been earlier, with a little more money, because the longer we wait—it's like a lot of things. It's going to cost more because we'll have to spend so much money up front: capital costs; we won't have as much planning time; we won't have as much phase-in time. Therefore, at the end of the day, not doing something today means that our children and future taxpayers of tomorrow are going to pay an even greater percentage of taxes received to provide these services, or we're just not going to have these services for those who are not wealthy.

The Vice-Chair: Thank you very much. We'll move on to Mr O'Toole.

Mr O'Toole: It's good to see you again. I know the government has worked rather arduously with this issue, certainly since 1995 when we committed the 20,000 long-term-care beds and the additional annualized funding of $30 million. I always try to break this down into understandable terms. I just wonder if there's any response other than increased taxes. I mean, our revenue comes from Monte or me or you. That's the dilemma here. We know the opposition's is just to raise the taxes.

As I understand it, the per diem, at roughly $100 a day, is $3,000 a month per person, and you can't do the job. You're in, as you say—your word—crisis. We've got to find a new way here, because with the demographics, all the reasons you explained—the half-billion, the 20-some per cent increase you want is unsustainable unless that happens in the broader public. There's a problem here. I'm closer than almost everyone here to being in one of those facilities and am acutely aware, with two mothers-in-law, or a mother-in-law and others who will need my support—no, in fact I do have two mothers-in-law, but that's another issue. Is there any other means? The provincial and the individual share of $40—is there any way to look at this? Or do we need a nurse, who's making whatever, X amount—specialized, trained people, no question that that's what we need, competent, caring health care providers. How can we get around this? This is a serious challenge. Every person who appears, all 60-some delegations so far—education wants $2.54 billion. We just heard from the other sector prior to you; they want $1 billion. I'm wondering how we can sustain it.

Ms Donna Rubin: We have been advocating that all parts of the system need to be adequately resourced for any one part to work properly. If home care were provided at an adequate level, if there was housing and supportive housing for people, we would take people out of the more costly parts of the system. You can maintain somebody almost to the same level, at about 85 years of age or so, before they might need to come into a facility, at a cost of maybe $25, $30 a day. We're trying to engage our partners in government to look at it from a systemic—

Mr O'Toole: Whole system.

Ms Rubin: Whole system. Obviously, you need hospitals at $400 a day, but if we get people who need it out of hospitals into facilities, that costs the system less. But by the same token, people who don't need to be in a facility could be maintained independently in housing and supportive housing.

Mr O'Toole: Could we integrate it better?

Ms Rubin: We could integrate it.

The Vice-Chair: Thank you very much. We'll move on to Mr Kwinter.

Mr Kwinter: Thank you very much for your presentation. I represent a riding that has probably the largest concentration of seniors in Ontario. Just by coincidence, I'm on the board of the former Branson hospital, which is now the Advent Health Centre, and I'm going to a meeting tonight to take a look at our plans where we're building a long-term-care facility. Construction is going to start later on this month. In your presentation I wasn't quite clear as to whether the funding you needed was for staffing, programming enhancement, or are you calling for more facilities? Or both?

Ms Carlin: No, we're calling for more operating dollars. Although the beds that have been infused will certainly help the waiting lists, the concern is that you need funds to care for the people once they're in the facilities. So it's certainly an operating request in order to meet the needs of these residents. You must realize too, as Donna has said, that we try to keep people in the community as long as possible and those who need to be in hospital need to be there appropriately, but when they are eligible for long-term care their needs are much greater than you saw 10 years ago. These people have severe Alzheimer's disease, they have severe psychiatric conditions, or they are physically compromised with strokes or other debilitating conditions. We can no longer just provide them with a little bit of help. They need professional care and services in order to meet their needs.

Mr Kwinter: Are the constraints on your financing impacting on the quality of people you're getting and the ability to retain the people you do have?

Ms Carlin: Sorry?

Mr Kwinter: You say you need more money for operations. I'm just curious to know whether it's having an impact on your ability to retain the kind of people you need and to hire the people you need.

Ms Carlin: Very much so. There are changed demands for professional nursing staff, therapy staff and so forth. It's difficult to recruit those in some areas of the province right now. That's just another of the challenges before the sector.

The Vice-Chair: Thank you very much for coming forward and your presentation.

The standing committee on finance and economic affairs now stands recessed until 2 o'clock.

The committee recessed from 1301 to 1404.

CANADIAN PENSIONERS CONCERNED—ONTARIO DIVISION

The Vice-Chair: We'll call to order the standing committee on finance and economic affairs. This afternoon our first delegation is the Canadian Pensioners Concerned. Welcome and thanks very much for coming forward. Twenty minutes have been set aside for you. What you don't use in your presentation will be divided equally among the caucuses. As you begin, please state your names for the record.

Ms Mae Harman: My name is Mae Harman and with me is Gerda Kaegi. Our president and another board member are in the audience.

Canadian Pensioners Concerned was founded in 1969. It's a national, voluntary, membership-based, non-partisan organization of mature Canadians. We began our history with a group of retirees who were concerned about their pensions, and that's still an interest of ours. But we have broadened our interests over the years to include housing, education, health and various other issues that concern not only seniors but people of all ages and all stages.

We're very pleased to have this opportunity to present our views on budget planning. Ideally, government budgets are the expression in money terms of the policies and programs which the government adopts in order to govern effectively and efficiently in the best interests of all citizens. The prime concern of government should not be how much money can be saved but how to ensure that the rights and basic needs of all citizens are met.

Canadian Pensioners Concerned is opposed to the minimal tax movement. We look upon taxation as the source of funding for governance that provides for a well-functioning civil society. We believe in a fair, progressive system of taxation where the tax rate rises with rising levels of income.

The provincial sales tax is a regressive consumption tax which has a greater impact on low-income people with no discretionary income. It should be removed. We strongly oppose rebating of taxes at the expense of needed services such as welfare, housing, health and education. The costs of such cuts by far outweigh any increase to the economy by the spending of money saved from taxes.

Downloading of responsibility for services such as welfare, public housing, transportation and roads is placing an undue burden on the municipalities, which must depend on property taxes for funding. Larger cities attract many people who present special problems, such as homelessness, illness, mental disabilities and lack of facility with English, which add to municipal expense. Small communities may not have property which yields high taxation. Transportation in a large city may serve many people from outside who come to the city to work, conduct business, attend school etc. These factors must be taken into consideration by the province. In all fairness, roads and public housing must be in good repair if turned over to municipalities, or costs of repair and replacement must be covered by the province. Furthermore, downloading has resulted in the need for higher property taxes and user fees, which your government has determined must be primarily borne by the individual homeowner.

In spite of the fact that the experience in other jurisdictions has demonstrated that privatization does not provide more efficient, effective service, we are moving steadily in that direction. Canadian Pensioners Concerned deplores this trend. California's and Alberta's problems with the cost and supply of electricity should warn us of what can happen to our hydro in Ontario. The tendering out of homecare services in Ontario to large private firms has not served patients well and has presented many problems for our local non-profit agencies which have developed over the years and worked well but must now compete with large, lower-wage private entrepreneurs.

The Walkerton water scandal indicates that the use of private companies to monitor our water supply was one factor in the illnesses and deaths in that community. Current scandals in the stock markets show how far for-profit corporations will go in misusing investors' funds for the personal gain of a few and how the economy as a whole is affected by these actions as well as the people who have lost their jobs and savings. Surely this indicates that the claim that private operation is always more efficient and effective than public services is patently false.

1410

We recognize the responsibility of each individual to take care of one's own needs, within one's capacity to do so, and to take some responsibility for one's neighbour. Within a civil society it is the duty of government to set the framework and provide the standards and services that provide good opportunities for all citizens.

Many people do not have family to take care of them or are themselves trying to care for an aged partner with health, disability or senility problems. Many people are isolated from neighbours and community and have no one to call upon for help. The disabled are cut off from contacts because of a lack of appropriate transportation and access to buildings. Many families are struggling to earn a living and care for ailing family members at the same time. Home care and institutional services are hard to come by. Many people live on the streets or in shelters. Food banks are in ever-greater demand. Churches and other organizations provide meals for people who are hungry and beds on the floor for the homeless.

Charities compete with each other for funding to carry on their services. Volunteers are worn out looking after people. Children go to school hungry. Whole families are lodged in one room in a rundown motel. It is a disgrace for people in Ontario in 2002 to be forced into living in such circumstances.

Government must take responsibility for meeting the basic needs of people through public programs and by supporting the services of the volunteer non-profit agencies that were organized by their communities to meet new and special needs.

Adequate health care means the right service at the right time and place by the right caregiver. Health care is not a commodity to be marketed, but a service. The health care system must be integrated and coordinated so that services flow from one level to another, including disease prevention and positive health education; primary health care delivered by a team of professional caregivers, including doctors, nurses, social workers, dieticians, physiotherapists etc, according to the needs of the community to be served; hospital care; transitional care to help the patient adjust from intensive hospital care to home care; home and community care; retirement and old age homes; institutions, nursing homes and special care for Alzheimer and other patients with mental health, senility and other special problems.

Patients should be able to tap into the system at whatever stage is appropriate to their needs and re-enter as their needs change. There are many stresses and strains in our health care system at present, but these could be removed with careful coordination and long-term planning. In the long run, this would cost less than letting people's health deteriorate.

The CCACs, which were imposed on communities by the provincial government without adequate involvement of those communities in their planning and administration, never had adequate funding to meet the increased needs caused by an increasingly older population and the sending home of people from hospital sooner and with need for more sophisticated care. Those same CCACs have now been taken over by the government, and all direct community involvement has been removed. Services continue to be cut to people who are extremely dependent on continuous care. Clients are kept in severe anxiety as to how they can manage as further cuts are imposed.

Chronic care facilities, rehabilitation services, retirement homes, nursing homes, special care for the senile and for children with special disabilities are all in short supply. Appropriate standards and inspection are needed for these facilities so that residents can live out their days in comfort, safety and dignity. We support the organization of family councils in long-term-care facilities.

While the cost of some drugs prescribed for seniors and other patients on low incomes is covered by government, some essential prescribed drugs are very expensive and are not included on the pharmacare list. For some patients, it means a choice between purchasing the prescribed drugs or buying food. This situation needs to be remedied.

Cuts in education budgets and greater demands on teaching hours have left teachers feeling devalued and students feeling deprived. The atmosphere that has been created in schools does not facilitate learning. All children must have the opportunity for a full education, including the arts as well as science and technology. Children with special needs must have special assistance. More innovative projects are needed to help street youth become trained and employed. College and university students must not be saddled with heavy debt or forced to drop out because they cannot pay both their fees and living expenses. Changes in curricula now threaten to prevent some students from entering post-secondary education because of a shortage of spaces and teachers to accommodate students from two different streams.

The Ontario government should reverse its decision to opt out of financing public and cooperative housing. Municipalities need assistance in providing both shelters and affordable, accessible, safe homes. The ever-growing number of homeless people, including children, is a disgrace. Rent controls need to be reinstated.

The private sector cannot be expected to produce low-cost housing without assistance. They are in business to make a profit and will choose to produce profitable housing.

Our ecosystem is fundamental to human survival. Hence we need to take immediate and appropriate measures to publicly maintain and manage our precious supply of water and stop the wholesale extraction for bottling and subsequent sale outside Canada; prevent contamination of the air we breathe and of our soil; preserve adequate acreage for the production of food and avoid the industrialization of agriculture by allowing the establishment of factory farms, which are becoming a threat to our natural environment; and preserve our forests, wetlands and parkland areas.

Children are our future and our greatest asset. They and their families must not be abandoned to live in poverty, substandard housing or abusive situations. They must have adequate health care, education and recreation. Quality daycare should be available as a public service at an affordable rate to families with pre-school children. Children with special needs are entitled to special care and education. Their parents are entitled to special assistance and respite care.

The tendency to provide short-term remedies for major problems needs to end. Poorly thought-out changes often lead to the destruction of good policies and programs that only need some alteration to serve current needs in society. Such changes, once undertaken, are often hard to reverse.

Government has the responsibility to those who elect it to consult openly, to determine needs, to plan carefully and to deal with all citizens with honesty, respect and dignity. Basic needs must be met efficiently and effectively. A happy, healthy, well-educated and well-employed citizenry will work with government to generate reforms and build a strong economy that can support services and deliver a good quality of life for all.

Ontario is rich in its resources, especially its people. Working together with all other levels of government, we could make a fairer distribution of resources and programs through a fairer tax system and effective and efficient management in order to truly make Ontario a province in which anyone would be proud to live.

1420

The Vice-Chair: We have about a minute per caucus.

Mr O'Toole: As the older member on this side, certainly, I feel I should say, respectfully, thank you for your presentation to the committee and for drawing our attention to some very admirable goals and objectives. I think it's best summed up in your conclusion on page 8, where you said: "... to plan carefully and to deal with all citizens with honesty, respect and dignity. Basic needs must be met effectively and efficiently. A healthy, happy, well-educated and well-employed citizenry will work with government to generate reforms and build a strong economy that can support services and deliver a good quality of life."

I think that really how I've started most of my questions in the past is: which came first, the chicken or the egg? None of us should take more than we give. Otherwise, there's nothing left for the future. I don't disagree with many of the points you've made in your presentation. I think it's arguably the goal of all governments to find that balance between needs and wants and how to pay for them.

The Vice-Chair: Thank you, Mr O'Toole.

Mr O'Toole: I just want to clarify one thing on the MSAs, or the CCACs. You should look back in 1993-94—

The Vice-Chair: Please ask the question.

Mr O'Toole: —when we started talking about MSAs, multiservice agencies. That is not a new thing that we somehow contrived. It's—

The Vice-Chair: Thank you very much. Mr Phillips.

Mr Phillips: It was a very thoughtful presentation. Obviously, a lot of work went into it.

One of the challenges is that the government believes we need corporate taxes 25% below our competitors in the US. According to the government's documents, we're below corporate tax rates in Germany, Ireland, Australia, France, Italy and Mexico. So the issue is, where do we find the revenue if the government wants taxes lower than our competitors? Have you any thoughts for us on where the government might find the revenue to deal with the issues you raised?

Ms Gerda Kaegi: We opposed the tax cuts, because we didn't believe that a smaller government would be in a position to provide the needed services that society and the economy would have to have if they're going to thrive in the future. Quite frankly, we didn't agree with the first set of cuts. We believed the growth in the American economy would clearly stimulate, and always has stimulated, the economy in Ontario. We see a direct correlation between the tax cuts and the lack of capacity of the government to respond to meet the needs—not the wants, but the needs—of citizens. A tax increase is perhaps politically unpalatable to the government, but society, citizen after citizen, said, "We don't want the $200." When they got that rebate from the government, they said, "I'd rather have the daycare, I'd rather have the nursing home, I'd rather have home care than $200 that doesn't buy me anything."

The Vice-Chair: Mr Christopherson.

Mr Christopherson: I also want to thank you for your presentation. I certainly agree with the sentiments of your last comment. Unfortunately, the government didn't listen.

For that matter, it was quite interesting listening to Mr O'Toole say—and I won't put words in his mouth—that certainly he agrees, and by extension his party, I would think, with the general direction, and doesn't disagree with some of your fundamental assumptions. Yet as I go through this from my point of view, the direction you've suggested this province ought to be going is the exact opposite of where this government has gone since they've been in power since 1995. So it's interesting to listen to what they say, but it's far more important to watch what they do.

In the limited time we have, on page 4, under "Whose Responsibility?" you say, "The fact is that many people do not have family to take care of them, or who are themselves trying to care for an aged partner with health, disability or senility problems." I was wondering if you would include in that a group we've been hearing from pretty loudly and clearly during these deliberations; that is, older parents, and by that I mean 70s, 80s and 90s, who have middle-aged children, my age, with disabilities.

The Vice-Chair: Question?

Mr Christopherson: OK, Chair. They've cared for them in the home all their lives. They're worried about what's going to happen to their children when they're gone, since they've done all the work. But when they're gone, who's going to do it? Who is going to care for their children?

Ms Kaegi: Yes, that certainly has been a long-standing concern for members of our organization and members of society in general. Sometimes it's not only their children but their grandchildren. In many cases they have ended up taking care of their grandchildren because of problems with their children. So that is an ongoing issue and we could all cite examples of parents who are in exactly that situation. In fact, one of our board members is facing this great difficulty.

The Vice-Chair: Thank you very much. We appreciate your presentation and coming forward.

CANADIAN INSTITUTE OF PUBLIC AND PRIVATE REAL ESTATE COMPANIES

The Vice-Chair: The next delegation is the Canadian Institute of Public and Private Real Estate Companies. Twenty minutes has been set aside for you. After your presentation, whatever time is left we'll divide equally among the three caucuses. As you begin, please state your names for the record.

Mr Michael Brooks: My name is Michael Brooks. I'm the executive director of CIPPREC. I have with me Ian Bacque, our director of government relations, also from CIPPREC. We're pleased to be able to speak to you today. It's our first time before this committee, at least to my knowledge, even though we've been around for 30 years.

A brief background of CIPPREC, and I'm not going to really follow word for word the material that's before you, but an overview of our entity: we're 30 years old. We were formed to standardize accounting standards for public companies in 1970. We got involved in government relations on behalf of the industry probably in the mid-1980s. We are still most known for our accounting standards handbook, which every real estate company in Canada follows. Every accounting firm has a copy. Many governments follow our accounting standards handbook. We continue to work on it to ensure the consistency, integrity and accountability of all real estate entities—public, private, whatever.

I've given you a list of our members. They're fairly representative of the fabric of real estate ownership in Canada. They are the biggest companies. They own most of the downtowns and most of the major shopping centres. From a people point of view, they would own the apartment buildings that constituents live in, shopping centres where you buy your groceries, office buildings where your family works. The monies invested would be your pension funds, your life insurance premium money and a variety of other sources. As most of you probably know, since the dot-com meltdown, real estate is a darling again and certainly rate yields are very attractive to many entities. So it's attracting a lot of capital these days.

As far as our government relations activities are concerned, we perceive our role to be communicating with governments at all levels—generally, federal and some provincial. We don't really get too involved in local politics. We're involved with the CRTC on telecom issues, bankruptcy act reform, income tax reform. Terrorism insurance at the federal level has been a hot issue for us very recently, or the lack of availability thereof. We've been involved in provincial issues as well where it affects our members' activities. We're also involved in standards setting in other areas for our members, such as standard national office leases. We support education, and we convene forums for our members and others to get together through conferences and our Web site.

I've given you an executive summary of the issues that bring us here today, and I propose to speak to a few of the issues and ask Ian to speak to the property tax issue specifically. Generally, I would say that our industry is healthy. We are not in the position we were in the early 1990s. Rents are starting to spike again in Toronto, increased vacancies, some of it due to dot-com failures. We are seeing much more growth in the 905 area than we are in the 416 area. One of the reasons for that is the highest property taxes in the world for downtown office towers, and we've given you some comparative data which Ian will talk about.

We are also concerned, although it's not in our submission today, about urban issues and what to do about the city of Toronto problem. A lot of our members, of course, have big bets placed on downtown Toronto, and the quality of the infrastructure, the quality of housing, policing and transit are all of issue to our members, so it continues to be an area where we'd like to work with governments in finding some solutions.

With that, I'd like to turn it over to Ian to talk specifically about property tax issues.

1430

Mr Ian Bacque: If I could direct your attention to page 12 of our written submission, our first specific request before you today is for property tax relief in the commercial, industrial and multiresidential property tax classes. High property taxes are contributing significantly to urban sprawl. The GTA is therefore not maximizing the utility of its existing infrastructure. Property taxes are in fact working at cross-purposes to the goals of intensification and efficient usage of infrastructure, especially transit, as Michael mentioned, which is still Union Station focused.

Property taxes are actually encouraging greenfield development, so we would request further business education tax relief and legislated movement toward the ranges of fairness.

On the next page—it's an unnumbered page—there's a coloured chart of Toronto development activity. You'll notice in the two right-hand segments, the fourth quarter of 2001 saw 700,000 new square feet of office space developed in Toronto, while at the same time there was almost 3.5 million new square feet of office space being developed in the suburbs. On the next page you will see what, in our submission, is the reason for this reality. Toronto property taxes on downtown office space are about $14.07 a square foot. That's a 2000 property tax year number, which is about the same as the next three major Canadian centres combined: Ottawa at $6.65, and you can see the rest of the list. For your information, the 905 regions surrounding Toronto average about $4 per square foot. It's easy to see on that basis why tenants, and therefore construction, are attracted to the 905 area.

As Michael indicated, Toronto is, we're told by CB Richard Ellis, actually the highest property tax jurisdiction in the world at about $14 a square foot. The cost to service this space is about $4 per square foot. So downtown office space contributes net $10 out of its $14 property tax bill. It would make sense, of course, to grow the assessment base in this class, but taxes, development charges and other costs associated with development are making it prohibitive.

The limits or caps in both rounds of property tax reform have been somewhat welcome, but they have also entrenched an existing unfairness. Despite the facts outlined in the two charts we've provided you, there is a view out there that commercial properties are getting a break under Bill 140, and this is just not true. Some are even going so far as to say that the residential class is now subsidizing the business classes. The facts show that the business or non-residential classes are paying more than their fair share of property taxes. Again, they're working at cross-purposes to the goals of intensification and the better use of infrastructure and are actually encouraging sprawl. The proof is that, as the charts show, 83% of new office space under construction is in the 905 regions of the GTA.

Our second submission touching on property tax is with respect to taxpayer representation on the Municipal Property Assessment Corp's board of directors. We congratulate the Chair of this committee, Mr Beaubien, for his submission to the minister that taxpayers be represented on that board, and we encourage the government to appoint a representative of the entire commercial property tax class. We'd like to take this opportunity to put forward the name of John Campbell, president of Brookfield Ventures Ltd, for appointment to the MPAC board at the earliest possible time.

Thank you, and back to Michael.

Mr Brooks: Three other points in our submission: one is a technical fix that we are looking for to enable the REIT vehicle in particular to grow. The income trust is the fastest growing element of the TSE and REITs are arguably among the most stable. It's your apartment buildings, your shopping centres, your office buildings, your industrial properties, your nursing homes which are part of this entity. There's an anomaly in the Ontario act that prevents Ontario-registered insurance companies from investing in REITs that does not apply to federally regulated entities, and we are looking for a particular fix on that point.

We have a number of members in the multiresidential class. We know there are a lot of issues around multiresidential, particularly affordable housing. Multiresidential unfortunately is also in the same property tax boat as some of the downtown commercial. Multi-family properties are taxed at three times the residential rate and again would consume only a fraction of the services compared to single-family. We continue to believe that reimposition of rent controls would disincent any new investment in that vehicle, that we're on the right track and that we should stay the course as far as that is concerned.

The last issue is the issue of capital taxes, which the Ontario government committed to eliminate in the 2000-01 budget. We certainly support that. For many of our members capital taxes are an absolute pass-through to the tenant. It's the small tenant, medium-sized tenant or large tenant downtown in the shopping centres who pays capital taxes. They're mobile, but it applies anywhere. However, for multi-family, capital taxes are an absolute cost to the landlord that it must eat. It's a complete overhead.

This point, combined with the property tax point on multi-family, would suggest that the tax portion of a tenant's bill is very large and that some exploration might be given to mitigating that as a way to get more housing—multi-family-specific housing—built in Ontario.

I think I'd like to stop there to leave a little bit of room for questions before our time elapses. There are a few more background issues on the Real Estate and Business Brokers Act and terrorism insurance for your review after the fact.

The Vice-Chair: Thank you very much for the presentation. We have about a minute and a half per caucus, beginning with the Liberal caucus.

Mr Phillips: Thank you for the presentation. I'll start with that table right after page—I guess it's page 14, although it's not numbered.

My understanding is that over half of the property tax goes to education and that rate is set here at Queen's Park. It's set by the Premier. If that is the case, I'm assuming, then, in Toronto $7 a square foot is going to education; in Ottawa it's maybe somewhere around $3.5 a square foot and then in the GTA—outside of Toronto, the 905 area—it's $2 a square foot. That's set by the Premier or by the Minister of Finance, not by the municipalities. We've been told that for education, because it's now handled by the province, there's going to be equal taxation across the province. In other words, equal service and equal taxation. There's one residential education tax rate, as you know.

Can you explain to us why it looks like the government is charging Toronto $7 a square foot and the neighbouring communities $2 a square foot?

Mr Brooks: I'll let Ian answer that.

Mr Phillips: That looks like it's a provincial issue, not a municipal issue.

Mr Bacque: That's right. As you know, the equation to determine any property class's property tax bill in the end result is assessed, valued and multiplied by the rate. What's happening is that downtown buildings are extremely valuable and the assessment roll for that portion of the city is disproportionately large, so when you apply a fixed percentage tax rate to a high-value asset, you end up seeing a much greater tax bill at the end of the day.

Mr Christopherson: Thank you very much for your presentation. On the issue of the multiresidential, you note that in your opinion, "Rent controls effectively killed new construction and will do so again if implemented."

First of all, I think there's an argument that that's not necessarily the case. Even historically, when you look back to 1972, when construction dropped off—all these figures, by the way, were given to us by the co-op people earlier today—rent control didn't come in until 1975.

Setting that argument aside, Al Leach made the same argument. Again, I remember Al Leach standing up early in the new term of the government in 1995 or 1996 and saying it was rent controls that killed the generation of affordable housing. They were going to make sure that we got rid of that unfair legislation, as they called it, and that was going to spark the creation of all kinds of affordable housing. Of course the ensuing years gave us the biggest economic boom in the American economy that they'd ever seen. We benefited from that. At the end of the day, at the end of the boom, we still don't have any affordable housing.

The Tories' literally demolishing rent control did absolutely nothing and we've got figures that show that we need—different figures come forward but on average—about 19,000 to 20,000 new units per year just to meet the population growth expectations, and now we're finding that people are being evicted by the thousands across Ontario because they can't afford the increased rent. So we're losing on all fronts. We've missed the opportunity during the economic boom, we're now heading into a period of at least slowdown, if not worse, and you don't want the re-imposition of rent control, and from your perspective I can understand that. But where does that leave us, as legislators worried about ensuring that this province generates and creates enough affordable housing to provide decent accommodation for its population? Where do we go?

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Mr Brooks: It's a good question, David, that you've raised. Certainly from the private sector's point of view, they want an economic return on new construction, and what I understand is that rents aren't there. If you look at construction costs and you think they want, what, an 8% return—what do you want in your RRSP? An 8% return that is not quite there, to rationalize it. I don't think people are evicted. My understanding is that you can't raise the rent until the unit is vacant. So I'm hoping that's not the case.

I agree with you that we have a problem with new housing supply. I don't have a magic bullet for anybody, but our industry is prepared to work with anybody to see what we can do to get more constructed, whether it's by way of an income supplement or some other way to get at the problem.

Mr Christopherson: If I can, at the end of the day really the only way to do it is for the government to get back, involved in the direct equation.

The Vice-Chair: We're going to have to move on.

Mr Christopherson: Their tax cuts, which you want more of, won't let that happen.

The Vice-Chair: You're way over time. Mr O'Toole.

Mr O'Toole: Thank you very much for your presentation: a very good overview. A couple of things, just in a general sense, and I'd like to know your response. On page 13 you explain the infrastructure of why Toronto's costs are so high. I think the starting point on this whole education tax thing is where they were. They sort of capped them. There was such a disproportion between the 905 and Toronto with respect to education funding, which was hidden from the basic tax rate because it was all coming off the non-residential base, really, the industrial-commercial base. So it started high and it's still high. We've committed to fixing it. You know that there are positions and measures to do that.

There is an important thing too, just to respond. Is Toronto not competitive for those reasons, years of overtaxing the invisible taxpayer, the non-residential taxpayer? The other part is, I'm very interested in responding to the exclusion of trusts under the REITs. That small technical regulation or rule certainly should be responded to, and I can assure you the minister will hear about that directly and rapidly.

Is there anything else you can say with respect to—our position has always been that the market sort of takes care of it. If the rents are too high in Toronto they'll move to the 905. If Toronto were to lower that, do you think there would be more greenfield development or more brownfield development in the city of Toronto so that they could increase revenue by having the right tax policies?

Mr Brooks: We've made the argument to them that there's free money, there's $10 a square foot of free money if you can grow the size of the pie in the city of Toronto, but they prefer the short-term for sure of $14 a foot.

Mr O'Toole: Yes, the instant gratification.

Mr Brooks: Yes.

The Vice-Chair: Thank you very much for coming forward with your presentation. It's much appreciated.

ONTARIO HOSPITAL ASSOCIATION

The Vice-Chair: The next delegation is the Ontario Hospital Association. Thank you very much for coming forward. Twenty minutes have been set aside for you. What's left over from your presentation will be divided between the three caucuses. As you begin, please state your names for the record.

Mr David MacKinnon: Thank you very much, Mr Chairman. My name is David MacKinnon. I'm the president of the Ontario Hospital Association. With me today is Virginia McLaughlin, who is chair of the OHA's advocacy committee and vice-chair of Sunnybrook and Women's College Health Sciences Centre.

This is the fifth time I have had the opportunity to appear before the committee to talk about hospital finances and the setting of budget priorities for the province of Ontario. I very much appreciate the opportunity now, as before, and we have always gained from the committee's deliberations.

Since time is limited, our remarks will be brief. Further information is provided in two documents, which we are going to leave with you. We will be releasing for the first time some very detailed estimates of hospital funding issues and shortfalls and the potential impact on patient care services. We're also producing significant new information on federal-provincial fiscal policies and their impact on health care in Ontario.

I'd like to ask Virginia McLaughlin to make a few comments about some of the opportunities, and there is an opportunity side to this equation that we see emerging, before I come back and talk about the specific priorities we would like to put before the committee.

Ms Virginia McLaughlin: I would like to echo David's remarks and thank the committee members for the opportunity to be here today. I would also like to take this opportunity to acknowledge all those in the system who contribute to the health care system: from the front-line staff, such as physicians, nurses, technicians and support workers, who must operate under increasingly difficult and uncertain conditions; to the voluntary trustees of hospital boards across the province, who are under greater pressure to meet patient care needs within their increasingly stretched budgets; to the tens of thousands of hospital volunteers, who dedicate countless hours of their time to support patients and their families at a time when they are in need; to the Ministry of Health and Long-Term Care officials, who are working closely with hospitals and other providers to improve the delivery of care and to help manage the impact of budget under-funding on patient care services; and last, to the patients and their families, who must educate themselves and navigate a more complex health care system at a time when they are vulnerable and in need of help.

I would like to begin my remarks by saying that we are at a time of immense challenge and opportunity. While hospitals are stressed as never before due to unrelenting cost pressures and rising consumer demands and expectations, we are also at the crossroads of fundamental change and innovation.

We believe that for the first time in a long time Canadians are having a genuine debate about the fundamentals of Canadian health care. This is important because our inability to make social choices and the absence of appropriate public policies are the root causes of the financial crunch in hospitals and the health system generally. The reports coming from Mazankowski's advisory council, Senator Kirby's committee and the Romanow commission offer the prospect of new policies that will put us on a sustainable path.

Many of our members are particularly impressed with Mazankowski's report and we recommend that this standing committee launch a full review of that report to determine if it would be possible for Ontario to formally endorse some or all of its principal recommendations. For those of you who haven't seen it, it's quite manageable and it really is a wonderful, very succinct but at the same time comprehensive articulation of the fundamental, most important issues facing us. It provides a road map for the kinds of things we need to be thinking about as we move forward in revamping our health care system.

Our challenge as a society must be to move from reports to action as quickly as possible and to stabilize the system in the short term so that it is not irretrievably damaged before major changes can be made to it.

I will now turn to David MacKinnon to outline our specific recommendations for the 2002 Ontario budget.

Mr MacKinnon: Thank you very much, Virginia. It's our view that patient care in hospitals is generally very, very stressed. Our expectation is that planned under-spending by the province is expected to total $260 million this year and a minimum of $730 million next year, for a total of $990 million. I want to emphasize that this is not a bargaining ploy to get more money from the system. These are the facts that the government itself has repeatedly acknowledged on several occasions and they have been corroborated by our auditors. In fact, many of them are based on an audited financial projection submitted to the government six or eight months ago.

You will note that I am using the phrase "planned underspending by the province" rather than "hospital deficits." The reason is that the government was advised before the 2001 budget of the funding needed to operate the hospital system and that the hospitals had already committed the funds because almost all hospital costs are fixed in the short term. That advice was ignored, which effectively means that hospitals have had to borrow the money to protect patient care.

The government also indicated that it had paid down the provincial debt by $3.3 billion without at the same time acknowledging the extent to which that had been accomplished by shifting provincial obligations on to the hospitals. It's a bit like reducing in one's budget the amount intended for the current month's rent and using it pay down one's Visa card.

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This is particularly unreasonable, because health care cost increases were documented fully by the Ontario government and other Ministers of Health in their report to the federal government in August 2000. For Ontario alone, the provincial Ministry of Health projected health care costs to grow by 5% a year, excluding major cost accelerators and drivers such as new technologies and drug therapies.

I should add that we have by far the most efficient and transparent hospitals in Canada. We have many measures that can be used to demonstrate that, and we have no difficulty at all in demonstrating that those who work in hospitals are going the extra mile to hold the system together. In fact, we produce the most complete set of hospital report cards on the continent, all of which I believe illustrate that important point.

We recognize the government's priority to eliminate the deficit and reduce provincial debt. But, as I've noted, we can't help but point out that hospital deficits and debt are correspondingly rising and have increased by hundreds of millions of dollars while the provincial debt declined. Our submission thoroughly documents these changes.

We can't turn consumers away, nor can we charge them anything. Under federal and provincial legislation, hospitals are required to provide medically necessary hospital services to the public. So inadequate funding, when it occurs, puts hospital trustees in a difficult, and perhaps impossible, position. Either they provide patient care services to a growing and aging population and face inevitable cost overruns, or they balance their budgets through reductions in services and employees, which compromises the spirit and intent of government legislation. It was never intended that hospital boards would be the ones allocating health care services in this way, without legislation that supports some of the fundamental choices involved.

We are asking the government to be clear on its policies and priorities. Both the Ontario and federal governments have essentially two choices with respect to hospitals and the health care system. They can openly recognize and endorse changes to the type and quantity of patient care services available to the public, either by delisting, longer waiting lists, introduction of copayments or many other possibilities; or they can fund the current system—absent those choices—at a level that is needed to support current services and provide the funding necessary to increase efficiency and make the investments that are necessary to increase efficiency without jeopardizing patient care.

A second major issue that I would like to address very briefly is federal-provincial fiscal relations; we are leaving a second paper with you on that subject. The province has repeatedly pointed out that correcting problems in this area is a major priority for it, and we agree with that. The OHA recently commissioned a study that found that the federal share of health care funding has fallen over the last 25 or 30 years and is now less than one third, even if you accept the federal argument that tax points should count in this calculation. So there is no question. I can unfortunately safely say that I've been around with governments long enough, since the 1960s, to know what the original bargain was, and the original bargain was much more of a partnership than is implied by those figures.

We believe that if the federal government wants to continue to honour the spirit and intent of the Canada Health Act, it must substantially improve its support to the system. All our research shows that the burden is falling disproportionately on the provinces, which means that the goals inherent in the Canada Health Act are at some risk.

There is a larger issue, a very difficult issue, that I would like to draw to your attention, and it involves federal transfer payments. According to our research, from 1997 to 2000 Ontario taxpayers have transferred a net $23 billion a year to other parts of Canada through the federal government in literally hundreds of different ways. This is equivalent to roughly 5% of Ontario's gross domestic product every year. It is nearly $100 million for every working day, which may be one of the world's largest voluntary shifts of wealth.

One of the consequences of this shift is that spending on key public services in Ontario is now well below the Canadian average in relation to population. In particular, the fact that Ontario currently funds universities at about 81% of the national average in relation to population is probably a significant shadow across our future.

To use another example, the number of acute care beds per capita in Ontario is 75% of the national average. When you think of how large we loom in determining that national average, the gap is actually much greater than 25%. In large urban centres, particularly Toronto and the west end of Ottawa, the hospital system is particularly stressed, with occupancy rates well above what is considered reasonable by international standards. I should also have included the 905 region around Toronto as well as a few other areas where growth is well above the provincial average.

This problem really needs urgent attention by the federal government. It is not in the national interest over any period of time that core public services in the province that is the major funder of the transfer system should be themselves underfunded relative to the rest of Canada. Prince Edward Island, for example, has seven hospitals for a population of 140,000, a fact that may be bad economics and is likely to be bad health care.

I would like to make a second suggestion to this committee: that you hold hearings specifically aimed at assisting Ontario's citizens in understanding this complex subject of federal transfers and what it means for Ontario and its public institutions.

In summary, we really need to move on two tracks. We need new policies introduced as quickly as possible to move the system in different directions. I agree with everything Virginia has said about the Mazankowski report, and think it's the best formula we've had so far.

Second, the province has to modernize its relationship with health providers, and the federal government really has to step up to the plate if we are to avert the very serious financial crisis which threatens to engulf us and which is described in great detail in the presentations we will leave with you. Thank you.

The Vice-Chair: Thanks very much for the presentation. We have about a minute and a half per caucus. I would encourage questions not statements.

Mr Christopherson: Thank you for your presentation. It's good to see you again. I just want to review something you said; I think it's really key. You state that you have deliberately used the phrase "planned underspending" as opposed to "deficit." Deficit would imply that you expected to spend X dollars and instead spent X-plus. This, when linked with the fact that the provincial government in Ontario told the federal government back in the year 2000 that they could expect increases of 5% in health care costs on the hospital side, says that they knew these were going to happen. I'm just trying to get at another way of rephrasing your point that this is not some unexpected deficiency in the management of our hospitals, which is what this government likes to say. Whether you're a CCAC, a school board, a mental health services provider, if you're overbudget or you don't have enough money to meet the demands, somehow you've failed as management. This document says, "The government itself projected that our costs were going to go up 5% long before we ever got into the year. This was planned underfunding."

The school boards have said to us from the beginning that there is no such thing as a balanced budget in the province of Ontario as long as we have such huge deficits in spending in education and health care. Would you agree with your counterparts in the education system?

Mr MacKinnon: I would say that the rate of increase in hospital expenditures is one of the most predictable sets of statistics in the public sector. In the United Kingdom, the United States, Canada and most developed jurisdictions, it's about 6% a year minimum. There are all kinds of tough implications to that figure, which I wouldn't deny, but the numbers are known.

Every year in Ontario we go through the most incredible budgetary planning process ever. The government writes a letter saying, "We recognize population growth and aging are occurring, but we won't pay for it." Every year we have three or four lobbying campaigns, and that gets changed a little bit. But the system still gets eroded. By the way, that's been going on for 30 years or more. You really can't run a hospital system that way.

Even if the numbers didn't change but were predictable, and the government announced them in advance and did that over time, we would be able to run the system better. But in the sense that all those are deficient and the government in its 2001 budget did not include figures of which it had been made specifically aware, I believe that the budget for hospitals in particular was a level of planned underspending, and it does not reflect on hospital management and boards. We produce the report cards. We rate ourselves and we're very tough critics.

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The Vice-Chair: Thank you very much. We'll move on to Mr O'Toole.

Mr O'Toole: Thank you very much, David and Virginia. It's good to see you again. You've been at it for much longer than any of us, I think. I appreciate your input today. I go back only as recently as when I was on council when the NDP, to their credit, had the acute care study, which was really the same question, which resulted in Dr Sinclair's version of how to structure health care infrastructure. I just want to make reference—not just go the easy line which is the federal issue—to the whole issue of having a strong Toronto to have a strong Ontario. The same argument could be made for a strong Ontario to have a strong Canada. This isn't just a self-centred argument. I agree with you that Kirby, Mazankowski, Romanow and indeed the province are concerned about trying to get the federal government to the table, and for all of the reasons we've just described. Is there anything we could do, besides cutting back some of the overarching rhetoric—I'll be sending this out to my constituents, Mr MacKinnon.

The Vice-Chair: Question?

Mr O'Toole: Is there anything we as a government could do to smooth this horizon line and stop the battle with the federal government which is really hurting the seniors and others of this province?

Mr MacKinnon: I'd make the one suggestion, that perhaps the committee could hold formal hearings or some committee of the Ontario Legislature, whichever is the most appropriate, could have formal hearings on the transfer structure and other related issues.

I agree with you on Toronto. I think it's the source of Canadian growth from coast to coast. There should be no reason why the mayor of Toronto should have to go, cap in hand, looking for cash from Ottawa. It's generating the growth and his activity should be supported immensely in terms of allowing it to continue to do that.

The Vice-Chair: Mr Phillips.

Mr Phillips: This concerns me greatly. The province has said, "We can cut corporate taxes 25% below our US competitors. That's how we have to compete. We've got to get corporate taxes 25% below Michigan, New York and whatnot and we can afford $300 million to $500 million new funding for private schools." Furthermore, I read where the Ministry of Health is essentially saying that this is just the usual pre-budget scaremongering that the Ontario Hospital Association is engaged in and it's just a natural thing. A shortfall of $770 million sounds dramatic to me. If in fact that's what you might be facing, and if you don't get those funds, if you are forced to stay at the current budgets, what does that mean for Ontario?

Mr MacKinnon: Gerry, the figures are in our submission, and rather than go through in detail, it means very significant reductions in services. It particularly means, I think it's safe to say, Virginia, difficulties in handling the growth regions of the province, the 905 region, southwestern Ottawa, Alliston and other places such as that. It also has the capacity—and maybe I'll just stop there and if you want to comment further, Virginia—to seriously undermine a labour force which is already stressed and under enormous pressure.

Ms McLaughlin: David, I think you've hit on the high points. The health care sector is not an inexpensive sector of the economy to run and to manage. However, having said that, I think we can look at it from a number of different ways, including as an investment in the health of the citizens of this province and also an investment in the intellectual capital and infrastructure of the province. The hospitals of Ontario, as you will see from the submission, are already at benchmark; they are already efficient. There is not a lot of fat. There is no fat to cut. We are down to the bone.

So what does it mean? It means there will be fewer services. It means there will be longer waiting lists. It means there will be a destabilized workforce. We are already short in many highly skilled areas that require a long time to train those individuals, and if there's no stability in the workforce, then that's going to exacerbate that situation. The fact that we are already at the margin, already as close to the edge as we can be means there will be significant impacts on all of these areas, not just on patient care but on the whole gamut of the provision of health care in this province.

The Vice-Chair: Thank you very much for coming forward with your presentation.

ASSOCIATION OF ONTARIO HEALTH CENTRES

The Vice-Chair: Our next delegation is the Association of Ontario Health Centres. Welcome. We have set aside 20 minutes for you. After your presentation, whatever is left we'll divide equally among the caucuses. As you begin, please state your names for the record.

Mr Robert Groves: My name is Robert Groves. I am the president of the board of directors of the Association of Ontario Health Centres. I have held this position since June 2000. Beside me is Gary O'Connor, who is the AOHC executive director. To his right is Pat McLean, the past president of the association's board of directors. We will each deliver part of this presentation.

We are deeply appreciative of being able to address this important committee of the Legislature. At the risk of being a bit immodest, I can assure you it will not be a wasted 20 minutes. I do want to explain more about my association, but I first want to explain why we're here today.

The Association of Ontario Health Centres has come to Queen's Park today because we genuinely believe we have a solution to offer the government that will make significant improvements to the province's health care system. Given the amount of money the government has flowed back into health care, we know that this is also your number one area of interest. We praise the government for continuing to reinvest in health care. It is money well spent.

Community health centres have been at the forefront of primary health care reform for the last 30 years. As a result we wholeheartedly support the government's commitment to roll out primary health care reform province-wide. We believe there is a role for CHCs to play in this rollout because CHCs ensure health care is provided in an accessible fashion; CHCs allow clients to participate in the provision of their health care; CHCs provide care using interdisciplinary teams of health care professionals; and they are community-run and -governed.

The government has committed to having 80% of family physicians working in primary health care networks by 2004. We praise both the impulse and the target. Unfortunately, recent polls suggest that this goal will be difficult to achieve through family health networks. We have a proposal that will help the government in accomplishing this important, ambitious objective. In fact, today we want to leave the committee with a set of proposals that moves the primary health care reform yardstick a considerable distance.

Who are we? Ontario's health centres are now in their fourth decade of delivering comprehensive health services to people in their communities. It was not until 1982 that our association, now referred to as the Association of Ontario Health Centres, was officially incorporated.

Today there are 65 centres in operation in all parts of the province: 55 are community health centres and 10 centres provide services as aboriginal health access centres. These centres are all community-based, non-profit organizations that provide high-quality, cost-effective primary health care services. But our centres do not stop there. They also focus on health promotion, illness prevention and community development to improve overall health outcomes for individuals, families and the communities they serve.

In June 2001, the Ministry of Health and Long-Term Care completed a strategic review of the community health centre program. The report is not yet public, but key findings presented by the ministry show that CHCs exhibit desired primary care reform features; are accountable through community governance, service agreements, and accreditation; deliver on ministry goals and strategies; have a strategic role to play in primary health care, particularly with populations facing access barriers; that family health networks will not reduce the need for CHCs, since FHNs are not designed to improve access for disadvantaged groups; and CHCs are one way to meet the needs of underserviced areas.

We have been told that the CHC program strategic review has been approved by the Ministry of Health policy committee and is being used to guide the ministry's business planning process. We are encouraged by this and are looking forward to the review's release.

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Mr Gary O'Connor: I'll present briefly what we have to offer.

In its 2001-02 business plan, the Ministry of Health and Long-Term Care described its vision for Ontario's health care system as the following: "a health system that promotes wellness and improves health through accessible, integrated and quality services at every stage of life and as close to home as possible."

This vision fits nicely with our approach. In fact, it could almost be the vision for community health centres. Our approach stresses comprehensive care close to home, with an emphasis on making people well and caring for them before they are ill.

What the ministry has identified to achieve a better health care system in its business plan is what community health centres do every day.

Our proposal: in an effort to assist the government to expand primary health care reform and plug some of the gaps in underserviced areas, the Association of Ontario Health Centres has a set of proposals we would like to share with the committee.

In October 2000, we submitted a business case, but in fairness, the proposal could not be acted on until the CHC's strategic review was completed. That has now happened, so there should be no impediments to implementing our proposals now.

We would like to see our proposal funded in stages over the next three years, although the committee should understand that the process for bringing a health centre up to its full operational capacity can take as many as three years. So the full funding maturity of this proposal is more in the neighbourhood of six years, which means spreading the funding over six years as opposed to three.

The proposal calls for doubling the number of health centres around the province. That would necessitate adding 65 new health centres in key areas of the province that have identified a need for better, basic primary health care and wellness services. I don't think anyone disputes the fact that more and more communities across the province are finding it difficult to maintain their current level of physician services.

Another aspect of the proposal deals with expanding existing health centres so they can better meet the increasing demands and acuity levels needed to maintain quality care in their communities.

We think the government should move immediately to fund phase one of our proposal, which calls for the immediate expansion into 13 new communities through funding new CHCs or satellites to existing health centres, at a cost of $21.5 million. There are 96 community groups from 78 communities that have identified with the CHC model as the best way to provide primary health care services to their communities.

We also think its necessary for the ministry to inject $29.5 million into existing centres so they can better serve the communities and better meet the government's health care priorities.

One sixth of this money would be used to address recruitment and retention issues within CHCs. The committee should know that staff at community health centres have not had a salary increase in 10 years. Many of our positions are now paid greater than 25% below the market norms, causing tremendous recruitment and retention problems. Also, $10 million would go towards hiring more health professionals: more nurses, more physicians and other health care professionals. The remaining $15 million will enhance vital health promotion programs that CHCs deliver.

We think it is money well spent because it will help existing health centres meet some of the most significant cost and program pressures they face. Keeping our community health centres functional is critical in helping sustain and improve the provincial system, because we provide service to populations and to areas of the province that, quite frankly, many providers do not wish to support or are incapable of supporting.

We are confident that the review, when released, will highlight the need for strengthened and expanded CHCs. We also don't think it serves the government's best interests to make 95 communities wait, especially given the current climate of communities competing against one another for scarce health professionals to provide their basic health care needs.

I don't think I'm going too far out on a limb to suppose that one of the most frustrating calls that members of this committee and other MPPs take is from constituents who express their dissatisfaction and frustration at not being able to access basic health services. Our plan takes a big step to ending these phone calls for each of you.

Ms Pat McLean: Let us help you. We might be a little biased—just a little, of course—but we think our proposal can provide a huge assist to the government in managing the health system and to patients who are trying to gain better care and better access within the system.

How exactly is this achieved? Well, let's talk a moment about hospital emergency rooms. People go to emergency rooms not because they necessarily want to but because they have no alternative. Either they cannot gain access to their family doctor or it's after hours and the doctor's clinic has closed. By funding our proposal, community health centres will be in a position to provide 24-hour access, seven days a week. This makes us a natural safety valve and a natural alternative for hospital emergency visits, which should improve both the patient flow in emergency rooms and make sure hospital capacity is maintained for true emergencies.

The government is quite correct in wanting to expand primary health care networks across the province. However, we think it is wrong to expect one size or one model to fit all populations. We think the community health centre model has an important role to play and should not simply be shoved aside while the government and the Ontario Medical Association negotiate networks around the province.

We have a proven, cost-effective, measurable model that treats all of the individual's primary health needs. We can also service the hard-to-reach population groups that can potentially drain hospital resources if care is not provided ahead of time or on time.

Cost-effectiveness: CHCs compare favourably with other primary care models of delivery, particularly when you take into account the greater acuity of the patient base currently in community health centres. Also, our attention to health promotion and disease prevention that we practice helps keep people from getting sick.

Underserviced areas: 27—that' s 40%—of our centres are in needy areas, and our phase 1 proposal seeks to eliminate service gaps in 15 key areas of the province.

Wellness: our philosophy and approach is all about making people well so they don't need to rely strictly upon a treatment regime. We know this is a priority for the government and we believe we are an effective and successful strategy to achieve this goal.

Cost-effectiveness, emergency rooms, primary health care reform, underserviced areas and wellness are five areas in which the government knows it needs to get better results if it is to make a dent in improving the province's health system. In all five areas we have a proven and successful record. So today we ask the committee to help us impress upon the ministry the need to back a winner.

In summary, members of the Association of Ontario Health Centres are in their fourth decade of providing high-quality, comprehensive health services to high-needs groups and to communities. Our centres feature an interdisciplinary team of health professionals. They provide 24-hour access to coordinated services. The model is built on a broad understanding of the determinants of health. All providers promote illness prevention and health promotion as part of primary health care. We have invested heavily in information technology and we can measure what it is we do and what we achieve. We have a high level of patient satisfaction. We are community-based and reflect the health and service needs of the communities. We are accountable: we enter into service agreements with the ministry, we are governed and managed by local people, and we submit to outside reviews through our BHO accreditation process.

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What we hope to accomplish today is to re-establish our presence and worth in today's health system and to state very clearly that the key health directions the government has identified as priorities are areas in which we have a proven track record of accomplishment.

We understand the government has made primary health care reform expansion commitments with the Ontario Medical Association, but we would hope the government will keep an open mind on other models that can help the government achieve its objective. We are one such model that will meet those objectives. But we can also meet other objectives, like wellness and service.

The health care needs in many communities of this province should not be put on hold and made to wait while the government and the OMA figure out how best to implement primary health care reform. We have a service model that works in these communities.

Now that the CHCs program strategic review has been completed, we ask the committee to endorse our 130 community health centre comprehensive expansion proposal. It makes sense and it fits the government's expansion plans.

Please use our phase 1 proposal as an effective blueprint to begin rolling back the gaps in service which have popped up throughout Ontario. We're proven. We have a plan. We hope you will see the merits in our plan. Thank you.

The Vice-Chair: We're almost out of time. We have about a minute and a half in total. Shall I give it to one caucus rather than try to split it up?

Mr Spina: Thank you, folks. You are so refreshing. My only regret is that the media, who were ready to cover the elements, justifiably, of the Ontario Hospital Association, did not stick around to hear a constructive proposed solution for health care and service delivery to patients such as this.

Algoma Health Unit is something that I've known for 30 years, having been born and raised in Sault Ste Marie, and one of the most successful units. That's a model, I think, that you guys—that's your system.

Can the Ministry of Health proceed with adopting your model without the OMA agreement? They are the bottleneck, clearly.

Mr O'Connor: I think the key issue with the OMA is whether or not the funding of the proposals will come from the OHIP pot or from other funds. The government can move forward with our proposals if it comes up with money outside of the OHIP pot. If it wants them to come within the OHIP pot, it has to negotiate that with the OMA.

The Vice-Chair: Thank you very much for coming forward. We appreciate your presentation.

RENTAL HOUSING SUPPLY ALLIANCE

The Vice-Chair: The next delegation is the Rental Housing Supply Alliance.

Mr Paul Mondell: Good afternoon, Chair, and members of the committee. My name is Paul Mondell. I am the chairman of the Urban Development Institute of Ontario and also the president of the Urban Development Institute of Canada. With me this afternoon, to my right, is Mr Vince Brescia, who is going to share the presentation with me, who is president of the Fair Rental Policy Organization of Ontario; to his right is Mr Neil Rodgers, president of the Urban Development Institute of Ontario; and to my left is Mr Andy Manahan, the development promotion representative of the Universal Workers Union, local 183.

Thank you very much for the opportunity to speak to you this afternoon. The only regrets we have are from Richard Lyall, who is the president of the Residential Construction Council of Canada.

Collectively, we are the Rental Housing Supply Alliance, which is an umbrella organization representing developers, builders, investors, landlords, property managers and labour. We promote policies that will assist and stimulate the production of a healthy purpose-built rental housing supply within Ontario and across Canada. The Rental Housing Supply Alliance is promoting a long-term, sustainable approach to restoring business and investment confidence in the rental housing supply through changes to federal tax policy, CMHC's mandate, remaining provincial barriers and municipal policies, fees and charges.

In December of last year, the Rental Housing Supply Alliance spoke to the federal, provincial and territorial housing ministers in Quebec City. The message was that long-term, tax-driven solutions were necessary to spur the construction of rental housing. This was supported by the housing ministers in their final communiqué. Furthermore, we stressed that our industry does not require financial assistance to get rental housing built.

We are continuing to lobby the federal government to restore fairness and equity toward rental housing relative to other industries that are afforded favourable tax treatment.

The Rental Housing Supply Alliance recognizes the fiscal and economic challenges facing the province today. We acknowledge that it will be particularly difficult to increase spending on new programs given existing priorities and commitments within the budget.

The ideas presented today will stimulate new construction of rental housing and unlock new revenues currently not being received by the province. Our proposals do not cost the province anything. Restoring certainty and investment confidence is crucial to the private sector.

The province has established several initiatives that have been helpful; however, additional measures are necessary, the most important being fairness, equity and certainty toward rental housing relative to other sectors.

We provided to you, members of the committee, a package with a number of slides, which I'd like to just take you through rather quickly.

On page 3, we're simply summarizing some of the goals that this government has initiated and the budget themes from 1996 through to 2001, highlighting cutting taxes and creating jobs; investing in the future; building a better tomorrow; cutting red tape; renewing confidence and optimism; creating a foundation for prosperity; and helping communities grow.

These actions have been favourable to all Ontarians. The government's mandate has been to restore confidence in the business sector on the premise that they will reinvest capital and in turn create jobs.

In part, the development and housing industry, along with the construction unions, have responded with record sales of housing units and increased employment and economic activity. Much of this can be attributed to lower taxes and higher personal disposable income.

We would encourage the government to stay the course with respect to balanced budgets, lower taxes and less red tape and regulation.

Slide number 4 just goes through again what we feel have been the themes of provincial budgets: confidence, certainty, sound fiscal management, tax cuts, vision and leadership. These are promises that your government made and these are promises that have been kept.

On the next two pages, we wanted to stress the importance of the housing and construction industry within the economic activity of the province of Ontario. Just very briefly, you can see in 2001, in 1992 dollars, our industry, just the construction industry alone, generated over $30 billion in economic activity. On page 6, you can see that the construction industry accounts for about 6% of the province's economic activity.

We employ some 325,000 persons, contributing upwards to 8% of the provincial GDP, and the multiplier effect of the construction industry is significant. These numbers don't include the spinoffs. We are the third-largest sector that contributes to direct jobs, and with the spinoffs, we are probably the largest sector.

Housing has been one of the foundations of growth since the government took office in 1995 and has greatly assisted recently in keeping consumer confidence high. In fact, our industry has insulated the economy from a much more serious downturn.

Slide number 7 shows the greater Toronto area as the catalyst of Ontario's population growth. You can see that in 2001, some 128,000 persons came to the GTA, 62,000 to the rest of Ontario. This is a very important number. We have over 100,000 people coming into the GTA every year. This trend is expected to remain relatively constant over the next 20 years, largely as a result of immigration.

Ontario attracts approximately 50% to 55% of Canada's immigration, and of that, for the past 6 years, this number has been rising to almost 80%.

Housing, particularly rental accommodations, will become more important, and government must consider alternative strategies than those that exist today, because the existing model of regulation and legislation is not benefiting those who wish or need rental housing accommodation.

1530

Rental housing problem: the government has typically used a stick rather than a carrot approach to rental housing with a view to solving the problem. Rent controls and over-regulation have perpetuated a lack of legislative certainty and investor confidence. In turn, a lack of new purpose-built rental housing construction has caused a low vacancy rate. Significant employment and population growth, coupled with immigration and migration, have created a significant demand for rental accommodation. Many renters across the province have insufficient income to afford adequate and suitable accommodations.

On page 9 of our handout is something you should take note of. The line that's drawn across the page is showing CMHC's estimated number of units required annually to meet demand. You can see that in 1975, with the onset of rent controls, the supply dropped significantly. Even with programs such as MURB, CRSP and others that are highlighted, you can see they still did not produce anywhere close to the amount of need and demand. The only error on here is that the Tenant Protection Act highlighted there should be 1998, not 1996 or 1997.

If you move to the next page, you'll see what's happening in the United States, where you can see that the trend is actually quite opposite to what's happening here in Ontario. I can tell you just from my own personal experience that the company I represent has just completed building over 1,000 units in the greater Orlando area. You've got many companies like ours that are active here in Ontario that are simply choosing to do business in the United States because of a much more favourable climate.

There have been myriad punitive legislative controls and the needs of the marketplace have not been accommodated. In fact, only when provincial-federal programs have intervened have the units constructed met demand. However, this is a temporary situation. The long-term solution is in everyone's best interest. Without such solutions, we will continue to see very low vacancy rates in the province's major urban centres. In the US, without rent controls, you can see again from the chart where the supply is going.

On page 11, you can see the vacancy rates. The line that runs through the chart is showing about a 2.5% vacancy rate, which many experts consider a healthy vacancy rate. You can see, starting in 1987 when they started to collect this data, where the vacancy rates have been in the province as well as the GTA. This is clearly due to a lack of private sector supply.

If I could now ask Mr Brescia to continue.

Mr Vince Brescia: Thank you, Paul. We want to walk you quickly through the remainder of the slides. It's not all bad news, and I just wanted to let you know that some of the actions the government has taken over the past few years have had a major impact on the industry and have really started to turn things around. I wanted to bring those to your attention, things like tax cuts, the repeal of the Rental Housing Protection Act, the introduction of the Tenant Protection Act, which brought more balance to landlord-tenant relations, the allowing of condo-registered buildings to qualify for single-family property tax rates, amendments to the Municipal Act to allow bonusing for private sector developers and allow public-private partnerships with municipalities for affordable housing, a provincial sales tax program of $2,000 a unit for new housing, and the creation of a housing supply working group to work with the industry to find solutions to the rental housing problems.

You have done a great job of turning things around. I wanted to just point you to the next two slides to give you an indication of the kind of impact you've had. Look what has happened with capital expenditures. We have an aging rental stock in this province and our industry expenditures have tripled. The industry is now spending about $1 billion a year, which it is investing into the aging rental stock, fixing it up, fixing the balconies, the parking garages. These are investments that were badly needed but which we were not allowed to make under previous legislation. This is a major turnaround for job creation and for the maintenance of our rental stock.

If you turn to the next slide—I've printed up another version so you can have a look at it, but it has the same information—you can see what has happened with rental housing starts. If you look back a couple of years, what has been built over the last two years, you can see fewer than 500 new rental housing units built. We're certainly building a lot more right now. You can see what's happening. The projects that are going to proceed within the next two years are over 4,500, of the same people surveyed. That's an 850% increase in the supply of private sector rental housing. So I just wanted to say congratulations again for turning around the investment climate in this province. For the first time in 25 years, we are seeing unsubsidized private sector rental housing going up in cities across the province.

But this is only a smattering of what we'd like to see. It is a major turnaround, but there is much, much more, as you can see from the chart on page 14, that we need. The major barrier we have is the legislative uncertainty that our industry faces. We have people who want to invest. People like Paul, who's sitting next to me, are willing to invest in the United States where they can get legislative certainty, but here in the province of Ontario, where we're a political football and where our rental regulation is a yo-yo that has to change every time the government changes, we can't get the investment, we can't get the jobs and we can't get the housing built because we can't get any certainty from—and I point to all of you, because all of you have changed rental regulations on us. So we're missing out on jobs and investment. If we can't get any certainty, we'll send those jobs and that investment to the United States.

We just wanted to commend you for making the attempt to turn around the industry but to let you know there's a lot of interest in seeing a lot more building of housing.

Moving quickly through to the benefits of getting unsubsidized housing built, not only does it not require government funds to get our industry going, not only does it create jobs for people and put people to work and create homes for renters, which we badly need, it also creates affordable housing. We've done surveys of our own membership to find out where the tenants came from who moved into new construction. Well, they all come out of the existing rental stock. You've got the data in front of you; I'm not going to go over it. There's been a lack of a move-up market in this province, and if we can get new, unsubsidized rental housing built, we're in effect creating affordable housing without requiring any government funds.

I also wanted to bring some survey data to your attention. We've surveyed our members to find out why it is that they're not building more than they are. We asked those who are not even considering rental development, and the main reason is that they're afraid of future regulatory changes that are going to affect our industry. When we ask those who have actually done detailed pro formas, those pro formas are starting to look interesting and there are a lot of people interested in investing, but again, I point you to the data: 82% of people in the industry are afraid of future regulatory changes.

This is a barrier we should be able to overcome with the co-operation of all three parties. Why don't we attract the investment? Why don't we attract the jobs? Why don't we send the signal to the investors that we want them to build the buildings here? I think this is a solution we all could work toward.

Anyway, I want to pass it over to Paul, who has some closing comments for us.

Mr Mondell: Just to summarize and finalize, to wrap up, we are calling for a provincial housing strategy that builds on the policy of economic gains to date in order to maintain a positive investment climate. Market conditions have caused a renewed interest in purpose-built rental housing, and Ontario is missing out on significant new investment, job creation and tax revenue. The main barrier is fear of future legislative changes and expropriation of our investments.

We're asking, through your government, that they provide a commercial contract and/or provide a financial guarantee not triggered unless negative legislative changes are implemented. Both of these measures are of no cost to Ontarians and in fact will generate new revenues and create a much-needed rental housing supply. Thank you very much.

The Acting Chair (Mr Joseph Spina): Thank you, gentlemen. We have a little less than two minutes, so if it's all right with the other parties, we'll maybe do what we did last time and let the Liberals take that place? OK? Thank you.

1540

Mr Kwinter: I looked at your page 16 and you highlighted the fact that they don't want to invest in rental because thay are worried about future changes to the regulatory environment. I think the second point is far more critical. You had 61% who were concerned about the environment; 57%—and when you do a survey, statistically it's the same thing—are saying, "I know without even reviewing [it] that it is not financially feasible."

I'm interested to know: in the construction that is going on, you left out the key word "affordable." There are lots of people who will rent because they don't want to own, but they can afford to rent. They can afford to rent luxury apartments. I would suggest that that may be what is being built. What I want to know is, how many affordable apartments have you built? Then, of course, you have to define what is affordable.

Mr Mondell: Of course it's affordable, but I think I know what you're referring to. The units that you're generally seeing under construction would probably not be defined as affordable based on CMHC numbers etc, simply because there are too many fees and there are too many unknowns out there. Therefore the market that is starting to be served is at the higher end, where they know they can recoup a lot of their costs.

We've run a lot of numbers, Mr Kwinter, and the problem starts with federal tax issues, which we're working on in Ottawa. They deal with property tax issues, which there has been some movement on, and equally important is what's happening at the municipal level with fees, taxes, development charges and things like that.

We are trying to lobby to bring a comprehensive package of changes that come at all levels so that we will be able to start from the drafting board, conceive of a project, work through the approvals process—which can take time—the construction period and the lease-up, and know that at the end of the day, once you've finally got a revenue stream coming in, there will be a return on your investment. I think that's part of the problem.

The projects that are out there right now are certainly gearing more to the higher end of the rent spectrum, but the reason we're here and speaking to all levels of government is to try to bring some sanity, if you will, to the whole process so that we can start serving the people who need apartments that are at the more affordable level. We have said repeatedly that we will never deliver a $600-a-month apartment. There are other things that are going to have to take place, because when you look at the time, the bricks and the block and all of those things, it becomes a very difficult exercise. It's a package that we're looking to create here.

The Acting Chair: Thank you, gentlemen. We appreciate it. That concludes our time today. We appreciate your input.

ONTARIO TEACHERS' FEDERATION

The Acting Chair: Our next group is the Ontario Teachers' Federation, if they could come forward. Please state your names for the purposes of Hansard. As you know, you have 20 minutes, which would include your presentation and any questions.

Mr Pearse Shannon: I thank you for the opportunity to be able to present to your committee today. My name is Pearse Shannon. I'm the president of the Ontario Teachers' Federation. With me is Ruth Baumann. Ruth is one of our staff officers at OTF. We will be doing a joint presentation to you this afternoon.

The Ontario Teachers' Federation welcomes this opportunity to present its views to the standing committee on budget and finance as part of the annual pre-budget consultation process. The OTF represents 144,000 elementary and secondary teachers who work in the publicly funded schools of this province.

We want to focus on two issues today with you: first, the upcoming review of the education funding formula that was introduced in 1998; and secondly, the current shortage of qualified teachers in Ontario's schools.

A review of the student-focused funding: in 1998, the new funding model for Ontario's elementary and secondary schools came into effect. Ontario schools are now in their fifth year of operation under this new model, which is to be reviewed at the end of this year.

The past five years have created enormous pressure on the system in two ways. First, although actual dollars provided to the province's school system have increased slightly over the five-year period, the funds per pupil have dropped by almost 7% when inflation and enrolment growth are taken into account. Second, the new funding formula resulted in a major redistribution of resources among school boards, resulting in net decreases of up to 20% for some school boards and increases of more than 20% for others over that five-year period.

During the past four years, there has been a documented decline in the number of teacher librarians, music teachers and other specialist teachers in elementary schools. Guidance counsellors, special education resource teachers, curriculum consultants and school support staff have been reduced in both the elementary and the secondary schools.

The political promises that accompanied student-focused funding were adequacy, fairness and openness. As the government nears the time for its promised review of student-focused funding, there are some particular aspects of the funding model that require urgent and immediate attention:

(1) The new system is driven by a series of benchmarks—for example, the average operating cost per square foot, average teacher salary—determined in the 1996-1997 development period. With two exceptions, the benchmarks established for January 1998 have not been updated, nor have they been compared to other sectors for their reasonableness. In 2000-01, there was an adjustment to the salary benchmarks of 1.95%. In addition, there was a one-time-only payment to school boards in recognition of increased fuel prices. Allocations for school transportation have not kept pace with increases in operating costs, and technology commitments have not included provision for technological support.

(2) Funding for special education has been criticized by the Provincial Auditor because it is inadequate to meet student needs in an effective and timely way. The auditor specifically noted that school boards were spending $95 million more on the incremental costs of special education than was provided for under the funding formula.

(3) The Provincial Auditor further noted that his staff had visited primary classes of 25 to 30 students in which 30% of the pupils were exceptional students with individual education plans. The current early literacy efforts, intended to improve test performances by grade 3 students, will have a significantly greater chance of success if accompanied by a reduction in the primary class size.

(4) Accountability requirements and funding pressures are pulling teachers with special education training and skills away from the provision of service to students in order to manage paperwork. The special education provisions of the funding model require extensive documentation for students who may be eligible for the intensive support amount, the ISA. This documentation process, combined with other accountability measures like the IEPs and a reduction in special education resource teachers, has actually reduced the availability of specialized teachers to students.

(5) Funding for textbooks and learning resources continues to be identified by students, parents and teachers as inadequate to meet the requirements of the new elementary and secondary curricula. Some schools have been charging user fees for texts and other learning materials. Following a news story last week about user fees in secondary schools, the Thames Valley District School Board announced that it was banning such user fees and would refund any fees paid during the 2001-02 school year.

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(6) The current funding for teacher compensation is insufficient for teaching to be an attractive career for Ontario's best and brightest young teachers. There is a serious and persistent shortage of teachers in mathematics, physics, chemistry and computer science. In 2000, the median salary for new engineering graduates in Ontario was $46,000. Entry positions for graduates with degrees in both the provincial and federal civil service appear to have starting salaries between $40,000 and $50,000. Entry salaries for teachers in the Toronto area on September 1, 2000, ranged from $32,081 to $36,982.

(7) Funding for additional remedial assistance for students who are experiencing difficulty must be incorporated into the regular school program and budget. The first duty of the system is to these students and is to enable their success. The current funding for additional instructional assistance requires that it be provided exclusively after school and in summer school. This also means that the teachers of these programs are paid less than their regular day counterparts.

The government of Ontario must commit itself to actively engage the stakeholders and the larger community in its upcoming review of education finance. Only with a wide consultation can all of the issues and all of the consequences, whether intended or unintended, be fully understood.

Will Ontario have the teachers it needs for good schools? This is the most urgent question facing the government of Ontario in 2002. The Ontario Teachers' Federation believes that every young person in Ontario has the right to an education of high quality, provided by qualified and professionally trained teachers. Good teaching is the best building block for better schools and the essential ingredient for student success and achievement.

In 2001, the Ministry of Education established a work group of stakeholders and ministry staff to examine the question of teacher supply and demand and to seek agreement on a provincial forecasting model. The work group has now reported and has confirmed that specific shortages continue to exist in French as a second language, mathematics, technological studies, special education and computer science. In addition there is a serious general shortage of teachers for schools in the French-language system.

All over the larger economy, recruitment and retention of high-quality employees is a high priority for industry, for business and for the public sector. During the 1990s the public sector has been under tremendous pressure in general and has experienced extensive downsizing. Across the entire economy, recruitment and retention are now becoming a serious issue. In elementary and secondary education it is reaching critical proportions faster because of the imminent retirement of almost 40% of the teaching employees. This huge wave of retirements reflects the large number of teachers hired in the late 1960s and early 1970s as the baby boom generation moved through the school system.

Shortages are currently being experienced in mathematics, physics, technological studies, computer studies, French and special education. There is growing evidence that the reserves of qualified teachers employed as occasional teachers or available to be recruited from other employment are drying up.

What are the factors that influence the recruitment and retention of professionally qualified employees in general? Salaries and benefits; working conditions that provide opportunity for the employee and the enterprise to succeed; a solid program of mentorship for new employees; opportunities and employer support for ongoing professional learning; a reliable infrastructure of support staff, technology, resources such as texts and materials; and an effective system of governance and administration of the enterprise.

In order to make career decisions, prospective teachers need to know clearly what job they are taking on, the complexity of the job, what supports are available and that the job is possible to do successfully. Without that assurance they will seek other employment.

Ms Ruth Baumann: We've said earlier that one traditional comparator for beginning teachers in Ontario, and it's one that has been used by arbitrators and others in the past that we think is particularly appropriate given the shortage of math and science teachers, is engineering. On page 4 there is a table that lays out the maximum beginning salary for a teacher in the Toronto Catholic elementary system. It's a slightly higher maximum than that for the public system in Toronto. The two Toronto systems are pretty close to the middle, if not slightly below the middle, for the province.

You'll also see what average beginning teachers' salaries look like in New York state, Pennsylvania and Michigan, our three closest US neighbours, when converted to Canadian dollars at today's rate. Finally, on that table you will see salaries from two current ads in the Ontario public service from the Ontario government Web site that would clearly appear, from reading the details in them, to be entry positions for a social worker and a registered nurse. The teaching salaries are clearly considerably far behind. I think that's what needs to be said there.

Opportunities and employer support for ongoing professional learning have been an issue in teaching for the last several years. In 1997, the number of professional development and professional activity days for teachers was reduced from nine to four. The days that remain are almost entirely consumed by parent-teacher interviews and end-of-semester turnaround.

The funds available to support teacher professional development do not compare to those in other professions. The Education Improvement Commission and, following that, the Effective Schools Task Force, both urged that Ontario commit to spend the average expenditure on training across all sectors, which is 1.6% of payroll. In Ontario that would mean $170 million a year, and in 2000 the amount spent was $41 million.

Pearse has alluded to reliable infrastructure, and we have said earlier that there has been a general reduction in non-classroom supports. Specifically, there has been a reduction in the elementary and secondary curriculum leaders at the very time when we're introducing an entirely new curriculum throughout the system. Teacher librarians are down. Students are waiting to be assessed for special education programs because the number of psychologists and psychometricians is down.

In addition, though, infrastructure is the specific tools and resources to do the job, and one of the questions from the standpoint of a teacher recruit is, "Will I have access to the support and resources I need?" Most entry level jobs for university graduates in business, industry or government provide a telephone, a computer—usually part of a computer network—and reasonable access to such services as photocopying. This generally is not the case for teachers. It would not be at all uncommon for 140 teachers to share 10 telephones.

The Vice-Chair: You have approximately one minute to wind up.

Ms Baumann: OK. There are 17,000 computers allocated for teacher use, and there are 140,000 teachers.

Let me conclude by saying that we don't believe you have what is needed to attract the new teachers that are required.

I'll turn things back over to Pearse for our brief conclusion.

1600

Mr Shannon: I have on the final page listed the conclusions there for you. I will not read through them. We have outlined what it is that we believe needs to be done in order to put the education system on a sound financial footing. I have nothing else to add, Mr Chair.

The Vice-Chair: Thank you very much for coming forward and making your presentation.

Interjection.

The Vice-Chair: The time is really up, Mr O'Toole.

Mr O'Toole: I just want to put a question on the table.

What is their position with respect to the Ontario English Catholic Teachers' Association blacklisting student teachers in the classroom? Do you support that move or not? You can reply in writing if you want.

The Vice-Chair: Possibly they can send that in writing.

Thank you again for coming forward and making your presentation.

Mr O'Toole: There'd be a shortage of teachers—

Mr Shannon: We would certainly be prepared to give you a response to that.

CANADIAN URBAN TRANSIT ASSOCIATION ONTARIO COMMUNITY TRANSPORTATION ASSOCIATION

The Vice-Chair: The next delegation we have is the Canadian Urban Transit Association and the Ontario Community Transportation Association. Welcome, and thank you for coming forward. As you begin, please state your names for the record.

Dr Michael Roschlau: Good afternoon, members of the committee. My name is Michael Roschlau. I am president and CEO of the Canadian Urban Transit Association, and with me is—

Ms Béatrice Schmied: —Béatrice Schmied, and I'm the executive director of the Ontario Community Transportation Association.

Dr Roschlau: Together, CUTA and OCTA represent the public transportation industry, in CUTA's case, across Canada; in OCTA's case, for Ontario. We've joined forces in preparing a submission to the committee for this year's pre-budget deliberations.

Across Canada, CUTA has about 120 transit system members plus private sector suppliers and manufacturers.

Ms Schmied: In OCTA's case, we have 46 municipalities that we represent in Ontario, and in those 46 there are 41 separate transportation providers.

Dr Roschlau: To start off with, on September 27 of last year, the Premier and a number of his cabinet colleagues made a major announcement with new provincial commitments to public transit. That was a very welcome return to the provincial role in funding public transportation in this province and a critical first step toward putting public transit, and public transportation in general, back on the agenda and rebuilding the industry from several years of neglect. Really, there's a lot of backlog there that needs to be dealt with.

We're also continuing to push, along with the province, the importance of a federal role in supporting public transportation. Last week, for example, we spent a day in Ottawa talking to federal members of Parliament toward that goal.

Clearly, public transit is very important in terms of the benefits it brings: first of all, improving traffic flow and reducing congestion; second, making best use of our limited transportation infrastructure; third, improving air quality—last year I think we had a record number of smog days in southern Ontario, and a lot of that air pollution comes from automobiles; finally, helping to reduce the greenhouse gas emissions and reducing the risk of climate change in our environment.

What's missing is a dedicated revenue source for public transportation across this province—a dedicated revenue source like other provinces have and like US jurisdictions have. In the US, municipalities and regional governments, and indeed transit authorities, are able to implement a variety of taxes, be they gas taxes or sales taxes or, in some cases, even consumption taxes on other commodities. In Montreal for example, 1.5 cents a litre of the gas tax goes to the regional transportation authority. In Alberta, five cents of the provincial gas tax in Calgary and Edmonton is dedicated to those cities for transportation. In BC, nine cents of the provincial gas tax goes to the Greater Vancouver Transportation Authority, and 2.5 cents goes to the Victoria transit system, specifically for public transportation.

This is a measure whose time, I believe, has come here in Ontario as well. It's something that's popular with taxpayers because people feel a lot more comfortable about paying a tax if they know where it's going. If they know that part of their gas tax that they pay when they buy some gas is going to be reinvested in their transportation network, it gives a much stronger sense of reassurance about how that contribution is going to be used. It also allows for revenues from transportation, in particular from a more unsustainable form of transportation, ie, the private automobile, to be redirected and invested in a broadly more sustainable network that promotes better use of our infrastructure that's going to be far less polluting than continuing to push higher use of the private automobile.

Ms Schmied: We've been hearing a lot about smart growth here in the province lately, and the tenets of smart growth, according to our current government, are a strong economy, strong communities and a healthy environment. But can our cities compete in the world economy and against US cities if we have gridlock? How will we get movement of goods out thoroughly, quickly and efficiently without a strong transit-supportive mechanism that will help get rid of much of the gridlock that we currently have?

In the sense of strong communities, when we're looking for quality of life, choice, access and mobility, those people who are transit-dependent and have no other option to get out are in danger of becoming ill or more ill both mentally, psychologically and physically, and that has a cost associated with it too, a rather large one.

Finally, we want a healthy environment. Michael's talked a little bit about air quality already and smog control. We all know asthma has been rising among children, especially in the greater municipal areas. Getting more people onto public transit systems and reducing the number of cars on the road has obvious positive impacts to our air quality and our general state of environment.

Dr Roschlau: Clearly the whole concept of strong communities means a high quality of life. It means choice between different modes of transportation. Right now, most of our communities don't really have an effective choice because if they have a bus service at all, they have a bus service that runs every half hour or every hour. You can't effectively say that people have a choice when they're at a 10-minute walking distance from a route that runs every hour.

Ms Schmied: Or their areas aren't served at all.

Dr Roschlau: That's right.

In terms of our cities being able to compete with our counterparts, be they Vancouver, Calgary or Montreal, or be they in the US—Baltimore, Cleveland, Chicago, San Francisco—they have this type of sustained funding and have a much stronger presence in terms of their state and federal governments than we do up here.

The public transportation industry has made major progress in the last number of years but still faces some huge challenges. Transit ridership in this province is at an all-time high, surpassing the 700-million mark in 2001. However, we're facing an infrastructure that has deteriorated a lot in the last number of years. The average age of the bus fleet in our communities across this province is about 13 years. Think about that for a minute. The average bus is 13 years old; in the US they throw them away after 12. Those are the same vehicles built by the same manufacturers, many of whom are here; Orion, for example, in Mississauga next door. Eighty per cent of their production goes to the United States. But they're built to a standard that's based on a 12-year life because of the US specifications that have been set up based on the US funding rules. We buy those same buses and we try and get 20-plus years out of them.

You can imagine what the standard is that's out there now. Most of these vehicles are not accessible right now and they don't have the cleanest engines in them, because they're 20-plus years old. In fact many of our systems in this province are buying second-hand vehicles from the US that were built in Canada 12 to 15 years ago and are retrofitting them, updating them a little bit and trying to get another six or eight years out of them.

Ms Schmied: We have 27-year-old buses running out there, and in some municipalities half the fleet is over 20 years old.

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Dr Roschlau: In terms of operating costs—getting back to the provincial commitment that was made last September, which is going to make a dent in that, and we're grateful for that—as the industry expands and as the service expands, it's going to be expanding at the margin and it's going to be expanding into areas that perhaps right now aren't all that well served by transit, areas that have a lower population density. In order to make those inroads, it's going to be more costly from an operating perspective than it is right now.

Public transit in Ontario currently recovers about 76% of all its operating costs directly from the fares. That's the highest ratio of user-pay in the western world.

Mr Christopherson: Sorry, what was that again?

Dr Roschlau: Seventy-six per cent of operating costs are coming directly from user fares. There's no place else in North American or western Europe that's higher than that. That isn't sustainable. As public transit grows and as we move out into areas that are less dense, expanding at the margins means that your vehicles are going to be less full. That figure is going to have to drop and somehow the municipalities, hopefully in concert with the province, are going to have to pick up a larger share of that total operating cost.

In terms of infrastructure, the five-year needs, based on very conservative growth, are about $5.4 billion. In order to make a difference, more aggressive investment will be required, covering not only the capital costs but also giving our municipalities an opportunity to invest some of the provincial share in operating costs as well.

Ms Schmied: When we talk about public transit, we often just think about the regular 40-foot bus that runs along and we forget about the paratransit side, those vehicles that go door to door with specialized services for people with mobility problems and other physical problems who are unable to take the conventional systems, either for the full year or at least in certain seasons of the year. The specialized systems, or the portions of those systems that are specialized, have particularly tough challenges facing them. The demographics alone, the aging population, indicate that more and more people are boarding or wanting to board those types of services.

With the rapid demand in growth, more than half of the systems in the province now are looking at actually tightening their eligibility criteria to allow people on to the paratransit service. It's the last thing they want to do, but they're forced to do it because they cannot cope with the demand upon their services.

If you add to that the fact that dialysis treatments in the province have been increasing on an average of about 15% and then you look at the fact that hospitals, with their restructuring and downloading, have caused dialysis trips, on average, to double in some cases—in one municipality in the province, from 1999 to 2000, dialysis trips increased by 700% because of the restructuring of the hospitals. That means every time that you prioritize a trip, if you do prioritize a trip by dialysis or by medical purposes over another paratransit trip, you are throwing someone else off the system. So now you're starting to lose that quality of life again. Mr and Mrs Smith who wanted to go to the arena or go shopping or go visit a friend may have to wait days or even weeks before they can make that trip because of the priorities placed on medical trips. So the strain is intense.

One thing that would definitely help, beyond the 3% gas tax, is if we looked at those medical trips as medically related and looked at Ministry of Health funding for some of those trips. Right now, for example, if you leave hospital on a non-emergency trip and you're taken back by ambulance somewhere, that trip can cost up to $300. The same trip by a paratransit service will cost you $25 to $30. So it's an immense amount of money that we're spending ineffectively.

Dr Roschlau: To sum up and to allow for a few minutes of questions at the end, you have a detailed submission of ours which includes many of the figures that we've quoted, plus more. There are four basic recommendations that we bring to the committee this afternoon, the first of which is for a follow-through and continuation on the 10-year commitment that was made by the government last September; secondly, to supplement that with a dedicated urban gas tax to municipalities that would be specifically allocated to public transportation and that that level be set at three cents a litre out of the 14.7 cents that's currently levied by the province on gasoline sold in the province; and finally, that municipalities have the flexibility to allocate that three cents a litre from their areas for either operating or capital costs of public transportation. That would include both conventional as well as specialized transportation in their communities.

Thank you very much. That concludes our presentation this afternoon. We'd be more than happy to address any questions.

The Vice-Chair: We have one minute per caucus, starting with Mr Christopherson.

Mr Christopherson: Thank you for your presentation. I agree with you, whether your concern is from the citizen point of view, from a medical need point of view, from the environmental point of view and—if we could just get this one through to the government—from an economic point of view in terms of the future of our communities, that this is going to continue to be a larger and larger issue. I have some feel for it from back when I was on Hamilton city council in the 1980s dealing with some of these things. All I see now is the problems being exacerbated from what they were then, and they were bad then.

The government probably is going to roll their eyeballs or make some other dramatic gesture at the amount of money you're asking, saying, "The teachers have been here earlier and the hospitals have been here earlier." We see one of the members of the committee nodding his head up and down, agreeing that's how they feel about it.

Personally, every time somebody rolls in here and says, "We need hundreds of millions or billions of dollars to fix things," to me, it's just an indictment of this government's time in office that has led to our being in such a crisis that every area needs so much money. So it really depends on how you want to look at it.

I want to focus a bit on the disabled units. In Hamilton it's DARTS, and you're probably familiar with it. When you describe the eligibility criteria tightening, I've got senior constituents and disabled people in my riding lined up a block long to complain about that very issue.

My question to you will be this: do you think local transit authorities are planning adequately for the aging boomers and for the demand? If your answer is no, and I suspect it is, it's not because they don't want to, is my sense, and I'd like your comments. My sense is, because they are so busy dealing with the day-to-day crisis, that they don't have the time or the means or any expectation that their needs will be met if they try to plan beyond just the immediate crisis of every day.

The Vice-Chair: We're going to move to the government caucus.

Mr Bart Maves (Niagara Falls): Thanks, Chair. Just quickly, who are your members of CUTA?

Dr Roschlau: The CUTA membership consists of several categories. First of all, we have the public transit authorities themselves; second, we have the manufacturers and suppliers that provide the industry with the vehicles and supplies, services and products; and third, we have government agencies that support and are involved in public transportation.

Ms Schmied: OCTA is the same, only provincially instead of federally.

Mr Maves: In one of your reports you mention, "The United States federal government provides assistance to states and municipalities through a multi-year transit investment program worth up to US$7 billion per year." You've also said that the federal government should then give $750 million per year. Is your $750 million based on our being 10% of the population of the US or is it some other formula?

Dr Roschlau: No. Our recommendation for the federal government here in Canada is based on our own infrastructure needs survey that has been done with input from the transit systems and communities across Canada.

The Vice-Chair: Mr Kwinter.

Mr Kwinter: I was interested to see your comments about the increase in ridership and that in Ontario it has risen nearly 20%. I'm just talking about Toronto, but I assume this is reflected throughout the province. The fares are going up, and usually the argument you get from people is, "If you raise the fares, you're going to cut the ridership." Fares are going up and the ridership is going up. What's creating that situation?

Dr Roschlau: That's a very good question. The fares are going up but the ridership is also going up because the population is going up. While the ridership is going up, it's barely keeping pace with population growth, especially here in Ontario where our population has grown, and a lot of it is in Toronto and the GTA. It's going up partly for that reason, and partly I think too because people are becoming increasingly frustrated with what it takes to drive these days, the difficulties and costs associated with driving and parking, which are the key determinants of mode choice for people commuting and travelling to and from work.

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One of the issues, however, is that our systems are bursting at the seams. The subway is packed at Bloor and Yonge southbound in the morning. I think it's just about at capacity now. The parking lots at GO train stations are full at 7 am. The buses, even in some of the smaller communities like London, Hamilton and Ottawa, are full to the point where they can't accommodate new riders.

So we're fortunate in that our ridership has been pushing up gradually for the last five or six years, but I think the industry very much is reaching a breaking point.

The Vice-Chair: Thank you. We appreciate your coming forward and making your presentation.

TORONTO BOARD OF TRADE

The Vice-Chair: Our next delegation is the Toronto Board of Trade. Welcome.

Ms Elyse Allan: Hi, how are you?

The Vice-Chair: Very well. Twenty minutes have been set aside for you. What is not used in your presentation will be divided equally among the three caucuses. Please start by stating your names for the record.

Ms Allan: Elyse Allan, Toronto Board of Trade. With me is Terri Lohnes, our senior economist.

Good afternoon. Thank you for the opportunity to be here. We appreciate the opportunity to speak to our priorities for the 2002 Ontario budget. We will be making a more formal written submission to the committee shortly.

We are pleased to be here today representing Toronto's business community. The Toronto Board of Trade represents all sizes of businesses from all segments across the economy. Our presentation today will provide the committee with an overview of what we believe the province must do in its next and subsequent budgets. We acknowledge that this upcoming fiscal year presents significant challenges. We believe the government can set out a plan of action that meets the needs of Ontarians and deals with these challenges.

First, I would like to provide the committee with some results from a recent member survey that point to optimism over the next year in terms of Ontario's economy. We surveyed our entire membership in December, and just to remind you, our membership is over 9,000 and represents a broad cross-section of business segments and sizes, very reflective, actually, of Toronto's business mix and reality.

In this survey we asked members their expectations for the local, provincial and national economies. Close to 70% of the respondents expect that the economy will be performing better in a year's time. This position is reflected in our members' opinions about their companies' revenues as well. Close to three quarters of the respondents told us that they expect to see their company's revenues increase during the next year.

Our members are bullish on the economy over the course of the next year, and this growing optimism should bode well for Ontario's economic recovery. This optimism for the future, however, does not minimize the challenges immediately before the province in setting out the fiscal priorities for the next year. It also does not minimize the challenges of setting out a longer-term plan for prosperity for Ontario.

The Toronto Board of Trade believes strongly that this budget must be viewed as the beginning of the new long-term strategy for stimulating growth in Ontario, in part due to current fiscal constraints and in part because the priorities of our board of trade require both immediate and long-term commitments to be successful.

In previous years the Toronto board has been before this committee urging the province to undertake actions to strengthen urban regions, in particular Toronto. We believe now, more than ever, that this must be done.

The economic region of Toronto is Ontario's main generator of wealth. It is the province's most important asset. This asset, and the revenues it generates, has provided the province with the ability to deliver on its priorities in the past. The wealth created in our region contributes significantly to the success of the entire province. This vital interdependency can no longer be ignored. Like any asset, its productive capability will erode without reinvestment to keep it primed.

Toronto's ability to keep contributing to Ontario's growth is at risk. This is a reality that is evident all around us. From crumbling infrastructure to urban sprawl and increasing homelessness, it is clear that our city, our region, is in decline. If it continues to decline, the prospects for future prosperity for our province decline with it.

I am here today to urge the province to deliver a long-term strategy to revive Toronto. This strategy must provide a framework for investment and reform to maximize Toronto's wealth creation potential. An investment in Toronto is a strategy that will pay off for Ontario.

We've heard a lot of discussion over the past few months of the need for a new deal for Toronto, a new deal that would forge a strategic partnership between senior governments and our city. The premise of this new deal is quite simple: invest in your greatest asset and you will generate a strong return.

We recognize that this calls for expenditures during a time when the province is facing significant budget constraints, but that is why we are calling for a multi-year plan, a long-term strategy, and a balanced investment goal. We know you can't do it all in one year, nor do we want you to. We also believe that to succeed, at least in the short term, this strategy must be focused specifically on investment in infrastructure.

Mr Chairman, above all else our members have told us strongly that in order for their businesses to succeed, in order for them to generate tax revenues, jobs and investment, they need a solid physical infrastructure system.

Our CEO survey on urban competitiveness ranked infrastructure and taxes as top priorities, another telling indication of what business needs to be competitive, to contribute to Ontario's economic recovery. We know this is their priority; it also must be yours. We believe investment in Toronto's infrastructure will bring the province its desired economic return. It will not only retain existing businesses and grow their bottom lines, but it will attract new business—vital investments needed to spur on our economy. Quite simply, Toronto needs provincial action, and we believe that action must be in infrastructure that contributes to our economic competitiveness.

The Toronto Board of Trade has identified two critical areas for action. Both are intrinsically linked to Toronto's ability to keep generating wealth and to keep contributing to the provincial purse.

The first crucial infrastructure factor relates to an area I'm sure we can all identify with: transportation. Transportation issues have come out as the top business concern within infrastructure in the surveys that we've done to date. Whether it's congestion on our numerous roadways or the inadequacy of our public transit systems, every day we are confronted with the fact that our transportation system is in a state of disrepair. Again, this is an area for action that cannot be solved in one fiscal year. It must be addressed within a long-term strategy for growth.

The board believes there are two clear areas for provincial action: transportation governance and transportation finance. With the demise of the Greater Toronto Services Board, the GTA has lacked any true governance model for transportation. A vacuum now exists in terms of direction, planning and coordination of transportation infrastructure at a time when the region is under serious growth and service delivery pressures.

We believe the recently announced Smart Growth panel is not the appropriate vehicle through which to legitimately establish an effective transportation governance plan that meets the needs of the city of Toronto and the GTA. It is too far-reaching both in geography and in its scope. Toronto needs a governance model dedicated to transportation infrastructure, and it needs provincial action to make this happen.

The flip side of the governance challenge is the fiscal challenge. Provincial investments made to date in transportation infrastructure, including those into GO Transit and the TTC, were applauded by business. It recognized the importance of transportation to provincial growth, that investment in transit is just that—an investment that will reap returns. These initial investments must be part of a broader plan to rebuild our regional transportation system with a focus firmly on the specific needs of transit.

It is clear that municipalities—Toronto specifically—cannot afford to fund both renewal and expansion on the backs of property taxpayers. Municipalities need financing flexibility. They need a provincial partner.

A significant part of the consultation on reform of the Municipal Act focused on municipal financing flexibility. While the new act is now in place, we continue to await the regulations that will actually outline the types of financial capabilities that municipalities will be afforded.

The ability to form municipal corporations, undertake sale and lease-back financing and structure innovative financing arrangements are all crucial. This will provide municipalities with greater leeway to partner with both public and private entities to meet their local transportation needs. But we must also look at other revenue sources to support public transit in particular. A lot of attention has been focused recently on allocating a percentage of gas tax revenues to support transit, and the board of trade believes this is a credible option for the province. It will provide stable, long-term funding for transit.

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Last summer, the board of trade released a strategy for rail-based transit in the GTA. I have brought copies with me today and I would ask that this committee consider the recommendations contained within. I've talked a lot today about the need for long-term goals, and this strategy we have put forward certainly meets that need.

It is not just the provincial government that must be involved in renewing transportation infrastructure. Ottawa must also be at the table, and we continue to work for Toronto to get federal commitments. We believe both governments must invest in Toronto, as both reap substantial net benefits from their investments.

We have begun to take small steps forward on our waterfront, an initiative highly valued by the business community. We welcome the $500-million commitment by the government. This commitment must be fully realized and must flow in a timely manner. Moreover, in order to ensure this initial commitment is maximized, the province must step up its leadership role on our waterfront and clearly articulate a long-term commitment to support the revitalization. We need a provincial champion for the waterfront to continue the momentum already building. We need provincial action to maintain the private sector interest.

We have made a similar call to your federal counterparts. We recognize that to be successful, the waterfront project must have the commitment of all levels of government. We will continue to work aggressively with Ottawa to ensure the actions are maximized in tandem.

The province must facilitate stronger private sector involvement in SuperBuild targeted on the waterfront projects. SuperBuild must take on the waterfront as a priority.

The benefits of action are clear: jobs, investment and urban renewal. Opportunities for affordable housing, environmental cleanup, tourism infrastructure—all of these abound. These are the positive returns on investment that this government needs to establish a path to future economic growth.

In closing, I want to touch on one other area: taxes. We urge you to protect the gains already made. Business requires predictability in this area in order to make investment decisions. Do not backtrack. The government must maintain the property tax caps. This is clearly an area where predictability is needed. It is also an area that continues to require reform in Toronto. At a minimum, the situation in Toronto must not be allowed to worsen for business. Our survey has indicated that 56% of businesses would consider leaving if faced with significant property tax hikes, up from 52% just a year ago.

But in the spirit of long-term planning, I do want to raise one other tax issue, and that is the issue of capital taxes. I sat on the provincial Business Tax Review Panel that heard consistently from businesses—small, medium and large—that this was the top impediment to investment in this province. We are one of the only regions in the G7 to apply this profit-insensitive tax, and we must begin to dismantle it. The board appreciates that eliminating capital taxes is a costly recommendation, but leaving them in place is more costly to the economy. We believe that announcing the intention to eliminate the capital tax will have a dramatic effect on business investment in Ontario. We urge this committee to recommend that the government announce its plan to eliminate the capital tax beginning in the next budget.

By setting out a fiscal plan that covers more than the immediate horizon, we believe the province can meet its budget challenges and grow Ontario's economy. The Toronto Board of Trade asks you to plan for the future by investing to meet our collective goals.

Thank you for your time.

The Vice-Chair: Thank you very much. We have about a minute per caucus. I believe Mr Maves asked first.

Mr Maves: Thank you, Chair. I appreciate that.

In your survey, you said that transportation issues had come out as the top business concern with infrastructure. What were number 2 and number 3?

Ms Allan: Actually, it was taxes and infrastructure. So infrastructure and taxes came virtually head on head. Infrastructure was a little bit higher, but I think statistically they came out equal. And third was economy?

Ms Terri Lohnes: Economy. Within infrastructure was road congestion and public transit.

Mr Maves: OK.

The recommendation to invest more in transit: the opposition would probably agree with you and would have us increase taxes to get the money to do this. From the rest of your submission beyond this point, I think you would disagree with that. Where would you have us find the money for this increased investment in transportation? Would we hold back on health expenditures, or is there some other way you would suggest that we could find the revenues for this?

Ms Allan: I think it comes to reallocation. You have certainly made a commitment to transportation, which we acknowledge and appreciate. I think that's been well received. I think there is an opportunity to create structures that allow you, quite honestly, to tap into private sector capital. There continues to be an incredible amount of private sector capital out there. The vehicles have really not yet been put in place sufficiently to tap into it as much as I think it is available. I think we've made a good start with SuperBuild, but we would encourage you to continue down that path of public-private partnerships more aggressively. As I specifically commented, we do think you should be taking a percentage of the gas taxes, or consider that as one option, and simply allocating that as a sustainable financing form, not a new tax.

Mr Maves: Would that supplant the $300 million or complement?

Ms Allan: Sorry. I didn't hear—

The Vice-Chair: We're going to have to move on. Thank you for your very precise questions, Mr Maves.

Mr Phillips: The challenge, the minister was saying the other day, is that they've got a $3-billion to $5-billion gap. TD Bank said we have a structural problem; we've got a problem going forward on significant deficits in the province. The private-public sector partnership stuff is great, but frankly it's just a different way of borrowing money. If you look at what we've done with the 407, users are paying rip-off rates. They're paying at least double what they should be paying on that little private-public sector deal, with no controls at all. There's no magic with the private-public sector partnership. They're in business to make money. It's just a different way of funding.

But I'll go back to Mr Maves's question, and that is that you've indicated a significant need for investment in infrastructure. The reallocation of funds, by the way, as you look at the budget, is basically health care, education, policing, courts and that's about it. So there's not a lot of reallocation available. I gather your first priority on taxes is to eliminate the capital tax. Would you put that at a higher priority than having corporate income tax rates 25% lower than our competitors? Is elimination of the capital tax a higher priority than getting corporate income tax rates to 25% below the US?

Ms Allan: I think our sense has been that the corporate tax rate needed to be competitive, and that previously we were not even in the ballpark. Certainly, given the thrusts the US economy has been having with respect to taxes and the tax rates of our immediate competitors, the direction that has been announced now puts us in a competitive position with respect to corporate taxes. So I don't think we can, nor should we, backtrack on what has been announced and legislated. We think it's very important that we stay the course, because of the credibility with that. On the other hand, the capital tax continues to be very profit insensitive, and it is considered a very non-competitive tax for us.

The Vice-Chair: We'll move on to Mr Christopherson.

Mr Christopherson: Thank you for your presentation. Quoting from your document, you say, "It recognized the importance of transportation to provincial growth. That investment in transit is just that—an investment that will reap returns." You also say, "Every day we are confronted with the fact that our transportation system is in a state of disrepair." On page 2: "From crumbling infrastructure, to urban sprawl and increasing homelessness, it is clear that our city—our region—is in decline. And if it continues to decline, the prospects for future prosperity for our province decline with it."

As the NDP finance critic, I could make every one of those statements myself and stand behind them, so I'm pleased that you made them. But help me understand: that kind of decline doesn't happen overnight or in just one economic downturn, like in the last eight or 10 months. It's happened primarily over the period of time since this government came into power with the biggest economic boom we've ever seen in North America from 1995 on. They made tax cuts the priority, but in order to pay for those tax cuts, they cut the very programs and services that deal very directly with what you're talking about here, particularly in the area of homelessness and transportation.

So isn't there an argument, based on your own presentation, that the tax cuts were premature at the very least, that they should have been held off until we made those investments so that we didn't have this decline in our infrastructure and then, after the fact, if we want to have that debate about where to spend surplus money, do so? Didn't they get it backwards?

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Ms Allan: I would comment that certainly we support the tax cuts that have taken place to date, that we couldn't be enjoying right now—we have the challenges of success in the sense that we have one of the fastest—

Mr Christopherson: I'm sorry, but those homeless people aren't enjoying any success.

The Vice-Chair: Thank you very much for coming forward and making your presentation. We appreciate it very much.

ONTARIO FEDERATION OF AGRICULTURE

The Vice-Chair: Our next delegation is the Ontario Federation of Agriculture. Welcome. We look forward to your presentation. Twenty minutes have been set aside for you. Following your presentation, any remaining time will be divided equally among the three caucuses. As you begin, please state your name for the record.

Mr Bill Mailloux: Thank you very much. I'm Bill Mailloux, vice-president of the Ontario Federation of Agriculture. This is Ted Cowan, policy adviser with our staff. We have a couple in the crowd there as well.

I'd like to thank you, first of all, for the time here. I apologize if I sound a little stuffed up. We were at the CFA annual meeting in Halifax, and not only did we share ideas with one another across Canada, we also shared some flu bugs and cold bugs, so I'm stuck with that today. I won't go word for word through the brief; you have a copy of it. We'll go for questions after as well, but we'll just roughly go through it.

The Ontario Federation of Agriculture represents 43,000 Ontario farmers and we're pleased to be able to make a presentation today to give you ideas on how we feel we can grow in agriculture and the benefits to the province.

Farming and food processing are Ontario's second-largest industry; the two work together. Ontario farmers provide top-quality food at reasonable prices, which underpins the processing sector. Ontario residents, as you know, pay a smaller fraction of their incomes for food than people in any other part of the Western world. Ontario's low food costs keep industrial wages reasonable and build Ontario's competitive position. There has never been a prosperous, growing society, with flourishing health care, education, science and arts, that depended on others for its food.

Today, Ontario depends on its farmers not just to supply food but to maintain the largest part of the land base in private control. The beauty of Ontario's landscape depends on Ontario's farmers. Food, water, landscape and over 650,000 jobs—and I think that's an important number; it's 11% of Ontario's jobs—rest on the abilities of Ontario's farmers to compete and to meet their obligations for the land and in the markets.

Farming has always been and is today a major source of new investment and jobs in Ontario. Farming is a positive force sustaining Ontario's environment. Recent studies show that productivity growth in Ontario farming has matched or beaten the rest of the economy.

The OFA has put together the following recommendations, knowing that our work with government has succeeded in building the agriculture industry in Ontario in the past. These requests and recommendations are intended to enhance Ontario farmers' ability to compete and meet our obligations to provide quality food, while meeting our obligations to sustain those parts of the environment that we own, use and work as the stewards for, on behalf of all Ontario. We are taking a long-term view of markets, farm families and the environment because Ontario's farmers have always taken a long-term view in order to meet any possible challenges down the road.

So we have some recommendations that we'd like you to consider. First of all, some tax measures—and Mr O'Toole will be familiar with this, as I sit on the small business advisory committee that he chairs and we've raised this issue there as well. We advocate the removal of the retail sales tax on farm trucks and their parts. The current RST charges amount to an 8% tax on net farm income, which most other Canadian farmers do not have to pay. Removing that tax would put Ontario farmers on the same footing as farmers in Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Alberta.

This measure could be brought in on a trial basis, in the same way that the removal of the RST on farm building materials came about in the past. We agree that this measure might apply only to the first $35,000 of the vehicle purchase price. We've discussed this for a number of years, and it's been clear that the intent is not to tax food in this province. That's always been our policy and the government's policy, so we feel some of these are slipping through the cracks, then, because it does tax our inputs on food production. This measure would save Ontario farmers roughly $20 million a year.

The RST is a tax on an input to production and therefore an indirect tax, which is beyond the domain of the province. I guess that's kind of repeating it. The retail sales tax savings will help build Ontario's farm sector. It provides equity, improves incomes and allows for increased investment. We ask that starting in 2002 there be budget measures to remove the RST from farm vehicles, their parts and repairs.

On that same issue, farm business registration cards should be recognized as proof of being a farmer for a purchase exemption for farm-use purchases. This would simplify the process for farmers, retailers and government auditors. As I mentioned, the province's small business advisory council has spoken positively to this, and we're going to continue working there with that group.

The OFA has advanced this policy recommendation regularly since 1999. We believe that simplification was promised in the May 2000 budget, but it just hasn't been delivered to our liking, and we would like you to consider that as a recommendation. The OFA has put forward a detailed process to the small business advisory committee and would like that to be considered here as well. So the OFA asks that the ministry renew its earlier commitment to simplification in the coming budget and move ahead with this program in 2002.

To move on to the issue of the land transfer tax, we're asking that farms transferred in a family be free of the land transfer tax. Currently, if you transfer land from one person into a corporation, the land transfer tax is not applicable. We believe the same privilege should extend to transfers within a family. These transfers occur when a new generation is taking over the farm, and the tax is paid by the buyer. One of the problems we have with that is that in many cases, it is the young farmer starting out who has that tax burden of the land transfer tax at a time when he's probably most vulnerable in setting up the business. So we believe that would be a great benefit for young farmers and in helping us in our goal to try and lower the age of the average farmer in Ontario. This would certainly help starting farmers.

There are about 4,000 to 5,000 farm property sales per year. This measure could affect about 2,000 farm transfers per year, for a total of less than $5 million, and it would be very beneficial, as I said, to start-up farms.

Under the provincial Income Tax Act, we have four requests on that on which we would like some consideration. Some address equitable or proper treatment of people, while others affect farm incomes and the business climate for Ontario's farms. The OFA asks that the Ontario portion of income tax be changed to reflect the following.

The first one is the child care allowance. The child care allowance is currently only available to two-income farm families. On single-income farms, and likely in other family businesses as well, infants and young children are taken to work because there is no tax provision for child care. Accordingly, we ask that the child care allowance be made available to single-income families as a non-refundable credit. We feel this is a matter of equity and safety. It may affect about 5,000 farm families, those with young children and only one income. It would involve less than $800 each, for a total of about $4 million in the farming community. It may sound small, but again, when a young farmer is starting out and has a young family, it certainly would be something that would help.

We would also like you to consider credits for conservation. OFA has asked that formerly designated conservation lands entitle the owner to a tax credit of $100 per acre. This would share the cost of conservation among all taxpayers in the province, and help redress the owner for costs of lost production, extra fencing and other conservation-related costs.

1650

This proposal would compensate owners for the net income loss as a result of not upgrading the lands to slightly more intensive use, and it would help pay for fencing and other conservation-related costs. It's a way that we can assist farmers when they're asked to set some land aside, that they get compensated for their loss of income in that; and it could be done as a tax credit.

Another issue is capital cost allowance rates. OFA asks that capital cost allowance rates for farm equipment and buildings be reviewed as these rates have not been adjusted in many years. Farming has changed and the rates and classes are obsolete in many cases. It's simply that a review is required, we feel, to bring it up to speed as far as inflation goes.

Restricted farm loss provision: OFA has asked that the $8,750 provision for restricted farm losses be adjusted upwards to reflect the inflation of the past 13 years since that was last adjusted. Again, many years have gone by since the allowable losses for part-time farms have been adjusted. The rate should be updated for inflation and moved ahead of that to allow for the fact that it will be some time before it is revisited again. Again, this is something that can help start-up farmers. Many of our farmers who are just starting in have off-farm jobs and this is something that would help update it to more reflect the current situation and, like I said, inflation.

A few other items: we've always been working on property tax assessment measures. We've asked that the study proposed by the OFA to MPP Marcel Beaubien's task force on property tax assessment be initiated. OFA has proposed the use of crop insurance information as a basis for farmland assessment. This would be consistent with the Assessment Act and effectively remove speculative values from assessment.

The current problem we have is that we've always based it on the idea—and it's always been government policy and ours—that property taxes should be based on productive value. In the past we've always used farmer-to-farmer sales as a reasonable way to come to productive value. Currently we have many other things that are effecting the price of land, whether it be outside interests buying the farmland, and there are very few—Ted, you probably remember the number—farmer-to-farmer sales in many of the counties, so it's not truly reflecting value of production. We're asking for another way to come up with the value of production. We're not asking that the total tax bill change, just that it be more fair and equitable across the province.

Mr Ted Cowan: The number of farm transfers is about 4,000 to 5,000 a year, but the Municipal Property Assessment Corp only qualifies about 1,500 transfers for the purposes of farmland assessment. That's about 30 per county. If you have eight or 10 different kinds of farms in a county, that's two or three per kind of farm. It's no basis for sending somebody a bill for $2,000, $3,000 or $4,000. It's statistically inadequate.

Crop insurance: there are 23,000 farms with crop insurance every year, covering more than just their 23,000 farms—it's the home farm—almost a third of the farmers with crop insurance. That information is available in many instances going back 10, 15 or 20 years, so you have a strong, statistically rigorous basis where the information is related to productivity and doesn't include the fact that it may or may not be eligible for a subdivision, a mall or whatever. It's just a better way of doing it.

Mr Mailloux: So it's just a way—yes, exactly—to get back to true value of production.

The Vice-Chair: OK, thank you very much.

Mr Mailloux: I have just a couple of other items, if you'd let me touch on them, that are very important to farmers. Certainly you're probably all aware that farm income support programs are important to Ontario farmers in times when prices decline or if it's weather-related, and we've been working very hard with the Ministry of Agriculture to come up with a made-in-Ontario safety net program. Our goal is to get programs that are good enough in Ontario to do a real job of putting financial stability in agriculture and move away from the ad hoc nature of payments. So we would ask that you consider that when you're making recommendations. Not to get into detail on that, but it is very important to farmers.

We believe that there should be public spending to build Ontario agriculture in different areas. Certainly food inspection is important to agriculture and all consumers, and we feel that when we're making changes in that area we need the Ontario government to continue to invest in food inspection. We want to move along with any upgrades that are recommended that make consumers more comfortable, but certainly there's usually capital needed to do that.

Research is one that's very important to us. We would ask that you consider continuing to invest in agriculture research. We believe there are benefits for all of society in that. Currently there's been a bit of a decline in research, whether it's at the University of Guelph or elsewhere. So we're asking that you increase those levels of spending. It has been reduced from $55 million in the province to about $51 million and we would like to see that not only brought back to the $55 million but increased. We believe, and facts floated around in the past, that when you invest in research it pays society back. We believe that's a good investment.

Also, the environment issues certainly have been highlighted in the province and, as you know, OFA has been working hard and pushing to get nutrient management legislation passed. Part of that is that we're willing to continue on with programs such as environmental farm plans and pesticide registration and training of farmers in Ontario. We've been good stewards of the land and responsible in those areas of the environment, but certainly as the concerns and the expectations and requirements rise, we would fully expect that the provincial government would see the importance of investing in agriculture issues to improve environmental status on farms across the province. We believe that farmers are willing to do a lot of that, but need the capital to be able to make some changes when required.

I'm going to leave it at that. I hope that you look over the brief on your own, and if you need more detail, certainly we can provide it to you. We're open for questions now, and if they get real technical, that's when they go to Ted.

Mr Cowan: There's one error that is owing to me. In the text, with respect to the child care allowance, it said 10,000 families and $8 million. In fact, that is all the families with children, but many of those have two incomes and are already eligible, so our estimate is approximately half; therefore, 5,000 families and $4 million.

The Vice-Chair: We have about a minute and a half left and the NDP hasn't had an opportunity for a single round, so we'll turn to them on this round.

Mr Christopherson: Thank you for your presentation. I enjoyed it, as always. With the new city of Hamilton, agriculture is now a big part of the local economy. Where it was at the regional level, it's now not anything that any former old city of Hamilton resident can say is not their concern. So these issues are all-important to the people in my riding, as they are in many other parts of the province.

I want to focus on the food inspection. You refer to the Provincial Auditor's condemnation of the government program, or lack thereof, of inspecting food services. You put special emphasis on the food processing inspection and say that the level of vigilance needs to be greatly enhanced. Could you just expand a little bit? What is the situation on the ground, as you now experience it, and what specifically do we need to see the government doing to address something that is just as much a health and safety issue as the number of police officers on our streets?

Mr Cowan: The number of individual inspectors on staff has been greatly reduced. Many of those people have been kept on a contractual basis, but the total manpower is substantially reduced. As a result, the number of plant inspections is greatly reduced.

Another problem that may exist is that it's on a cost-recovery basis. We simply believe that the cost of inspection produces benefits for the public at large, as well as for the producers. Perhaps the public at large should be paying. The cost-recovery basis perhaps discourages compliance and the notification of when the plant will be open. I think it may create more problems than the revenue it raises is worth and that we could see some growth in those businesses without that cost. The cost of the inspector is roughly the cost of two employees. Hence, put it back on the people who benefit and away from the industry itself.

Mr Mailloux: On-farm food safety programs and trace-back programs are becoming more and more used in Ontario and nationally, and we believe that when there are capital requirements to meet some of those standards society is now putting on us it's a good place for government to invest as well.

The Vice-Chair: Thank you very much. We appreciate your presentation and coming forward.

My understanding is there is no representative from our next delegation, Low Income Families Together, here at this time. Therefore, the committee stands recessed until 5:20 or until the next delegation appears, whichever comes first.

The committee recessed from 1701 to 1715.

COALITION FOR THE ELIMINATION OF CAPITAL TAXES

The Vice-Chair: We are missing a delegation, but if the next delegation, the Coalition for the Elimination of Capital Taxes, would like to come up to the table, we'll get rolling shortly.

Do you know if Mr Phillips will be down with us shortly?

Interjection: He's gone.

The Vice-Chair: OK.

Welcome to the Coalition for the Elimination of Capital Taxes. There's 20 minutes set aside for your presentation. What you don't use will be divided equally among the three caucuses for questions. As you begin, please state your names so we have them for the record.

Mr David Penney: Thank you, Mr Chairman and distinguished members of the Ontario Legislature, for giving us this opportunity to make an appearance. I'm the general director of tax at General Motors, and with me this evening is Mr Mark Witkowski, the director of taxation at MDS Inc. We're here today representing the Coalition for the Elimination of Capital Taxes.

The Coalition for the Elimination of Capital Taxes represents major Canadian companies from the manufacturing, resource and high-technology sectors. These companies share a common concern for the detrimental effects of both federal and provincial taxes on investment and capital formation of productivity. It is for these reasons that these companies have joined together.

Satya, do you mind going through this? Sorry. I just sort of ran in here, and I'm out of breath.

Mr Satya Poddar: I'm Satya Poddar, from Ernst and Young. I've been providing support to the coalition on the research side.

As Mr Penney mentioned, these companies have joined together to add their voices to the broader call for the elimination of capital taxes in Canada. Capital taxes are detrimental in several ways. They discourage investment, they reduce productivity, they prevent strong employment growth, they are inequitable and they hit hardest when companies are at their weakest. Capital taxes by their very nature are a tax on capital accumulation. Capital taxes are applied to the amount of money that is invested in a company to purchase land, buildings and equipment to operate the business.

Why is it so important to move quickly on the elimination of capital taxes? As capital taxes apply with no regard to a company's performance, in times of economic slowdown they reduce a company's ability to weather the storm and erode opportunities to respond when the economy rebounds.

Companies need to inject more cash into their operations to meet shortfalls that occur during a downturn in the economy. Capital taxes undermine the effectiveness of these actions by taxing the cash infusion. By reducing the funds available for investment, these taxes reduce international competitiveness and job creation. All of these factors will lead to an even slower economic recovery.

One disturbing trend is that capital taxes are representing a much larger portion of government business tax revenues during economic downturns. It is important that the government take measures that help business grow and invest in the future of Ontarians. Capital taxes are applied regardless of the economic cycle and actually discourage investment and job creation when it is most needed. There has never been a better time than now to get rid of these job-killing taxes.

Nationally, there's a growing recognition, not just among the business community but within some governments as well, that capital taxes must be eliminated. Some governments in Canada have already recognized the adverse effects these taxes have on job creation and are taking a lead role in eliminating them.

Alberta was the first province to completely eliminate capital taxes with the elimination of its financial institutions' capital tax in 2000. The BC government has also announced elimination of capital taxes. The tax was reduced by half in the first year and will be phased out in September of this year. In its last budget, the Quebec government announced a reduction in their capital tax of more than 50%. Their current capital tax rate of 0.64% of capital will go down to 0.3%.

The coalition applauds the Ontario government for also recognizing the detrimental impact capital taxes have on the economy. In its 2001 budget, the Ontario government announced that it was prepared to completely eliminate capital taxes. However, its first step was to raise the threshold at which the capital tax applies, and it provided no timetable for its complete elimination. Increasing the threshold provided limited relief to smaller businesses, with inconsequential change in the tax burden for larger corporations. We believe it is important for Ontario to build on its 2001 budget promise to eliminate capital taxes. It is time for a firm commitment to eliminate these taxes completely, with a precise timetable.

1720

Ontario has led the way in taking action against high tax burdens that have crippled our ability to compete internationally. This province's commitment to lower corporate income taxes will have a long-lasting economic benefit and will improve Ontario's competitiveness. Even the federal government has committed to reduce federal corporate income tax rates substantially over the next few years. However, corporate income tax rate reductions at the provincial and federal levels will benefit mainly the service sector. The highly capital-intensive manufacturers, high-technology and resource-based industries that employ significant numbers of Ontarians do not benefit from these rate reductions and continue to bear a disproportionate burden of capital taxes.

I'll now ask my colleague to elaborate more on the detrimental impact of capital taxes, and come back to your questions later.

Mr Mark Witkowski: I'd like to take this opportunity to elaborate on some of the critical points my colleague has raised on the negative effects of capital taxes. The experience of every major industrialized country during the past decade shows that capital accumulation is the key driver of growth and productivity and in output. Capital taxes are a tax on this capital accumulation.

Furthermore, capital taxes provide a strong disincentive to foreign investors, and thus discourage foreign direct investment in the economy. Foreign direct investment brings many benefits to the Ontario economy such as gains from international exchange, access to international distribution systems and spillovers for domestic industry through increased access to foreign research and development skills.

Capital taxes are by far the worst of any taxes we have. A study conducted by the federal Department of Finance and published in the Organisation for Economic Co-operation and Development's 1996-97 economic survey of Canada, compared the cost to the economy of the various tax measures being used in Canada. The results of the study indicated that every dollar of tax collected through corporate taxes, both income and capital taxes, results in a loss of $1.55 in output. Indications are that the loss inflicted by capital taxes alone is significantly larger and could be as much as $7 for every dollar of revenue raised, due to the negative impact on investment and innovation. In comparison, the real output costs of a dollar of sales tax was estimated at 17 cents, payroll taxes at 27 cents and personal income taxes at 56 cents. This strongly supports the claim that capital taxes are the worst of all taxes.

The costs associated with reduced profitability, investment and productivity often fall upon the labour force, giving capital taxes the reputation of job-killer. Labour suffers, not only because of reduced employment, but also through reduced wages. Therefore, it is not simply the companies that suffer but, equally important, Ontario's workforce.

Capital taxes are inequitable in many ways. The large corporation tax falls disproportionately on capital-intensive sectors like manufacturing, resources and high technology. Recently released Statistics Canada data demonstrate that the manufacturing sectors—including high technology, mining, oil and gas—pay a disproportionately high amount of the capital tax relative to their share of total economic output. Manufacturing represents 19% of Canadian GDP but pays 27% of the capital tax, while the mining, oil and gas sectors contribute 5% to total economic output and pay 12% of the capital tax. This is a very disproportionate burden on these industries. We estimate the pattern to be very similar for Ontario corporation capital tax. These sectors happen to be some of the most productive in the economy. Therefore, this is not only a tax on capital but a tax on productivity, which is the essential ingredient for higher growth and a higher standard of living for Ontario.

Historically, manufacturing has been accorded a lower corporate tax rate in recognition of its role in the economy and the need to remain competitive internationally. The move to bring the general corporate income tax rate in line with the preferential rate for the manufacturing sector results in a growing proportion of the corporate tax burden being paid by the manufacturing sector. Leaving the capital tax in place while levelling the corporate income tax rates will tilt the playing field against manufacturing.

As capital taxes are a profit-insensitive tax, they lead to an even greater hit on companies' profitability during economic slowdowns. The Statistics Canada data described earlier also demonstrate another disturbing trend: companies in a loss position pay more than one half of capital taxes levied. This further dampens their ability to weather the storm, not to mention undertake key investments. By reducing companies' relative profitability, these taxes can lead to reduced investor confidence, reduced international competitiveness and job loss. All of these factors will lead to an even slower economic recovery.

The Coalition for the Elimination of Capital Taxes strongly believes that there is a need to act now on getting rid of the capital tax in Ontario. The coalition is encouraged by and supportive of the Ontario government's recognition that capital taxes are detrimental and need to be eliminated. However, to date the government has not outlined the plan by which it intends to eliminate the capital tax. To date, in fact the government has not even taken the first steps toward offering broad-based relief from the capital tax.

While the 2001 Ontario budget provided additional relief for capital taxes to smaller businesses, it did not provide broad-based relief to the manufacturing, resource or high-tech sectors, this despite the fact that these sectors are being hit the hardest during the economic downturn. These sectors are currently seeing the worst decline, year over year, since the early 1980s.

The Coalition for the Elimination of Capital Tax calls upon the Ontario government to immediately repeal its capital tax. The Ontario economy would immediately benefit in many ways. The economy would benefit from increased prospects for growth by removing a significant barrier to investment. Abolishing this tax would strengthen the competitive position of Ontario businesses in world markets. There would be gains from a simplified tax system, as the entire burden associated with collecting, administering and complying with this tax would disappear. It would enable Ontario companies, especially those being hardest hit by the current economic climate, to better allocate their scarce resources to preserve jobs and investment.

The coalition understands that the Ontario government may have fiscal concerns restricting its ability to take this decisive action. If such were the case, the coalition would support a phasing out of the capital tax through a scheduled reduction in capital tax rates.

The coalition, however, does not support any planned phasing out of the tax through staged increases in the threshold or announced intended rate cuts, with no specified or legislated delivery dates. Such measures would be too narrow and limited in scope to address in a meaningful way the concerns noted above.

Although the coalition will support any announced phase-out of the tax, it should be kept in mind that many of the benefits gained by immediate elimination, such as reduced compliance costs, would not be achieved.

Mr Chairman, we once again thank you very much for this opportunity to express our concerns. We will now turn to you to answer any questions you or other members of the committee may have.

The Vice-Chair: We have about a minute and a half for each caucus and we'll start with the Liberals.

Mr Kwinter: Thank you very much for your presentation. I couldn't agree with you more. I think this is an inequitable tax; whether you make money or not, you have to pay it. I think it's a real disincentive for investment. But the problem, and you raised it at the very end, we heard today and we've heard all along from economists and from the leadership candidates is that we're looking at anywhere from a $3-billion to a $5-billion deficit this year. The capital tax represents, in 1998, $1.1 billion; it's probably up to about $1.5 billion now, somewhere around there. How effective would it be and what sort of time span would you accept or find reasonable to phase that out? It's not going to happen in one year, I can assure you of that. We just don't have the money to do it.

Mr Penney: Realistically, we think that two to three years would be a reasonable phase-out time. You have to remember that the capital tax, as you know, as you've expressed, chips away at investment, and one of the things you need during economic downturns is more investment. One of the statistics that was cited for you was that a dollar of tax, at least at the combined federal-provincial level, taken out of the system costs about $1.55 in output. A dollar of capital tax taken out of the system costs about $7 in output. Notwithstanding the difficulties, we think there would be sufficient spinoff that you could phase it out over two or three years.

Just as a further comment on that, one of the things the government has done is increase the threshold to eliminate some of the taxpayers at the lower end. They moved it up to $5 million, I think it was. That doesn't do anything for big business at all. When you're going to phase this out, you need to phase it out by rate reductions. Rate reductions just take the tax out. If you phase it out by increasing the threshold, you'll eventually get to a point where you'll have a small number of taxpayers stuck with this tax and it may be very difficult to get rid of it.

1730

Mr Christopherson: Thank you for your presentation. I have to say to you that I don't think the debate today really should be whether or not this is an unfair tax in the context of the total tax scheme for the province but whether or not we can afford any more tax cuts at this time. I'd like to just read a couple of quotes from the Toronto Board of Trade, which presented just a little earlier today. They said, "Every day we're confronted with the fact that our transportation system is in a state of disrepair." They're speaking of the Toronto area. Also, they said, "From crumbling infrastructure to urban sprawl and increasing homelessness, it is clear that our city, our region, is in decline. If it continues to decline, the prospects for future prosperity for our province decline with it."

That's coming at the end of the biggest economic boom North America has ever seen and after tax cuts were already made a priority. This decline didn't happen overnight; it happened over the last few years. If we want to talk about homelessness and what contributed to that and the infrastructure declining, take a look at transfer payments to hospitals, to school boards, to municipalities themselves. So in the good times we had all these tax cuts and this is what we got: decay and more homelessness. Now we're heading into the bad times, and you want more tax cuts. I'm asking, how do we find the money to put back into our communities, which the Toronto Board of Trade has acknowledged are in desperate need? How do we do that? How do you justify saying that your billion dollars should come before any of these things that even the board of trade has said have to be dealt with, like homelessness?

Mr Penney: I think one of the things we were saying, and you referenced it at the beginning of your comments, was that in a sense the tax is inequitable. It's not a good way to raise revenue. If you have to raise revenue, you shouldn't be doing it with capital tax, because capital tax chips away at corporate investment. So I don't think our request to eliminate capital tax is necessarily contrary to the initiatives you've just spoken of.

Mr Christopherson: With respect, I have to say it absolutely is. It means that mental health services for children have to continue to go further down the priority list.

The Vice-Chair: We must move on. Mr O'Toole.

Mr O'Toole: In contradiction, this is what the board of trade actually said: "The board appreciates that eliminating capital taxes is a costly recommendation, but leaving them in place is more costly to the economy." That's really the point.

Mr Christopherson: On a point of order, Mr Chair: I just want to be clear. If you're suggesting I quoted inaccurately, say so. If you're quoting something else, that's fine, but you didn't say that. You said, "Here's what they really said," and that's to suggest that I quoted improperly, and I did not.

Mr O'Toole: I think what I'm trying to demonstrate is that Mr Phillips as well as Mr Christopherson have argued all during these hearings to increase taxes because everyone who comes wants more money in some form or another. You want more money too. You want it to reinvest. That's what the capital tax argument is about. It's the worst tax at the worst time. That means you're still paying, whether you've got any revenue or not. It's not revenue-sensitive. They just don't get that part. What are they going to do with it? The investor is going to recapitalize and retool their factory to make more products more efficiently and more high-quality. I understand that.

Mr Don Drummond from the TD Bank this morning also made a very considered argument. His first recommendation was to commit to eliminate the provincial capital tax. He's probably one of the most interesting economists who comes before this committee.

Your relentless argument is heard. The government, as you know, has started on the first $5 million. There isn't a schedule, but I can tell you that the government is very sensitive to being competitive. That's the whole thrust of most of the arguments.

You'd have to look at the corporate tax regime as well. When you add the federal 22% and our 8%, and we've committed to reducing that by half, the whole issue here is being competitive. I sum up our argument fairly simply in saying that a strong economy—that's companies investing money create jobs—will allow us to have good health care and good education. It isn't a chicken-or-egg argument; it's a case of investments. That is, the right tax policies are essential for our economy.

Mr Phillips relentlessly argues when he's here—he's probably watching on television. Hi, Gerry. But anyway, the reason I say that is, he argues that we should not have lower tax than our trading partners.

What's your response in general to those two points: capital and corporate?

Mr Penney: Do you mean relative to which tax we would trade off, corporate tax—

Mr O'Toole: Yes. You want the capital tax first, I understand.

Mr Penney: We want the capital tax off the table first. Corporate income tax is, as you probably—

Mr O'Toole: It's tied to profit, though. You've got to make money to pay it.

Mr Penney: Exactly. Particularly for multinationals, which bring a lot of foreign investment into the country, a capital tax is not creditable against their taxes in the US, for example, whereas an income tax is. So capital tax is clearly the worst way to raise revenue that you can think of.

The Vice-Chair: Thank you very much. We appreciate your coming forward to present to the committee.

ONTARIO ASSOCIATION OF FOOD BANKS

The Vice-Chair: Our next delegation is the Ontario Association of Food Banks. Mr Spina, would you take the chair?

The Acting Chair (Mr Joseph Spina): Hello and welcome. You have 20 minutes, as you know. If you would be kind enough to introduce everyone, and if more than one person is speaking, maybe they could mention their names at the beginning of their comments for the purposes of Hansard so we can make sure, in your comments, that the appropriate person is recorded.

Ms Sue Cox: Thank you very much. We're delighted to be here and we'd like to thank you for the opportunity. And yes, we're all going to take a kick at the can.

I'm Sue Cox. I'm the executive director of the Daily Bread Food Bank in Toronto, but I'm here today as chair of the Ontario Association of Food Banks. To my far right—usually not—is Bob Spencer, who is the executive director of the Ontario association. To my near right is Judy Black from the Fergus-Elora food bank. To my left is Hannes Vrakking from the Barry's Bay food bank.

We'd like to spend a minute and give you a bit of an overview of what's happening in food banks in Ontario and perhaps make some suggestions, with your permission.

First of all, the Ontario association is of course the umbrella organization for food banks across the province, and probably about 80% of the food banks are represented by this association. They are large urban food banks like my own, Daily Bread, and smaller food banks. We're quite varied—we're suburban, we're urban, and so on and so forth.

Every year, as part of the Canadian Association of Food Banks' HungerCount, we take a look at what's happening with the food bank situation in the province, what the changing demographics might be and what the numbers are. For the past several years, it's true that the number of people using food banks in the province of Ontario has been virtually unchanged as of March of this year. So in spite of economic improvements—there was a huge jump right after the welfare cuts in 1995, so we saw it first in March of 1996. Up until March of this year, the numbers have gone up and down by 1% or 2%, but nothing significant.

Still, there were some significant demographic changes in the population of food bank users, and they are outlined in the brief you've been given. I won't bore you with the details, but basically what we've seen is that you can no longer say in Ontario that half of the people using food banks are welfare recipients; they are fewer than half now. Instead, we've had increases in the number of people with no income at all using food banks and increases in the number of working poor people using food banks. In other words, a lot of the people who were on welfare moved into jobs that have not actually put them any further ahead.

I say the numbers remained unchanged until a meeting we were at just a couple of weeks ago. Again, the majority of the food banks in the province were around the table and we went around to say what was happening in our area, and everyone—100% of the food banks there—said the same thing: "Our numbers are through the roof and numbers have gone way up since October," or "Our numbers have gone up since August." The increases range from 8% to—yours was?

1740

Mr Hannes Vrakking: Fifty.

Ms Cox: —50% in Barry's Bay. So what's happened out there is obviously the impact of the current economic downturn.

We talk a lot about food banks in Toronto, but I want to make the point that this is not solely an urban problem and ask my colleagues here if they'd just talk a little bit about what's happening in their neck of the woods. Do you want to start, Hannes?

Mr Vrakking: I'm from Barry's Bay, which is a community just north of Bancroft. The population of the village of Barry's Bay is about 1,200. Our food bank services a catchment area of about 5,000 people. Normally we would see about 30 people every time we're open, which represents for us about 150 mouths that we feed. Since October, this has all of a sudden increased, and at the last food bank opening we saw 66 families, which represents about 330 people out of a catchment area of 5,000.

Our community is economically depressed. The only industry that's really there is lumber, and wages in the lumber industry are quite low. The other economic factors in our area are a high school, two schools and a hospital. So these are all government employees indirectly. The other ones are, like I said, in the lumber industry. To give you some idea of what the wages there are, I know one fellow who has worked for the same company for 16 years. He gradually moved up in responsibility and now makes $13 an hour, and he has a family of four children. That is the economic situation in our area. There's obviously a need for economic development.

On the other hand, our donations this year have gone down by about 50% over last year. From what I see on the news, this seems to be a general trend with charitable organizations, that since September 11 nobody gives to charities any more; we're certainly not getting much. Because of the increase in our numbers and the decrease in donations, we face the almost certainty of having to suspend operations sometime this year and maybe close down permanently.

I'll give you a couple of examples of people who are part of our customer base and who are regular customers of ours.

One is an older woman. Her husband recently left her. She is left on a farm which has I think 400 acres or something. She went on welfare, and because of the amount of land she has, they clawed back part of her welfare benefits. She gets $93 a month. The land is of no value. There's lots of timberland up in Barry's Bay and nobody is willing to buy land up there.

Another one is a mother of 40 years old. She has four children. She went off welfare and found a job two days a week cleaning cottages at $10 an hour. She cannot support herself; she cannot support her four children. She is one of our customers.

I hope that gives you an impression of what our situation is up north.

Ms Judy Black: My name is Judy Black and I reside in Fergus. Our food bank services the amalgamated population base of Centre Wellington, which is about 23,000. We service an average of 100 families per month in that area.

Hannes was speaking of donations. Because of our increases—when I started there five years ago, it was about 40 families a month. We have a strong Christian community that donates well. However, with those increases in numbers, we would also be out of business if it wasn't for our umbrella groups that can help us out.

Our largest demographic of users are the working poor and those on social assistance and disability, which are pretty much even in their stats. And most of those are single parents or two-parent families, so it's families with children that are our largest users. Single people are a very small demographic in our area.

A lot of reasons I've heard from our recipients are increases in their housing costs. If they're on a fixed budget, their income is not increasing but their housing costs are rising. A lot of them are somewhat undesirable, but the cost of moving is very expensive, with your first and last and moving expense. We have also a large increase in our utility costs in our area, the heat, hydro, water—sewers have tripled over the last year—which are all transferable costs, whether you're renting or owning. We have no transportation other than taxi, which is fairly expensive. There is no public transit in small communities, which also makes it expensive for our clients to access or to get to other services they need to access.

It's very costly, even though it's a small community. Our housing costs might not be as high as a large city, but the expenses are certainly very high. That's kind of what life is like in Fergus.

Ms Cox: It's the kind of story that we hear right across the province. It seems to be that these stories are just about everywhere the food banks exist, yet the food banks themselves, I think, are doing quite a remarkable job just trying to meet these needs, with oftentimes declining donations and rising numbers of people. They're absolutely reeling from the impact of what's still a relatively minor recessionary trend compared to what we've had before. We totalled up this year the hours that food bank volunteers and staffs spend, and we figured that's roughly $15 million worth of work each year to distribute probably $90 million worth of food that comes both from the food industry and from local donations, to distribute it a lot of ways. We have food going up to Moosonee and as far east and west as you can go. Still, 90% of the food banks say they don't have enough food to meet needs, and we know from our own surveys and sampling of people that a huge number of people, probably the majority, sometimes go hungry in spite of food banks being there.

We are not the cure and we are not here, of course, to suggest that food banks be funded by the government. We're here to ask you to invest in the people we're serving, to get them out of that kind of situation so that they don't really need to use food banks. Again, the kinds of things that I think the finance committee might reasonably think about, even though I know you're not the setters of social policy, are that—one thing that is curious to us is the use of tax dollars to stimulate the economy and things like tax rebates and tax cuts, whereas if that same money were put into the pockets of our clients, they would certainly stimulate the economy too. Virtually none of them has an offshore bank account or a place to squirrel the money away; it would certainly move into the economy. So I'm just wondering about the thinking that says somehow they wouldn't be spending money. I've actually heard that expressed from time to time: "Well, it needs to stimulate the economy." Well, they would stimulate it at the grocery store, let me tell you, in a minute. They'd stimulate it; certainly in Toronto they'd be using public transit, which they can't afford now, for instance.

Things like the clawback of the benefit from the federal government. The clawback of the national child benefit particularly sticks in our craw, I've got to say, because we know how well these families would use that money. Additionally, something like that is an investment in the health of the children, because these children are growing up chronically poorly nourished, and we are not able to turn that around.

If you could think in terms of the investment that might be made in families to move them forward, one is a health investment. With the huge number of people using food banks who are disabled right now—in Toronto it's more than 40% of food bank households—those folks are kept healthy by being able to go to the grocery store and buy the food they need. I think it's important. They buy what they want and they shop in a very clever way; I think they use their money well.

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Again, there are a lot of policies that this government has pursued which I fear have discouraged people in their search for work. Let me give you an example of that. I know you don't deal with social policy, but there's a welfare top-up for working poor families. You may not know that that amount of money goes down the longer you hold the job, so eventually it disappears and you can end up basically worse off than you were before you had a job. That is not an investment in people; that's a way to discourage people from working.

Again, it's much more difficult for people to pursue education right now, particularly meaningful education so they can get out of the situation they're in. I think the poor need to be protected from unfair rent increases from unscrupulous landlords. Increasingly, we see people in Toronto in overcrowded and substandard housing that they've had to move into because they can't afford it. Finally, we see policies that appear to us to be wasting money, something like drug-testing welfare recipients when welfare recipients, every survey shows, are no more likely to be drug users than anybody else. That would be better spent in treatment centres for those people who are seeking treatment. Just keeping people unhealthy is not a great way to get people back into the workforce.

In Ontario Works, the job training component has actually been quite good in many instances, but for workers to be spending all their time policing people instead of working one on one with some of these now harder-to-serve welfare recipients to get them back to work seems to me an ill-advised policy, and ill-advised from an economic perspective, not just from a social policy perspective.

Let me ask you to wrap up, Bob.

Mr Bob Spencer: I'm Bob Spencer. I'm the executive director of the Ontario Association of Food Banks. There are a couple of additional points. The framework that we've looked at is to try to come up with conclusions that had some relationship to your job here. Just before I left, I was presented with a paper called The Evolution of Wealth Inequality in Canada, 1984 to 1999, by Statistics Canada. It's worth just looking at the summary of that. Someone in legislative research might look at the whole paper. In 1984, only 10% of young couples had no net worth. In 1999, it was up to 16% of young couples having no net worth.

What we're concerned about is not that we're busy now—we're very busy now—but we're actually really concerned about the future. We really think that unless the situation turns around, you could be faced with a much, much bigger food bank movement, which is not in our interest, and many, many more people who are discouraged, unable to work, unable to go to school and literally producing the kind of situation that we know is reported from our brothers and sisters to the south, where 27 million people last year used food banks in the United States. That's nearly one in every 10.

So I would just encourage you to think about the possibility that there but for fortune go us, and really try to keep Ontario away from having a huge food bank movement and a huge number of people in poverty.

If you have any questions, we'd love to answer them.

The Acting Chair: Thank you. We have less than a minute each, which would likely be about a question, beginning with Mr Christopherson.

Mr Christopherson: Thank you for your presentation. If you heard the earlier presenters, there's quite a move afoot by big business in this province, my sense is, to focus as much as they can on one area, recognizing that the economic times don't let them go after their usual shopping list of tax cuts. Now it's the capital tax, and it seems to be gaining some support from places where I wish it wasn't.

Yet the board of trade was in here earlier today talking about the decline. I'm going to read it for you:

"From crumbling infrastructure to urban sprawl and increasing homelessness, it is clear that our city—our region—is in decline. And if it continues to decline, the prospects for future prosperity for our province decline with it."

Capital tax: $1.1 billion. At this stage in the game, where do you think $1.1 billion can best be spent?

Laughter.

Mr Christopherson: I know it's laughable, but that's the reality. People are coming in here saying that's the priority: another billion-dollar tax cut.

The Acting Chair: Let her answer, please.

Ms Cox: In a variety of areas. I think some real investment in getting people back to work is a good investment. I think that housing would be an excellent investment. The majority of the people we see are using the majority of their income to pay their rent. That's a lot of the reason they go to food banks; it's a rent supplement for them. It enables them to pay the rent. So I think an investment in housing, or an investment in income that would purchase housing for them would be an excellent investment. I think just ending the clawback of the national child benefit would be a huge investment in children. That would probably just about use that up. There would be lots more that I'd want.

The Acting Chair: We'll go to the government caucus.

Mr Maves: Thank you for coming today. I noticed in some of the stats—I was surprised that in 1995, 65% of food bank recipients were welfare recipients, and now it's less than 50%. Then I continued to read that the percentage of food bank recipients who were employed rose from 10% in 1995 to 13% in 2001.

You have a boatload of stats, profiles of your clients. How do you garner the information on all of your clients? Do you do exit surveys? Do they fill out forms when they first come in? How does that work?

Ms Cox: They're actually reported by the food banks themselves, and it's an aggregate number of their reports. In Toronto, we get the numbers by actually interviewing food bank clients. Those food banks all report in the breakdown to us, and that's where the number comes from. They have various ways of getting that. It could be an interview at the point that people come in for food. That's the most probable way of doing it.

I've got to mention that, for instance, there is a large number of people on ODSP, the disability plan, who are using food banks. There's another large group of people who are on welfare, but who once would have been eligible for that, and things like that. So there is a variety of income sources. We have simplified it for the purpose of this.

Mr Kwinter: I'd like to clarify something, just so I have an understanding. You say that donations are down. When you talk about donations, is that donations in kind? Do you accept donations of money so that you can supplement what you get from the national food distribution system?

Ms Cox: Donations are not down in Toronto. Donations are down in some other places.

Mr Vrakking: In Barry's Bay, most of our donations have traditionally been in cash. Our cash donations are down by 50% or more.

Mr Kwinter: If you have a national distribution food sharing system, do you use that cash to buy food?

Mr Vrakking: Yes.

Mr Kwinter: Are you not part of the system, so that you can—

Mr Vrakking: Yes, we are.

Mr Kwinter: That isn't enough for what your needs are?

Mr Vrakking: Most of the donations we get from our sharing are cans and that sort of stuff. We try to supply our clients with milk, bread, meat and that sort of thing. Those are not usually included in the national or the provincial sharing.

Ms Cox: There is not enough food in the national food sharing system, by any means, to meet the need. It's food from the food industry, usually unsaleable food or their excess in some way or other. It doesn't come anywhere near meeting the need. It's a great system, and one of the things we hope to do in our new building is to boost it and have much more. But it wouldn't do—nor is it the most nutritious food. I think that's important to mention. It is food that could just as easily be cookies as canned tuna or peanut butter. We have a lot of plans to try and improve that, but it's a struggle.

The Acting Chair: Thank you, Ms Cox, and thank you all, for joining us.

This meeting stands adjourned until 10 am tomorrow morning.

The committee adjourned at 1759.

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