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Mardi 28 janvier 2003

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 28 January 2003

Mardi 28 janvier 2003

The committee met at 0900 in room 151.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Joseph Spina): This meeting will come to order. Welcome, Mr O'Toole. He's on time. The man rises to the occasion when he's called upon.

BMO NESBITT BURNS

The Chair: Our first expert witness this morning for one hour is Mr Douglas Porter, vice-president, senior economist, BMO Nesbitt Burns. Whatever time is left over after your presentation and comments we will divide equally between the parties for questions and answers. You can begin as you wish, and if you'd be kind enough to formally state your name for the purposes of Hansard.

Mr Douglas Porter: Good morning, everyone. I'm Douglas Porter, senior economist with BMO Nesbitt Burns. I'd like to thank you for the opportunity to address the committee today. I did have a presentation handout that I included. It's a number of charts that I think you might find useful to follow along with as I go through my comments.

The main message I'd like to bring to the committee today is that we are generally positive on the outlook for the economy in the year ahead but we are well aware of the many risks that face North American growth at this point.

We do see both Canada and the US at close to 3% growth in 2003 and we see Ontario there as well. Just to put that in perspective, that's pretty close to the average growth rate for the economy in North America over the last 25 years. I also noticed that it's actually quite close to the consensus forecast that the Ministry of Finance has for the year ahead. If anything, we're probably a little bit lower for Ontario, but I wouldn't say the difference is significant.

I would stress again, though, that this is probably a much more uncertain backdrop than we've seen in the last couple of years. For instance, Statistics Canada still hasn't effectively determined whether or not the economy actually was in recession way back in 2001.

Definitely the biggest risk and the biggest uncertainty for the economy and for the markets—and we've also seen it certainly weighing on the equity markets in the last couple of weeks—is the potential for war with Iraq. The chart on the bottom of pages 1-2 gives you an idea of what happened to consumer confidence and real spending back in the 1990-91 war. I think it's worth pointing out that confidence and spending declined the sharpest in the buildup to the actual breakout of war in January of 1991. You can see the sharp declines in confidence in particular were during the buildup to the Gulf War. Also, the one thing worth pointing out is the fact that both confidence and spending did have a euphoric balance right after the end of the war. But what I take away from that chart is the fact that both confidence and spending actually resumed their underlying trend after the war was over.

Arguably, we're already seeing that downward trend in confidence in the US. Debatably, we're already in the buildup stage and we've also seen confidence in Canada suffer a bit. In fact, it's likely to be reported this morning that confidence in the US is at its lowest level since the early 1990s, although it's still above the levels reached in the 1990-91 recession.

One other thing to point out here is the huge gap between Canada and the US. There are going to be a number of charts I go through that show huge distinctions between the Canadian and US economies over the last couple of years, and confidence is certainly one of the biggest differences we've seen. Certainly one of the main reasons for that is the strength of Canadian employment over the last year and also the fact that Canadian consumers are less reliant on the equity market.

The chart on page 4 shows that debt-to-disposable-incomes have risen to record highs in both Canada and the US. Many have cited this as a warning signal for Canadian consumer spending. Certainly this is critical because, in the US, at least, consumers have accounted for all of the growth in the US economy for the past two years. Simply put, that can't and won't continue. We're not particularly bearish on the consumer; we just don't believe that the consumer can single-handedly carry the North American economy in the next couple of years. I do believe that the concerns over the high debt levels are overstated. The run-up in debt is simply a natural reaction to the rate cuts we've seen. However, the debt service costs are starting to get a little bit stretched and there really is not a lot of room for consumers to grow. So I think the main message on this front is that consumers have certainly carried the burden over the last couple of years. They can't be counted on to lead the economy. I think we'll still see decent consumer spending growth in the next couple of years, but the major impulse for growth is going to have to come from somewhere other than the consumer.

Where will that growth come from? In the US, basically it's got to come from capital spending. That's where we really need to see the turnaround. Even if it stops falling, that would be a major help for the North American economy. One concern is that there are still tons of spare capacity in the US. I think that's best shown by the chart on the bottom of page 5. Here again is a major, major break between Canada and the US. Whereas US industry is operating with plenty of spare capacity, by many traditional measures Canadian basic industry—that is, industry outside of the tech sector—is effectively operating at full capacity. I'd say the main reason for that difference between Canada and the US in the last couple of years has been the weakness in the Canadian currency. In other words, at the margin, where firms have the ability, they have chosen to relocate their production in Canada versus the US.

You'll note from the chart on the right-hand side on page 5 that the weakness in the Canadian currency has not saved our technology industry. Our tech sector has been hit every bit as hard as the US tech sector, and I think that's largely because of our overweighting in the hardest-hit area of the tech sector, in telecom equipment.

On a more positive note, we are seeing profit margins starting to turn higher in both Canada and the US, and that will eventually lead to stronger capital spending in the next couple of years. Certainly the turnaround in profits has come more quickly in Canada. Partly that's due to our stronger domestic economy, and also because of our heavier weighting in the energy industry. Whereas Canada's profit turnaround has come because of the stronger growth, the US has relied largely on restraint on compensation. In other words, wage costs have not risen and there has been major hiring restraint ongoing in the US.

That probably leads to the biggest difference between the Canadian and US economies over the past couple of years, and that's on the employment front. The chart on page 7 I think captures this the best. I've chosen to chart employment versus population rather than the unemployment rate because I think this is a purer measure. It's not distorted by any kinds of measurement problems at all. Simply put, this is the ratio of the adult population that has a job. A huge gap opened up in the early 1990s. That has now been closed. I think there are three main messages from this chart. First and foremost is that the downturn in the US over the last couple of years in employment has been very similar to what we saw in the past two recessions. By almost any other measure, this was not a typical recession in the US, but at least on the employment front it was a very typical recession. The other thing to point out is how mild the downturn was in Canada. Again, that goes back to one of my initial comments: that StatsCan is still grappling with whether it was officially a recession in 2001; compare the downturn in Canada in 2001 and late 2000 and what happened in the early 1990s and the early 1980s. Finally, the third point is that after years of underperformance, Canada has caught up to the US; for the first time in 20 years our employment-to-population ratio is as high as in the US.

Despite all the headlines about how Canada has outpaced the US economy in many respects over the past year, it hasn't been that different on the broader measure of GDP. I think that's best highlighted in the chart on page 8. Really, the difference between Canada and the US in terms of growth has been a matter of degree and not direction, and I would expect that to continue in the years ahead. But the big difference this time—and what I think is really significant in this cycle—is that Canada normally underperforms the US at the bottom of a cycle. This time it was different. Canada actually outperformed the US at the bottom of the cycle. Typically Canada only grows faster than the US at the very peak of the cycle. In other words, when US industry is looking for spare capacity and when commodity prices are rising, that's typically when Canada tends to shine. But this time was different, and basically that's payback from all the tough restructuring that went on in the 1990s.

0910

I talked about the ongoing dependence of the Canadian economy on the US; I don't think that's changed one iota. And, arguably, Ontario is the most sensitive to the US. Manufacturing has certainly rebounded in the last couple of years, and that's been led by the snapback in transportation equipment. Automakers are still in an intense market share battle. The positive side of that is that sales are unlikely to fade a whole lot this year, simply because automakers will price their cars to sell. But the negative is that at best output will be flat, perhaps even down a bit, in the transportation equipment sector.

As that chart on page 10 shows for local manufacturers, production expectations by Ontario manufacturers have already dropped in the last couple of quarters from fairly high levels at the start of 2002. Clearly, there's quite a bit of renewed caution among Ontario manufacturers, and we've also seen that in factory payrolls in the last couple of months.

I would just like to spend a couple of moments dissecting where some of the massive job gains were in 2002. There's a fairly detailed table on page 11. Certainly, I think that was one of the stories for the Canadian economy in the past year: 560,000 net new jobs in 2002. Ontario also had a fairly strong year in employment. It wasn't quite as strong as Canada as a whole; we accounted for about 35% of the job gains, or 196,000 in total. That's a little bit below our population share. On an industry-by-industry analysis, one of the things I'd like to point out is that we did see some particularly big gains in Ontario relative to Canada in things like finance, insurance and real estate, in manufacturing, in hotels and restaurants and in retail and wholesale trade. Some of the areas of weakness in Ontario relative to the rest of the country were in other services, which includes large sections of the tech industry. Also, we didn't see the big gains in education employment that were recorded in the rest of the country.

One thing I would like to point out is that there has been a lot of attention paid to the so-called low quality of the job growth in the last year. For Canada as a whole, part-time positions rose by 8% but full-time was up 2.7%. A lot of people have pointed to that gap as proof that the job gains weren't of high quality. But I would stress that 2.7% full-time job growth is still exceptionally strong and really doesn't take away from the fact that Canadian employment had a very good year.

Turning to Ontario, it was actually very evenly split between part-time and full-time job gains. In fact, if anything, full-time jobs actually grew slightly faster than part-time job growth last year. Full-time job growth was 3.3% last year, a very strong performance by Ontario payrolls.

One negative note for Canada in the past year was the fact that our inflation rate rose to the top of the heap in the G7. There were a number of special factors that drove that rise in inflation. We did see a big increase in cigarette taxes basically across the country. Again, auto insurance, essentially across the country, added almost a full percentage point to the inflation rate in the past year. And there were the big swings in electricity prices in Ontario that also contributed to inflation.

The consensus does expect inflation to come back down toward the Bank of Canada's 2% target by about the middle of this year, or later this year. If I was to highlight one risk for the Canadian economy in the year ahead, it is the possibility that inflation will again rise to the high side and will be a little bit sticky to come down.

We've already seen a major change in Canada versus the US. Throughout the 1990s, Canadian inflation averaged less than one percentage point below the US level; in fact, Canadian inflation was never above the US rate throughout the 1990s. The roles have completely reversed, almost in textbook fashion, over the past year, where Canadian inflation is now almost a full percentage point above that in the US.

It's kind of ironic to be talking about the inflation risk in Canada, given that deflation still seems to be the single biggest risk facing the US economy. I do believe that the deflation risk in the US economy is receding. We've seen services prices very stable over the last couple of years, at around 3%; that hasn't changed. And it looks like goods prices deflation is starting to reverse. One of the big factors driving down goods prices has been the increased competition from China. Arguably, that's where we're seeing the biggest downward pressure on goods prices. But largely because of energy prices we're starting to see goods prices reverse. I do believe that the deepest risks from deflation have receded.

The difference in the inflation outlooks between Canada and the US has translated into the difference in the interest rate outlook. We see the Bank of Canada raising rates again in April, and we think they'll raise rates by a percentage point by the end of the year and up to a percentage point again in 2004. We believe that the Fed will probably remain on hold through the rest of this year; in other words, US interest rates are unlikely to move at all in 2004. There's still an outside possibility that the Fed will actually cut rates again if the US economy were to stumble or the equity markets were to come under severe downward pressure again. We do think the Fed will be raising rates by next year, but it looks as if the US interest rate backdrop will remain quite benign through 2003.

This big gap in interest rates between the US and Canada—and the rest of the world, for that matter—is likely to mean that the US dollar will continue to weaken in the year ahead. On the flip side, we see the Canadian dollar continuing to strengthen. This again will weigh somewhat on Canada's manufacturing competitiveness in the year ahead. We're looking at a 68-cent dollar one year out. Against the rest of the currencies, we don't think that the decline in the US dollar will be as abrupt or severe as it was in the late 1980s, simply because there aren't the compelling alternatives to the US dollar that there were in the late 1980s; Japan and Europe still remain quite weak. But overall, we do think the major trend, not just for the next year but the years ahead, will be an underlying decline in the US dollar.

The reasons why we're positive on the Canadian dollar going forward, besides the growth differential and besides the interest rate differential: rising commodity prices are a positive. Also, the long-term fundamentals for the Canadian economy still remain quite positive. In contrast to the US, we still have a government-wide budget surplus; we still have a large balance-of-payments surplus. This is a complete reversal from the early 1990s. In the early 1990s Canada was absolutely at the bottom of the heap in the G7 on both of these measures. We're now the only country in the G7 that has surpluses in both the total government balance and on the balance of payments.

We've certainly seen a remarkable turnaround in the US federal budget situation in the last couple of years, and this actually extends to the states as well. If anything, I think the consensus is actually underestimating how far down the US budget deficit will fall. The official numbers for this year, which are likely to be released tomorrow, are probably going to call for something a little bit less than a $200-billion deficit this year; something closer to $275 billion actually looks more likely. Even if only about half of President Bush's tax proposals go through and even if the costs of a potential war are limited, it looks as if the budget deficit is headed for something close to $300 billion this year, and I wouldn't at all be surprised if they had a budget deficit of over $300 billion next year.

That, of course, stands in almost total contrast to what we're seeing in Ottawa. Ottawa's position is remarkably different. The major reasons for the difference are partly due to the firmer economy in Canada, also partly due to the fact that federal revenues were much less hard hit by the stock market decline than they were in the US and also because Ottawa has had lower spending requirements for defence and homeland security than Washington has. Even with new spending in next month's budget out of Ottawa, and even with modest tax relief, it does look like the surplus for this year could be as much as $2 billion higher than the upper end of Ottawa's forecast—in other words, something close to $6 billion in the current fiscal year—and it's reasonable to assume that the budget surplus could be as much as $2 billion higher than their top-end estimates for the year ahead, again depending on to what extent they increase spending and cut taxes in next month's budget.

Overall, just turning to the table at the very end, again I'd stress that we do think growth will be moderate, close to its long-term average in North America in the year ahead. There are certainly still important headwinds prevailing in the US economy. There's obvious risk, not just to the US economy but to the global economy, from the potential Iraqi conflict and from the persistently high oil prices that we continue to see in the lead-up to a potential conflict. In contrast to most of the world, we actually believe that the Canadian and Ontario economies are likely to slow somewhat this year. The reasons for the slowing are partly due to the modest tightening we have seen in monetary policy in this country, almost in contrast to the rest of the world; the fact that we are looking at a slightly firmer exchange rate in the year ahead; the fact that we expect US auto sales to soften a little bit in the year ahead. The high oil and gas prices will also weigh on consumer spending, and also the still sluggish global economy as well.

0920

In terms of what that means for the budget, I think in times of high uncertainty such as we're facing, a balanced approach probably serves best, as always. I think a reasonable course of action would be modest spending increases, to continue to aim for a balanced budget, and I still think some tax relief is certainly a prudent course at this point. It would certainly help support consumer spending at a time of high energy prices and help offset some of the strain on consumers from those high energy prices. But more importantly, I think it would also continue to help foster Ontario's long-term competitiveness.

The US continues to move to cut personal taxes, and that raises the bar not just for Ontario but the rest of Canada. It's not imperative to match US personal tax cuts step for step, but you certainly don't want to be drifting in the opposite direction either when the US is cutting personal taxes so aggressively.

That concludes my formal remarks.

The Chair: That leaves us roughly 12 minutes per caucus. We begin with the government. The first question: Mr Sampson, please.

Mr Rob Sampson (Mississauga Centre): You indicated that the consumer has been pretty helpful over the last couple of years in giving some strength to economic growth in the country and in the province, but given the higher debt loads per income, you are somewhat concerned that the ability to do so over the next couple of years is less than it was over the previous two years or so. I think you are alluding or maybe you even said that you're hoping the industrial sector somehow picks that up. If consumer demand starts to weaken, why would people invest in capital equipment to retool their plant if they saw consumer demand weakening? I don't quite get that. Maybe you can help me understand that a bit better.

Mr Porter: I guess the point I'd like to make is, there have actually been warning bells sounded about the high level of consumer debt for about the last 10 years. We've been hearing—well, actually, arguably longer than 10 years—about how consumer debt levels are at a record high and it simply can't continue. That's been proven wrong time and again. Because of the decline in interest rates, there has always been room for consumer spending to continue to grow.

I think, on balance, consumer spending will continue to grow. It's just that we can't expect it to single-handedly carry the North American economy. I guess there I'm referring more to the US consumer, who really has accounted for all of US GDP growth in the last couple of years. It's been less so the case in Canada. But I think the main message I'd like to deliver is that I'm not entirely bearish on the consumer. I'm not a doomsayer; it's just that there isn't the sort of room for the consumer to single-handedly lead it. We do need another source of growth to turn around.

In Canada, we've already seen the first inklings that capital spending is starting to pick up. In the US, it's going to take a little bit more time. It's not going to happen overnight. They've got to repair their profit margins, first and foremost. What we've seen in the last couple of years is capital spending actually declining and taking away from growth. Even the stabilization of that would actually help stop the bleeding and help overall growth.

Mr Sampson: Is it that capital spending has to wake up and catch up with the consumer? Is that what has to happen, probably more in the US than north of the border?

Mr Porter: Yes, and I don't think it's going to happen immediately. Probably it will take almost a year before we see capital spending really catch up to the consumer.

Mr Sampson: Your job growth numbers, "Where were the job gains in 2002?"—a breakdown between Ontario and Canada. But take a look at the national perspective. The larger job growth components are actually primarily funded by government: health care, education and social services. Does that give you some concern that if there is some dampening of that growth of expenditure on the public sector side, you're taking a sizable whack out of job growth across the country, let alone this province, that has to be picked up somewhere else. If I look down the list here, the somewhere else is already adding pressure to already pretty robust job growth numbers. To go to the manufacturing sector and say, "We'd like you to pick up another 80,000 jobs"—they're already cooking at 124,800. That's a bit of a stretch to say, "I need you to pick up that slack."

Mr Porter: If you were to measure job growth on a December-to-December basis—which this is, by the way—I simply think there is no way the Canadian economy can churn out another 560,000 jobs. I think it's important to stress just how remarkable that number is. We've never seen that many jobs created in the Canadian economy in a single year. Even in percentage terms, it was the strongest December-to-December job growth we've seen since 1987. So I think it's very likely that job growth is going to be weaker this year.

As you said, we are likely to see smaller job gains, I would think almost across the board but certainly in the public-sector-funded areas. Arguably, some of that job growth last year was a catch-up after many years of restraint through the 1990s. We did see sectors like education and health care see some real job growth for the first time in years. It was probably exaggerated last year and we're unlikely to see a repeat in 2003. I think that's fair.

Mr Sampson: But those sectors are funded by the public purse.

Mr John O'Toole (Durham): They don't create a product.

Mr Sampson: That's an interesting point. My colleague said they don't actually produce a product. I'm not too sure that's a discredit. I don't know that that is saying much more other than it has to come from economic growth itself; otherwise you don't have the base to pay for it. That's the reality of public sector job growth. It's nice to see, but it comes from somewhere and it usually comes from some sort of a reduction in capacity or growth in the private sector. It has to be funded by something. It's funded by taxes, which presumably is money taken out of the private sector. Is that of concern at all to you, that trend, that bump? Yes, no, maybe?

Mr Porter: Not really, because if you look at the growth in manufacturing and construction last year, and even resources, we had very strong growth. Even if there were not to be a single job created last year in the service sector, we still would have had 220,000 job gains in construction and manufacturing, which would have been a pretty solid year, especially given the fact that the US economy actually shed jobs last year.

What stands out to me is just how broad-based the employment gains were last year. Again, I'd agree with you that there were a lot of unsustainable gains in 2002 that we're unlikely to see in 2003.

Mr Sampson: That gets me back to the first question I asked. A pretty tremendous bump—not your words but similar words—in the manufacturing sector and job growth has got to have been driven by some sort of a consumer demand component that was a little bit more than people anticipated, which I think a lot of people are now arguing has been fuelled by lower debt servicing costs primarily. At 3% or 4% interest, you're going to go out and buy that stereo, get the extra renovation done on the house etc, or buy the new car. I guess what I'm getting to is that the only way you're going to be able to sustain that is to keep debt servicing levels reasonably low—ie, interest rates low. How does one do that as a government?

Mr Porter: The government can't really do a whole lot about it. Basically, the Bank of Canada drives monetary policy, and they're an independent institution.

Mr Sampson: Can we do that by staying out of the debt markets as much as possible and not crowding out private sector investors?

Mr Porter: There is a lot of debate even in the US whether, over the short term, budget deficits drive interest rates. I tend to subscribe to the view that while it may not have a very short-term impact, over the long haul, clearly high budget deficits and soaring government debt does tend to bump up long-term interest rates in particular. It can also put pressure on short-term interest rates. It's not a tight year-by-year relationship, but definitely over time there is a pretty strong relationship.

Mr Sampson: So some of the low-rate scenarios you are seeing now could well have been precipitated by actions three or four years in the past.

Mr Porter: I think the move toward budget balancing throughout Canada has played a large role in getting Canadian interest rates down toward US levels over the last five years. So I think that's a fair comment.

Mr O'Toole: A couple of questions, following up on the same themes without repeating them. I ask the question, where do you expect the growth to come from if it isn't consumer-driven? There is some expectation that machinery- and equipment-buying would be higher, and capital investment. Is it the confidence in the market, post-Enron etc? What is avoiding the capital accumulation part? What is it? Is it purely fragility of demand?

0930

Rob has established the point quite well, actually, that we've had a demand-driven economy on the consumer side, low inventory levels. In any market, there are the lowest levels of inventory ever, and yet they're buying future market share. That's what discount product cars are about, pulling ahead sales. "I might buy a car next year, but they're zero now so I'll get it now and save all the money." I'm saying I don't get it. Where do you see the drive will come from? Machinery and equipment? Investment technology? I'm thinking of my own portfolio right now. I really have no clue.

Mr Porter: One thing to point out is just how far machinery and equipment fell through 2001 and 2002, particularly in the US. As you said, inventories are at very low levels. It doesn't take a whole lot of an increase in demand to really get firms to realize that they've cut inventories too far and, were inventories to turn, that would be the first case where we'd see a real push come from growth. Ultimately, as I said, even if investment in machinery and equipment started to turn the corner just a little bit, that could have a huge add to growth as well.

Again, I would stress that we do see both Ontario and Canada actually slowing a little bit this year.

Mr O'Toole: Yes, I see that. Your numbers are actually a little less optimistic. They're in the 3% range versus 3.9% or 3.6% in terms of GDP.

Another thing that's not really consistent here is that you're a little more cautionary with respect to the inflationary pressures. You're suggesting there will be some inflation pressure which will drive the interest rate, which will slow the economy. Your counterpart, Rick Egelton, was saying that the underlying inflation remains rather tame, which reflects on interest, which is getting back to Rob's point in terms of what consumers are doing.

Mr Porter: There has been a real split in the view on inflation. But what I would point out is that no matter what private sector economists believe on inflation, the Bank of Canada has even told us, last week, that they remain very concerned on inflation. For the outlook, that's what really matters. It doesn't matter what private sector economists believe on inflation. The Bank of Canada seems to believe there is some real underlying pressure there. They have so much as told us that they're poised to hike interest rates. So whatever private sector economists believe on inflation, the bank has made it pretty clearly known that they think there is a problem.

Mr O'Toole: Looking at one of the charts that Janet produced, yesterday she said that business is becoming more optimistic. It's the business consumer confidence index. She sees it in the fourth quarter going up significantly, actually, which gets back to answering the question. If there's business consumer confidence, then they will expand the plant, build inventories, and do what's necessary to be ready for the next wave.

So you think the economy is basically slowing or flattening a little bit. The line is—

The Chair: Please wrap up.

Mr O'Toole: Yes. You offered some insights, I suppose. Energy prices, the Middle East: are those the same things that you see as cautionary notes on the horizon?

Mr Porter: Yes. Also, I think there's still quite a bit of uncertainty over the entire potential for a war with Iraq and I think, especially in the US, that's freezing big decisions by businesses right now and, to a lesser extent, consumers as well.

Mr O'Toole: One last comment—

The Chair: Thank you. We will now move to the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): I want to talk a little bit about the US and its impact on Ontario and Canada. The number I always remember is, I think in 1990 international exports were the equivalent of 29% of the GDP, and I think it's over 50% now. I realize you've got to then subtract imports and whatnot, but we now are very much export oriented to the US.

You've indicated that you think the US dollar will decline relative to other world currencies and the Canadian will appreciate. I think you indicated 68 cents.

Mr Porter: Yes.

Mr Phillips: So there's that issue. You're estimating a federal budget deficit in the US of $300 billion. My look at the US states, even though they can't run deficits, is that they are running deficits, funding them with reserves right now.

I'm trying to get any advice you've got for us on what the implication is for the Ontario economy. I think you also indicated some concern about the auto sector here. What are the implications of all of those things: a rising Canadian dollar, a falling US dollar, and significant budget deficits that I think you indicated may not be short-term in the US?

Mr Porter: Clearly, one of the main differences that drove the gap between the Canadian and US economies, especially on the employment front over not just the last year but the last few years, has been on the manufacturing side, and I think a lot of that was due to the pronounced weakness of the Canadian dollar since about 1998.

Prior to, say, 1997-98, I think you could attribute a lot of the decline in the Canadian dollar to inflation differences between the two countries. But in real, effective terms in the last few years there has been a massive depreciation of the Canadian dollar, and I think that really began to have a huge difference in where manufacturers chose to relocate their production. It certainly was to Canada's benefit in the last couple of years. We saw that huge split, whether it was in manufacturing output or employment.

Clearly there is a risk that if the Canadian dollar continues to rise—and some other economists have pointed this out—that big competitive windfall that Canada has been handed will slowly start to reverse. It's not going to show up immediately. It will probably take a couple of years before it really begins to be reflected in a narrowing of the manufacturing gap between Canada and the US. But I think it does put a lot of the competitive gains we've had in the last few years at risk.

One thing to point out about a declining US dollar against the rest of the world is that it has dropped quite sharply against the Euro in the last year; in other words, by a little bit more than 20% from its peak. The one positive for Ontario—probably more so for the rest of the country, though—is that we will become a little bit more competitive in Europe and in third markets as well because of the renewed strength in European currencies.

One implication I would point out about the problems that the US is having on the budgetary front, and particularly on the state front, is for a lot of the subsidies we've seen that the states have thrown at industries in the last couple of years. I think we might see those start to back off in the next couple of years as they face some real budgetary restraint in the next year or two.

Mr Phillips: The finance minister was here yesterday indicating that it's her plan to move corporate taxes in Ontario to a level 25% below the US. The numbers she produced yesterday show the US federal-state combined corporate income tax at about 40%. She announced that it's Ontario's plan to get provincial-federal corporate taxes to 30%, which is a 10-point spread, about 25% below the US. I think each point is probably worth about $400 million in revenue in Ontario, so it's a $4-billion decision.

Your advice to us was one of balance. I don't know whether you used "caution" or not; I think you used "balance." Do you have any thought for us on whether we need an Ontario corporate tax that's 25% below the US to compete? And is that the area we should be looking at having our tax regime substantially different than the US?

Mr Porter: There are any number of things that drive an economy's competitiveness, and certainly corporate taxes are an important element of it. The other thing to point is that a lot of that decline is being driven at the federal level as well. It's certainly not just an Ontario decision.

Given the fact that for years and years Ontario and the rest of Canada were basically on the other side of that issue—and I think it was to our detriment—I would agree with the general trend. I don't know if I would necessarily agree with the exact specifics, but I think the general trend I would totally be in favour of.

Mr Monte Kwinter (York Centre): When you talked about the employment rate, you were saying that 2002 was really an outstanding year, and the chances are that we won't see that again in 2003. Is that—

Mr Porter: Based on a December-to-December basis, yes. I don't think we can expect that kind of job growth again.

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Mr Kwinter: What I don't understand is that in your projections of the GDP you show that 2003 is going to be below last year, and yet you show the employment growth as being quite dramatically higher in 2003 in Ontario. How do you square that, where on the one hand you have the economy not growing as fast as it did last year, which had outstanding employment numbers, and yet you're going from 1.7% to 3% in 2003?

Mr Porter: In some respect, those annual average numbers that are in the 2002-03 forecast table hide as much as they show, because it's an average of the year versus an average of the next year, whereas the employment numbers, the employment tables, are based on a December-to-December forecast. If I were to forecast employment growth in percentage terms from December to December, it would show a significant slowdown in 2003. In other words, a lot of that growth is already baked in the cake, it has already happened for 2003, because that forecast looks at the average employment level in 2003 versus the average in 2002. By the end of 2002 we had already risen, heading into this year, to a fairly high level. So even if employment flattened out over the next 12 months, you'd still get tremendous growth between the average of 2002 and the average of 2003.

Again, a lot of the job gains in late 2002 were not in manufacturing; they were not in the high-productivity areas of the economy. We saw most of the big job growth in Ontario in manufacturing earlier in 2002. Admittedly, it does look a little bit inconsistent, but again it's because a lot of that growth has already happened on the employment front.

Mr Kwinter: You also talked about the employment rates in Ontario being slightly below the Canadian average and slightly below their representation in the population.

Mr Porter: Right.

Mr Kwinter: What about their representation in the percentage of GDP in Canada? Have you got any numbers on that, as to what the employment rate is in Ontario vis-à-vis the percentage of GDP in Canada?

Mr Porter: Well, Ontario accounted for about 35% of the job gains last year. I can't remember the exact number off the top of my head, but I believe GDP in Ontario accounts for about 41% or 42% of the economy. But again, another way to look at the job growth last year is, what was the percentage growth in Ontario? It was over 3%. Yes, it wasn't as strong as in the country as a whole, but 3% job growth is still quite formidable. Keep in mind, again, that the US had absolutely no job growth last year, and effectively the rest of the G7 had no job growth either. So 3% is certainly still a very strong year. Again, I would stress that in contrast to much of the rest of the country, actually a slightly greater share of that job growth was in so-called high-quality, full-time jobs. So I would not downplay the employment performance in Ontario at all over the past year.

Mr Phillips: The economic outlook by the survey of economists and whatnot looks like it has been trending down a little bit over the last few months. I don't know whether that's true with you as well. You show a modestly lower economic outlook for 2003 than the consensus, but just modestly. Is that something we should be just mildly worried about, or are there any significant clouds on the horizon? I realize the obvious answer is Iraq. You urged caution, I think. Is it something that is significant, the downward-looking forecast?

Mr Porter: I believe there's more than just Iraq behind the story. Just for your interest, we actually haven't really changed our 2003 forecast significantly for quite some time. But I think there is more than just Iraq going on here. First of all, oil prices have been elevated for quite some time. Again, I think it's more than Iraq that has driven that. Clearly, the general strike in Venezuela has pumped up oil prices, but I also think there has been some underlying strength in demand for oil and natural gas, and of course the weather has contributed to that as well. But that, by itself, is weighing on consumer spending, although not just in Canada but also in the US.

I think there's even more to it than that. I think the weakness we've seen in business confidence over the last year in the States and the sluggishness of employment gains in the US have dampened the outlook. There's no doubt about it. Slowly but surely, the outlook in the US has been scaled back pretty consistently over the last six months. As recently as six or eight months ago, I don't think anybody believed the Federal Reserve was going to cut interest rates again, yet they did in November. Now there's talk that even that's not enough, that the Fed may have to cut rates again.

Again, it is more than Iraq. I think the US economy is still dealing with the bursting of the technology bubble and the big decline in stock prices in the early 2000s. I think both consumers and businesses are still grappling with that issue. There has been a pretty steady downgrading of the medium-term outlook for the US economy.

The Chair: We now move to the third party.

Mr David Christopherson (Hamilton West): Doug, it's good to see you again.

I just was curious, on page 19, to note that if you look at the history of deficits in the United States, they didn't start getting heavy-duty until Republicans became occupants of the White House. Reagan—suddenly you've got some serious deficit numbers. Bush, the first, inherited a relatively modest deficit and managed to drop that to a $290-billion deficit. Then it was the tax and spender guy, as the right wing liked to label Clinton, who eliminated the deficit, all the way to a surplus of $237 billion. Now we've got Bush the second, and boom, we're right back to $275 billion. I just thought that was interesting, the rhetoric versus the reality.

Secondly, it also needs to be said that it doesn't matter how right wing you want to be; if the desire is there, if you feel the need is there, they're quite prepared to be very Keynesian about it. The $275 billion—correct me if I'm wrong—is defence and homeland security. That's the thrust of it. So when the issue is big enough, even the right wingers will say, "A balanced budget is not the absolute priority; there are some things that go beyond that." But heaven forbid it should ever be health care or education or dealing with child poverty or any of these other things that should drive the right wing to say, "Hey, we really should run a short-term deficit here."

Now that I have that off my chest, I can move on to a real question. Under the central banks and where the feds are, if you could help me with this: when Japan got close to zero in terms of their overnight rates, it was weird—Twilight Zone, kind of—to think of money being offered up at virtually no cost, and yet the US, right now, is on the border of that. When you reach zero, or a quarter of a point above that, is it just the lowest possible number that you can get to, or is there a significance to that milestone that triggers other dynamics? What happens when the Fed—or can it can get to zero? These are worlds that I don't think we've been in before, and I'm curious as to how those things can play out.

Mr Porter: There have been situations where you can actually get to zero interest rates. It is a critical threshold. It's actually something the Fed has been addressing a lot in its public comments recently.

I guess what I would say is, right now they're basically taking a two-pronged effort to try to avoid getting into that situation. They're trying to be pre-emptive, cutting interest rates perhaps even more aggressively than they would have otherwise to try to spur the economy and break the psychology of getting anything close to the Japanese situation. At the same time, they're also basically talking down, publicly, in all their statements, the possibility of the US following the Japan model. They're saying, "We have all kinds of tools to try to avoid deflation." Through both their actions, they're basically just trying to break the whole mindset that it could possibly happen here.

Do I think it's impossible? I don't think it's impossible. In other words, it could happen in the US. I think it's a long shot. There are a number of still very important differences between what happened in Japan in the early 1990s and what's going on in the US right now. But it's not impossible to imagine that they could get drawn into the same situation.

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Mr Christopherson: What does that mean in terms of the real world of money moving overnight? What does that mean when it's zero, when it effectively doesn't cost anything to borrow money from the Fed?

Mr Porter: At least at the very short end—now, what you tend to see is that some of the longer-term interest rates don't fall as quickly. For instance, it took almost 10 years before long-term Japanese interest rates got down to 1%, and they're still close to 1%, so there is still a little bit of a premium built into the longer-term rates. But you're absolutely right: effectively, there is no cost to borrowing money. Now, the cost that people do incur is that prices continue to fall, so that in real terms it actually is costing you a little bit. And the Fed is trying to avoid that whole mindset from developing, because to me that's what deflation really is; it is a mindset where people believe that prices will continue to decline so they put off expenditures today because they think tomorrow or next year prices will be even lower. It's basically, both for consumers and businesses, an entire philosophy that develops, and it becomes very difficult to break.

Mr Christopherson: It's interesting; you've mentioned deflation a few times this morning, and yesterday Rick very much downplayed it. I was pursuing it because it seems to me that there are an awful lot of very serious deflationary pressures, although most people are talking inflation. You've introduced it a few times in your comments. It looks to me like in many ways, in terms of commodity prices, we already are seeing deflationary pressures taking hold. Your thoughts on it?

Mr Porter: I think it was more of an issue about a year ago, when commodity prices were quite depressed and the US economy was still at the depths of the cycle. The US economy has grown by about 3% in the past year and we've actually seen a lot of commodity prices really begin to turn the corner. I have trouble really getting worked up about the potential for deflation with gold prices now at their highest level in six or seven years. For instance, just yesterday it hit $370. So I think the Fed has been doing the job over the past year and slowly erasing those deflationary concerns. But in the middle of last year I do think it was the biggest risk facing the US economy. I think it has faded a little bit. As we have seen the US slowly work its way toward recovering, a lot of those commodity prices start to come back.

But I think the real genesis or the start of those deflationary concerns did come from the prolonged weakness in Japan, the competitive threat from China—which is really driving down the price of almost anything—

Mr Christopherson: Exactly. I raised that yesterday with Rick.

Mr Porter: Almost anything you can put on a ship, the prices are declining. So I'm not that worried about deflation, but I think at the same time you're not going to see a huge inflationary impulse either in the next couple of years in the US economy.

Again, it's a very different picture in Canada because of the strength of the Canadian economy in the last year and the fact that Canada is actually operating at pretty close to what's considered full capacity, outside of the tech sector.

Mr Christopherson: Would a faltering economy change that? If it's stalled—say there was a war, the border closed up, everything dropped and then consumer confidence dropped; a few other horrible things happened. Could that trigger that, or do you still think in North America we're pretty much insulated from further deflation?

Mr Porter: No, I'd say that's probably the biggest single risk of deflationary concerns popping up again, were the US economy to go into a full-fledged double-dip. I think you would hear talk about deflation again.

Mr Christopherson: You didn't raise this directly, but I wanted to get a chance to ask one of you fellows who are experts at these things. There's talk about the productivity gap—it was mentioned yesterday—between the US and Canada. In the past, of course, normally what that meant was, just sort of speed up the line, in its crassest terms, going back to the beginning of the Industrial Revolution. Then there was the introduction of automation, new management techniques, division of labour, things like that, that affected productivity. What is it now, in a modern economy? Is it still to make people work faster or work smarter? Is it more emphasis on the technology end? Is it the infrastructure that you can provide, either within the economic area—like within a city or within a province or a country? What are the main things right now that are driving productivity and the things that will make the difference in terms of our productivity versus that of the US?

Mr Porter: I guess there are two ways to look at it. There are the micro issues. In other words, within specific firms and within specific industries you want to give them the tools to be able to increase the productivity the most they can. Then there's the broader issue for the economy as a whole. You want to be in the industries that are growing the fastest, that have the best long-run productivity. That has certainly been one of the reasons why the US economy has had the highest productivity growth since the mid-1990s, because they were so strong in the industries that have seen the strongest productivity growth since the mid-1990s. In other words, they've led the world in the tech sector. Admittedly, that hasn't been a huge positive in the last couple of years, but that has been the area that has seen consistently the strongest productivity growth, not just in the last five years but in the last 10, 15 years. The US leads the world in the tech sector; the highest share of their economy is in that sector. So effectively, one way for your economy to have the strongest productivity growth is to be in the industries that are productivity leaders. I think the way to get there is to offer an environment where the economy adjusts freely. Money will be invested in firms that have the greatest profit potential, which are areas that have the highest productivity growth.

Mr Christopherson: But profitability and productivity are not necessarily the same thing.

Mr Porter: In any given year, no; that's true. But over time, you do tend to find that the two will move hand in hand.

Mr Christopherson: It's just that I hear it over and over, and I'm trying to get a handle on exactly what they mean when they say "productivity." Normally it's meant in a condescending fashion to say that Canadian workers don't work as hard or as smart as their US counterparts. Surely to goodness it's not that simplistic; there's more to this. I'm just trying to get at the components. You talked about the tech sector, and I can appreciate that. If you're the only one in the game because you're the only one who really knows what's going on, you don't even have to be all that efficient if you're the only one producing it, if you're far enough ahead in terms of what you know, the knowledge added. Is that the whole game? Is it all about knowledge added now?

Mr Porter: That's one way to look at it. I think of productivity not just in raw terms of output per person; I think of it as value added per person. If you can add more value in a knowledge-based job, rather than in, say, a manufacturing job or whatever, then all the more power to the economy.

Mr Christopherson: Let me try it another way: are there some, then, who, when they say "productivity," mean "profitability," which means it's as pure and simple as who can find the labour that will work for the cheapest and therefore profitability is up and therefore productivity is up?

Mr Porter: That's certainly not the way I think of it. When I look at the productivity numbers, it comes at it in terms of value-added output per person-hour. As I said, typically you see productivity and profits move together in a cycle, but you wouldn't necessarily measure productivity by looking at profits. That's not the way Statistics Canada does it and it's not how I would do it either.

Mr Christopherson: OK. You said—

The Chair: Quickly.

Mr Christopherson: Am I done?

The Chair: You have about 30 seconds.

Mr Christopherson: Then I'll just say thank you, with 30 seconds. I appreciate it very much.

The Chair: Thank you, Mr Porter. We appreciate your time and contribution.

BANK OF NOVA SCOTIA

The Chair: Our next presenter is the Bank of Nova Scotia. I believe Ms Webb, senior economist, is doing the presentation. Please state your name, of course, for the purposes of Hansard. You're familiar with this, I know, Ms Webb.

Ms Mary Webb: Good morning. My name is Mary Elizabeth Webb. I'm a senior economist and manager with Scotia Economics, part of the Scotiabank group of companies. Thank you very much for inviting the bank to make a presentation this morning. It is certainly my privilege to be here. I'd like to offer the regrets of Aron Gampel. Unexpectedly, he did have to travel this week, and he is certainly very sorry he could not be here.

I'd like to read into the record our pre-budget submission. It's titled "Sustaining Ontario's Recovery." There are three key points we wish to stress. First of all, Ontario's economic growth is forecast to ease to around 2.75% in 2003 from last year's 3.6% advance. But momentum should gradually be rebuilt later this year and through 2004.

Secondly, the global risks are historically high, including the soft economic recovery worldwide, extended financial market volatility, terrorism fears and a potential conflict in Iraq.

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Third, the importance of remaining competitive in NAFTA ups the ante for the province to balance social spending priorities with further tax reform and debt repayment.

The risks to the economic outlook right now are considerable. The Ontario outlook we present today represents our best-case view of developing economic conditions this year and next. Our forecast builds upon our assumptions for financial markets as well as the important interplay associated with public policy adjustments.

This outlook paints a relatively favourable picture for Ontario's growth, with the province's diversity and improved productivity underpinning its economic resilience. Ontario is expected to remain one of the strongest economic jurisdictions in the world, outside the primary energy-producing provinces domestically and the outperforming countries in southeast Asia such as China.

However, projections at this time are more clouded than usual, owing to the large number of economic, financial and geopolitical uncertainties. The US economy, up to now the world's growth locomotive, has lost considerable momentum, while the pace of activity is either grinding to a halt in the Euro zone or stalled as in Japan. Political and debt-related problems in South America have undercut this region's performance. As 2002 drew to a close, Canada's trade volumes essentially flattened out, highlighting the sensitivity of our economy to weakening international growth.

At the same time, recurring bouts of financial market volatility have provided little sustained relief for either investors or businesses. Topping off this list are the escalating tensions in the Persian Gulf region, now compounded by periodic bouts of international terrorism, ongoing clashes in Africa and along the India-Pakistan border, and new political hot spots in North Korea and, closer to home, Venezuela.

Probably the most critical threat to near-term economic growth is the potential for military conflict in Iraq. Crude oil prices have climbed roughly 65% over the past year, boosted by the emerging war premium in anticipation of potential supply disruptions and magnified by recent supply cuts in Venezuela. Any outbreak of military hostilities would likely send crude prices significantly higher and support them at elevated levels, with the duration a function of how long the global flow of fuel is at risk. This extra drain on the pocketbooks of the world's household and business users would further dampen international growth prospects, leaving Ontario's very export-intensive economy vulnerable to considerable slowing.

The event risk appears palatable, but as yet is largely incalculable. What we can surmise is that for a time global growth will likely be slower, while interest rates and equity markets will move lower than otherwise would be the case. In this highly volatile environment, monetary officials both at home and abroad will endeavour to cushion their respective economies by providing very accommodative financial settings until more stable political and economic conditions emerge.

Once these geopolitical tensions abate, the global economy is expected to recharge its spending batteries. Ontario should be able to piggyback on the recovery south of the border, reinforcing the continuing momentum in domestic activity. Ottawa's upcoming budget will likely provide additional economic support in the form of new spending, selected tax initiatives and a continuing focus on paying down debt with its unused contingency reserve.

In contrast to most of the monetary authorities in the industrialized world, the Bank of Canada has served notice that it intends to resume raising interest rates as soon as the clouds of uncertainty overhanging the global economy and financial markets begin to dissipate. Governor Dodge has indicated that with domestic activity proving to be more resilient and bumping up against capacity, price pressures in Canada appear to be both bigger and broader than had been expected.

In this environment, borrowing costs are likely to move gradually higher in the second half of 2003. Even with this renewed shift toward restraint, interest rates in Canada will only be moving from ultra-low to just low levels by historical standards. The widening differential between Canadian and US borrowing costs should reinforce some modest appreciation in the Canadian dollar that has gained some traction alongside the broad-based weakness in the US dollar over the past year.

Ontario's recovery path: Ontario's growth, after cooling slightly this year, should witness a stronger rebound in 2004. A resurgence in business investment, so critical to Ontario's manufacturing and service sectors, will be slow to materialize in 2003, leaving consumers and government to underpin the province's momentum in the near term.

Fortunately, Ontario households still have some spending power, after pushing up housing starts and motor vehicle sales last year. The high-octane fuel is job creation, with 195,000 new positions in 2002. Encouraged by the greater job opportunities, labour force participation rates surged to highs not seen since the early l990s. Consequently, Ontario's annual unemployment rose to 7.1% last year, significantly above the 6.4% rate if participation rates had remained unchanged through 2002. Factoring in wage increases and federal-provincial tax cuts, Ontario's after-tax personal income growth has averaged a solid 5% over the past three years.

This strength, alongside historically low interest rates, should help to sustain household spending growth as job creation slows in the coming months. Corporate hiring is expected to become more cautious as output gains remain soft early in 2003 and the pressure on profit margins persists.

The housing market has been a big beneficiary of these positive trends, boosting growth in Ontario and the rest of Canada as well. Housing starts and home sales in Ontario are forecast to remain at historically buoyant levels this year and next, even with some expected retracement. During the first half of 2003, the completion of numerous multi-unit projects and the backlogs from sales of new single, detached homes should keep residential construction high. The booming condo market has begun to ease the province's tight urban vacancy rates, but several factors, including Ontario's attraction for about half of Canada's immigrants, are expected to support this market segment.

Motor vehicle sales are also expected to remain buoyant, benefiting from incentives and a relatively older fleet.

Increased infrastructure spending is also underpinning Ontario's construction sector as building permits for government/institutional projects surged an estimated 30% last year. The public sector, most notably health care and education, will also help to brighten the outlook for Ontario's service sector this year. However, wholesale trade, the financial sector and a range of other business services are expected to remain constrained through much of 2003 by the slow turnaround in corporate earnings and investment.

Ontario faces the challenge of building on the gains already achieved in an intensely competitive NAFTA environment. The province's tight ties to the American economy extend beyond exports, which currently exceed 40% of its GDP, to integrated production and service activity and substantial cross-border investment. As a result, pre-tax corporate profits in Ontario have followed the American downturn more closely than in other provinces. Beginning in late 1999, earnings in Ontario slid 31% over nine quarters, compared with a 24% drop in the last three quarters of 2001 for the other provinces. In 2002 and 2003, the limited ability of Ontario firms to pass through cost increases is restraining the revival in profits, but stronger earnings are anticipated in 2004.

The extent of corporate consolidation in Ontario is illustrated by the amount of office and industrial space returned to the market last year. For Toronto and Ottawa, net space released totalled almost 1.6 million and 3.2 million square feet, for office and industrial premises respectively. Lingering corporate caution is likely to restrain the size of new deals through year-end, restraining non-residential construction into 2004.

Ontario, however, was one of only three provinces in 2002 posting an increase, albeit small, in its merchandise export receipts. The gain reflected the pickup in its dominant motor vehicle sector. Assemblies rebounded 4% last year, following a 14% drop in 2001. This year and next, assemblies are expected to be largely flat, with the continuing ramp-up in transplant facilities offsetting lower output from the Big Three. After the two scheduled closures, Ontario's remaining assembly plants are extremely competitive, but concerns remain about gaining new capacity. Where Canada is increasing its market presence is in the auto parts industry. Its share of a North American vehicle has climbed 21% over the past four years, reflecting the industry's focus on increasing value added through major investments.

Heavy truck production, after holding its own last year in advance of tightening emission regulations, is now expected to soften, reflecting the comparatively young average fleet age. Prospects are also clouded for Ontario's aerospace industry.

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Substantial gains in the province's export receipts await stronger machinery and equipment investment, now delayed until at least 2004. Tonight we will hear more about domestic prospects in the US in the President's State of the Union speech, but benefits from Washington's substantial stimulus should also emerge next year. Demand for information technology equipment and services is already strengthening, but the telecommunications industry is still grappling with excess capacity.

In the high-tech sector, near-term prospects are more promising for film/TV production and biotechnology. Ontario closely follows Quebec with almost 30% of Canada's biotech firms, spurred by a focus on health and products related to agriculture. Here too, the province faces substantial competition from alternative Canadian locations and notable US clusters as it fosters start-ups and corporate expansion.

Staying the course: the challenge for fiscal policymakers both at home and abroad is that increasing demands on the public purse are bumping up against only a gradual recovery in revenues. Within a balanced-budget framework, meeting new priorities requires increasingly difficult fiscal trade-offs over time. For Ontario, current uncertainties underline the importance of maintaining its substantial contingency reserve.

The prospect of an intensely competitive NAFTA environment reinforces the importance of a "productivity lens" for Ontario's policy initiatives. Other provincial governments and neighbouring states are also weathering fiscal strains, increasing the potential longer-run dividend for Ontario's competitiveness from a careful balance of effective spending and taxation measures. A modest pickup in Ontario's tax receipts is forecast for fiscal 2004 as nominal GDP growth climbs back over 5% this year and next. Personal income tax revenues will be supported by the recent strength in job creation, while buoyant home sales will keep land transfer tax receipts high.

Restraining revenue increases, however, will be scheduled tax cuts and the carry-forward of both business operating losses and the substantial capital losses stemming from the extended slide in equity markets. Ontario has no significant revenue offset, in contrast to several other provinces, most notably Alberta, where resource receipts are presently riding higher with oil and gas prices. In addition, Ontario must begin to remit to Ottawa a $1.3-billion revenue overpayment in fiscal 2005.

The likelihood of a considerable rise in federal health care transfers is, therefore, welcome news for fiscal 2003 and onward. The strength of the province's publicly funded health care system is an important competitive asset. It requires replenishing, but it also needs restructuring, since its 40% share of program spending is already limiting other initiatives.

Ontario has other massive spending needs that are important to the province's quality of life and productivity. They include increased funding for elementary and high school education, the multi-year expense of the double cohort, increased training, urgent investment in our border crossings, and managing southern Ontario's extensive urban growth. In the Golden Horseshoe, for example, the population increase from 1996 to 2001 accounted for roughly half of the national gain, demonstrating the required catch-up in infrastructure, most notably intra-urban and regional transportation. Fortunately, Ontario should be able to leverage federal assistance for a number of these priorities.

Moving forward with promised personal and corporate tax reductions will be key to Ontario's business environment. The fundamental tax reforms of President Bush's growth and jobs plan have raised the ante for both Ottawa and Ontario to put new tax cuts back on the table. Multi-year initiatives will help the province to stay in the black. In preparing the new tax reduction package promised in last spring's budget, attention should be given to profit-insensitive levies. They pose a very visible disincentive for investors that diminishes Ontario's increasing competitiveness with neighbouring states on corporate income tax.

Going forward, the province's longer-term flexibility is still constrained by its debt service burden. North American interest rates will inevitably rise from the current situation of monetary ease, making debt repayment the only sure route to lower interest costs. The province will realize some saving this year and next from refinancing high coupon debt, but modest financing requirements could well absorb much of this windfall. The importance of systematic and significant debt reduction to Ontario's competitiveness suggests that a major portion of the proceeds from future asset sales should be earmarked for liability repayment.

Thank you very much.

The Chair: Thank you, Ms Webb. That leaves us with about 14 minutes per caucus. We begin with the official opposition.

Mr Phillips: Thank you very much. I was caught by your last comment about future asset sales. There's one being announced today, the sale of the provincial savings offices. I think it's going to balance the books rather than pay down the debt.

But my first question is just on the revenue outlook. I seem to recall that your organization is one that actually does some revenue forecasting, and I'd once again ask you, which I think we did last year, if you would provide the committee with that.

Ms Webb: Yes, I would be pleased to.

Mr Phillips: We can't get a thing out of the government. We have one number for the next fiscal year that's eight months old, so we're kind of flying blind here. Can you give us kind of an overview of how you see the revenue outlook over the next couple of years for Ontario?

Ms Webb: I certainly see tax revenues coming back, but not as strongly as one would have hoped. That's partly because of the extended capital losses and the fact that they take so much out of PIT receipts, particularly in Ontario. So in terms of tax revenues, I'm looking for an increase of about 2% for fiscal 2003, probably strengthening to 2.5% to 3% for fiscal 2004. Then you have to figure out what is going to happen with asset sales, but I am expecting that the federal government will come to the table with significant funding, and Ontario's share of that is about 40%, so I'm looking for a significant boost from that. The telltale evidence and rumours certainly seem to indicate that that's going to come in fiscal 2003 as well as in 2004. So somewhere between a $500-million to a $1-billion boost will certainly help to balance the books as well as any asset sale.

The concern, of course, is that tax revenue and own-source revenues are falling far behind what we saw from fiscal 1997 to fiscal 2001—tax revenues were greater than 6% in many of those years—and that's going to really limit how much the province can go forward on new tax cuts and new spending initiatives. It means that the tough trade-offs have to continue.

Mr Phillips: The information was very helpful, Ms Webb. Yesterday, Hugh Mackenzie from the Steelworkers had a much more optimistic view of the revenue forecast than the 2% to 2.5%. I'm struck by the federal numbers. Even though they're looking at a significant surplus, this Fiscal Monitor that they put out, which I got yesterday I think, shows personal income tax revenue down about 6%, April to November this year versus April to November last year, and corporate income tax down 21.5%. So there are these almost contradictory signals: a big surplus federally but the key revenues look like they're down. So I repeat myself: that will be very helpful to us.

Ms Webb: May I speak to the federal revenues for a moment? Those numbers are very negative because April and May were so negative, starting off the year. As we move through the rest of the fiscal year, I think we will see that Canada's very strong job creation will boost EI premiums and also PIT receipts. We've weathered the worst of the PIT on the federal side, and on the corporate income tax probably the same thing, although I'm still expecting operating losses to really take a cut out of corporate income tax revenues for Ontario and Ottawa this year.

Mr Phillips: But you're still quite modest in your growth, at 2% and 2.5%, more so than I thought you would be.

Ms Webb: I guess my concern, and I could be low—for 2004, we're looking for 2.5% and that could be 3%—but there is substantial risk out there. When we were looking at what options Ontario had, we wanted to make sure that we were looking at potentially a conservative picture to figure out what we could recommend to the government.

Mr Phillips: Your suggestion on tax is for ones that are not profit-sensitive, or they're "profit-insensitive," to use your language. The minister yesterday announced actually that—at least, the major corporate one that she confirmed yesterday was to move corporate income taxes, the profit-sensitive ones, to a rate roughly 25% below our competitors in the US. Is that the right policy decision or, if we are going to proceed with tax cuts, should we be looking at something different than corporate income taxes 25% below the US?

1020

Ms Webb: Ontario is working very hard to stay competitive, and so I think that the corporate income tax initiative certainly sends a clear signal south of the border that we are a competitive jurisdiction.

I mentioned the profit-insensitives, because they seem to have a very visible impact on potential investors in Ontario, and I'm thinking of things like the capital tax, but also the corporate minimum tax. Now, the corporate minimum tax, for example, is very often just a timing issue, and in fact the net revenues received by the government over several years are not substantially impacted by this tax, and yet it remains a disincentive. So we mentioned the profit-insensitives simply because those stand out as a deterrent, even though Ontario is becoming more competitive on the income tax side.

How we choose to do our mix of taxes is up to us, but I think it's very important to keep an eye on key jurisdictions like Alberta, but also the States. Bush's package clearly indicated that they were moving ahead with tax reform no matter how high the deficit was soaring.

Mr Phillips: But my recollection of the Bush package is that the biggest thing is tax on corporate dividends—

Ms Webb: That's right.

Mr Phillips: —which is, in many respects, on the personal side. So it wasn't on the corporate income tax side; it was on the dividend side.

Ms Webb: But removing the dividends will help corporations in terms of being more easily able to do financing.

The other thing is that this package Bush is proposing to Congress also accelerates all the tax cuts that were going to happen in later years in his prior tax package, and so that means that in fact the personal tax cut and some of the other reforms are being moved into possibly 2003, and that's what he wants, to move them into 2003.

Mr Phillips: You mentioned about—I'm changing the subject completely here for a moment—the auto plants and that concerns remain about gaining new capacity—two scheduled closings but concerns remain about gaining new capacity. Have you any advice for us on what we should be considering there?

Ms Webb: The bank very strongly believes that setting up a low tax regime, particularly when our dollar is still significantly below 70 cents, is the best route that Ontario can go, and that if you go with something like tax incentive enterprise zones, you risk the problem of arbitrary decisions. When you set low tax rates across a level playing field, that allows the market to decide which industries are interested in investing and which industries don't believe they can make a go of it. It's that type of market decision that usually creates the most sustainable growth.

So yes, I think that going forward in the NAFTA environment, Ontario faces competition not just from the southern states, in this case with auto assembly, but also from Mexico. Mexico's lower labour costs are a significant factor for Ontario to face in the future, and that means we have to continually keep our eye on value-added and leading-edge products. That's where the auto parts example is so interesting. That particular industry has continued to focus on increasing its value-added, and as a result it continues to gain share. In fact, it paced Mexico's growth last year, and its percentage of each North American vehicle continues to rise.

So when we look at the automotive sector, we look at existing assembly plants that have proven their competitiveness and an auto parts industry that continues to prove that it's very productive.

Mr Phillips: One of the directors at Magna suggested that the assembly plants may require some special effort. You don't think that that's required?

Ms Webb: "Special effort" can cover such a broad range of possible incentives, as you know. One of the things has been training. I would say that training is something this province needs to work with, that in a knowledge-based economy, particularly in Ontario's, where so much of our potential growth is related to applying new technology to existing industry, training stands out. So it depends which special effort you're going to put.

Mr Phillips: I noticed on page 4, your debt servicing burden, that it looks like Ontario has the highest debt servicing burden of—at least, the other provinces are lower, and obviously Alberta dramatically lower. What would be causing that?

Ms Webb: The problem is that Ontario's debt servicing burden hasn't fallen that much: by about $500 million, from $9.5 billion down to about $9 billion for this fiscal year and next. I think the numbers are going to come in a little bit less with the very low interest rates that we're expecting, but nevertheless, that's leaving Ontario in the middle of the pack, and it is leaving us above the provincial average. We're about two cents above the 12-cent provincial average. So that "Other Provinces" line reflects a province such as BC, and the Atlantic provinces certainly have heavier debt service burdens than we do. But, yes, it is sending a signal. Ontario could keep up with Alberta in terms of tax reduction when our growth was over 5% in that 1997-2000 period. It becomes much more difficult for us to do that when we're looking at growth in the 3% range. That's really one of the messages of the first graph in this report. When you look at it, there was our stellar growth in the latter half of the 1990s. Then we're looking at very solid growth, in the 3% range now. As I say, that's healthy growth, but it's not the robust experience we had.

Mr Phillips: Just in terms of an overview for us, I'm trying to capture your sense of the next one to two years ahead. Other economists have been saying, "We've downgraded their outlook a little bit. There are storm clouds on the horizon." Are there significant risks going forward? Is it just normal risk? There's always risk going forward. I'm just trying to get a sense of how much caution you would be encouraging us to exhibit here.

Ms Webb: I think significant caution. When you look historically over the past five or six years, for example, I think the risks right now are quite high. Of particular concern is what happens to energy prices, oil and natural gas, should the US go ahead with the conflict in Iraq. That impacts us two ways. We're so tightly tied to the US, and they obviously do see slower growth whenever oil prices increase because they are not a major oil producer. So we are automatically impacted, and it takes out of household pocketbooks, but it also really hurts producers, because in the current environment producers have a really tough time passing on input costs. The other problem is that we are concerned about the whole spluttering of the global economy, and that again impacts Ontario because we are so export-intensive.

We have, I think, quite an optimistic base case. In fact, our optimistic base case, though, is below our other competitors. I'm sure over the past day you have heard forecasts for 2003 that are significantly above 3% for the province and are not 2.75%, the way ours is.

I'd just say, build in a scenario that is 2% to 3% as a low-case scenario just in case we see things unfolding unfavourably. Even if we do avoid a potential conflict in Iraq, the uncertainty right now is really playing havoc with the financial markets.

Mr Phillips: I don't recall your mentioning electricity in your remarks. Maybe you did; I just don't remember.

Ms Webb: No, I didn't.

Mr Phillips: Has the bank taken a look at all at the state of the electricity market here in Ontario and what, if any, implications that has for our finances and our economy?

Ms Webb: The short answer is no, we haven't. It has not been something I have looked at, and I look after the provincial and regional forecasts. So the short answer is no, I can't, but it certainly plays in as a very important input cost.

1030

Mr Christopherson: Thank you, Mary. It's good to see you again. You mentioned just a few minutes ago, and I just want to pick up on it, about Mexico, the labour costs and competition. It's interesting to note that Canada—and I assume the US too, but certainly Canada—I know first hand over the last couple of decades lost jobs to northern Mexico. I don't know the exact name of the zone—

Ms Webb: Maquiladora?

Mr Christopherson: That's it, yes—and to use Perot's term, that sort of sucked up a lot of the jobs. But now I'm seeing that the latest thing is that the workers in southern Mexico are now willing to work for even less money than the northern Mexican workers and a lot of the jobs are now being relocated or their destination is southern Mexico as opposed to northern Mexico. Then of course we now add China to that, which is playing on the world stage in a huge way. In fact, almost overnight, suddenly they're there and their exports and imports into North America are huge. It's putting both a deflationary pressure on prices and also it's taking jobs out of North America because we can't compete, particularly at the labour cost level.

So it's northern Mexico; then they're outbid by the southern Mexicans. Then we've got the Chinese, and at some point the Taiwanese and a few others are going to have to try and respond to what the Chinese are doing. My question is, in an economy and a society like ours, how do we win that game? I would argue we can't, but how on earth—you made the comment, and I'm not jumping the issue, but you did make the comment that we've got to keep an eye on labour costs, and fair enough. When you're in a competitive environment, you do. But it just seems to me that when you string it out, at the end of the day, unless Canadian workers somewhere are prepared to undercut the northern Mexican workers, the southern Mexican workers, the Chinese workers, the Taiwanese workers and anywhere else where exploitation can take hold, we're not going to win that game. It seems to me we ought not try. How do we break out of that?

Ms Webb: I agree with you: we ought not try. We can't let our labour costs get out of line, particularly with the States. In the past, when you look at our labour costs, our wage costs, they have been higher than the States, but then when you factored in the depreciating dollar, we came onside quickly with a decline in unit labour costs that was greater than the decline for the Americans. But if we can't rely on a depreciating dollar, then we have to rely on increased productivity, and therein lies the answer to your question. We don't want to give up our standard of living, our public health system and all the things we have in Canada, and therefore we have to stay on the leading edge and have high-valued goods that the others can't replicate or are going to be in a race to replicate. That puts an incredible challenge to our province.

What's particularly interesting is that innovation policy is very difficult to craft. So I recommend to the province that we focus particularly on the concrete aspects of innovation policy: getting low tax rates; making sure that our tax administration, but also other aspects of regulation, are streamlined; taking advantage of training programs and keeping our labour force, because when we look at employment, almost all the employment in recent years has been people with post-secondary education, so we have to look on a net basis at training; and leveraging federal money as far as we can to accomplish those objectives. Spurring innovation and the commercialization of innovation is always a very nebulous process, so we want to make sure we get the concrete aspects and environment correct and then work on the nebulous.

Mr Christopherson: When you talk about tax cuts being a component of that, to me there's a bit of a relationship, at least a theoretical relationship, between not wanting to try to compete with Third World countries in terms of our labour rates but also in terms of tax cuts, because the taxes, the revenue that we all put into our government, is exactly where they get the money to provide the health care system and the education system and all the things that give us the competitive edge, if you will, in terms of value added. If we want a world-class education system, then we're going to have to pay for world-class teachers and world-class administrators. The same thing on the health care front, with not just our brain surgeons but all the nurses and the support staff and the ambulance drivers—the whole system. We want safe streets. Well, then, we've got to pay our police officers and firefighters a decent amount and make sure they've got proper training and equipment. All of those things are also directly related to the amount of tax.

It seems to me we've got both of these pressures working on us, that everybody's saying our labour costs are getting out of whack and they're becoming uncompetitive so we've got to push them down and push them down. I would argue that this government has had a decided program and policy to do everything they can to keep overall labour costs down, to suppress them and push them downward at the same time that we're decreasing tax revenue, when it's the tax revenue, again, that gives us the ability to pool our resources and create the kind of society we have that gives us the standard of living that we have. I don't quite see how you make them connect when they seem so disconnected.

Ms Webb: I think in fact that there is a disconnect reflecting the tough fiscal trade-offs that have to be made. First of all, there are some tax measures that could generate revenue, particularly in the mid-term. The one that keeps coming up again and again is the capital tax, and several accounting firms have done very interesting studies saying, "Just a minute. For every dollar of revenue, this is costing the economy $7 and therefore this is a very unproductive tax." That does stand out as a tax that discourages non-financial companies from investing. It also discourages financial institutions such as Scotiabank from building up reserves to make sure that we remain a very safe institution for everyone's savings.

So there are tax reforms. I think that when we're looking at Ontario's total tax presence, we have to keep focusing on low-price-tag reforms. Some of the corporate tax disincentives would have a very low cost to eliminate and therefore they should be considered, such as the corporate minimum tax.

But overall, you're right. We can't proceed full steam ahead on tax cuts when we have such massive spending pressures. I would argue that infrastructure is another huge spending pressure. We have major catch-up to do here, and we've got to do it because that's going to choke off our growth as fast as anything else.

We had smart growth introduced; I think we have to have smart spending. Our health budget is 40% of our program spending. In terms of current expenditures or the operating budget, as the Premier indicates, it's 47%. We've got to go back and restructure that and do things differently. Not only do we need more money in the system but we have to do things differently or it's going to collapse under its own weight. We can't afford health care by 2010 to be 50% or 55% of our budget. It's becoming more and more difficult to squeeze the other program areas that are outside of health and infrastructure and education.

And I couldn't agree with you more on education. That's another priority area where we have to be very smart. When I said that the fiscal challenges are far from over, they're far from over. We constantly have to be reassessing existing programs and eliminating the less efficient existing programs to make room for some new initiatives that we think would have more value added.

Mr Christopherson: To change the subject a bit, consumer debt is at frightening levels. It would seem to me that it wouldn't take too much to trigger a bit of a crisis there. If all of a sudden there's a whole lot of people who can't afford to either re-mortgage down the road—I remember what happened in the early 1980s. I had friends who just walked away from their homes because they couldn't refinance, and you'll recall the double-digit interest rates at the time. I want to link that. I know I'm probably getting close to time here, but I've asked this of a couple of others and nobody seems to agree. Who am I to know any better? I'm not an expert on this. But it just seems to me that we've got what could be defined as a growing bubble in the area of housing, with Britain leading the way. But if it turned into a bubble and it burst, and we got into this bind with consumer debt—people lost jobs, interest rates started to go up—am I worrying about things I shouldn't be here, or are these things interrelated?

1040

Ms Webb: No, I don't think you're worrying unnecessarily at all. The consumer debt burden is high. It's not, in either Ontario or Canada, as high as in the States, although regionally we have trouble accurately measuring it, just because of some data developments. Nevertheless, when you look at the debt service burden relative to after-tax household income, it is starting to approach previous cyclical peaks, even with really low interest rates. Eventually we will see higher interest rates because they're so very, very low now.

So what do households do? Well, the whole thing hangs together as long as we have positive employment growth and moderate wage increases. That's what we've built into this base case forecast, although we've had such a surge in employment over the past year that I think we are going to see a couple of quarters of maybe disappointing job creation before it picks up again in 2004. That's the good-news scenario. That's how we blow through. But that's one reason why our Canadian forecast and our provincial forecast are lower than some of our competitors': we're only building in 2.5% growth in consumer spending. We think the combination of the debt load and the hits that people have taken on their savings because of the equity market slide will cause people to just be slightly more cautious. We won't have exuberant spending.

The same thing with the housing market: that's why we have housing starts falling off. We've seen the cyclical peak, in my view, in housing starts. We've probably seen close to the cyclical peak in home sales. I've built in 2% in housing increases, just based on how high prices are right now, for 2003 and a small decline in 2004. That decline could be greater, but the market information I'm getting is that the speculative component in things like the condo market is not that great. Much of it is people who intend to live in those units. As long as that's true, then probably we could see a modest fall-back in prices but not a huge fall-back, and that's partly because we still have such strong population growth here in the Golden Horseshoe.

Mr Christopherson: The prospect of war, in terms of the borders: Minister Runciman said that he had been advised by senior American officials that if war broke out, the first thing that would happen is that the Canada-US border would shut down or virtually shut down. Can you just give us a sense of what the immediate impact will be and how long we can go until we trigger into a crisis?

Ms Webb: That would be—a complete shutdown?

Mr Christopherson: I imagine that could be maybe in the early hours, but let's just say even if it went to the backups we had during the September 11.

Ms Webb: There would be a lot of impact across every industry. Over 90% of our exports are south of the border and over 90% go by road and rail. So would that be a sustainable situation for Ontario? No.

Mr Christopherson: How long could the American economy go without benefit of our imports to them?

Ms Webb: I think what you'd see is a border tightening. How long could the American—the first thing that would happen is, what are you doing with all the oil, gas and electricity that we're transporting south of the border? Are you shutting off those as well? Because that's probably the first weak spot that would emerge. We are shipping huge amounts of energy south of the border.

I think the comment, though, is well taken. We're moving toward moving low-risk goods, but we probably haven't moved as fast, or we need to move to further improvement. So after the initial crisis, I would hope that low-risk shipments, for example, having sealed rail containers and that type of thing, would go back. But no, our production system is very closely integrated with the States'. It goes far beyond the export number, into all the integrated production, all the foreign affiliates that work up here. We can't even measure it any more. So closing the border for both sides certainly brings home the importance of a secure North American perimeter.

The Chair: Thank you, Mr Christopherson. We move to the government side.

Mr Marcel Beaubien (Lambton-Kent-Middlesex): Thank you very much for your presentation this morning, Ms Webb. I thought it was quite impressive and very well balanced. However, my first question deals with a personal point of interest that you brought up in your presentation, when you were talking about the recurring bouts of financial market volatility. On the second page you mention a few areas—North Korea and Venezuela—but you mention ongoing clashes in Africa. I haven't heard too many people mention Africa, because usually nobody really cares about Africa. That's why I'm asking you, why did you mention Africa? Like I said, I do have a personal interest so I'm very interested.

Ms Webb: Africa has stayed on our radar screen for several reasons. One is, as you mentioned, the extreme poverty and the droughts and the famine and the political unrest that that has created. So that is one concern of ours. The second concern is that in Africa we were also thinking of the Middle East and the whole area there, which has never ceased to be a concern of ours. So that's what we're referring to. And there is the continuing concern about the terrorist groups that have apparently—places in Africa, as well as the Middle East, Europe and around the world. That was what was in our minds when we wrote it.

Mr Beaubien: The next question: we've heard in the past day and a half that the economy, both in Canada and the States, in the past few years has been driven by consumer spending—

Ms Webb: Yes.

Mr Beaubien: —and that there hasn't been an awful lot of capital investment in machinery and equipment by companies. But if we look at the States, they have 0% financing for automobile purchasing. They have low mortgage rate financing, just like we have here. Yet the economy in Canada and Ontario, especially Ontario, seems to be a little more buoyant and seems to be performing better than it is south of the border. What is not clicking? Why do we have a difference?

Ms Webb: A couple of reasons. First of all, we do have a smaller high-tech sector. When that sector imploded, while we were certainly affected, we were less affected proportionately than the States.

The second thing is that we also have more pent-up demand. The US consumer has been on a spending spree far longer than the Ontario consumer or the Canadian consumer. So we have, for example, an older-age vehicle fleet. One statistic that still never ceases to amaze me is that when you look at the vehicle fleet south of the border, it's slightly larger than the number of people who are of the driving-age population. So essentially there is an average of one car per driver.

Interjection.

Ms Webb: Yes, an average of more than two cars per family, which means there have got to be a lot of families down there that have three cars. In Canada, we don't have that. Our vehicle fleet is a fraction of our driving-age population, so we haven't seen the pent-up demand. We're in housing expansion cycle as well because of that pent-up demand that is far stronger than what they're seeing south of the border. That's partly because our rental markets were so very tight that they've pushed up rents and it became more affordable in centres such as Toronto, but our other major centres in Canada as well, to buy a home rather than rent a home. So, fortunately, we have this pent-up demand.

Another very positive aspect is that we have our energy sector in Canada. While Ontario is not per se a huge energy exporter, we benefit hugely from things like the oil sands investments. Much of the steel, some of the metal fabricating and some of the machinery that's being invested in northern Alberta is very definitely coming from Ontario. So the energy sector is also setting us apart. Looking forward over the next two to three years, that is in fact one of Canada's trump cards. The importance to the US of having a secure energy source is very important. We're that source to the north and Mexico is that source to the south.

1050

Mr Beaubien: Talking about the pent-up demand, if we look at low interest, whether you're buying a condominium or a house—in the States, the consumer spending, apparently 40%, the figure I'm given, comes from refinancing your house or your condo or whatever.

I used to have a saying when I was younger that I liked to hold as opposed to own. Now it's the converse of that, because I'm a couple of years older. I'd rather own than hold. Especially with the aging demographics in population that we have, I find it interesting that we have an increased level of consumer debt with an aging population. It doesn't seem to be compatible. What's your comment on that?

Ms Webb: It has certainly been a source of interest and possibly concern to us as well. You're right: the refinancing has been huge. Unfortunately, we can't get as accurate data for Canada. So I think it's playing into a lot of the news reports and survey results that indicate that many of the baby boom generation don't look for early retirement because their debt load is so high and their retirement savings are less.

We're still looking for the retirement of the baby boom generation to pick up some momentum at the end of this decade and after that. If we're right, that means it becomes increasingly important for us to pay down as much as possible not just the government debt, but we have three other debts. We also have our commitment to CPP and QPP and our health care commitment. So getting our liabilities in order before the baby boom generation retires is hugely important, particularly if that retiring age group is more indebted than we would have otherwise expected.

Mr Beaubien: I have to share my time with my colleague. Thank you very much.

Mr O'Toole: Thank you very much, Ms Webb, each year. I'm going to make a couple of comments and then focus on one area.

The fiscal challenge, as you say, is far from over. It never is over really, I suppose. It's changing circumstances. Demand always exceeds supply, I suppose, of money.

Ms Webb: In this case, I think it's more severe. You're right: wish lists are always greater than pocketbooks.

Mr O'Toole: I wish GO Transit actually went right to my door.

Ms Webb: Yes, exactly.

Mr O'Toole: I have to have a car to get to GO Transit. Then it's too far to walk, and the parking should be free. The demands are enormous.

I put it this way, though. You're the economist and I'm just a citizen. I think it's sort of like the chicken and the egg. This is an overly simplified model, but we have to deal with who I am. Basically, which came first, the good quality of life or the good economy? Without the good economy, you're living in Argentina or Afghanistan. What's missing there is a monetary and judicial system, some stability, some kind of investment confidence. Is it too overly simplified that you have to have the strong economy to have the good health care, to have the good education, to have the good universities, double cohort, free tuition, whatever?

Ms Webb: It's not an oversimplification. We do have to have the economic growth and the job creation in order to finance the programs we have. I think the fiscal trade-offs are tougher now than they were, say, several years ago, because the revenue growth is half of what it was.

Mr O'Toole: That's what I want to focus on. Your chart on page 4 shows own-source revenue in Ontario. Other provinces are kind of a flat line on that chart; Ontario's drops off dramatically. It's going into the tank. It's below other provinces. It's diving below Alberta. Am I reading that correctly?

Ms Webb: Well, it's interesting. I will double-check that chart.

Mr O'Toole: Isn't that amazing? It's just completely tanking. Yet we're told by the—I was looking for it. I don't know where. Perhaps Mr Phillips was suggesting that they were cadging or jigging the numbers, meaning under-forecasting or conservatively forecasting. Because of the robust employment, our expenditure will be down on the social assistance side, but it will be up on personal income tax, corporate income tax, all the consumer-driven PST, GST, whatever. It's going to be through the roof. In fact, the feds are going to be $2 billion higher than the forecasting. They're forecasting conservatively as well. I find it a real strange anomaly with that number.

Ms Webb: I will check that graph, but are Ontario's revenues slower? Yes.

Mr O'Toole: Obviously I'm not—

Ms Webb: Is our revenue growth slower to pick up?

Mr O'Toole: I would agree with you. I'm not in a position to question you because you're an economist and I'm not. I would wonder if that's true, because really, when we didn't sell the 49% of Hydro One, that's about $2 billion that some would suggest we were going to use to balance the books. Now you're saying it's even worse. How are we going to make up that $2 billion? If the revenues are as bad as you say here, we're in serious trouble.

Ms Webb: But don't forget, this is a percentage of GDP.

Mr O'Toole: I know it's a percentage of GDP.

Ms Webb: Yes, I will check the graph.

Mr O'Toole: But this is still measuring the growth in the economy.

Ms Webb: Right, but beyond that, you're absolutely right, you can't afford 5% increases in program spending unless you have increased federal transfers and—

Mr O'Toole: Five per cent increase in GDP.

Ms Webb: Yes, so therein lies the concern: that you have to keep making these trade-offs or it's not going to hold together.

Mr O'Toole: Someone else mentioned the debt servicing thing. Michael Gourley handled that question yesterday and said that they're making significant changes in long-term debt, getting at lower money. They saved—I think $700 million was the number they used in terms of restructuring the debt. So I don't know if that chart is any good, either.

The other one is interesting—

Ms Webb: No, that chart is fine. That one I know is absolutely fine. There is no question Ontario's—

Mr O'Toole: Yes, it's too bad we're above other provinces.

Ms Webb: You're above a number of other provinces. Don't forget, the average of other provinces is an average. So the Atlantic provinces are above Ontario and—

Mr O'Toole: Alberta is below and BC below.

Ms Webb: Alberta is below, BC is below, Saskatchewan is below. But there's no question: our debt service has stalled at $9 billion—

Mr O'Toole: We aren't coming down as quickly as we could.

Ms Webb: That's right, and it's not coming down—

Mr O'Toole: Even though we're restructuring some of that debt.

The last thing I want is your comment on interest rates. You've made some interesting projections that are almost a contradiction. Of course, they're explainable. One is that with the risk with war etc, interest rates could become very volatile. Then you say that the Bank of Canada has served notice that it intends to resume raising interest rates.

Ms Webb: Once the global uncertainty is over.

Mr O'Toole: That's right. Once we go back to tax and spend—

Ms Webb: I don't think it's a case of going back to tax and spend. Canada has a situation where we have a number of domestic price pressures such as auto insurance. Therefore, when you look at our Canadian inflation there are trends such as the 2.7% year-over-year increase in the core rate that are of concern and well over the Bank of Canada's midpoint of its target range. The Bank of Canada has moved to the sidelines and did last week and did not put in a rate increase because of the global uncertainty. So the statement in our report is, once those clouds of uncertainty move off, the Bank of Canada has said, "We're concerned about high inflation and we may take some of the excessive ease out."

The other thing is that we have the Bank of Canada rate and the overnight rate, which are administered, and the prime rate, but then we also have the interest rates that are determined by the market. I'm thinking of not only government bonds but corporate bonds. In an environment of uncertainty, corporate bond spreads above government bonds tend to widen significantly. So we could have quite a volatile several months as the possibility of a conflict in Iraq persists.

The Chair: Thank you, Ms Webb. We appreciate your input.

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CANADIAN AUTO WORKERS

The Chair: Our next presenters are representatives from the Canadian Auto Workers: Mr Hargrove, Mr Stanford. Welcome, gentlemen.

Mr Buzz Hargrove: Thank you very much, Mr Chair and members of the committee. We're pleased to be here one more time. Jim Stanford, who is an economist who works with our union, will have a presentation when I finish. I'm just going to make a few opening comments and he'll give you some more detail.

The first point I'd like to make is that we're going to talk mainly about the auto industry, but I do want to talk about the aerospace industry as well. A lot has changed since we were here a year ago on the auto industry. I think there's a much greater understanding by all parties in Ontario and the broader public about the crisis the industry is facing. That's come about I think in large part by a campaign we initiated as a union, that Mr Flaherty followed up on with a round table and then worked with Mr Rock to set up what we call CAPC, the Canadian Automotive Partnership Council, which includes all of the stakeholders: the five major producers in Ontario and Canada as well as the parts makers, the dealers, the suppliers. They're all represented. Academia is represented as well as the federal government in the person of Mr Rock and his people and the provinces of Ontario and Quebec. Mr Flaherty and Mr Rock have attended all of our meetings to date.

I start by saying that we recognize and encourage the government to deal with the broader issues that we face as a province: the increased funding we need for education, for health care, for our universities and colleges. There are major challenges with our water, our sewers and all of that. We understand it takes money to do that, and we see that, as most Ontarians do, as a priority. But we approach it a little bit differently, I guess, in the sense that our position is that if you don't have major industries like auto and aerospace and others, then you're going to have a hard time coming up with the funds to do what we have to do in the other areas.

We still have two major assembly plants that are scheduled to close: one in Windsor in July of this year, the Chrysler plant, and then a Ford facility in July of next year in Oakville. During our bargaining last fall we were able to extract major commitments out of the companies, a total of about $7 billion in investment, but it was conditional on a number of things. First, it was conditional on our union doing some things, some major changes, and we have done that.

One example of that is the Chrysler decision, which will come up first. Within the next couple of weeks there will be a decision made as to whether or not they're going to do that in Canada or in the southern United States or possibly even Mexico. On our part, we agreed for the first time in the history of the industry in North America that we would have an assembly operation that had one of the major assemblers as part owners of the building and the work. We're going to have an assembly plant, if we get it, that will have DaimlerChrysler as a lead player owning the trim shop and then you'll have parts companies that will own the metal shop, the paint shop, the chassis shop and the final car division. So you could end up with anywhere from three to five owners within the same building assembling a vehicle. There are a couple of examples of this around the world. One is in France with the DaimlerChrysler Smart car and there's another example in Brazil, but this is unique. It has faced incredible resistance from a whole lot of groups. Our own union historically, the UAW in the United States, the Mexican unions, but also the suppliers and others have resisted this kind of structure because it puts a lot more cost on them in terms of research, development and infrastructure than they have traditionally been used to.

But we have come a long way. In addition to that, we agreed to a new rate for people hired for the new project that would be 75% of our current rates, our wages and our other programs and would gradually, over a three-year period, get to the top rate. Chrysler estimated that would save them about $70 million.

My point in raising this is we have done a lot of things to make sure that we do what we can to attract investment. We got the commitment, if the government and the suppliers join, to make this an economic success story. Then DaimlerChrysler will move ahead with this operation in Windsor, which will launch production in the latter part of 2005. It's very significant. It'll have 1,500 direct jobs within the assembly operations and it'll have another 1,000 to 1,500 jobs in a parts supplier park around the facility. Again, a first for this industry in Canada.

In addition to that, Ford in our bargaining agreed to a major new refurbishing of their facility of this year. In August of this year they're going to launch a brand-new minivan which will require some additional hiring this year. As we go into 2004 it will mean the addition of another shift and a transfer, as they close the old plant, of 900 people from the truck plant to the new plant and require a massive amount of training for people to do the work in this new facility.

This new facility, as well, has some unique characteristics to it. It will have a parts supplier park in the area and it will be environmentally friendly. For the first time, we're using fuel cells to actually run the manufacturing part of the operation, which will be a big improvement in the emissions that go into the environment as a result of the manufacturing as opposed to the emissions from the vehicles that are built later.

So it is a unique opportunity, but the most unique part of it is long-term. Ford has agreed to a massive new investment at that facility that will guarantee about 4,000 jobs over the next decade, if they can get the right dynamics. Again, our union has made major changes in our agreements. The suppliers have to come on board and the government has to be a partner in this.

There's a couple of other projects I want to identify that are floating around. Magna is looking at a major new project for Ontario and Canada, if they get the right dynamics. It's going to mean that the government has to be proactive.

More recently, Mitsubishi and Toyota are both talking about assembly plants somewhere in North America, and their decision will require proactive government if we're going to have a chance to get those in Ontario and in Canada.

So the industry's changing. What are we suggesting? All I know is that we've got the best quality in our facilities here. When you're looking in North America, there's no one who can touch our facilities in terms of quality. Out of over 40 assembly plants studied, the Harbour Report, which is the recognized expert in this field, had our General Motors plant in Oshawa number one, ahead of the Japanese, ahead of all others in North America. By the same standards, in Oshawa our plants were 38% more productive than General Motors assembly plants in the United States, and that's a phenomenal difference.

Anyone who's been in business will tell you that any time you're 38% more productive than your other operations or your competitors, you've got one hell of an advantage. That's the kind of operations we have. We're the only industry in the world that has assembly plants three-shifted and making it work, and work properly.

So we have the quality, the productivity. We have the utilization of the vehicles. We have lower labour costs. But we're losing all the new investments to the southern United States, and yes, in some cases even the northern States are putting up a lot of money to attract the investment. Mexico as well is putting a lot of money on the table in spite of the fact that their labour costs are probably 25% of what they would be in Canada, and even less than that versus the United States. They're still putting money on the table to attract these new investments.

The latest one was the Sprinter, which went to Georgia. Georgia put up US$325 million in a combination of ways—training funds, new technology, infrastructure, out-and-out grants to the DaimlerChrysler Corp—to put that plant there. The governor bragged about a major victory that would see a payback after 10 years. In all of our analysis in Canada, the government investments of the past have been paid back in anywhere from one and a half to four years. There's been a long history of government investment in this industry and in a lot of other industries, but in particular auto because of its importance to jobs, to our exports, to the financing of government, whatever way you look at it; and it goes back a long way.

We have a world-class engine plant in the city of Windsor called the Essex Engine Plant that's a benchmark for producing engines around the world: the best in quality, best in productivity, best in cost. If it hadn't been for the Bill Davis government putting $28 million into that back in the mid- to late 1970s, and leveraging $40 million from the federal government—by doing that, he took the lead—that plant wouldn't be there today; it would be somewhere in Cleveland, Ohio, or somewhere else where Ford has its engine operations. There's been a whole history of that. The Brampton assembly plant—the same Tory government put money into that. Every major investment in this industry has had government support.

So where are we at today? There's a lot of potential, a lot of upside for the province of Ontario, but it's going to take a realization that the rules have changed. Everyone else has come to that conclusion. I raise this because I'm really concerned. I watched with interest when Dalton McGuinty made a speech in Windsor. I thought the speech was a little short in terms of any kind of detail or specifics about what they were prepared to do, if elected, for the industry, but a strong statement about the importance of a proactive government needed to get the investment. Mr Flaherty immediately responded by saying that he's talking about corporate welfare, which is way off the mark, Mr Chairman and committee members.

This isn't corporate welfare; it's about how we ensure that we get our fair share of the major new investments that are taking place in one of the most critical industries anywhere in the world. If we take that attitude, if we just do what we did on the Sprinter and say, "We've got the best quality, the best productivity, lowest labour costs; you should come here," they'll all nod their heads and say, "Thank you very much." As Jim Miller, representing Toyota, said this morning when we were meeting with Elinor Caplan, "We're nice people. We like Canada, but that ain't going to get us here, Minister." That's the stark reality. Whether we like it or not is another question, but that's where the industry is heading and it does need a proactive government and government response. And it pays back tenfold to what we put in.

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Let me just conclude, or maybe I'll have Jim go through the auto stuff first so I won't confuse it. I would like to make a short statement on the aerospace industry and then we can take your questions.

Mr Jim Stanford: Thank you, Buzz. Thank you again, Mr Chair and members, for the opportunity to meet with you. We've passed around three documents that I'll draw to your attention. One is a summary of the slides. I'll go through some of the facts and figures related to the current status of the auto industry.

The other is a more detailed policy paper that CAW recently developed in terms of analyzing the current moment for the auto industry and the challenges ahead of us.

Then the third document to draw to your attention is a report from one of the subcommittees of the Canadian Automotive Partnership Council that Buzz mentioned. This is I think particularly important because this includes a set of policy recommendations affecting the general fiscal environment—so obviously within your mandate as a committee to speak to—that has been supported by the whole range of stakeholders in the industry: by the Big Three manufacturers, by the offshore-based manufacturers, by the union, by the parts industry, by researchers and analysts, and by mayors of automotive communities. Coming from the whole terrain of the industry, you'll find I think a rather unique consensus on the need for some measures to improve the fiscal competitiveness of new investment in Canada's auto industry, with the resulting benefits for the Ontario economy and for the provincial government's financial situation.

I just want to say that the industry is very much at a turning point right now. If we don't put in place some measures that fundamentally shift the cost comparisons that the automakers are making right now, it's not that our industry is going to shut down overnight, obviously—our industry has had 20 or 30 years of strong success and it's not going to disappear overnight—but it is certainly going to shrink in the medium term. We may continue to receive some important investments to refit existing facilities, but we will not receive greenfield investments, and we will not receive the kind of epochal brownfield redevelopments where a company looks at a long-standing plant and says, "I either have to do something fundamental with it or I have to shut it down." We will lose three or more of our existing assembly plants, the parts investments that are tied to it, and we will definitely lose our place in the top tier of global automakers. We ranked fourth in 1999 in the world in terms of auto production. We're already down to seventh. We will be out of the top 10 within five years unless we fundamentally reshape those investment decisions, and we'll lose all the fiscal benefits that go with it.

I'd like to quickly cover today three myths about our current system and our current position and three themes about what I think governments, provincially and federally, need to do in order to put us back on the investment map. Let me address the three myths in turn.

First of all, there's the idea out there—I think it's less powerful, less convincing than it was a year ago when we first started this discussion—that there is no problem, that the Canadian industry is doing very well, thank you, and what's all the fuss about? I think this reflects a bit of a defensive perspective on the part of governments that have been doing a certain thing for a certain number of years and haven't figured out yet that that policy approach isn't working. There is a lot of evidence to suggest that Canada's industry has peaked, that we are well into a significant downturn that's not cyclical; it's structural. We risk giving back many of the gains that we made in the industry during the 1990s, and those gains were incredibly important to the fiscal progress that was made in Ontario at that same time.

This shows the pattern of new vehicle assembly in Canada. Again, virtually all of that now is based in Ontario. We peaked in 1999, assembling over three million new vehicles. That has declined to about 2.5 million and it's going to decline further in the next two or three years, partly for cyclical reasons. Everybody expects US auto sales to decline since, as the previous speaker was testifying, US sales have been very strong and there are only so many vehicles that can be bought there, let alone the risk of an interest rate shock or an oil price or the uncertainty with the war. Couple that with the structural factors—we're still looking at the coming closure of two assembly plants in Canada—and that will take out some of our production. We're looking at sliding down toward the level of about 2.2 million vehicles. So we're in the middle of a decline, and it's a protracted decline.

In terms of our share of the North American marketplace, the evidence is clear that Canada has lost up to one fifth of its share. In 1999, at peak, we supplied almost 16% of all the new vehicles that were bought in the integrated North American marketplace. That's down to 13%, and then it's going to decline further as our assembly declines. So it's not just that the overall market is shrinking—in fact, the level of sales in North America has been quite strong—but Canada's share of that market is shrinking, and that should be a great cause for concern.

Another way of looking at the downturn is in what's often referred to as the assembly-to-sales ratio. This is the number of vehicles that we assemble in Canada relative to the number of vehicles that we buy in Canada. This ratio has actually been a policy target. The Canada-US Auto Pact, for example, as one of the requirements to gain Auto Pact benefits, set a minimum assembly-to-sales ratio of one. For a company to participate in the Auto Pact and get the tariff-free status, they had to guarantee to assemble one car here for every car that was sold and assemble one truck here for every truck that was sold. As a result, the assembly-to-sales ratio went above one and it climbed during the 1990s.

In 1999, when we peaked and when the World Trade Organization first ruled against the Auto Pact, a lot of people shrugged and said, "So what? We're at over two vehicles assembled for every one sold here. We don't need the Auto Pact any more." We argued at the time that investment decisions can change very quickly and your industry can change very quickly, and I think that's been ratified.

Last year, again, the assembly-to-sales ratio fell further. It's now at 1.5 vehicles assembled for every vehicle sold, and that's going to decline further unless we start winning back a stronger share of the new investments that are being made.

There is no auto jurisdiction on the continent that has been harder hit by this downturn than Canada. This is why it's not just an issue of the overall continental marketplace trends; it's an issue of Canada being squeezed out of that market. Our assembly has declined by 15% since its peak in 1999. That's twice as large as the decline in assembly in US plants at the same time. And then of course Mexico's output has been growing by leaps and bounds. That's looking backwards at what's happened.

Looking forward, it doesn't look any better either. This is Ward's Automotive forecast of the coming changes in capacity shares between the three countries in North America. Mexico is going to add capacity. In the US, it's roughly a wash. They're getting the new assembly plants in the Deep South of the US, offset for the most part by plant closures and capacity reductions in the traditional areas. Canada so far is just on the losing end of the stick. We're looking at significant reductions in capacity with those plant closures that I mentioned and they're not being offset by attracting new greenfield investments coming with it.

In terms of the decline in assembly, the current downturn in the industry is the worst in a generation. Only in 1981-82 did we see a larger proportional decline in our assembly output. A couple of points to keep in mind there are—that was a demand or cyclical crisis rather than a structural one. That was during the 1981-82 recession, of course, and the deep downturn in continental sales, whereas our decline presently has occurred even though sales have been at record levels.

Another important factor was that government responded to that decline in 1981-82 with very quick, very forceful, very creative measures to protect the Canadian industry, ranging from Ed Lumley holding up the ships that were bringing in Japanese imports off the west coast for a whole range of inspections, to government bailouts of corporations like Chrysler, to proactive measures using duty remission and tax exemption and others to get new investment. So far we haven't seen that kind of response. I think we're getting there. We've done some education work with governments at all levels to highlight the importance of the industry and the vulnerability the industry faces, but so far government has not taken the measures that need to happen.

A second myth that's out there is the argument that we're past the time in Canada where government is going to try to "pick winners" by providing targeted assistance and incentives to particular industries in order to attract investment. It fits in with the whole idea of free trade, deregulation and smaller government. "We'll get the playing field right and then we'll let business do the rest."

First of all, I think that's a short-sighted approach that fails to recognize the strategic benefits that come from particular "winning" industries. I don't think anyone around this table would disagree that auto is a winner and that we need to support it because of its economic and fiscal benefits. But secondly, it contradicts the current practice that is out there. In fact, there is a range of industries that receive targeted, proactive government assistance to promote investment and development in various forms: the research and development tax credit from the federal and provincial governments; the Technology Partnerships Canada program; even targeted changes to patent laws, like our drug patent laws; targeted subsidies on the capital market side of things, such as a capital gains exemption and other measures which act through the capital markets to try and deliver cheaper capital to particular industries. All kinds of industries get benefits from targeted government measures.

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The problem from our perspective is that the definition and the criteria by which an industry qualifies are biased by an idea that you're only worthwhile for government support if your people wear lab coats and work in scientific research centres; that the traditional manufacturing base is a smokestack industry; that we're not there and we don't need to support it. But in fact, the fiscal and economic benefits and the productivity and technology benefits of the smokestack auto industry are quite to the contrary of that stereotype. In terms of the use of capital, for example, the auto industry uses more capital than these other high-tech industries put together: aerospace, computers, electrical equipment and pharmaceuticals. So it's obviously a capital-intensive industry.

On a per-worker basis, it's even more striking. There is no major industry in Canada that uses more capital per employee than the auto assembly sector. Productivity in terms of value added per worker in the industry: again, auto is superior to other industries which have received targeted government assistance, such as aerospace, computers, electrical equipment and pharmaceuticals. The whole idea of the innovation agenda—and everyone has recognized the productivity challenge facing Canada's economy. Of course you want to support industries that are high-productivity, and none is higher than the auto industry.

In terms of international trade success, again, auto is one of Canada's very few winners in international trade among high-value, capital-intensive, high-technology products. Of course, we're very successful in exporting our oil, our lumber, our energy and our other natural resources. In value-added manufacturing products it's a different story, and much more often than not we are losers in the international markets. Auto is the one glaring exception to that. There was a $20-billion trade surplus last year. That's one third of Canada's merchandise trade surplus.

In all those criteria, the auto industry is indeed a winner in terms of its benefits for our whole economy, in employment, fiscal capacity, innovation and foreign trade. That's why government has to be there with proactive policies to support that winning industry.

The other myth that's out there, and Buzz addressed it, is the misconception that Canada has a lot of advantages—the quality, the productivity, the lower labour costs—and therefore government doesn't need to come in with proactive measures aimed at the industry to support future investment. This may have been the case at one point. I think in the early 1990s, Canada was probably the cost benchmark in the North American industry, and at that point we were winning a lot of investment without proactive government measures. But that's no longer the case.

What has changed? A number of things have changed in the policy environment. First of all, we've lost the cost benchmark status to Mexico. The Mexican industry, with NAFTA, with the new investments, with the infrastructure improvements, has clearly reached critical mass. If you're going to locate a plant on the pure private costs criteria alone, you'll go to Mexico every time. The US has responded with some very active policy measures, including the subsidies, including trade policies and risks of protectionism, which have brought companies to increase their capacity in the US despite the cost disadvantage they face there. Meanwhile, Canada is coasting on the coattails of the Auto Pact, which is no longer there, and our cost competitiveness in the early 1990s, which is also no longer there.

The evidence is quite clear, even from government studies, that Canada is not competitive as an investment jurisdiction in new auto assembly investments. For example, I'll cite a couple of studies the federal government has completed and which they cite often to support their previous argument that government doesn't have to do anything to attract new investment.

They worked with KPMG on this very large international competitive alternatives study, where they modelled the very specific costs of new investments in a range of industries in seven different countries and many locations within each country. The one they did for the auto industry was that they simulated the cost of auto parts investment and they found that Canada had roughly an 11% average operating cost advantage versus the

United States, which is true. On the other hand, remember that the new investments in the US are going to the Deep South of the US, where operating costs are lower. Relative to that location, we have about a 5% operating cost advantage, and that's on the basis of some assumptions like the 65-cent dollar, which may or may not be reliable ones to put forward. For an auto assembly plant scale of investment, those operating cost advantages for Canada, versus a Deep South location, can be capitalized on a present-value basis to something like US$100 million. So if you offer a US$100-million upfront cash subsidy, you'll overwhelm the Canadian operating cost advantage, and as we know, they've been offering far more than that in the US to attract those new plants.

Industry Canada did its own in-house study that came to a very similar conclusion. They found about a 4% operating cost advantage in Canada versus a Deep South location, with the same optimistic assumptions like a 65-cent dollar. In that case, at an auto assembly scale of investment, you'd be looking at present-value savings of about $60 million. Again, that can be easily overwhelmed by the types of subsidies that are being offered in those locations.

In addition to the cost comparisons, which are no longer in Canada's favour, there are a number of structural issues that are also pushing the investors to look at the US. There's the value of a made-in-America label, not just in terms of consumer acceptance of your product but as insurance against any kind of trade protectionism that companies still are very leery about from the US. So all of the offshore makers tend to think it's very helpful to have a number of plants in the US as insurance against any kind of protectionism. There again you see the influence of active policy on investment location decisions. And of course the uncertainty of the border and the exchange rate and so on: the investments that are going to be made and then have to continue to be made in border infrastructure will help there, but it's still an issue. Meanwhile, the Mexican industry continues to grow by leaps and bounds.

On that basis, the private cost-benefit calculus that companies do will not take them to Canada, and that is absolutely clear. If it's left to the companies alone, they'll go to Mexico on labour cost grounds or to the US South, attracted by subsidies and by the value of a made-in-America label. If we don't put a policy in place that addresses those challenges, there's absolutely no doubt in my mind—and I think this view is now shared by a clear majority of observers of the industry—that Canada's auto industry will enter a period of continuing decline. It won't disappear overnight, but our investment, our employment levels, the economic spinoffs and our rank among global automakers will clearly start to fade.

This shows where new vehicle assembly facilities have been located, those that have been built or announced in North America since 1990. Remember, even though the industry as a whole has excess capacity—we hear a lot about that—they're still adding a lot of new capacity, and that's the nature of a competitive industry, where some companies are expanding capacity while others are contracting it. Of the 17 plants that have been built or announced since 1990, only one was in Canada, and that was the second Honda plant announced in Ontario, seven went to the US Deep South and six went to Mexico.

Now we have a situation where we can double our score, if you like, with the possibility that DaimlerChrysler is looking at this new investment that Buzz mentioned in Windsor, a greenfield plant that would embody brand new approaches to the relationship between the suppliers and the assemblers. But even that, which is on the table and is tentatively committed to Canada, will not occur unless the policy framework is right. The company has made it clear that, other things being equal, they would prefer to put this plant into Mexico. So unless government is there to add value and ensure that the business case for the investment is compelling, then even that plant won't occur, let alone some of the other potential developments like the Ford Oakville program.

In terms of where we go with a policy framework to try and address those challenges, I'll mention three themes. There has been a lot of debate over subsidies and whether or not government should hand out subsidies. No one is asking the government to write blank cheques to very large, powerful multinational corporations. I think the debate over incentives and subsidies has been a bit misplaced and ends up boiling down to, "What do you mean by the words that are involved?" Particularly with the DaimlerChrysler investment in Windsor and Ford's redevelopment of the Oakville site, we don't have to engage in a backroom bidding war. These are projects that both companies have tentatively committed to Canada, thanks in part to the work that we've tried to do as a union to leverage that investment. All we have to do is make sure the government adds value in one form or another to those projects to make the business case competitive with what they could do elsewhere. There are ways to do that that are quite compatible with government's traditional role in terms of providing the infrastructure, the training, the technology and other assets that need to be there if private companies in the industry and any other industry are going to thrive.

I think there's a range of ways that could happen. What it will take is an attitude by government that's proactive, that's entrepreneurial, that doesn't just sit back and kind of lay out the welcome mat and wait for everything to happen, but where government itself rolls up its sleeves, goes out to the potential investors and says, "How can we make this happen?" in a way that's co-operative but that at times is also tough, that involves some hard-nosed negotiations with those companies. We can do this in ways that do not involve getting into a backroom and writing blank cheques to corporations.

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If we look at our training regime, there are ways in which training programs could be updated, expanded and modernized so that they add more value to this type of project. In the Deep South of the US, for example, the state training departments have provided very important value to new investment projects by working closely with the companies to deliver skilled workers to the new investments.

The same thing around infrastructure: governments have traditionally provided roads and transportation linkages and utility hookups and so on, but the changing technology of the assembly operations means that our definition of what constitutes infrastructure also has to change. For example, we're seeing this evolving relationship between assemblers and suppliers. Instead of delivering truckloads of parts on a just-in-time basis from a supplier to the assembly line, we may see those parts being delivered on a conveyor belt within an industrial park. What about government's role in setting up the infrastructure of that type of industrial park?

The same thing around technology: federal and provincial governments have long recognized the need for technological innovation in the Canadian economy, but the incentives and programs that have been developed have been too narrowly defined to be of broad use to the auto industry and most of the shop-floor type of innovation and engineering innovation that goes on there. These are areas where we have a well-accepted and well-justified role for government but where the programs, the way we define them and the way we operate them have to be updated and provided with additional resources.

Secondly, this does not have to be seen as a handout or as a drain on the government purse. I think it can quite rightly be seen as an investment by government. We all understand how crucial the future success of auto is to Ontario's economy and how that will determine the fiscal status of the provincial government.

Look at the fiscal benefits that come from a traditional sample-sized assembly plant with 2,500 direct jobs, some other jobs in parts plants and then the spinoff jobs that come with it. The traditional widely accepted estimate is that for every major auto job there are another seven or eight jobs in the regional economy that depend on that. A single plant of that scale, and that's the kind of scale we're looking at with these potential investments, generates $900 million a year in incomes and close to a quarter-billion dollars a year in income taxes and employment taxes for the federal and provincial levels. A third of that would be provincial. Again, on a present value basis, looking forward, that's a significant amount of money for the provincial government to justify, adding value to those projects up front in order to get more value down the road in terms of tax revenue and so on.

The final point we would add as a union is that it's not just an issue of government being there to add value and provide incentives—and that will be important; we have to allow companies the opportunity and the belief that they're going to make a healthy profit here, or there's no way they'll come—but at the same time, we can also try to impose some responsibility, some accountability, some costs on companies that don't do the right thing, that don't invest here. In other words, use a stick as well as a carrot. This was always a traditional part of our auto policy with the Auto Pact and the trade measures we took. A lot of that is of course federal, but the provincial government can play a role.

Here's a very telling audiovisual aid to kind of indicate the point. Think of this donkey as the auto industry. I won't say this is any particular motor vehicle here. If it is a motor vehicle, I can assure you it wasn't a union-made motor vehicle. Of course, any farmer knows that to get the donkey to move, you have to have a positive incentive at one end of the vehicle, but in times when the attitude of the vehicle is not sufficiently responsive to that incentive, you need another incentive, a negative one, at the other end of the vehicle.

I think there's a lot that can be done by the provincial government as well as the federal government to say to companies that want to sell their products in Canada—last year was a record year for vehicle sales, and a growing share of that is coming from offshore makers—"Look, Canada was not put here to be a wallet on legs for you to sell your products to. Yes, come and sell your vehicles here, but you have to add value to the economy." And that means imposing costs on companies that do not invest in the industry.

We've floated ideas for how you could do that. There are examples of policies that would be consistent with our trade responsibilities. As long as you're being neutral with respect to the nation of origin of the companies involved, you can provide incentives for investment here and penalties on companies that only market here without investing here, being quite consistent with world trade rules.

To sum up, we think this budget comes at a very critical moment for Ontario's auto industry. There are potentially incredibly valuable investments on the table. The DaimlerChrysler investment in Windsor is the first, but there are others in the wings. Canada has not been on the map for new auto investment for the better part of a decade now. If we don't send a signal with this budget in terms of the resources we allocate and the flexibility we allow our program envelopes to utilize, we are basically telling those companies that Canada and Ontario are not prepared to be in the ball game.

I think this budget will be important. Over the next year we'll find out whether we can confirm the DaimlerChrysler investment and make progress on the other investments. Those would put Canada back on the map. On the other hand, failure to cement those investments and failure to deliver the value that government needs to add would mean more than just losing one particular investment. It would mean showing the world that we had a cutting-edge investment ready to go in Canada, utilizing a business model that would be brand new in North America and that the industry is excited about, but Canadians couldn't figure out how to make it happen. Believe me, that's a black eye that would really damage our industry for the longer term. I think that with the CAPC recommendations and other ideas that have been put forward, there are a lot of ways to do it, and none of them involves writing blank cheques. All of them involve using government programming in a creative and entrepreneurial way to make sure these investments happen.

I know I've gone on. I'm getting a little hot under the collar with all this, and I thank you for your patience. I'll just let Buzz quickly conclude, and then we'll turn it over to questions.

Mr Hargrove: I just want to conclude by saying our recommendations are consistent with CAPC, which is all the players in the industry that are joining together and recognizing what we do. I met with Mr Eves a couple of weeks ago and talked specifically about some of these projects. I suggested to him that an investment in DaimlerChrysler, even a government ownership portion of that, would be a perfectly legitimate role for government in today's environment. I repeat that here again today.

I just want to make a short comment on the aerospace industry. If you look at aerospace, back in the early 1990s, the de Havilland plant was in big trouble. The Ontario government of Bob Rae at that time made a significant investment in that de Havilland plant, as did the Tory government under Mulroney and Michael Wilson. We went from 1,300 jobs to 5,000 jobs, with massive new investments in technology. A lot of feeder operations developed around that: tool shops and machine shops. It was a major success story. We're now hitting another wall. It's time to take a look at this thing.

One of the problems we face in Ontario, dealing now with Bombardier, which is a Quebec-based manufacturer of airplanes and other issues—I'm talking about aerospace—is that the Quebec government has just announced they're going to put up $3 billion in loan guarantees for the Regional Jet that's built in Montreal to assure the customers that they will have the money to purchase their products. In Ontario, we've gone from 5,000 jobs in 1995 to now fewer than 3,000 at this facility, and we're on our way down. We're meeting now, with a deadline this weekend. Our contract is not even open, but Bombardier is saying to us that we either find a way to get competitive—and they keep talking about the Ontario government doing absolutely nothing, and I raised this with Mr Eves, as opposed to what Quebec is doing. But they're saying to us, "We're going to move the Global Express," which is 1,200 jobs, out of that facility, which will leave us with just a turboprop in a declining market for turboprops as we look to the future.

The other major aerospace partner we had was the Boeing plant out at the airport strip. We've gone from 3,000 jobs there in 1995 down to fewer than 500 jobs now in that facility. Premier Harris and I went to Seattle and met with the head of Boeing to try to convince them to do something there, but nothing is happening. There doesn't seem to be any kind of policy initiatives from the Ontario government to deal with what are two of the most major and successful industries in terms of productivity, balance of payments, exports, all of that. Just to reinforce what Jim said, with the budget coming down, I think the Ontario government can show in its budget statements and the actual dollars it puts out there that it is interested in building these two critically high-tech industries for the future.

Thank you very much, Mr Chairman. We've been a bit long, but these are two very critical areas of the economy for Ontario for the future.

1140

The Chair: That leaves six minutes per caucus. We begin with Mr Christopherson.

Mr Christopherson: Thank you, gentlemen. Interesting as always.

Buzz, you mentioned Quebec and what they were doing, but that was on the aerospace side. Are there any provincial governments across Canada that are responding to the kinds of recommendations you are making with regard to the auto industry?

Mr Hargrove: The Quebec government offered General Motors—it's interesting. They put up money where we've got no product, but we're not getting any money where we've got a product. They offered $300 million in out-and-out subsidies to General Motors if they would put a new vehicle in the Boisbriand facility. The problem with General Motors is that their market share has stabilized around 30% in Canada and around 28% in the US, and they have no new products to put in there, so the money is meaningless. Where we have an opportunity in Ontario—we have two major new projects and potentially two others—the government hasn't said they're willing to do anything. That's our problem.

Mr Christopherson: We've got laws in Ontario regarding bonusing by municipalities, which from time to time is frustrating for municipalities, but overall certainly I believe, as do many others, that it's in the municipalities' best interests. Otherwise, it's a question of who can take the most money out of property taxpayers and hand it to somebody else to come in and provide job sustenance.

But I'm wondering, what's the current context vis-à-vis provinces within the nation? Are there restrictions at all under any kinds of trade agreements, either international or national, that prevent what we call "bonusing" at the municipal level, in terms of these kinds of supports? What are the rules?

Mr Stanford: In the long run, I think that model within Ontario for putting limits on the freedom of local governments to try to bribe investors to come would be important to try to apply at the national level and at the global level. This idea of trying to grow the carrot that you dangle in front of the industry's nose is not one that we relish. We would prefer a situation where we had rules and accountability on the companies which said, similar to the Auto Pact, that if you're going to sell vehicles in a market, you have to produce them there. That way, you could get your share of investment without having to bribe the investors to come, and in the long run, I think that's the direction we have to go. In the short run, you have to recognize how the game is being played right now internationally, which means we have to be there with part of the carrot at the same time as we're trying to develop the stick.

There are not significant restrictions on the leeway of provincial governments to offer those types of subsidies. Quebec has been more aggressive than any other provincial government in doing so, and in some cases it hasn't paid off; they've lost the auto plant. In some cases it clearly has. Quebec's share of national aerospace employment has grown from about 45% in the early 1990s to 55% today. Proactive measures such as the capital tax, for example—they're not just going to blanket abolish their capital tax. What they will say, though, is, "We won't charge capital tax on new capital that you add to the investment." So their measures are very much focused on new investment and job creation, and in several industries, including aerospace, it has paid off.

Again, at some level you might prefer to see a situation where you had some internal agreements within the federation about making sure each region got a share of the high-value-added investment. That's not really on the horizon right now, so in the meantime governments like Quebec's can be very proactive. That's why, again, Ontario has to become part of that game.

Mr Christopherson: In the absence of the Auto Pact, and you give some sense of where the trend lines can go, is there a sense of an absolute minimum auto presence that we would have just because of the market forces that make this a good place because of the quality of the product, our competitiveness vis-à-vis our health care system and private health care in the States, things like that? Without the Auto Pact there as an absolute guarantee, is there a sort of natural level of investment that exists, or theoretically could things just continue to dwindle, and if other nations like Mexico get aggressive enough, you really could see all but the demise of the auto industry as we now know it?

Mr Hargrove: You could conceivably end up back where we were pre-1965, when the government took the action of putting the Auto Pact in place. If you look at just today, if Chrysler doesn't put the new investment in Windsor, we're down to one assembly plant in Windsor and one in Bramalea. Their parts have almost gone. We've got a 400-person plant in Etobicoke doing castings. So they would be a much smaller operation.

In the parts industry: if you look at the CAPC debate, the parts industry said, "We're going to go where the assembly plant goes. If you think we're going to make parts in Ontario and ship them to Georgia, forget it. That ain't going to happen. We're going to go to Georgia." That's what is required with the just-in-time.

Then you take the Ford project. If Ford closes its Oakville operation—it's closing its truck plant for sure—if it closes its minivan plant, if it doesn't get the support to do the long-term investment that takes it out to 2012, it still can say, "We're doing as much as the Japanese in Ontario. We have an assembly plant in St Thomas and we have 6,000 people building castings and engines in Windsor." They can make the argument, "We're doing fine."

General Motors: we've done a lot of work. We've got new investment. We've got good potential there—John and I talked about this recently in Oshawa—because we've added a third shift there and we did some things in bargaining to add another third shift in our other plant there. So in the short term, GM will offset some of those losses, but in the long term we'll be back to where we were building less than one vehicle for each one we sold in the country, which takes a success story and reverses it, with no logic to it.

The Chair: We move to the government side.

Mr O'Toole: I'll be brief and share my time. Thanks very much, Buzz and Jim.

A couple of things. I sort of remember the presentation by one of the economists or whatever, at the first CAPC meeting, who talked about overcapacitization in the whole industry globally. They also used a number that stuck with me and I've used it, Buzz, on a couple of occasions: the number of people per car. In North America it's about one or less than one person per car, and in Asia it's like 800 per car. In other words, the future production is really in Asia, and they aren't going to ship finished product to Asia. So if you look ahead 20 years, we're overcapaticized, it's all mislocated, and ultimately they're going to have to modularize the car somehow, where maybe the body is built somewhere and the chassis is built somewhere else, to avoid the shipping expense to get it to the market, because the market in the future is actually in China. They have no cars there and somehow they're going to have to drive them up the mountain or something. I just want to leave that with you.

The other thing, an important decision recently that I'd like you to comment on in terms of the tax incentives or other kinds of mechanisms of partnering, is the decision on Kyoto. To exempt the auto industry from Kyoto was extremely important in the shorter term, as you look toward hydrogen cars etc. But more recently the province has tried to look at a creative way, without targeting a sector, with the tax incentive zones to deal with not just the property tax issues but other tax issues in terms of environment and anything else. Could you comment on both Kyoto and the tax incentives before Mr Beaubien might have a question?

Mr Hargrove: John, you and I have debated the Kyoto thing, or talked about it at least. I don't agree that the industry should have been exempt. I don't think it adds anything at all and it's divisive in our country. If you were in Alberta today in the oil and gas industry, where their emission problem is way up here, and the auto industry in Ontario is almost at the bottom of the scale in terms of a problem, and we exclude those folks and we say to these guys, "You've got to make a massive change," I don't think that's good for the country. The projects we're talking about here will deal with lower emissions arising from the manufacture of vehicles, both the DaimlerChrysler and the Ford thing in Oakville, if we can get those two projects.

The overcapacity issue: capitalism is about overcapacity. Somebody is always coming in with lower cost issues, and we have a lot of them here. Ford Motor Co next year will celebrate its 100th year in Canada. That means four generations of workers have come and gone from Ford. Their pension liabilities are huge compared to Toyota, which has only been here for a decade, or Honda. Interestingly enough, Toyota and Honda have what we call legacy problems in Japan. But the Japanese government moves in and takes a lot of those costs and says, “We’ll deal with that so you can remain competitive and sell your vehicles around the world.”

We’re not going to sell a lot of vehicles in China in the short term. China’s market is growing. Their assembly operations are growing. They’ll probably pass Canada this year or next, I would think, in assembly. But if you look at the growth of the middle class in China, the Chinese industry itself is going to be providing for the Chinese people for the next 20 years. We don’t have to worry about them in the next 20, I don’t believe—certainly not in my time, John—shipping into Canada and the United States. The real thing for us is, let’s get our share of the investments that are coming to North America. Let’s not lose them without a proactive effort to get them.

1150

The Chair: Mr Beaubien, a minute and a half.

Mr Beaubien: I’ll make it very quick. Basically, John has already raised my two points. But first of all I would like to thank you for the very balanced presentation you made this morning. I agree with you that the industry is changing, government has changed, I think society is changing, and I commend you for looking at providing flexibility in the workforce with the new rate for employees and having a parks plan on the site.

As the previous presenter talked about, it’s important that if we are going to maintain our standard of living and the social programs we have in place, we must maintain the high-paying jobs that we have in Ontario. I think expanding the tax incentive zone is a good catalyst to bring everything together. I do believe that the federal, the provincial, the municipal and the workforce have roles in order to maintain high-quality jobs in the future.

I don’t really have a question, but that’s my comment.

Mr Hargrove: The only thing I would say to that is that we have the lowest corporate taxes in relationship to the jurisdictions we’re competing with right now, so taxes alone won’t do it. They’re like a junkie on drugs. That up-front money: when Georgia puts $325 million on the table—that’s C$500 million—boy, does that impact on the decision of a corporation. You know exactly where you’re at up front, as opposed to having to worry about a changing environment and taking advantage of long-term cost savings.

Mr Kwinter: Thank you very much for your presentation. I was really delighted to see some of the recommendations you made. I was the last minister who was able to deliver a financial package to the automotive sector, at Ford, when I was able to convince our government to provide the investment for the paint plant and the van plant. It was easy. I remember when Ken Harrigan, the president, came to see me with their treasurer and he told me they were competing with St Louis, Missouri. He said, “We need $102 million from you, and unless we get it, we haven’t got a chance.”

They spelled it out to me and I said, “You’ve got a deal.” They said, “Come on. With all due respect, you surely don’t have the ability to make that decision.” I said, “I don’t, but I know what I can sell.” That’s what I think has to be done.

It was a three-year payback and it was absolutely a no-lose situation because, if they didn’t get it, there was no commitment on the government. If they did get it, you had not only two new facilities, but you anchored that facility in Oakville. I think it proved to be an incredible investment. The only regret I had was that the plant was opened after we were no longer in office. I had put that deal together, but that’s the way these things go.

So there has to be this customized benefit. I think that a case can be made, if it isn’t just a blanket sort of saying, “Come here and we’ll do whatever you need to get you.” You’ve got to sit down with the players and see what role the government has. I think that’s a really important thing to do. There’s no question in my mind—I have been down to Mexico with Frank Stronach and I’ve seen the facilities they’ve put into Pueblo, and there’s no question that there’s going to be a shift from Canada to Mexico unless we do something about it. I think that’s a role that we as a government should have. I just wondered what your comments were on that.

Mr Hargrove: I couldn’t agree more. The Ontario government, to its credit, had a lot of meetings with DaimlerChrysler over the Sprinter, which was the last big project that was announced in Georgia, as did Allan Rock’s people federally. Their problem was that they said, “We’ll look at this; we’re willing to look at this,” but they never did what you did. They never said, “We’re willing to do this.”

The mayor of Windsor said this publicly, criticized Allan Rock, criticized Jim Flaherty. The company won’t come out and openly criticize, but Ed Brust, the president of Chrysler Canada—feel free to talk to him. He told me this personally, and other top people from the company told me, “We had no idea what we could get in support from Ontario or the government of Canada.” They didn’t have a clear picture, as you outlined.

If the government had put something on the table and said, “We’ve looked at that and we’ve looked at Georgia. We’re going to Georgia,” that would be one thing. But the frustration I had was that we lost a major project because they had no idea at the end of the day what the governments were willing to do. The DaimlerChrysler decision was coming up in a few days. They were moving to the edge of decision-making. They told both levels of government. We sat comfortable, saying, “We’ll help,” and they went to Georgia. The governor put US$325 million on the table up front.

Mr Kwinter: If I could just make a comment on your aerospace comments. When I was the minister, I also had the distinct pleasure of dealing with the federal Conservative government. We were talking about problems that happened to be in my riding—de Havilland—and they told me outright, "Ontario has automobiles. We want Quebec to have aerospace." That was a government decision. They wanted to be able to diversify the production capabilities in Canada, and that's something that I think is still there. There is that feeling, "You guys got autos; let them have the aerospace."

Mr Hargrove: It seems to be moving in that direction. Quebec lost its major auto assembly plant but, as Jim pointed out, has gained 10% of the share of manufacturing of aerospace products in Canada in the last while.

Mr Phillips: My view of the industry is that probably among our best economic anchors in the province are auto assembly plants. They're jewels to be protected and expanded. Based on my look at the industry, the auto parts business is there heavily as a result of the assembly business. The auto parts may survive for a while without assembly, but over the haul, as you point out, will not.

So there are almost two different issues: getting the assembly plants, and then the operation of the assembly plants. The challenge is the political challenge, and that is persuading the public that this is a good investment. You've given us some good evidence here, I think. I would just add that the tax incentive zone, we were told, applies not just to geographic zones; it can apply to an industry. The point of my raising this is that even this government has acknowledged that it's prepared to move to provide special support for an industry. So I think the principle now has been established, although as you point out, a tax incentive may not be the best approach. But we were told that tax incentive zones can be geographic or industry.

Have you any other examples for us of industry-specific support? You've mentioned here the R&D tax credit. The film subsidy is the huge, obvious one. It's a much smaller but heavily supported industry. There is the drug patent. Have you any other examples where government has specifically recognized that an industry has unique needs and provided unique solutions to that?

Mr Stanford: Gerry, a lot of it happens in terms of how you design a program which you can nominally say applies to everyone, yet the criteria of the program are such that you know only particular industries are going to benefit. In fact, you may do that explicitly in the design of the project. So the R&D tax credit or some of the capital market subsidies that are provided for were clearly designed, presented and justified in terms of the need to stimulate computer programming and other traditional high-tech industries, and the types of R&D activity that are specifically outlined as qualifying for the tax credit, both federally and provincially, are specific to a particular type of industry. There are things that Nortel Networks can do and get a 20% credit from the federal government, and half of that from the provincial government, that no one could ever do in the auto industry, no matter how high-tech and innovative the auto industry became. So it's more, I think, through the specifics of the program definition that these programs end up aiming to pick winners. But you're absolutely right: they do endeavour to pick winners.

Mr Hargrove: If I could just make one final point. The one plant I didn't raise is the Navistar plant in Chatham, which is scheduled to close sometime this summer. We know they're getting a lot of pressure from owner-operators of trucks. They're getting a lot of pressure from trucking companies that like the idea that if there's a plant in Chatham, if they have a problem with an investment that runs from $120,000 to $180,000, they can drop in there and find out and get help with their trucks. They don't want to buy out of Mexico yet. We've urged the government to get involved, to get proactive, to talk to Navistar to see what can be done. They're a little mad at us; we had a fight with them last summer. But I think there is an opportunity for government to talk to them there. If we lose that plant, that's potentially a third plant we could lose in the next few months in Ontario.

So there's real upside potential here, and a real downside if we don't take a proactive approach. If I could leave the committee with anything, it would be to urge them: let's not just sit back and wait. Let's get involved and see what can be done here.

The Chair: Thank you, Mr Hargrove and Mr Stanford. It was one of the most comprehensive and well-thought-out presentations that we've had. I compliment you for the work you've done here for this committee.

Gentlemen, thank you. The committee will recess until 1 o'clock today.

The committee recessed from 1200 to 1259.

The Chair: Good afternoon. We'll call the committee to order. This afternoon we begin with our regular delegations, having completed our expert witnesses.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair: Our opening presentation is from the Canadian Federation of Independent Business. Please come forward, Ms Andrew. I think you know that you have 20 minutes, and whatever time is left over will be for questions. Please proceed.

Ms Judith Andrew: Thank you, Mr Chair. It's indeed a pleasure for the Canadian Federation of Independent Business to make these pre-budget submissions on behalf of our 42,000 independent member businesses in the province. I'm joined today by my colleagues in the Ontario legislative department of the Canadian Federation of Independent Business: Melanie Currie, policy analyst, and Minali Prem, policy analyst. You will see in your kits that some of the new materials—fresh materials, different from yesterday—have had the benefit of Melanie's and Minali's authorship and input.

Given the time limitation today, I would like to pass over some of the economic outlook stuff that Catherine Swift, our president, spoke about yesterday and direct you to page 6 of the brief—I'm speaking of this one, entitled It's a Small Business World After All. Catherine did show you the small business priorities for action, of which total tax burden is the number one item. In the tax relief arena, we actually asked our members in our Ontario survey, "Where have tax cuts to date actually helped your firm? As job creators in the economy and so forth, where are these tax cuts assisting?" In fact, there's quite a lot of relief that's been noticed and felt and appreciated. Certainly the lower small business corporate income tax rate, which is also applying to an increased amount of income, is a very positive item for small and medium-sized enterprises. It's number 1 in figure 9. Personal income tax relief is also very helpful to our sector, since it allows employees and customers to retain more of their own earnings, and so on down the line.

I'd like to turn now to figure 10, where we will discuss the areas where priority tax reductions can actually help business growth in the future. Interestingly, municipal property tax and provincial education property tax head the list, and I think this is probably the second or third time we've made this point with this committee. Both the municipal and the provincial education portions are areas where small business would urge the Ontario government to act this year to reduce the burden.

For our members, capital tax is almost at the bottom the list, and also manufacturing and general corporate income tax. The capital tax relief of the first $5-million deduction pretty much does the job for our membership. That drops it to the bottom of the list for small business. The issue for our members is the insensitive burden of property taxes, both the provincial education portion and the municipal portion.

Before turning to our recommendations, I'd like to also flag a couple of fresh new things in this submission that we're releasing before this committee today. The first one deals with the role of government and, I think, is fairly pertinent to a lot of the debate that goes on in a number of areas between the various levels of government, which programs and how they're financed. In our Ontario survey, we asked, "Do you agree or disagree with the following statements dealing with government role in our economy and society?" Almost unanimously, the number one finding is that small business owners think that all levels of government must work co-operatively. They certainly disagree whenever their political leaders at the various levels squabble and posture and don't respect the one level of taxpayer who pays for everything. A key item in this category would be in the training arena. Ontario and Canada have still not concluded a training agreement, which is problematic for small business. We would like to see co-operation in the training arena, in the arena of privacy—all these kinds of laws that in effect hit the one level of business but are coming at them from various levels of government.

Another interesting finding is that business owners say that the government providing a service must also raise the money to pay for it. I think our members recognize that this spending accountability principle would take considerable realignment from present arrangements, but it is interesting in and of itself as a way to head in the future.

Most businesses also feel that government support to business should be meted through the tax system rather than by picking recipients. In this regard I would flag for your attention a one-pager at the back that deals with tax incentive zones.

As well, our members feel that government should try to find ways to contract out procurement opportunities rather than growing in-house capacity. This is an economic development tool that is not often used, and in fact is neglected, in respect of what it could potentially do for the Ontario economy.

There are a number of others there. Anyway, this is sort of an interesting new look at what role the small business community feels government should assume, and by contrast what businesses can do in our society and in our economy.

The same is true of some data dealing with unfair competition. For example, looking at figure 12 on page 10, 14% of our members actually complain about government and its agencies engaging directly in competition with them in commercial enterprise. There are other concerns here: business in receipt of government subsidies is seen as a problem for about 20% of our members; businesses operating in the underground economy without taxes or regulations—a third of our members complain about unfair competition from that source, and about half of them don't see this kind of unfair competition, thankfully. The subsequent questions deal with which level of government this arises at and what measures should be taken to battle it. We commend those to your attention.

In terms of the CFIB's recommendations for the upcoming budget, beginning on page 14, obviously we encourage the government to continue maintaining a sound fiscal balance and to emphasize debt and tax reduction over spending. As Catherine clearly stated yesterday, the announced tax relief phase-in schedule and maintaining that schedule does build business confidence. As well, we continue to urge that government spending be focused on priorities that support growth and competitiveness in our economy. There are some data in this brief dealing with health care, and that was discussed yesterday. The big one for small and medium-sized business is more relief needed on property tax, including the weighty provincial business education portion. On that piece of it, the business sector pays about six times what a resident would pay on a property of the same value.

If I could encourage you to turn, on page 18, to the first of the one-page issue summaries that are enclosed with this submission, this one deals with the property tax hard cap and rebalancing the load. Our recommendation in this area is that the Ontario government bolster existing measures, the ranges of fairness and the Bill 140 hard cap and adopt other measures to deliver more necessary property tax relief to small businesses. We continue to be disturbed when the city of Toronto and other communities that are affected by Bill 140 attempt to say that the residents are shouldering an unfair burden of the increase. In fact, in the city of Toronto's case, businesses already pay 4.8 times for commercial taxes and 6.5 times for industrial taxes compared to residents. So businesses are very much overpaying, and the Bill 140 hard cap is only beginning to start to rebalance that.

1310

The property tax threshold recommendation is here. Mr Beaubien, in his report as special adviser, endorsed the notion of a property tax threshold or a graduated rate for small business. The CFIB believes this would help both commercial and industrial small firms and bring greater fairness overall. Also, it would assist home-based entrepreneurs to graduate to commercial or industrial settings. So it would be an entrepreneurship measure. Only if businesses are able to establish themselves in one of those settings are they in fact able to hire others. This is a real impediment to business growth and development, which could be dealt with with the threshold.

On the next page, dealing with red tape and regulatory burden, our recommendation is to establish a Web portal that would deliver all relevant government laws and regulations to business on a no-fee basis. This has come up as an idea, an offshoot from the inspection, investigation and enforcement project, and it's called My Laws. It's just a concept. We are hoping the government will support the development and establishment of this in the upcoming budget.

We have a number of recommendations in the tax administration area. I guess the key really new one is to adopt a turn-on-the-taps strategy by using compliance audits rather than enforcement audits. So unless a business has engaged in fraud or wilful misconduct, it will not be hit with uncollected tax amounts, retail sales tax penalties and interest. The notion here is to assist people to comply, rather than having lengthy, cumbersome audits that result in huge assessments on people who unwittingly couldn't make their way through the complicated rules. There are a number of other retail sales tax recommendations there. We also make recommendations in the area of electricity, insurance, fees and financing availability.

Catherine spoke about financing in Ontario and the difficulties here. Our key recommendation, on page 23, is to eliminate capital gains tax as an incentive for direct, patient capital investment in independent small and medium-sized enterprises. This would cut out the intermediaries, it would be a direct incentive and it would certainly help with the financing gap at the low end.

There's quite a lot in this brief, but I'm mindful of the time and I would like to conclude now and invite your questions.

The Chair: That leaves us about a minute and a half for each caucus. We begin with the government.

Mr O'Toole: Thank you very much. It's a pleasure to hear you today. It was a good presentation yesterday. Just a couple of things—the interesting response to where the tax cuts have encouraged or stimulated the economy. But I did hear very clearly yesterday, and I think we could drill down on it a bit, that red tape relief is required; it's also mentioned in some of the input here today. Is there any specific thing? We've tried to do that and form a good relationship with—there's a business group. And the Red Tape Commission is still active and very interested, not in a regressive way, but in finding ways to streamline. Is there anything specific that comes to mind to you or the presenters?

Ms Andrew: Yes. Page 20 of the submission deals with this, and it does complement the good and diligent efforts of the Red Tape Commission to get at this intractable problem. Yet it's still a problem for 63% of our members, and actually two fifths of them say the red tape problem has gotten worse. Our recommendation now is to look at this from the standpoint of the business at the centre of all the regulation that comes at them and try to have some kind of tool that would deliver those requirements to them in layperson's terms. Our hidden agenda here is that when you do that, you'd actually have to look at the sum total of what comes at people and essentially streamline it somewhat, because no one business can comply with it all.

Interjection.

The Chair: That's it. Thank you. Mr Phillips.

Mr Phillips: There's so much in here, but just to take advantage of your visit here, the issue of electricity is obviously foremost. I must say, I'm still not clear on how this is working out there. You mention in your report here—I can't lay my hands on it right now—some action required on electricity. Can you give us an update of what your members are facing right now? Do many of them fall under the cap? If they don't, what is their expectation? How is that going to impact small business?

Ms Andrew: Since I don't have a lot of time to do that, I'd be happy to update you further later on, but there are two documents in the kit, one entitled Static on Electricity from Small Business. This was our take in the fall about what was going on in the wake of the high prices in the summer and early fall. Then this recent one from last week deals with the whole issue of the threshold of 150,000, which is inadequate for many very small firms. We've made a number of suggestions for adjusting that threshold. We don't think that will make a huge difference to the remaining businesses that are out there to essentially make the market for the future, but it will be a huge problem if certain businesses are not given the 4.3-cent relief.

The very thumbnail sketch of our recommendation is also on page 22, under "Electricity," and that's in the main brief, where we argue that the threshold has to cover appropriately small business and agribusiness. We have to deal with the extra charges, the billing formats and the deposit policies of the utilities. As well, small businesses require information for demand management, metering and so forth because they will eventually participate in the market.

Mr Christopherson: Welcome again. I'm following up where Gerry left off and, indeed, if your answer is exactly the same, you can say so and I'll move on to something else. To quote one of the flyers that you mentioned that's in your kit, "It now seems that many small businesses and agribusinesses breathed a premature sigh of relief. The definition of who qualifies as a small business or farmer for the purpose of the relief is still being worked out. To make matters worse, there's a lot of misinformation floating about, confusion reigns and everyone's patience is wearing thin."

Can you just expand or elaborate a bit on what is being worked out and where the fuzziness comes into it?

Ms Andrew: We are meeting with the Ministry of Energy and the Ministry of Enterprise, Opportunity and Innovation on this very matter. So there is an opportunity to make a further change beyond the 150,000 kilowatts. It's "such other amount as may be designated by regulation."

Mr Christopherson: That's the focal point of your concern?

Ms Andrew: That's the focal point. We're working on that.

Mr Christopherson: By the way, I wanted to just draw attention to the fact that your report points out that your members agreed by a margin of 2 to 1 that government should be the only player in the traditional "sin" business: liquor and gambling. I thought that was interesting. I guess to listen to the government, anybody who cares at all about business thinks that selling the liquor stores etc is a great idea. It's interesting your members feel that way. Three fifths of them disagree that government should lead by example with better compensation and working conditions. I was disappointed in that.

Ms Andrew: On the first one I think it's—

Mr Christopherson: Oh, disagree; I'm sorry.

Ms Andrew: On the sin business it's disagree; it's the other way.

Mr Christopherson: So I have to say I'm disappointed to see that as well as the next one.

Ms Andrew: I think they would feel that no one in the public sector has an overriding better—

Mr Christopherson: But they would turn the casinos over? Just sell the liquor stores, all the gambling? That's their attitude, really?

The Chair: That will constitute the time.

Ms Andrew: Can I answer the last one briefly?

The Chair: Quickly.

Ms Andrew: Just on the compensation and working conditions, we actually do a study on this and there is a significant advantage at all three levels of government. I'd be happy to supply it to you. Our members don't think taxpayers should be following that since they're supporting those wages and benefits.

The Chair: Thank you very much, Judith. As always, we appreciate your input.

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ONTARIO ASSOCIATION OF CHILDREN'S AID SOCIETIES

The Chair: Our next presenter is the Ontario Association of Children's Aid Societies.

Mr Jim Carey: Good afternoon and thank you. My name is Jim Carey. I'm the president.

Ms Jeanette Lewis: I'm Jeanette Lewis. I'm the executive director of the Ontario Association of Children's Aid Societies.

Mr Carey: I recognize how short our time is. The OACAS appreciates the opportunity to participate in the government's pre-budget consultation process and we hope that our research, information and input will be useful. We represent 51 of the 52 children's aid societies in the province. You have our mission statement, found on the first page. The board of directors has spent much time in preparing this document for you and has endorsed it. The board of directors comes from all the agencies across the province.

Over the last several years the government has not funded children's aid societies for any kind of prevention services. The focus and emphasis has been on the protection of children. If the focus of government does not include the funding for prevention services and continues its emphasis on protection, the services for children up to the second quarter of this year comprised 45% of the net expenditures of children's aid societies and the deficit in the residential services lines of the budget represents 49.6% of the projected overall deficit, which we estimate to be $76.1 million across the child welfare sector for the 2002-03 fiscal year.

There were 17,463 children in care on September 30, 2002. We are projecting that number will increase to 18,040 by March 31, 2003, and will be close to 21,000 by March 31, 2005. If the government does not take significant action to reduce the number of children coming into care by funding prevention programs and providing incentives to agencies to be able to redirect days in care from group care to foster care, it is likely that by March 2005 the child welfare budget will be approximately $1.5 billion. In the fiscal year 2002-03, it is estimated that child welfare expenditures will reach $974 million.

Ms Lewis: Just a little background to set the stage for how this came to be, because I know some of you will remember when the budgets were in the range of $350 million to $400 million in children's aid societies and you might be thinking, "What has happened?"

In 1997, the government, in partnership with the agencies, embarked on a mission of reforming child welfare, which included new legislation and amendments that included neglect as one of the grounds for children needing protection, and this was indeed a gift for the children of Ontario. But what has happened is that many more children have been identified as needing protection and safety and care. Once those children are admitted into care, there have not been strong exit plans. So it's almost like we can buy an annuity for those children who come in at age four or age five because they're staying in the care of the province for many years and thus the costs are starting to escalate at quite an exponential rate.

I think I'll let Jim speak about the financial crisis from the board point of view because he's a lay board member.

Mr Carey: The funding formula was created to improve the situation, but it failed to factor in the full effects of the changes to legislation, the documentation and other procedures.

In 1999, when the funding framework was implemented across the province, the government knew, the child welfare system knew and it was publicly acknowledged by both sectors that there were problems in the design of the framework and with some of the benchmarks. We were promised that there would be a complete review within three years. That review hasn't taken place.

Each year the gap between the funding provided and the amount CASs must spend to provide protection and care to the vulnerable children in communities continues to widen. Many of the benchmarks were set in 1997—for example, the salary benchmarks—and therefore cannot support the actual costs of 2003. As a result, 50 of the 52 children's aid societies in Ontario are predicting deficit budgets this year. As I mentioned earlier—or perhaps I didn't, but I will now—this adds up to a total deficit of $76 million. The essential and important gains of child welfare reform may be lost and children will be put at risk if this situation is not rectified.

Ms Lewis: So if you'll follow along, we're asking very strongly that there be consideration in the next year for an updating of the funding framework under which children's aid societies are funded. We find ourselves in a very similar position to where education was, and there certainly has been a review of that funding formula. The same applies to the children's aid societies. We have some key concerns that we outline on pages 4 and 5 of our documentation. The cost of salaries is continuing to increase. It's a highly unionized workforce. We've tried to prevent strikes because we know what that would mean in terms of the children who are being cared for, and so union settlements continue to increase the costs of operations.

The other area we've touched on as well, the increased numbers of children in care: we have not been able to keep up with the provision of foster homes. Many of the children who are in care are in expensive group care facilities, which often cost a welfare society more money than the approved benchmark. In fact, there are many instances where the cost is double or triple what the benchmark is.

I think you've probably read, just as we have, the press in recent weeks, about when the courts opened and the concerns from the chief justice about the over-representation of child protection cases in the courts and the impact on the Ministry of the Attorney General. This has also had a substantial impact on children's aid societies, where legal costs make up a substantial portion of our budgets. Our travel benchmark was set in 1997, and those costs have escalated, not only for travelling to visit children but also for the cost of providing access visits, which are ordered by the courts. Then we have the continuing needs around information technology.

I understand that yesterday, when Minister Ecker made her comments in this committee, she talked about the need for multi-year funding. We certainly would support a multi-year funding model. It would provide more opportunity to plan in a rational way, to make some kinds of changes, perhaps some incentives, so that children's aid societies can make the kinds of changes that need more than a 12-month window to come into effect.

We've included in our document a little bit about some of the challenges of providing residential care. I'd invite you to have a look at the graphs on pages 6 and 7 because I think, better than anything I can say in words, they depict for you the kinds of challenges and the growth that our sector has been experiencing. In fact, the total cost for providing the days of care for the children in our care in the last three years has increased substantially, from $230 million in the 1998-99 year to a projected cost this year of $441 million. So that's a substantial increase. We do urge you to look at the residential sector and look at how per diems are set, how those approved rates are established and how they then affect children's aid societies that have to pay for these costs.

I think we should turn to our recommendations. They're found on page 9. We would just like to highlight some of them so we can provide some time for questions.

Mr Carey: Certainly the recommendations deal, as you can see, with each of the sections of our document. The first one, a review of the funding framework, we've already mentioned. We state there how it should be done and where the resources as far as documentation would be to help that funding framework review. Then we speak of the fund prevention and incentives in approaches for the CAS programs to be able to place children in foster care instead of group care, and the provision of funding for the developmentive programs which would prevent child abuse and neglect and support families etc.

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Ms Lewis: I've already noted the costs of residential care. The residential care system, in response to this very large number of children coming into care, has expanded like Topsy. It really does need to have some monitoring and some better controls. We've recently had two inquests into children who died while in these group care facilities, children who died while being physically restrained, and there were strong recommendations made to provide the funding for an arm's-length kind of organization to manage the residential system.

We also think children's aid societies need to be given the funding for the actual costs of providing the care in these residential care facilities. Right now, that actual funding is not necessarily paid; it's paid by a benchmark.

We'd like to see a review of the rate approval process in these facilities.

In short, we think that there have been many gains made and we do salute the leadership that has been taken by all parties in caring for the province's children. As in any system, there are always needs, and probably the incident this weekend with baby Mira more than anything could underline the kinds of needs in this sector that are often unpredictable. No matter how well you plan, you can never plan for something like that. Thank you.

The Chair: That leaves us just about two minutes each, beginning with the Liberal caucus.

Mr Kwinter: Thank you for your presentation. Is all your funding coming from the government?

Ms Lewis: Yes, it is.

Mr Kwinter: So I notice that you're saying that 50 of the 52 children's aid societies are going to have a combined deficit of about $76 million. How is that financed and how do you deal with that?

Ms Lewis: As the funding framework was introduced, there was a system of mitigation so that the funding framework could be developed and rationalized. In each of the years, in some of the issues we've had around salaries and travel and legal costs there has been a system found within government to mitigate those expenses of children's aid societies. We hope that will be the case again this year, but what we'd like to see is a more rationalized approach in the years going forward. I'm sure the government, just as the children's aid societies, would like to be able to plan more effectively so that we aren't always scrambling at the end of the year to say, "How are we going to meet this deficit?" So the board's time gets used for that instead of some of the planning that's necessary for serving the children.

Mr Carey: I have just come from a board meeting of the Catholic children's aid of Toronto. I've sat on that board for over 10 years, and we received a presentation from the regional director, who said, "This year there is no mitigation. There won't be any mitigation. You're on your own." As a volunteer director, I feel threatened by that sort of statement, but it happened today, not more than an hour ago.

Mr Kwinter: So in a worst-case scenario, if there are no mitigating funds, how do you deal with that?

Ms Lewis: I think it'll be dealt with in different ways by different societies across the province. We have some boards that are very discouraged with this year-after-year kind of approach to deficits and are saying, "Do we need this, as volunteers? Perhaps we should give the charter back." That's a very radical step. Other boards are saying, "Let's work with the province." There are regional tables that are meeting to try to look at cost-containment strategies.

Basically what would happen if the $76 million were not to be funded is that for many societies it would be carried into next year's budget, and they'd get further behind, and we'd really have to find some way in the future to do this. In many ways this is like the police force, but it's in the Ministry of Community, Family and Children's Services.

Mr Christopherson: Thank you for your presentation. I note specifically that the government in 1999 committed to doing a review of the funding framework in three years, which would have been last year, and you note that that didn't happen. Are there any plans underway to do that now?

Mr Carey: Again, that question was asked of the regional director today and the answer was no.

Mr Christopherson: Did they give you a reason for breaking their word?

Mr Carey: No. But maybe Jeanette, because she attends more meetings than I do, would have a comment on that.

Ms Lewis: I don't have a comment. I haven't heard a reason why yet.

Mr Christopherson: There's no rationale given. Hopefully, the government members might want to pick up on that and acknowledge that the commitment should be lived up to, and maybe they can provide some help.

You note that if there's not funding for prevention services, the total cost for child welfare could balloon from $974 million to $1.5 billion. You also say they haven't been funded for the last few years. Was there funding previously for prevention services?

Ms Lewis: Many years ago there were front-end kinds of services provided by children's aid societies: family support, various kinds of strategies to improve parenting capacity. Over the years leading up to child welfare reform, in most societies, because of their financial constraints, these services were gradually eliminated, and in the funding formula there is no provision for these services. So some societies, either through their foundations or through various little patchwork things, are finding ways to do some of this, but it would be much more effective if it were part of the funding formula, predictable and planned. Then we could see that across all of Ontario rather than in sporadic jurisdictions.

Mr Christopherson: The society does a great job in Hamilton. I just want you to know that. Thank you for your presentation.

The Chair: To the government: Mr O'Toole.

Mr O'Toole: Very quickly, costs are increasing. Why? What are the wages?

Ms Lewis: The wages vary across the province depending on their collective agreements.

Mr O'Toole: They're in excess of the benchmark. Is that the cause of all of this?

Ms Lewis: Yes, the benchmark was set in 1997.

Mr O'Toole: As it has been for us really, basically.

Ms Lewis: Exactly, but as you know from all wages in the provincial civil service and anywhere else—

Mr O'Toole: Everywhere in the public sector.

Ms Lewis: —people have expectations to have these wages increased.

Mr O'Toole: I'm not criticizing you. I'm just saying that the fundamental cost here—I see the caseloads growing, the cost per caseload growing, all the ancillary services growing. Nothing's free. I know personally parents who, through various things—people we knew, both teachers, actually, good jobs—their child was in a halfway house for three years. They should have been paying for it. I have five kids and I'm paying. Do you understand? I don't blame them as individuals. There were other reasons, both court and whatever, but it's a huge strain.

Ms Lewis: There's no question that the wage pressure is one of the cost drivers.

Mr O'Toole: I thought we gave a great big increase there a couple of years ago because of the case managers and the case manager system in children's aid.

Mr Carey: The increased volume took care of that.

Mr O'Toole: Yes, but I thought we increased the wages, like ourselves. There was a big—

Mr Carey: No. Not since 1997, and they were set at levels that didn't compare to what the current staff were receiving.

Mr O'Toole: What would the basic salary be for one who, say, has five years' experience? What would they make?

Ms Lewis: A front-line worker—it would depend on their qualifications, but somebody maybe with a bachelor's level would perhaps be paid $45,000 to $48,000. That would be somebody who is having to do after-hours duty, who is having to go into some very, very difficult situations, sometimes under police guard, to take children. It's a very risky kind of job, and the wage piece of it is a part of the equation. The other part is the kind of stress from working with this kind of child and family all of the time. So those are the pressures that I hear indirectly come up at the union table.

The Chair: Thank you, Ms Lewis and Mr Carey. We appreciate your input today.

Mr Carey: Good luck in your work.

Ms Lewis: Thank you, and we do appreciate the support from all parties for children in Ontario.

CUPE ONTARIO

The Chair: Our next presenter is CUPE Ontario. Good afternoon, Mr Ryan. I think you know the routine: 20 minutes, and whatever is left over from your presentation will be left for questions from each of the parties. Welcome, sir.

Mr Sid Ryan: Thank you.

Mr Christopherson: It takes him 10 minutes to clear his throat.

Mr Ryan: Yes, just about.

With me on my left is Judy Wilkins, legislative liaison for CUPE Ontario. On my right is Shelley Gordon. Shelley is the researcher for the municipal sector in Ontario.

I was actually wondering why I'm even coming here, to be honest. I've been coming here now for eight years, making presentations, and you never listen to any of our recommendations. So here we are again, trying to make you listen to some common sense. I don't know if it's going to work this time around. The only saving grace, though, is that we're hoping this will be the last time we'll have to make it to this particular—

Mr Beaubien: Don't bet your boots on it.

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Mr Ryan: Well, we'll see.

Obviously, this budget has a significant impact on all the sectors that we represent. I was going to make this long presentation dealing with all the sectors, but as I say, it's fallen on deaf ears in the past, and you can look up the record and take a look at the previous five or six presentations we've made. But there are a few keys points we want to make about the direction which we believe is fundamentally incorrect with this government, and that's this whole drive to tax breaks, deregulation and privatization.

We'd just like to take a look at a couple of examples, such as Ontario Hydro, where you made an absolute and complete mess of the hydro system in this province. You've taken the system and essentially driven it into the ground, embarrassed yourselves in the process in terms of the management of the system. Deregulation has led to increased rates right across this province. Although you've camouflaged it and you've hidden it from the consumers by introducing rebates and rate freezes, the fact of the matter is that you assailed previous governments for raising the debt load of Ontario Hydro, and that's exactly what you're doing right now with this attempt to buy the voters' confidence by offering rebates.

You have attempted to sell off Hydro One. Our union is proud of the fact that we stopped you dead in your tracks in the courts of this province when you tried to undemocratically manoeuvre the greatest jewel in the crown, if you will, in this province into the hands of your friends on Bay Street. I'm very proud of the fact that we put the money in to stop that venture.

Nonetheless, we're still left with some significant problems. We don't have the ability to generate electricity in this province as a result of the fiasco created by your government. We still have on the books where Ontario Hydro has got to sell off up to 50% of its assets to the private sector. We've got the OPG being told essentially to get down from 85% generation capacity to around 35%, and to a marketplace where there's no incentive at all for anybody to buy into those generating stations as a result of the complete sham that you've made of the entire system.

We want you to take a look at what you've done with Highway 407, a clear example of where you've plundered public assets and passed them over again to your friends and allies in the private sector. You told us there would be all kinds of controls in place in Highway 407 and that rates wouldn't go through the roof. You sold off a public asset in a fire sale. It is nothing short of criminal, what you did with Highway 407.

Take a look at what you did in home care, for example. You tried to bring your marketplace-driven ideology into the home care system. We had a system in this province that was one-stop shopping and was actually working, paying workers decent wages. Organizations like the VON, for example, were running the home care program and doing it very, very effectively, the Red Cross. You ran them out of town and you brought in these privateers and hucksters from the United States who in some cases had been sued in the United States for defrauding the health care system in the US. You brought them into Windsor. You got rid of the VON, which was basically one organization looking after home care, and you replaced them with eight or nine other organizations, all sucking money out of the home care system, each of them with a CEO, each of them with their own front-line sets of managers, each of them with their own financial officers, each of them with their own human resources management systems: eight, nine or 10 of them replacing one simple system, to the tune of $247 million going into administration of the home care system in this province. That's $247 million that could be going into services for members of the public, for people who are vulnerable, people who are hurt, the elderly people in need. They are left out there hanging.

Wages have dropped in the sector. We are losing nurses. Particularly in areas like Kingston and Windsor, nurses are leaving the health care system in Ontario and moving across into the United States, where they can get better wages in the hospital system. This is what the so-called market-driven philosophy of the Tories has been. You've made a complete mess of home care in this province.

These are the kinds of examples. We're saying we don't want to see you repeat these fiascos, for example, in the hospital sector. Once again you're looking at bringing in private sector partners, much like you did with Highway 407 and much like you did with the home care system. What we're going to see again is a degrading of the system. Every dollar that goes into profits is a dollar less for front-line services, a dollar less for nurses, a dollar less at the bedside.

In particular, I want to talk about P3 hospitals, because they do not make an economic case under any circumstances. You cannot make an economic case for bringing in the private sector. Take a look at the UK; they've attempted to do it.

It's common sense: why would a government want to go out and say to the private sector, "Borrow money in the marketplace at 8%, 9% or 10%," when we as a government can borrow it for 4%? Why would you want to try to say to people that somehow bringing in the private sector, which will want at least a 15% to 20% return on their investment—how is that going to add value to the health care system when you've got the privateers ripping this money out of the health care system, out of front-line services, out of emergency department services? It makes no economic sense whatsoever.

The same thing for MRIs and CT scans: you tried this model in Sunnybrook when you brought in Cancer Care Ontario. The Auditor General had to pull your government up and say this was a waste of taxpayers' money. It costs $500 more per treatment for cancer care in that particular facility, plus the $4 million in set-up costs in the private sector. You could not make the economic case, but you still plowed ahead and gave them an extra contract for another couple of years.

At the same time as you were foisting this fiasco of Sunnybrook and Cancer Care Ontario upon the citizens of Ontario, in Hamilton we had exactly the same waiting lists, we had exactly the same problems, and CUPE, together with ONA, sat down with the operators of the cancer care facility in Hamilton and worked out a solution. The solution was very simple. We asked doctors and others to work longer hours and keep the facility open—instead of just from 8 to 5, maybe we should open it from 7 until 8 at night. We cleared the backlog, and we did it without the incentives you are trying to offer to the private sector. We did it without charging $500 extra per patient. We actually did it by working with exactly the same system and the same employees and extending their hours. Now you're trying to tell us that somehow this Sunnybrook experiment is a model we should be following for the rest of the province. I only hope the public in Ontario wakes up to this agenda you've got, which you've been foisting upon the citizens of this province.

We believe this direction you're foisting upon us applies equally to education, where you're giving $300 million or $400 million this coming year to the private sector to operate private schools.

It's a cancer that you're creating inside the public sector, and it's got to be stopped. I guess the only place to stop it, because you won't listen, is at the ballot box. I'm certainly hoping the penny drops for any viewers out there who are listening or watching this presentation and that we begin to get mobilized in this province and take this government out, because it's the destruction of public services in this province.

I just want to finish essentially by saying that we believe you're heading absolutely in the wrong direction. You have not made the case over the last eight years in any one of the systems you've put your hands on. You have not made a success of the electricity system in this province. We know you made a complete mess of education; you created the crisis that Snobelen said he would create before he went down to Oklahoma. We also know that you've made a bags of the health care system and you're trying now to turn the focus to our friends at some other level of government, whom you're trying to blame for the problems you're creating in this province.

We just wish you would stop and think and take a look at the system. For example, in electricity, you know you're on the wrong track, and you've gone back to what? To exactly the same system that was in place prior to your government taking office. The only difference is that you've added an extra $2 billion to the debt and four years of an experiment that didn't work. We don't want that kind of voodoo economics coming to play in any component of the health care system, or any other component of the public sector for that matter, including our universities.

John, I'm dying to hear your questions.

The Chair: Does that conclude your presentation, sir?

Mr Ryan: For now.

The Chair: Then we begin with the NDP. Mr Christopherson, you take the lead. We have just a little less than three minutes per caucus.

Mr Christopherson: This may be your day, John. Gerry and I were considering giving up our time for John, because nobody can make better points for us than John.

Mr Beaubien: Do you want to give him their time?

Mr Christopherson: I'm not there yet, but we'll see how it goes.

Thanks for the presentation. I was particularly pleased to hear you underscore how well we worked things out in Hamilton, but unfortunately we've also got an example that supports part of the horror story you raise in here, the visiting homemakers. I know you were down there speaking, as was I, at a number of rallies we had.

People should know that it was the CCAC that changed the rules—unilaterally, by the way—that ultimately caused Hamilton to lose the visiting homemakers association. I still have trouble accepting the fact that it's actually gone, because it's such an integral part of the community. A lot of that work, of course, is now going off to the private sector. I wonder if you could tell me whether you're seeing that same example replicated in other communities as you travel around Ontario.

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Mr Ryan: Yes. The one I'm most familiar with is Windsor, where the VON delivered homemaking services for 70 years. They were an institution in that community. Busloads of them travelled to Queen's Park in an attempt to get the Tories to change their minds. Essentially they wanted the VON to cut salaries by $5 an hour in order to keep the contracts, which just wasn't going to happen. They brought in a company from the United States that, as I said, had been defrauding the system down in the United States, and seven other companies that bid on the contracts.

We've almost come full circle. They realized that when the nurses in the Windsor area refused to work for $5 an hour less than they were getting in the hospital system, they just went across—the Detroit hospitals came in, put on displays and made a bid for all the VON workers. Of 112 VON nurses, about 70 went into the Detroit system. In other words, we used Canadian and Ontario taxpayers' dollars to train our nurses, only to see them go into the United States and the US benefit by the taxpayer dollars we were paying in Ontario.

The same thing happened in Whitby. You mentioned Hamilton, and Kingston had the same fight. Everywhere we've got a CCAC this fight is on.

Just last night, actually, John O'Toole was at a health care meeting in Oshawa. That's exactly where we heard the same stories coming forward from the people delivering home care there as well: the system is in crisis, not enough funding, people going without, rationing taking place, duplication.

These private sector companies will not share information between themselves. Before, one organization would call in and they would know when to send somebody in if somebody had to take blood or somebody had to change some bandages or whatever. They would actually coordinate the activities and go to that home. Now you've got three or four organizations showing up on the same street, one going into one home because they've got the contract with a certain group of patients, others going into a house across the street, and all charging mileage and refusing to share information when it comes to ordering supplies and materials through the CCAC. They've got seven separate databases in place. Under the legislation, they don't have to divulge their profits and they don't have to divulge lists of names. There is no sharing of information. It's just a complete mess, and they're trying to foist off on us that somehow this is an efficient use of our taxpayers' dollars and they've improved efficiencies for people in home care. It's an absolute joke. And now they're also finding—

The Chair: Thank you, Mr Ryan. We're going to go from the NDP to the government side. Is that all right?

Mr Ryan: I'll just answer the question when it gets to the Tories.

The Chair: Unfortunately, you won't have the opportunity to engage Mr O'Toole first. Mr Beaubien is first and then Mr O'Toole. Three minutes.

Mr Beaubien: Thank you very much for your very, very positive presentation. I should give you the CAW's presentation from this morning. I think it would be a lesson to be learned.

We had a presenter yesterday who said, "The one single thought that sustains me is that the fundamentals are good." I'm not going to ask any questions. I'm going to make a comment, because I don't think it warrants any questions.

I'm glad to see that at least you're consistent in your presentation. On page 7, you even take a shot at Romanow, with regard to his report, in failing to notice "the significant research available that shows that the introduction of for-profit housekeeping and dietary services...." Then on page 8, again being very consistent, you take a shot at Rozanski with regard to the funding formula. I want to congratulate you for being consistent in your presentation. With that, Mr Chair, I'll share my time with Mr O'Toole.

Mr O'Toole: I understand you have a different point of view, and that's appropriate, I suppose.

The other thing is, if you look at the presentation yesterday—

Mr Ryan: I can't hear you, John.

Mr O'Toole: —the participation rate in the labour market is the highest it has been in 11 years. All the other barometers and indicators, not just of jobs, are positive. What would you say is the most problematic for the public sector?

I know now that in the public sector, OPSEU and that, I was told by persons who couldn't believe the contract benefits they have—they're permanent jobs, basically.

Most of the ones that were downsized have been hired back at more money and now qualify for a pension after a certain number of years. So I think you're pushing, and I understand that. It's your job. You're elected by the membership.

Mr Ryan: I don't know if there was a question there or not, but I'm astounded at the Tories trying to take credit for OPSEU negotiating good collective agreements and good benefits for their members. That's a real stretch, John, when you've tried to completely decimate that sector and you laid off 20,000 of their members in the first year you came into office. So to sit here now, five years later, and try to take credit for the fact that OPSEU has managed to negotiate decent collective agreements—because they went on strike against your government for five weeks and you knew full well that was in the offing. That other strike just a few months ago would have lasted a lot longer had you not buckled in and said, "OK, we're not going to beat this union into the ground twice." So please don't try and take credit for what the union did.

In terms of the job market, it is just astonishing that the Tories would actually believe that somehow you have created this economy in Ontario, when 85% of our exports go to the United States. When the United States was booming under the Clinton administration—

Mr O'Toole: Their economy is in the tank.

Mr Ryan: It is. It's going into the tank right now, but at this stage of the game, don't tell me that somehow the jobs that were created in Ontario came as a result of the tax breaks you gave to your corporate friends.

The Chair: We'll go to the Liberal caucus.

Mr Phillips: Thank you for your presentation. I'll just comment on the 407. The public may be interested that this Saturday the rates are going up about 12%. If you drive, as many do, from Markham to the 403, you're going to be paying $500 a year more in tolls on the 407. My question is elsewhere, Mr Ryan, although you're welcome to comment on that. I agree with you that when they sold it—the 407, by the way, was sold on May 5, 1999. When do you think the election was called? May 5, 1999. It was a cash grab for the election. We were told there were controls on the tolls. The owner now says, "There are no controls on the tolls. We can take them up without limit."

My question is this. The Minister of Finance was here yesterday indicating it's full speed ahead on the tax cuts. They were forced to delay them for a year because they couldn't find the money—and break the Taxpayer Protection Act—but they got elected twice on tax cuts and they'll run again the third time.

I'd just like to get your comment. The thing that surprised me in the numbers yesterday was that it's now Ontario's position that we need corporate taxes in Ontario 25% lower than our US competitors. They're at 40%; Ontario wants to be at 30%. The forgone revenue on that is roughly $4 billion.

The Chair: Question, please.

Mr Phillips: Why would you think Ontario needs corporate taxes 25% below the US?

Mr Ryan: I'm not so sure there's a logical reason. There's an ideological reason. There's no question, as George Bush tries to implement this massive tax cut in the United States, the top 1%—and it's something like 670,000 millionaires that they've got in the United States—will benefit by it. The Tories in this province, no question about it, get their main support from the business community.

Mr O'Toole: No, we don't.

Mr Ryan: Yes, you do. By getting a tax break and a tax incentive for their friends, likely the purse strings will be loosened up as we enter into an election era. But I will say this much about the $4 billion: if they even attempt to go down that road, if you combine that with the $2 billion they've deferred—there's $1.9 billion deferred in building maintenance in the university sector, there's $1.6 billion that Rozanski is saying we want to put in, there's a couple of billion dollars you've taken out of the health care system, and there's about $2 billion of accumulated debt in Ontario Hydro. If anybody believes for one second that the Tories, if re-elected, will somehow follow through on those promises, whether it be to keep the rate freeze on—Ralph Klein promised it just before the election, and after the election he removed it.

On the Rozanski report, they're promising "a couple of hundred million dollars now, but if you re-elect us, you'll get the rest." That is not going to happen. You cannot balance the books by giving $4 billion out to the corporations, practically $2 billion required for Rozanski, and of course the $2-billion debt in Ontario Hydro. I think we're back to where we were in 1995: massive cuts, massive rollbacks, massive layoffs in the public sector. If that's what the public wants in round three with the Tories, then I'm not so sure they're going to be on that road. I actually believe there will be a change of government, and this will be my last presentation, thank God.

The Chair: Maybe not. We shall see. Welcome, as always, and thank you, Mr Ryan.

1400

McMASTER UNIVERSITY

The Chair: Our next presenter is Dr George, McMaster University. For the purpose of Hansard, Dr George, would you be kind enough to state your name clearly when you begin. Welcome, sir.

Dr Peter George: My name is Peter George. I'm the president of McMaster University. Some of my friends joke and call me a CEO. My principal weapon is moral suasion, however, and that's what I'm here to exercise today. It's nice to see so many familiar faces. It's been a while since I've been at this committee. I used to come here on a regular basis a few years ago. I'd like to thank the committee for giving me the opportunity to present my views on some of the current and long-term issues confronting the stakeholders in post-secondary education.

Our ability to meet the needs of students and serve our communities is built on partnership between our educators and researchers, our graduates, the private sector and governments, especially the provincial government, and legislators. I'm particularly grateful that members of this committee continue to demonstrate their interest in and concern for Ontario's post-secondary education system.

I'll begin with a few comments today on the double cohort, because it is a highly visible issue. Students and their parents are concerned in the first instance about access to post-secondary education, but they are concerned too about the quality of the educational experience that universities can provide while taking in so many new students. I know that members of this committee are well briefed on post-secondary education, so I'd like to move quickly through a review of the complex array of issues associated with the double cohort.

It's an issue that has been many years in the making, and one of the most important lessons we can learn from it is that we need to have a longer view of the post-secondary education system, both its rules and its requirements. We must not think we can fix the perceived double cohort problem and assume that it will go away in four years. That would be underestimating the true nature of the challenge presented by the double cohort and, perhaps worse, it would be failing to seize the opportunities it presents for us in Ontario.

A word on McMaster. Our goal has been to make McMaster the pre-eminent student-centred research university. It is our conviction that a student-centred research university has the culture, perspective and means to provide the type of undergraduate education that is most sought by students and employers. This is a university education that presents cutting-edge content in its fields of study and enables students to develop the generic critical thinking, inquiry, research and communication skills that will enrich their lives and position them to be productive participants in our economy and society.

The double cohort is a shorthand expression that covers a range of related issues: first, the elimination of the OAC year, which has resulted in two high school graduating classes in 2003. You will know that the Ontario Universities' Application Centre has reported a total of 101,668 students seeking entrance to Ontario universities in the fall of 2003. About 35,000 of these have made McMaster one of their choices.

Our growth in the first-choice category is up by more than 50% and outpaces the provincial growth, which is 46.7%. This is a testament to the excellence and dedication of our faculty and staff and the reputation of our graduates in the workplace and community. Demand for these programs is distributed fairly evenly across faculties and disciplines on campus and indicates students are attracted to strong academic programs by our reputation as a school that fosters innovation and discovery.

But there is more than the coincidence of two high school graduating classes at work here in 2003. First, the size of the 18- to 24-year-old population group is increasing and it may grow by as much as 12% by 2010. At the same time, a higher percentage of them are seeking a post-secondary education. In 1985-86, the participation rate in higher education was 13.6% of the 18- to 24-year-old age group. This rose to 22% in 1997-98, and a COU study projects it could approach 25% by 2010. So the university-age population group is getting bigger, and most of them want access to post-secondary institutions.

McMaster's catchment area in Ontario is the Golden Horseshoe. Fully 80% of our students traditionally come from this area, including just over 40% from the GTA. Statistics Canada projects that the 18-to-24 age group in the Golden Horseshoe will increase by 31% between 2001 and 2016, so there's going to be a special challenge for institutions in the Golden Horseshoe-GTA area.

In addition to demographic change and participation rate increases, there have been other behavioural changes that have confounded the enrolment forecasting models. We have fast trackers, we have slow trackers and we have the phenomenon of higher retention rates for students moving from first to second year of study. Finally, the double cohort issue cannot be separated from funding issues, the legacy of restraint and our capacity to catch up.

A brief word on government actions. The government and Ontario's universities have been working together to ensure that every qualified, motivated student in the province who wishes to attend a post-secondary institution in Ontario will have the opportunity to do so. In the 2001 budget, the provincial government made a commitment to increase university and college operating budgets by $293 million by 2003-04 to match the then projected enrolment increases and, in response to higher forecasts, supplemented this in last spring's budget by an additional $75 million, to bring the increase in base to $368 million by 2003-04.

The government has also announced a number of new investments in student assistance over the past few years, including the Ontario student opportunities trust fund, Aiming for the Top, access to opportunities and increases in Ontario graduate scholarships. The province also allocated $981 million to the first round of SuperBuild post-secondary education initiatives, which was expected to lever another $1.2 billion in other funding, for a total of $2.2 billion, to support the creation of 79,000 new spaces. Minister Ecker announced a new SuperBuild round in the 2002 budget to support the creation of 13,000 new spaces.

What have we been doing at McMaster to prepare for this? I take McMaster as, I hope, symptomatic of what other institutions are doing as well. We established a comprehensive planning process in 1995 called Directions, which among other things developed our vision and mission statements, integrated our academic and financial planning, equipped us to respond to the cutbacks in the mid-1990s, then to set strategic priorities and take initiatives to plan and respond to growth opportunities, including the double cohort.

Universities across the province have responded to student demand by increasing enrolment. Our first-year undergraduate registrants increased by more than 1,400 between 1998-99 and 2002-03, an increase of 44%. We've been responding to the need for student spaces on many fronts: the construction of temporary classrooms, a 350-seat temporary steel structure, a 225-seat conversion of a dining hall, a 400-seat temporary steel structure, the temporary appropriation of 450 seats in lecture theatres on the Hamilton Health Sciences site, the extension of class hours, the relocation of continuing education downtown and so on and so on. All of these are aimed at increasing the efficiency with which we use our facilities.

Of course, we entered the 1999 SuperBuild competition for funding to create new student spaces and we were grateful that we were awarded more than $22 million from SuperBuild to support our $47-million project to add and modernize classroom and lab space for our students. Let me give you a reassuring piece of news: we did so at a cost well below the provincial average for adding new spaces.

One of the initiatives SuperBuild 1999 supported was the renovation of undergraduate chemistry labs, which enabled us not only to improve space utilization, but also to enable our first- and second-year students to conduct experiments in a controlled setting that mirrors the industrial environment. These are the first undergraduate chemistry labs in the country to be equipped with fume hoods, so the experiments can be real-world-type experiments and help prepare the students for industrial application.

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We need to do more. The major component of our plan to respond now is the McMaster Centre for Learning and Discovery, a state-of-the-art, multi-purpose facility that will integrate teaching, classrooms, research facilities, research incubator space and hospital critical care facilities. Included in the building is a project we call Opening Doors to a Brighter Future. It has the potential to create 1,459 student spaces to respond to growth and replace temporary classrooms. Planning for this facility has been underway for some time, so we were able to begin construction last November in order to be ready in time for the class entering in September 2004.

We were delighted when Minister Ecker announced a new SuperBuild round in the 2002 budget. We welcomed the launch of the new competition on December 17 by Minister Cunningham, and we have submitted a proposal to help us open doors. I hope you will all have a chance to see it and to support it. McMaster has a track record of solid partnerships with both the private sector and with government, and this project is a wonderful opportunity for all three parties to work together to address the student demand for spaces in the GTA, southwestern Ontario and across the province.

The second thing I wanted to talk about was the need for a longer-term perspective, because I think a key lesson from the double cohort experience is that we must take a longer view of issues in post-secondary education and the implications of change over time. We have embarked on an internal process now to refine our strategic plan and prepare us for the post-double-cohort period. We think it is very important for our partners in the public and private sectors, and particularly government, to think beyond the double cohort as well.

As partners consider the importance of post-secondary education and its future role, they should ask questions like this: Should the province have a long-term enrolment policy and, if so, what should it be? Should we be aiming for a higher post-secondary education participation rate? Should we have university-based research targets, and what does that mean for graduate education? What is the vision of future university-industry collaborative research arrangements? What is the best way the provincial and federal governments could work together to engage post-secondary education in achieving provincial and national objectives?

There are a number of pressing issues here, and I want to reserve some time for questions. I will be brief and shorten what I have in the written presentation.

Access to university means access to excellence as well, so we need to look at more than accessibility; we need to look at excellence. I want to focus, for example, on faculty to student ratios. Studies here and abroad consistently show that faculty to student interaction outranks every other factor in influencing perceived quality of the learning experience. The simple fact is that while undergraduate student enrolment is increasing in Ontario, faculty numbers have been declining. The COU has determined we will need to recruit 13,500 new faculty members in the next decade, which is more than the total number currently teaching in Ontario universities. That's partly because of the great pace of retirements. Graduate student enrolment, the source of future faculty appointments, has been stagnant in Canada for the past decade. So there are two issues here: faculty development and graduate student enrolment. For the past 18 months, McMaster has been recruiting at a rate of two faculty members a week just to keep our heads above water. But over the last decade, our student to faculty ratio has deteriorated from 20.8:1 to 24.2:1.

So one thing I urge you to consider recommending action on is specified quality improvement initiatives, or benchmarks, a quality assurance funding if you like, that would help to ensure that double-cohort students and beyond receive the quality education they deserve. Ideally, we should put in place a multi-year base funding initiative that gives university planners and government planners the certainty they must have to be able to respond to the needs of students and the accountability and risk-sharing mechanisms that governments need.

I think, second, that if we do this, if we invest in quality as well, Ontario is going to be in a wonderful position by the end of this decade. The double cohort and the demographic growth, which is almost unique to Ontario compared with other provinces, will give Ontario a jump-shift, if you like, in the preparation of highly qualified, highly employable young people who will be prepared to take their place in the economic and industrial and business activities of this province. We will lay an increased, enhanced basis for the foundation for our future prosperity. But Ontario, because of the double cohort, because of demographic growth concentrated here in this province, can steal a march on the other provinces in terms of further enhancing our economic leadership.

Graduate education: we need to act now to increase enrolment of graduate students in master's and doctoral programs. Graduates of these programs become the industrial research technicians, the people in the industrial research labs that private industry requires. Many of them will also become urgently needed faculty members to replace the large group of retiring professors and to provide the kind and quality of relevant educational experience.

The federal innovation agenda has identified increasing graduate enrolment by 5% a year for the next decade as a priority, but leadership for this important initiative is the responsibility of the province. I believe there is an opportunity to build here on the co-operative models developed in supporting university-based research to ensure that we have the highly qualified personnel to meet our objectives.

Finally, in research, one of the great successes in Ontario has been in the area of research. The Ontario research and development challenge fund and the Ontario Innovation Trust, together with the relevant federal initiatives, have contributed to a dramatic surge in university-based research and university-private sector research partnerships in Ontario.

I have a graph of the increase in research funding at McMaster. You will see that it has virtually doubled over the past several years, and in 2001 yielded 41 invention disclosures, 31 patent applications, 14 licensed technologies and more than $878,000 in licensing and royalty income.

But this research boost provides more than just economic development opportunities; it has also led to the successful recruitment of new faculty, who are critical to the long-term success of Ontario's universities and the Ontario economy. McMaster alone has hired in the past several weeks from Brown, from MIT, from Columbia, from the Weizmann Institute in Israel, from Queensland in Australia; a large number of repatriations of expert personnel to Ontario to the benefit of the Ontario and Canadian economies.

In conclusion, I think the double cohort has presented us with a challenge and an opportunity. The opportunity is to build capacity in our post-secondary education system to respond to the higher enrolment levels that will come beyond the double cohort because of increased participation rates and demographic growth in the 18- to 24-year-old age group. We've opened the door that will position Ontario to be a leader in the increasingly competitive, increasingly global knowledge economy. Let's, here in Ontario, keep opening the doors to innovation and discovery.

The Acting Chair (Mr Marcel Beaubien): Thank you very much. We have time for one question. We have a minute and 30 seconds. The government side, Mr O'Toole.

Mr O'Toole: Thank you very much, Doctor. I appreciate your input. I do favour people going to post-secondary, and I think the knowledge-based economy speaks to that. I think it really does show some respect to strengthening the curriculum with a bit more vigour, setting higher standards. That's the deal here. Not everybody's going to have an auto job in the future.

I want to compliment, really, your media attempt recently. I mean that in all sincerity. A very grand—35,000 applicants for 3,500. It read so well in the media. I thought it was well managed.

Dr George: Well, we can't manage the media. I'm sorry, Mr O'Toole.

Mr O'Toole: Oh, I know. It did have good press. I sort of watched that.

My experience as a parent of five—my brother's son and my sister's boy both went to your school. One has a PhD now from the University of South Carolina; just got it. He didn't get into your graduate program there, but was just hired on the faculty at the University of South Carolina. The other is at UCLA. One's name is Audia, and the other's name is O'Toole.

My question is this. I was impressed with your innovative approach to solving the problems, called "Our Preparations." All of my five children went to university. My biggest problem was that they didn't go all year. Most of them have an honours or a grad degree. They could have actually done it in three years, really. And then they had to pay for the rent and all that stuff. The real cost of university is the living, not the tuition; it's the living and the other part.

The Acting Chair: Question, please.

Mr O'Toole: Why don't we have year-round university so you can get an undergrad degree in three years or two and a half years?

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Dr George: We have a lot more year-round activity than is popularly known. In our medical school, for example, we're the only one that has a two-year and two-term medical school. Students go continuously throughout the period and they get out a year and a term earlier than they do from other medical schools.

We have a number of summer research studentships that have students engaged in research with faculty mentors through the summer. This is crucial to a student-centred research university, where the integration of research excellence and educational opportunity is crucial. We certainly have research going on all summer long, of course, and our graduate students are in residence all summer.

We offer a number of programs in the summer for part-time students. The big demand that used to come from teachers who needed to complete a bachelor's degree to complete their qualifications dropped off in the 1980s. We've looked at the possibility of full semestering and summer semestering, but the one place where it has been tried, at Guelph, it has not been successful.

Mr O'Toole: What about Waterloo?

Dr George: They run a co-op program as well. There is a marked aversion in Ontario, because of the tradition of summer agricultural employment, to move to three full terms, but we experiment with that.

The Acting Chair: With that, I have to bring it to an end. On behalf of the committee, thank you very much for your presentation this afternoon.

Dr George: Thank you very much. I appreciate the opportunity. Good luck with your deliberations.

The Acting Chair: Sorry there wasn't time for more questions.

Mr O'Toole: How did that happen?

Mrs Marie Bountrogianni (Hamilton Mountain): Come on. It's my critic's role. It's my president, my hometown.

The Acting Chair: I'm sorry, but I have to go by the rotation.

ASSOCIATION OF EARLY CHILDHOOD EDUCATORS, ONTARIO

The Acting Chair: Our next presentation is from the Association of Early Childhood Educators, Ontario. I would ask the presenter or presenters to please come forward. If you could state your name for the record, and you have 20 minutes for your presentation.

Ms Eduarda Sousa: Hi. My name is Eduarda Sousa. I'm the executive director for the Association of Early Childhood Educators, Ontario. I've brought my colleague Leah Yuyitung with me in case there are any questions. The presentation isn't 20 minutes, so you'll have lots of time to ask lots of questions.

You'll have to bear with me. This is the first time I've made this kind of presentation, so I'm reading from the report and I will not diverge at all from it.

The Acting Chair: Feel comfortable. We're a pretty easygoing group.

Ms Sousa: I don't know. I'm trying to picture you one way, but it's not working.

Established in 1950, the Association of Early Childhood Educators, Ontario, has been in the forefront of advocating for and setting standards of training, professional development and code of ethics for early childhood educators working with children and families in Ontario. The Ministry of Community, Family and Children's Services, which regulates the licensing of centres, recognizes the function of the AECEO to grant equivalency. This process evaluates an individual's credentials for working as an ECE in Ontario. The AECEO also currently administers a voluntary certification process that sets a standard of entry to practice for its members.

Ontario needs and deserves high-quality care and education for its children as a means to develop a strong economic and social community. Accessible, affordable, high-quality child care services are critical to this formula. The services currently in place do not begin to meet the demands of Ontario families.

Today, early childhood educators can be found in a cross-section of environments: child care—that being commercial, non-profit, family/home care—family resource centres, drop-in programs, recreation, early years centres, health care, and education. The perception out there right now is that ECEs primarily work in child care centres, but that's no longer the case.

Early childhood educators, because of their involvement with young children in a variety of settings, play a critical role in delivering these services through day-to-day interactions with children and parents, curriculum planning, implementation and evaluation, program supervision and administration, and training.

Though their job descriptions may vary, ECEs have in common specialized training and their obligation to and passion for the education and care of young children and their families. Research conducted in Canada, the US and Europe has consistently shown that high-quality early childhood education benefits young children in all areas of development. The indicators of high-quality programs are well known. Research has shown that factors such as ratios, group size and program size are critical in determining program quality. However, it is the interaction between the teacher and the child that is the most important determinant of high-quality care and education for young children.

Currently, the Day Nurseries Act regulates child care and nursery school programs in Ontario. The DNA clearly sets out minimal standards for the structural features of early childhood programs. Legislation around ratios, group size and health and safety regulations are basic for the provision of quality programs for young children. The DNA, however, has few standards in place with respect to the safety, ethical and professional practice of the early childhood educator. The onus for program quality, according to the DNA, lies in the hands of the operator, with little legislated accountability for the early childhood educator. In addition, the DNA does not address issues related to the professional development and/or continuing competence of the ECE, which are critical factors for high-quality programs.

The Ministry of Training, Colleges and Universities created ECE diploma program standards adhered to by Ontario colleges of applied arts and technology, as well as the AECEO equivalency process. An accreditation committee was formed by the ministry to investigate the accreditation process and accountability for these programs. However, this committee was dissolved in 2001. The ministry currently has no plans to take on the role of accreditation. A recent bill was passed allowing college programs to monitor their own compliance to program standards. With the budget cuts to many post-secondary institutions, there is a growing concern that program hours and placements are being cut, thus jeopardizing and compromising the quality of ECE diploma programs.

Support for a national child care plan has been demonstrated time and again. A recently released survey by the Canadian Child Care Federation shows 90% of Canadians either strongly agree or agree with the statement, "Canada should have a nationally coordinated child care plan." As well, the Ontario Early Years Study report three years later strongly recommends that the government integrate existing core components, including child care centres, nursery schools, family resource programs and parenting centres, to create early child development and parenting centres and expand capacity so that all young children and their families can participate.

The You Bet I Care study shows the increasing dissatisfaction of early childhood educators in their jobs due to the low wages and lack of benefits, recognition and funding for professional development. Wage grants for early childhood educators working in the regulated child care field were granted subsidies in 1987. However, when these funds were capped in 1994, it meant new programs and staff were not able to access these much-needed monies. It created an inequitable situation among staff and placed the responsibility of meeting pay equity demands on the cash-strapped programs.

In February 1993, the final recommendations of a feasibility study conducted by the AECEO received overwhelming support from parents, guardians and professionals for a registration process for ECEs in Ontario, standards of practice, an accountability function and a voluntary reporting function.

Now, more than ever, there is a need to ensure early childhood educators have the appropriate training, wages, working conditions and accountability to ensure the quality delivery of these services. To protect the public interest and better ensure accountability in the profession, ECEs across Ontario strongly recommend the establishment of a self-regulating body. This would enable the profession to set its own entry-to-practice and registration requirements. It would create an up-to-date registry of early childhood educators in Ontario and establish an accountability process. Legislation would also provide a code of ethics and a set of standards of practice. A mechanism for continuing professional development would also be mandated.

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The DNA sets out minimum standards for structural features that are critical in the delivery of programs for young children. A self-regulating body for early childhood educators can in no way replace DNA regulations. These regulations provide the framework for safe, ethical and professional practice. Rather, a self-regulating body will enhance the quality of care and education for children by giving early childhood educators the opportunity to take responsibility for setting their own entrance, practice and professional development standards. A college for early childhood educators will also provide accountability of the profession to the public.

Therefore, the AECEO recommends that:

(1) Ontario establish a College of Early Childhood Educators similar to that of current professional colleges, with a governing council made up of 55% registered ECEs and 45% publicly appointed members. The college would also address the issue of ECE diploma program accreditation in Ontario.

(2) Ontario fund a comprehensive and cohesive early childhood education and care program that moves away from a targeted system to a publicly funded, integrated and accessible system.

(3) Ontario restore and increase pay equity funding to all early childhood educators working in regulated education and care.

(4) As part of the comprehensive and systemic ECEC program, Ontario set aside additional funding for child care workforce issues such as ongoing professional development, recognition, benefits, and retention and recruitment.

The Chair: Thank you very much. We have two minutes per caucus, and I'll start with Mr Kwinter.

Mr Kwinter: I understand from your presentation that all these recommendations are not in place at the present time.

Ms Sousa: That's right.

Mr Kwinter: Have you done any projections as to what it would cost to implement your recommendations?

Ms Sousa: No, we have not.

Mr Kwinter: So you have no idea what the amount is?

Ms Sousa: No.

Ms Leah Yuyitung: For the universal national child care plan, I believe the Ontario Coalition for Better Child Care as well as the Canadian Child Care Federation have surveys they have put out, as well as a feasibility study on it.

Ms Sousa: I'm sorry. I didn't get your—there are studies in place that project what the cost would be, including the recent report Laggard or Leader? from John Godfrey, that suggests how much money should be spent on such a program.

Mr Kwinter: At the present time, do you deal with children who are under the health care system—for example, autistic children?

Ms Sousa: Yes.

Mr Kwinter: And is that funded separately?

Ms Sousa: No. I believe some programs are funded through Health, but some of the funding for autistic children is now coming out of Early Years.

Mr Kwinter: At the present time, have you had any indication as to whether the government is looking favourably at this, or is this your first presentation on this particular issue?

Ms Yuyitung: Do you mean for establishment of the college?

Mr Kwinter: Yes.

Ms Sousa: We've met with representatives from the current government, and we have received no feedback as to whether they do support it. We've received support from other parties, but not from the present government.

Ms Yuyitung: We also presented this in 1996. I believe there was a Bill 90 presented in the House concerning the establishment of a college of ECEs. So it's not the first time it has come up.

Ms Sousa: It was passed, but once the bill was passed it wasn't given to a committee, and so it died there.

Mr Christopherson: Let me say at the outset that I have great admiration for the work of early childhood educators—just like people who do home care, anything that's personal service, usually in very stressful situations, and who have a direct impact on quality of life. I have just so much admiration, because it's tough work.

Ms Sousa: Thank you.

Mr Christopherson: If people understood how much education and training it takes and how bad the pay is, they'd appreciate that everybody who decides to go into this as a profession is almost a candidate for sainthood, in my opinion.

Just to put it on the record, would you give an outline of what education most graduates have now and what their pay scale is on average across the province?

Ms Yuyitung: I'll speak on that. On average right now in the Ontario college of applied arts and technology, the standard is about a two-year diploma program, but it has been ranging—a lot of people are trying to deliver the program in different ways. They do have fast-tracking, which is about 16-month programs, or distance and correspondence courses, but with a placement component. That is essential to the program standards that are going to be met. Because there is no real accreditation of the programs, there are now currently a lot of other programs that are coming up that the AECEO does not recognize. They're starting to deliver it in six-month programs, as well as correspondence programs that we have heard about and we have looked at that would provide only 10 courses, with no placement.

Again, what we, as the association, recognize is a two-year program or at least that has the components of about 24 courses dealing with methodology, curriculum and behavioural management. As I said, they average about 400 to 500 hours of placement in a setting that is dealing with children, a supervised placement.

With regard to the current salary, the You Bet I Care study that was released nationally across Canada showed that wages can vary from minimum wage all the way to $25, but the average was about $11.

Mr Christopherson: Eleven dollars an hour?

Ms Yuyitung: Yes.

Mr Christopherson: We're not even talking 25 grand a year, and these are for professionals.

Mr O'Toole: I also appreciate the work you do, as my wife was an early childhood educator.

Mr Christopherson: Pay them.

Mr O'Toole: I know that served as a very good basis for her end education.

I was just interested in the ongoing struggle between institutional care and home care. I'm on the record as supporting—as the parent of five children, a sort of Ward Cleaver type—more aggressive tax deductions for the stay-at-home parent. I think that's the most important thing today. I don't care which parent, whether they're professionals or not, as long as they are loving, caring, nurturing and provide that early-years support. Institutional care is required in some cases. I understand that.

I'm very impressed with the variety of things that your graduates are doing; as well, EAs in our schools. The question I might ask you is, with the training of two years or more, 25 credits, as you said, and the experience—you've got 500 hours of practical and then perhaps working—do you think there could be a prior learning assessment for early childhood educators, probably in the junior kindergarten or kindergarten area, where you could actually qualify for the larger salaries, the $50,000-type salary, where you work less; you actually work fewer hours and fewer months?

I'm very familiar with this. I actually have two children—a niece and a nephew. One is an early childhood educator working in Durham College, actually, and the other is working in a school as a primary ed teacher—a general arts degree, I think. I think they're both about the same. With five years' experience, what's all this—do you think your members would be qualified to teach junior kindergarten?

Ms Yuyitung: There was actually a study in the Ottawa-Carleton District School Board, with a pilot project. In about 1998-99, they released some findings to show that the ECEs who were in a JK program had either equal or better results with children in the JK program.

Mr O'Toole: Why isn't it happening?

Ms Yuyitung: The reason it's not happening is that there are union issues in terms of occupational issues, because we are only in a two-year program, as opposed to the College of Teachers.

Mr O'Toole: Okay. That's my question.

The Acting Chair: With that, we've run out of time. On behalf of the committee, thank you very much for your presentation this afternoon.

Mr O'Toole: I figured it was that. It wouldn't have anything to do with ability.

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ONTARIO SECONDARY SCHOOL TEACHERS' FEDERATION

The Acting Chair: Our next presentation is from the Ontario Secondary School Teachers' Federation. I would ask the presenters to please come forward. On behalf of the committee, welcome. You have 20 minutes for your presentation. Could you also state your name for the record, please.

Mr Earl Manners: My name is Earl Manners. I'm president of the Ontario Secondary School Teachers' Federation. On my left is Dale Leckie, a member of our staff who is quite aware of education finance, and on my right is Peter Lipman, who is our legislative liaison. You may see him in the hallways of this august location from time to time.

You have as part of our brief a preamble to this presentation, as well as our submission to Dr Rozanski, for your perusal just so you know what we recommended to Dr Rozanski. If you take the time to compare our recommendations with his, you may find it quite interesting. There seems to be a lot of consistency and agreement among various parties—the government's appointed reviewer of the education funding formula and OSSTF and its members—on what needs to be done.

You can see in our introduction that in our submission we try to emphasize that public education is a public good and must receive appropriate funding to ensure student success, social stability and a healthy economy, that the underfunding of Ontario's public education system must be redressed immediately before further damage is done to our young people and to our society. We had hoped that this task force would contribute to the debate and to furthering the health of our students and our society through the appropriate funding of public education.

We are very pleased with the recommendations of Dr Rozanski and we believe we can work with them. I believe he meticulously documented what many have been saying, including OSSTF, for the past seven years, that public education has been starved financially. Our expectations here today are very simple: reinvest in all aspects of public education now. If you don't believe us, please believe what the researchers are saying. Four recent studies, some of them commissioned by the government, have highlighted and made it clear that it is critical for the government to immediately follow the recommendations of Dr Rozanski and reinvest in our public education system, whether it be Dr Alan King's study on the double cohort, where he also outlined great concern about the implementation of the new curriculum and its impact on the failure rate of students in various programs; or the study done by Dr Andy Hargreaves of six schools in Peel region and what was happening there; or the Ontario College of Teachers statistics on the teacher shortage; and the most recent study that came out just this past week from OISE on the schools that we need.

Let me emphasize that this is not a time for "I told you so." I'm not here to say that. Really it's a time for action, to address the chronic underfunding of our public education system and the consensus that seems to have been reached among researchers, government-appointed fact finders and groups such as ourselves.

From a financial point of view, I'd like to go to the numbers. Part 2 of our introduction just talks about the basic elements of the funding formula and the benchmarks. Dr Rozanski made 33 recommendations, three of which the government acted on immediately, and we were pleased to see that. He also said, though, that the benchmarks used in the funding formula to generate revenue levels for school boards have fallen well behind the actual cost of salaries and supplies, among other things. We believe that those benchmarks have to be addressed in the next budget. Everyone is aware of the fact that the proposal would require an investment of approximately $1.1 billion just to begin to catch up, that further recommendations totalling about $690 million or $700 million would bring the total increase to $1.8 billion. Although those numbers are widely accepted, what was left out of those numbers was Rozanski's recommendation that the benchmarks embedded in the funding formula be updated annually to reflect changes in actual costs. This investment was not included in his report or in those numbers. The $340 million that was provided to deal with issues around benchmarks related to salary, benefits and working conditions was a good beginning, and we are trying to address that money through the collective bargaining process right now. We expect, though, that the government will say that this funding will also serve as the government's attempt to update benchmarks for salaries for the 2002-03 school year.

If that is true, then let me use that as the basis for a discussion of numbers. Right now, that would mean that $340 million plus the $270 million for transportation and special education would be added on to the current funding for education, which would bring base funding to $14,825,000,000. If you add in Rozanski's recommendations for new investment of $420 million, which is the difference between what was added for special education, and many of his other recommendations, if you accept that Rozanski should be phased in over three years—and we don't, but even if you did, that would mean $473 million in additional funding and a further $353 million to update the benchmarks to the current consumer price index, which stands at 3.9%. That's $1.3 billion just to stay on the Rozanski timeline and just to meet his base expectations.

If you were trying to catch up immediately, so there was no deficit in the funding formula and we had a balanced budget in education, something I know the government is very fond of, it would cost $2.3 billion in immediate funding—just to catch up; but $1.3 billion in this current budget coming up just to stay on the Rozanski timeline and meet his expectations.

This doesn't take into account the $6 billion that the former Minister of Education identified in a presentation to the caucus was needed to repair and maintain our infrastructure, our schools. So there's a long way to go.

I would suggest to you that to deal with that backlog there are a number of things in maintenance and repairs, there are a number of things that can be done to better utilize schools: consider secondary education beginning in grade 7 and going to grade 12; like most western jurisdictions, eliminate the private school tax credit and reinvest it in infrastructure improvements; move to unified school boards so that we have a good public education system in this province for everyone; and speak out against the recent initiative of the Fraser Institute that has Galen Weston funding students to leave the public school system to transfer to private institutions with money from his charitable foundation. This adds a whole new spin to President's Choice. Not only would Galen Weston get a tax break, but the government would be on the hook for further tax breaks to send kids to private schools. It's double-dipping beyond belief and calls into question how a charity can be used for political purposes through the Fraser Institute. But I digress.

I would urge you to consider that as a bottom line if you take Dr Rozanski at his word and you want to follow his time frame, which we would urge that you don't, that you implement it all immediately. But even if you followed his timeline, it would require a total commitment of over $16 billion in this next budget for elementary and secondary education if we were going to have a balanced budget in education. We would urge you to make that so. I'll stop and take questions.

The Chair: Thank you, Mr Manners. We have nine minutes, and since the government had the one question last time, you're not going to get nine minutes, Mr Kwinter, but you can lead off.

Mr Kwinter: Before I get to your presentation, I wonder if you would just clarify something for me. I keep hearing these different numbers. In your brief you say that the double cohort is going to leave as many as 7,000 students without a post-secondary school placement. In the presentation just a couple before you, we had CUPE say that we won't even seen the full extent of the crisis in post-secondary education until next fall, when 35,000 young people aren't going to be able to get into post-secondary institutions. I've been hearing figures of 6,500, 7,500, 8,500; today I saw 35,000. Do we have a real number as to what that's going to be?

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Mr Manners: We're prepared to accept what Dr Alan King has suggested would be the impact. I think it's the most definitive study of the situation. It is non-partisan, in that Dr Alan King was hired by the government to do this study. If we're prepared to accept his figures, obviously the government should respect his research as well since they hired him in the first place.

That's 7,000 for this year, and he did indicate that with failure rates on the rise because of problems with the introduction of the new curriculum and the fact that some students have been forgotten in the introduction of the new curriculum, there could be a further cohort of students next year who didn't take the four years to graduate but took four and a half or five. They are going to have an impact on the number of students looking to post-secondary education in the future. The double cohort is not just a one-shot deal. It is primarily this year, it is true, but there will be a reverberation into next as well. But we accept the number of 7,000 that Dr Alan King identified, and I assume the government accepts it as well.

Mr Kwinter: You've put out a wish list or a shopping list of what you'd like to see addressed. It comes out to an amount of money that I don't think, realistically, you're going to get in this budget. Do you have any priorities? Have you felt, as the OSSTF, that this is the number one or number two or number three priority of things that absolutely have to be done; otherwise whatever problems we have in the system are going to be exacerbated? I don't want to put you in a position where you suddenly—

Mr Manners: Well, number one is that I can't sit here and say we can accept a deficit in education funding for another year. We've gone eight years with continual underfunding of education, to the point where it has reached a very real crisis, not just a crisis in words, and it has to be fixed. Dr Rozanski, again someone hired by the government, said that the crisis has reached such proportions that they had to reinvest right now. To the government's credit, they did reinvest in special education, in benchmarks to deal with collective bargaining and with transportation. But Dr Rozanski clearly identified what the deficit was, and if we don't get back to the base, to what Dr Rozanski said, what we are continuing to do is to live in a deficit situation, forcing school boards to have to make decisions about which students go forward and which students stay behind.

I would say to you that the $1.3 billion that we identified is key. Where should it go? Dr Rozanski too identified some critical areas, areas that I think would ensure greater student opportunity.

One of those would be the learning opportunities grant, and that the statistics be updated and the funding allocated based on census material and demographic data that we all agree affect student learning.

We also believe there needs to be a review of curriculum and that students at risk—those in the essentials program or those in the applied programs—get the textbooks and resources that have not been printed to coincide with the introduction of the new curriculum so that they have the same chance of succeeding as do students who are going on to college and university.

Those would be two areas that affect the classroom.

Integration of support services would be the third, where you're ensuring that the school is the centre of the community, a phrase Dr Rozanski coined, and ensuring that some of those services are provided at the school level to assist students who don't park all the problems of society at the door when they walk into a school—assisting students in meeting their needs and assisting teachers in being able to do the job, to teach.

Those are the three areas.

The Chair: Thank you, sir. We move to Mr Christopherson.

Mr Christopherson: Earl, gentlemen, it's good to see you all again.

I was interested to note that you emphasized that 3,300 teachers between the ages of 50 and 54 retired with a reduced pension in 2002, when it first became available, and another 1,450 aged 55 or over also retired with reduced pensions.

I was talking to a number of doctors in Hamilton and every one of them said that they've never had as many teacher and nurse patients—and I notice the next group is nurses—who are off on stress leave. In talking to a lot of teachers who are midway through their careers, quite frankly, all they talk about is wanting to get out. When I think about that, I think about my daughter in her classroom, as all parents do. The most important ingredient in that classroom is the teacher.

If you've got a teacher, like anyone else who is in their work environment, who is not enjoying it, who is not getting the fulfillment that teachers get, we're not going to get the same results. We're not going to get the same kind of inspiration. I don't fault those individuals for a moment. They're only human.

I just wondered if you could expand on that, whether you're seeing that continuing. Are some younger teachers, getting ready to come into the profession, veering away? I do know other teachers who are recommending to people graduating, "Don't get into teaching. It's not the career it once was; it's not the world that it once was. Don't go there. Do something else." That's anecdotal for me. What is it that you're experiencing and what do you think the implications are for our children and our education system?

Mr Manners: Recruitment and retention of teachers are serious issues. The College of Teachers, in its own studies, has indicated that the teacher shortage is intensifying, especially in certain areas: math, science, French, technical studies, computer studies. Those are key areas and unfortunately it's where we've seen a dramatic increase in the number of letters of permission allowing uncertified teachers to work because they can't meet the demand.

I have presented to this committee in the past and in previous reports information from the insurance industry that shows that LTD among teachers and other educational workers is on the rise as a direct result of the changes in the environment in education over the last number of years. What is also true, and I think you can get this from the Ontario Teachers' Pension Plan board, is that a number of teachers who entered the profession with all the idealism that young people have are abandoning education in their first five years. That's way up. That follows what occurred in Great Britain, New Zealand and Australia when this whole privatization, doing-more-with-less philosophy was introduced there. Ontario is no different.

The bottom line, though, is that one of the best areas for recruitment of new teachers was from teachers themselves, who encouraged their own children to get into education. That's not happening any more.

Mr Christopherson: I would remind my colleagues—

The Chair: You have about 30 seconds, Mr Christopherson.

Mr Christopherson: That's fine. I would remind my colleagues that just earlier today we had—now I'm trying to find where she is; it was Mary, who acknowledged that education was the key to our ability to be productive in the future. And here we are, stomping on the very beginnings of that, which is the enthusiasm and determination and dedication of the teachers. It's crazy. Hopefully, if we don't get this government to change its mind, we're going to change the government. But there's no future in continuing down this road with education.

The Chair: Thank you, Mr Manners. That concludes the time. We appreciate your input, as always, at these committee hearings. Good to see you again.

Mr Manners: Thank you, Mr Spina. See you at the airport again.

The Chair: Yes.

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REGISTERED NURSES ASSOCIATION OF ONTARIO

The Chair: Our next presenter is the Registered Nurses Association of Ontario.

Ms Doris Grinspun: My name is Doris Grinspun and I'm the executive director of the Registered Nurses Association of Ontario. Here with me today is Kim Jarvi, senior economist, RNAO.

We are pleased to present to the standing committee our recommendations for the upcoming provincial budget. This year, there is something new in the air: a sense of hope and expectation that we are about to realize fundamental change, positive change, in our health care system, not just in Ontario but right across Canada. I am referring, of course, to the upcoming health care accord between the federal, provincial and territorial governments following Commissioner Romanow's recommendations. RNAO and registered nurses across Ontario stand by the provincial government in full support to get Ontarians a fair share of the federal funds for health care. At the same time, though, we urge the province to agree to fully invest in the areas targeted by the Romanow report and to agree on accountability. Nurses want Romanow fully implemented, and the budget is the key. Indeed, this is RNAO's top policy priority.

RNAO's position is that health spending is not out of control. The share of GDP going to government spending on health is still below the almost 5.8% share in 1994-95. Also, Ontario's continued economic growth plus the measures proposed by Commissioner Romanow will give the government more room for reinvestment in health. But this potential will be severely undermined if the government pursues activities such as tax cuts that would significantly reduce revenue.

Allow me to highlight RNAO's key recommendations: to improve access to health services, federal funds must be targeted to accelerate primary care reform through community health centres and other interdisciplinary models which engage their communities, and that's key; implement provincial home care programs focusing on palliative and mental health care; resolve chronic access deficiencies in remote and rural communities; and invest in pharmacare. We also ask that Ontario hospitals be provided with operational funds to run diagnostic services like MRIs and CT scans 24 hours a day, seven days a week, and to buy new equipment as necessary, as we operate it 24 hours a day. These diagnostics, in our view, should be used only for medically necessary procedures.

To ensure affordability, RNAO recommends a moratorium on new health care services delivered by for-profit, investor-owned entities. We cannot afford to waste money on for-profit health care, which recent studies show delivers less quality than not-for-profit health care. After an exhaustive search for evidence to support the financial or health benefits of for-profit health care services, the Romanow commission found none. This is not surprising, considering the money that is lost through administrative and marketing costs, investor relations and profit generation.

RNAO also asks for a commitment to place a moratorium on tax cuts until sufficient revenue streams are generated to meet health and social services objectives. Governments that say they can't afford health care but can afford tax cuts are simply not credible in the view of nurses and in the view of most Ontarians. The profession is most concerned by recent comments by Minister Ecker suggesting tax cuts. At this time, in our view, tax cuts are untimely and inappropriate. If the purpose is to stimulate spending, the net effect will be the opposite once forgone government spending is considered. If the purpose is to attract business, we have to ask if we want the kind of business that would be attracted by an impoverished public sector, and what business we will drive away. Nurses hear from the public that this is not the time for tax cuts; it is time for reinvestment in rebuilding social programs, including, but not only, health care.

We also ask for a moratorium on further public-private partnerships in capital projects and call for value-for-money audits on existing public-private partnerships. These partnerships result in higher government expenditures and mortgage the future of our children. When private lenders front the money, taxpayers are stuck with paying back the loan and service charges over prolonged periods of time. We also lose the advantage of lower-cost government borrowing.

When it comes to accountability, the Ontario public demands it, along with transparency in how its tax dollars are allocated and spent. Ontario residents, like other Canadians, are prepared to fund universal health care, even at higher levels than at present, but they do not want to see their money wasted. They want to know where their money is going, and they want to know what they're getting for their taxes. Thus, adequate conditions and standards must be tied to the flow of monies from the federal to the provincial level of government and from provincial governments to health care providers and users.

RNAO also asks the government to endorse the shift to a transparent Canada health transfer and accept conditions to use federal funds for targeted programs. Endorse the new health council of Canada to audit and report on health system performance. This would give the public comfort that all levels of government are demonstrating full accountability in spending their tax dollars. We also ask you to implement a provincial health care cabinet true to the spirit and letter of the proposed Romanow cabinet.

Just as the health of Ontario's health care system is tied to the implementation of the Romanow report, so too is the health of the nursing profession inextricably linked to a strong health care system. It is clear that the nursing profession needs sustaining. After years of downsizing, layoffs, involuntary shifts to part-time and casual work and scant support for education and input to decision-making, we're making positive progress.

The good news is that when governments work with the profession and put resources into areas that need support, we see results. We have a 127% increase in the number of high school students who have applied for nursing programs next year. Many more are selecting nursing as their first career choice than ever before. The move by this government to mandate the baccalaureate of science in nursing degree as entry to practice and its funding to develop a province-wide recruitment and retention strategy, including marketing the profession, is clearly paying off. We must stay the course. That is why we ask the government to commit increased funding support to sustain and improve recruitment and retention efforts.

The good news, again, is that when government puts more funding into registered nurses, Ontarians get better access to health care. To further improve access, RNAO asks the government to fund 250 new nurse practitioner positions in each of the next four years and reduce legislative barriers preventing nurse practitioners from providing their full scope of services to the public.

We also ask for increased support for the development of province-wide development and dissemination of nursing best practice guidelines. These guidelines have provided provincial, national and international leadership to the nursing community, and we applaud the government for their support.

There is no doubt that we are making progress in the nursing agenda in Ontario. However, we have yet to catch up on past losses of our registered nurses and we still must address acute challenges: an aging workforce, a huge wave of retirements heading our way and retention problems. For example, 52% of working RNs were over 44 years of age in 2001, and the number of RNs registered in Ontario has steadily fallen from about 114,000 in 1994 to about 106,000 in 2001. Ontario's population-per-RN ratio, the second worst in Canada, has risen from 124 people per working RN in 1986 to 147. Ontario is losing RNs in many ways. They are leaving Ontario to work elsewhere, mainly because they cannot find full-time work here. They are leaving to other kinds of work, leaving the profession entirely, and they are retiring, often well before age 65.

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An alarming 44.5% of registered nurses in our province are working part-time or on a casual basis. This means less continuity of care for patients and their families and decreased opportunities for nurses to engage meaningfully with their patients. This leads to disillusionment with the profession. It also means that new graduates, often bearing the brunt of casual and part-time employment, receive insufficient mentoring.

Taken together, this leads to inadequate access to nursing care for Ontarians; higher levels of injuries among nurses, resulting in increased and costly sick time and absenteeism; and premature departures from the profession.

Recent statistics reveal that almost 1,800 fewer registered nurses worked in Ontario last year than the year before. The consequences are as serious as life or death. Research clearly shows that insufficient registered nursing care leads to increased rates of complications, including infections, and to more deaths.

The good news is that there are solutions to these problems. RNAO urges the government to allocate funds for 15,000 new registered nurses in Ontario over the next two years to return to the 1986 population-to-RN ratio. This will improve nurse-patient ratios. It will allow us to keep pace with departures. It will allow us to save money in overtime, sick time and agency time. It will also allow us to hear satisfied patients and fulfilled and healthy nurses.

Create incentives to ensure 70% of all RNs work full-time and mandate employers to report annually on their progress. Government and the profession have been, for at least the last three years, urging employers to move to 70% full-time employment, and we have not nearly reached those targets. So it is clear to us that we need to put incentives and accountability mechanisms to ensure we reach those targets and they don't just remain as good rhetoric.

We cannot simply produce more nurses and continue to have almost half of them working part-time or casually. We cannot simply increase enrolment and have our graduates leave Ontario because the US offers a full-time career.

Stabilize community nursing and improve continuity of patient care by allocating funds to end the wage disparity and other disparities in working conditions between home care and long-term-care nurses and nurses working in the hospital sector.

Friends, we are experiencing a provincial, national and international nursing shortage. That is why the government must take advantage of the positive image nursing has gained in Ontario—enrolments show that the image is a positive one—and provide further leadership by creating 500 more first-year RN student positions, increasing to a total of 4,500; improving the quality of clinical placements; introducing tuition reimbursement for student nurses willing to practise in underserviced areas after graduation—medical students already have it; nursing students must have it as well—and improving access to graduate education for RNs to help provide the public with adequate numbers of advanced practice nurses.

Qualified nursing faculty in Ontario: we expect 23.4% of tenured nursing faculty to retire between now and 2005. Who is going to teach our students? The situation will only worsen, since 90% of the faculty is over 45 years of age. That is why we urge the government to allocate annual funds to support an additional 40 nursing faculty to attain their doctoral education in each one of the coming four years.

In closing, let me emphasize that registered nurses want to provide patients with the quality of care they need and deserve. They want and they're educated to do so, but they need help. We know that by working together—government, the association, employers and nurses across the province—we can not only face our challenges, but we can indeed provide national and international leadership.

Thank you. We will be happy to answer your questions.

The Chair: Thank you, Ms Grinspun. We have time for one question, and I stress one question only, from each caucus.

Mr Beaubien: Thank you very much for your presentation. I'm going to make a quick statement, because we have a shortage of time.

Ms Grinspun: And of nurses.

Mr Beaubien: I know you're going to disagree with me. You talked about inadequate access to nursing care, and yet you are a professional agency that supports this government in restricting the access of young people into the nursing program by stating that you must have a bachelor's degree now. So you talk about an inadequate supply of nurses today, whereby a lot of nurses today had diploma courses; now, starting September 2005, we're going to say, "No more. The only people who enter the profession will be people with degrees." How can you solve the shortage of nurses by being so restrictive?

Ms Grinspun: Mr Beaubien, as our submission indicates, as I stated to all my colleagues here and as I have discussed with you personally many times, the baccalaureate entry to practice is not only necessary for the type of care patients require, but actually has resulted in a 126% increase in enrolment in nursing schools. The problem is not the baccalaureate entry to practice. That has been an incentive for attracting people into nursing. The problem is the 44.5% of people who are still working part-time or casual because of lack of employment opportunities in this province. Government and the association must continue to push employers and must put incentives to move to 70% full-time employment, which is what the entire community across this country is demanding.

Mr Kwinter: I'd just like a clarification. There's no question in my mind that there's a shortage of nurses. I've had family in the hospital over the last couple of weeks, and it's absurd, the lack of care they've been getting. I just don't understand your mathematics. You're saying you require 15,000 additional nurses over the next two years. In a practical sense, how are you going to get them? You're calling for 500 new nurses a year. For you to get to 15,000 in two years—

Ms Grinspun: Very easy. When we worked together with this government in the past, we reached 8,000-and-change nurses. We have a discrepancy in the numbers; we believe it's 8,000. But that's a very respectable number. We can attract the 15,000 by moving to 70% full-time employment and by the huge increase in enrolment we have, by improving working conditions so people don't retire well before 65 years old and by decreasing the number of people who leave the profession. So it's doable and we need to do it together.

Mr Christopherson: Thank you for your presentation. I note that right in your first recommendation you make reference to accelerating primary care reform. The government has talked a lot about this but we don't seem to be seeing a lot of action. Can you give us your sense of why the delay in implementing primary care reform?

Ms Grinspun: Absolutely. Number one, the federal government has not released the funds that were allocated to primary care. Number two, we have between 90 and 100 community health centres waiting for government to make a decision. I surely hope that a significant number of them will indeed be considered for primary care, because the communities are ready. It's not an issue of human resources. It's not only an issue of doctors. We still have a significant number of nurse practitioners who are underemployed or unemployed and will be eager to go tomorrow to community health centres or other interdisciplinary models that open. So to me it is an issue of, put the funding out, let the models evolve, and we will all be there to serve the public. That's what we should do, and we should do it immediately.

The Chair: Thank you, Ms Grinspun. We appreciate the presentation from your organization.

1520

COLLEGE STUDENT ALLIANCE

The Chair: Our next group is the College Student Alliance. I ask you to get in place. I believe you have a video that is cued up. I would ask that you identify yourselves by name when you speak so that Hansard can accurately report who has spoken. In addition, you have a total of 20 minutes. If there is any time left over from your presentation, then we will try to get questions in from each of the parties. Welcome and please proceed.

Ms Thyagi DeLanerolle: We're going to try to position this for the best possible way of seeing it.

The Chair: Before you start, tell us who you are. Then you can show that. It won't be picked up by the cameras, just so you know.

Ms DeLanerolle: First, to begin with, my name is Thyagi DeLanerolle. I'm the executive director of the College Student Alliance.

Mr Jon Olinski: My name is Jon Olinski. I'm president of the College Student Alliance.

Ms Valerie Rothlin: My name is Valerie Rothlin. I'm the finance adviser for the College Student Alliance.

Ms DeLanerolle: Actually, Valerie, if you can put this—

The Chair: Stand it up over here on the chair. You can see it and committee members can see it. Please proceed.

Ms DeLanerolle: We're going to start things off from the College Student Alliance. First off, the College Student Alliance represents 150,000 Ontario college students. This video you're going to see is of one particular college student from Centennial College. It's her position on student financial aid. She's on OSAP and she's a single mom. So we'll start with the video.

Video presentation.

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Ms DeLanerolle: Now we move to one of the many college students we actually represent, and Jon is going to start things off this afternoon.

Mr Olinski: The College Student Alliance would like to thank the standing committee on finance and economic affairs for allowing us to provide recommendations relating to college education and to raise the concerns of college students across the province.

College education is of vital importance to Ontario, as well as to society as a whole. Post-secondary education allows for Ontario's residents to be productive members of society and contribute to Ontario's economy. Individuals with post-secondary education work in the main sectors of the economy and through higher salaries sustain government revenues through taxation.

CSA would like to raise three specific issues that are of great importance to the success of the college sector within Ontario: reform to student financial aid, transferability and quality of education.

In relation to our first area of concern, the College Student Alliance has made the following recommendations, which have been endorsed by the Ontario Advisory Committee on Student Financial Assistance.

Recommendation (a): The Ontario student loan criteria for independent student status must match the criteria under the Canada student loan.

Recommendation (b): The minimal parental contribution requirement from parents with no discretionary income must be eliminated from the Ontario student loan needs assessment.

Recommendation (c): The inability appeal, in which parents can appeal the amount they need to contribute to their children's education, must be reinstated.

Recommendation (d): OSAP needs assessment must recognize program-related expenses as eligible expenses and provide adequate financial assistance to students to cover these expenses.

Ms Rothlin: Picture this: a student walking into a student financial aid office, a little anxious, a little excited about the prospect of their future. They sit down with their financial aid administrator to find out that they do not qualify for the Ontario student loan because under the eligibility requirement they must have been out of high school for four years or have been working for two consecutive periods of 12 months.

To know that you qualify for one set of loans and do not qualify for another set just doesn't make any sense. Although this may seem like a small detail to change, it would impact thousands of students across Ontario.

With regard to item (b), how fair is it for the government of Ontario to expect parents who have no discretionary income to still contribute 3% of their gross annual income to their child's education? So if you're on welfare or you have a meagre pension fund as your only source of income, you still must contribute 3% to your child's education. Oftentimes, families in those types of positions view post-secondary education as a luxury.

This year, with your help, this injustice can be eliminated.

With regard to item (c), there are families who fall under this middle-income bracket who truly and honestly cannot afford to pay for their child's education. OSAP used to have an inability appeal mechanism which helped these types of families access assistance.

Ms DeLanerolle: I'm speaking about the transfer of credentials. It is really important for my college credentials, as well as the college credentials of Valerie and Jon as well as many other students, to be recognized and given credit by the Ontario colleges as well as universities. It is essential that the provincial government recognize and commit political leadership to the establishment of an efficient and transparent protocol for credit transfer, one that works for students and institutions.

As it stands, the lack of co-operation between post-secondary institutions is hindering any kind of advancement in the establishment of a transfer system. The provincial government has a responsibility to lead the province's institutions in transfer protocol discussions through the College-University Consortium Council. Only with positive working relationships between all publicly funded post-secondary institutions can the CUCC then be successful in providing increased educational opportunities for students, a goal that's relevant for all parties involved, including students, the government and institutions.

With regard to quality, students firmly want to support the colleges asking for an increase in per-student funding. Tomorrow you'll be hearing from the Association of Colleges of Applied Arts and Technology of Ontario, ACAATO, regarding the increase in per-student funding to bring it up to the 2003-04 request of $5,751.

When students ask for this increase in funding, we're simply referring to quality. As tuition fees steadily increase, colleges are offering a lower-quality product—no fault of theirs. They are honestly strapped. Through accountability mechanisms like the key performance indicators, colleges have identified areas of deficiency and made remarkable improvements in their operations.

Students are concerned with the current realities of their community colleges, and they are as follows: larger classroom sizes; increasing classes during night school; not enough lab and study space; limited and out-of-date library resources; longer line-ups, which relates to not enough support staff; increasing part-time faculty; out-of-date technology; inability to hire higher-credentialed faculty; and the list goes on.

In conclusion—and I think I speak for the other panellists here—today's students are tomorrow's workforce and leaders. Government needs to address the issue of financial aid, transfer between the college and university sectors, as well as quality in the classrooms, in order to ensure Ontario has a prosperous society and an economy for tomorrow.

We're now open for questions.

The Chair: There are only about two minutes, but we'll begin with the government.

Mr O'Toole: I'm always pleased to see students being activists and I encourage you to keep it up. That's really what it's about.

There were a couple of articles in the paper recently. I don't know if you saw Christina Blizzard's article, making the college point actually very strongly, suggesting that they have been doing more with less for some time. I think that might be the case. I think they've been more innovative in terms of—if I look at the newest university in Ontario, the University of Ontario Institute of Technology in Durham, I think it's a very important blend for, as you said, transitioning or transferability between college and university, and creating opportunities for linkages between them. I think it's extremely important.

I was just reading an article recently—it's actually part of the platform of the federal Liberals—on changing the Canada student loan process. I don't know if you've followed that very much, but Sheila Copps, in her leadership, is saying that she would scrap the Canada student loan as it is and go more on a needs basis.

Governments need to listen to suggestions, and this is your chance to put it on the record.

Ms DeLanerolle: I think she was referring to having an upfront grant system and to have, as opposed to a loan system, perhaps a combination of loans and grants to be able to decrease the student debt. Of course, as college students—like, I'm sure, post-secondary students—we're definitely supportive of that.

Mr O'Toole: Actually, it's my understanding that when you get OSAP, it's all grant over and above $7,000.

Ms DeLanerolle: That is correct.

Mr O'Toole: The maximum annual is $7,000.

Ms DeLanerolle: That's correct.

Mr O'Toole: I hear students coming forward and saying they have a debt of $30,000 or $40,000. As a parent of five children, my kids got not one cent. We're average dudes. We make less than basically a school principal or a teacher. They worked. If they took 20 hours of lectures, I expected them to work 10 hours, voluntarily or otherwise. Don't you think there is some responsibility on the student to partake in the world of work? I'm not trying to be smart.

Ms DeLanerolle: Certainly I think there has to be some responsibility on the student, but not forsaking their educational responsibilities.

Mr O'Toole: Of course.

The Chair: Thank you, Thyagi, Valerie and Jon. We appreciate your time and preparation to come here today.

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ONTARIO FEDERATION OF LABOUR

The Chair: Our last delegation is the Ontario Federation of Labour. Good afternoon, Mr Samuelson. Welcome. You know you have 20 minutes. If you leave us any time, then we have two parties here that will be happy to ask questions of you.

Mr Wayne Samuelson: First of all, thanks for giving me a few minutes. This is always a high point of the year when I have an opportunity to speak to my elected officials. I'm disappointed Mr Gilchrist isn't here because he usually makes it even more enjoyable.

I'm probably going to surprise you a bit, because on many of the issues we've raised in the past, you've seen the light of day and moved on them, everything from rolling back corporate taxes and, of course, Ontario Hydro. I do know that Sid Ryan and Earl were here earlier today. I'm sure they gave spirited presentations.

What I want to talk about today is a little bit different than in the past. While you will have a brief, which we of course have prepared, I'd like to ask you not to spend all your time reading it, circling things, because I'm actually going to talk about something different.

On December 6, I visited a community in northern Ontario called Sturgeon Falls. It's a community where the mill has closed down. It's primarily a single-employer town. Frankly, I've been to way too many of these single-industry towns, especially in northern Ontario, where there are huge impacts on the community because of the actions of an employer.

I have with me Joel Carr, who is the administrative vice-president of the Communications, Energy and Paperworkers Union. As you may know, working with all political parties, I would add including the former Premier, this union has worked hard at trying to save jobs and provide some kind of support and help to these communities. Joel has been working on this file and other files in northern Ontario, and when I was at another meeting this morning, I thought this might be a good opportunity to put on the record some of the actions specific to this case that the government needs to do. Joel will tell you that he wrote to the Premier last December and I guess the Premier hasn't got around to responding, which is unfortunate because this impacts 100 families and a whole community. I'm going to let Joel talk a little bit about the situation in Sturgeon Falls. I want you to keep in mind that it's reflective of many northern Ontario communities that are dependent on single industries.

Mr Joel Carr: Mr Chair, if there are any protocol issues I need to follow, please feel free to interrupt me, because this is my first time to do a presentation to your committee and I appreciate the time.

Of course, we all know what jobs mean to people and certainly what economics mean in terms of communities in general, but in small—and I shouldn't even use the word "small"—what I call northern communities, communities that are important to each one of us and communities that are in fact the gateway to a large amount of economic growth, economic stimulus and economic development in Ontario.

We all know that Ontario has been blessed with natural resources and, through the history and through the interaction of governments—past governments and hopefully this government—that understand the role of government in terms of appropriately stimulating and fostering—he's just telling me it's 10 minutes. I want to set the framework. All right. Let's just get down to business.

Listen, there are a number of things that need to be done across the board. We could talk about fibre allocation issues we're having in the Kenora area; we could talk about fibre allocation issues in northeastern Ontario; we could talk about how we can utilize hydro in a creative way to attract business in a way that helps in terms of the overall hydro issue, but, more importantly, helps stimulate and target particular employment in particular regions of this great province.

Sturgeon Falls: one of the things that's important for us to understand is that Sturgeon Falls has had a paper production facility for over 100 years. Since 1919, it's been steadily employed. I think there was a closure during the 1930s. The Honourable Premier Harris wrote a private member's bill in 1991, I think it was, to allow for the local economic development corporation to invest, to come into a limited partnership with then MacMillan Bloedel. Through that $12-million investment, we were able to then convert this facility from a virgin fibre facility into an OCC or old corrugated cardboard facility, completely recycled. Again, this is the nexus of where we need to go with some of the new economy.

Another interesting part in terms of the recycle issue—and it's interesting that many of the northern—which I call the near-north—I've been taught that once you get above St Clair, that isn't necessarily the north; you've really got to go way on top of the French River. If you really want to be in the north, you've got be way up in Marathon. To make a long story short, this particular issue with Sturgeon Falls interacts with the OCC recycling. In fact, there's a problem now with where to go with the cardboard in northeastern Ontario, because in fact Sturgeon Falls was there. It has to do with hydro because there's a hydro dam there that's owned by Weyerhaeuser Corp. But again, the covenants and all the surrounding permits flow through the power of the people, through this government. So you have a nexus with that. You also then have a series of fibre allotments that are going into other provinces and, in my understanding, into the United States. And we have a city—a great city—called Sturgeon Falls that's in need of the help of this government to get things moving.

One of the most disturbing factors in this particular case, and where I think we need to start first, is what we can do to motivate Weyerhaeuser Corp to act co-operatively with the various agencies they had already set up and in place, to act co-operatively with the community and to act co-operatively with the union so that in fact if we find someone interested in buying this facility, in investing capital back into Sturgeon Falls, that Weyerhaeuser will not create a black hole because of their own narrow corporate interests. This really is the most important first step that I would ask this government to do.

Many of you have been aware that CEP has acted very progressively in terms of turning around facilities, specifically in northern Ontario and northwestern Ontario, into profitable facilities. We've been able to come to the table and do the things that a union needs to do in terms of changing and modifying collective agreements and other aspects of an employment nature so that in fact a solid business plan can be put into place. We're not afraid to do that. The community isn't afraid to come forward.

What we ask now is the help of this government specifically to ensure that Weyerhaeuser comes and acts co-operatively in a positive manner, to say, "Listen, there's not going to be a big deep hole in Sturgeon Falls. If there's somebody out there to buy this, we're going to actively help and promote the sale of this facility. We are not going to dismantle this facility. We are not going to throw up barriers in terms of getting feasibility studies." There is in fact federal money available today—$30,000 plus; that's the contract—for a feasibility study to find out what kind of business plan, what can we do with the Sturgeon Falls facility. And Weyerhaeuser says no.

We have a letter of intent from a buyer. I've met with other buyers. People are interested in Sturgeon Falls. People want to put capital into northern Ontario. But Weyerhaeuser to this day has not complied with their own words that they gave to us.

So I plead with you—I guess "plead" is the proper word. I ask for your intervention. I would ask that the Honourable Premier get involved, that we move forward so that the economic development corporations and the various economic assistance organizations you have set up in the province are actually allowed to do their jobs. To allow them to do their jobs means that the exiting multinational, American-based Weyerhaeuser Corp, deals in an honest, fair approach with the community, with the union and with the various government organizations.

Frankly, I am shocked that there is such an interest from people who want to put capital into this town and we're running into interference from a company that frankly walked away and abandoned it. Weyerhaeuser gave the minimum amount of notice, they violated their contract—at least, we're asserting they violated their contract, through the lawsuit where we've asked to be in partnership the West Nipissing Economic Development Corp. The judge, in a ruling on an injunction, did in fact find that there are good grounds, that the West Nipissing Economic Development Corp's contract was violated by Weyerhaeuser. We were asking for something else and the judge didn't think he could go as far as the city wanted him to go, but he did find that there was a good cause and there was a prima facie case.

So now what we need is to go the next step further, and that next step further is to use the good offices of this government, the good offices I ask of this committee, to do two things. In the short term, one is to do what we can to get Weyerhaeuser on track, do what we can to look around this province and see what we're doing for Weyerhaeuser, certainly in terms of the large amounts of limits they have in northwestern Ontario, and also for us to wrap ourselves around the best way for this government to make the next step. You have an infrastructure; I think the next step needs to be actual interaction by government officials at the Premier level and the sub-Premier level, ie, ministers, to interact directly with multinational corporations so that they say, "Listen, Ontario is a great place to go."

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We have buyers. We have a buyer with an intent; I have another buyer ready to go, and we're talking capital. We're talking capital ready to go. I don't think Weyerhaeuser's intransigence should get in the way. I think that's important for this government to do. That's why I'm here. That's why I think we can do something. We can get new jobs, new investment into Sturgeon Falls, but there's a problem. The problem today, in my view, is Weyerhaeuser not co-operating with the various economic development organizational structures, both federal and provincial, that are organized locally—to actually let that organization do what it did in 1990 and 1991.

I know that Premier Eves is very familiar, because Sturgeon Falls was in his old riding before the reorganization. It's a riding which now falls under Mr Ramsay. In fact, Sturgeon Falls goes back to the Honourable Mike Harris, who wrote a private member's bill to allow that plant to grow.

So I'm asking you. I think this is a winner, but we need to make sure this government comes to the table and uses its influence, and the fact that it's a very solid, well-thought out influence—in fact, there are people with capital who want to put a business plan together, but they can't do it until they get access to the plant. There won't be a business plan if that plant is slowly dismantled, piece by piece, while we sit and wait.

Rome is burning out there. I ask for your help, your intervention. I ask for your intervention, at the highest level of this government, with Weyerhaeuser to get them actively involved so that this community, these workers and these families can have the economic enjoyment of the resources that are all around them, which will flow to other places while they don't have a job, and while West Nipissing is drained, and while that small but great community—Carl's; in fact, the coffee is so good at Carl's, they drink it themselves—can grow.

Mr Samuelson: Just to wrap it up before we allow questions, I think what I found most disturbing was when I visited Sturgeon Falls. For some reason, when this was in Mike Harris's riding in the early 1990s, the Tories seemed to have a real interest in it. There was a restructuring that took place at that time which saved that factory. When I visited there in December I found that, as has been indicated, there are people who want to actually buy this place. They want to invest capital, and CEP has been working to find them. Weyerhaeuser, for their own interests, has not been co-operating.

I'll leave you with a copy of the letter that Joel's office sent to the Premier on December 20. If you happen to bump into the Premier somewhere, it would be really helpful if he at least responded to the letter so that we could get some action on this. It's incredibly painful to go there and talk to people who can't move because of their age and who just can't seem to get a response from the government.

I thought it was important, because of my personal involvement in this issue and because of the work CEP has done, to use my time here today to try to get the government to respond.

The Chair: Is that it? Thank you. That leaves us with two minutes for each of the opposition caucuses. Go ahead, Mr Kwinter.

Mr Kwinter: Unfortunately, this committee does not have the mandate to deal with that problem. This is the standing committee on finance and economic affairs and it is really doing a pre-budget hearing on what should be in the budget. I am very sympathetic to your concern. I don't know all the issues. I certainly don't know whether it's fibre allocation, whether it's a corporate decision that has been made by the company or a competitive situation. Whatever it is, we don't have the ability or the mandate to even deal with it. I would suggest that you have to talk to the government and the ministers who are responsible to see if there's any interest on the government's part to intervene. As I say, as a member of the opposition I have no role to play in this. I'd love to have a role to play in it, but I don't. I want to let you know that it isn't because there is indifference to the situation; this just isn't the forum to address your concerns.

Mr Samuelson: I understand that, and we have provided you with a written brief. It may not be a concern to you; I understand that. It's certainly a concern to—

Mr Kwinter: I'm not saying it's not a concern to me. I'm saying I don't have the ability to address your concerns.

Mr Samuelson: Well, it's unfortunate. The MPP up there, Mr Ramsay, has been doing a lot of work on it. And maybe it is a bit of a frustration, but after over a month of waiting for a response from the Premier, we thought there might be some Tories here who talk to him from time to time and there might be an opportunity to put it on the record.

Mr Kwinter: These guys over here.

Mr Samuelson: Yes. Put it on the record. I know that especially Mr O'Toole, who I'm sure is really interested in this, will make some calls and maybe we can get some action.

Mr Carr: Can I respond, Mr Spina?

The Chair: All right.

Mr Carr: Listen: this union is going to go everywhere and anywhere to make this thing work in Sturgeon Falls. If it is inappropriate to be here and it's a little bit off base—frankly, it might be, but I'll tell everybody here that we ain't going away. We're going to do everything in our effort to make sure that we get a plant in Sturgeon Falls. All right? That's why I'm here. And any opportunity to interact with this government and the opposition parties on Sturgeon Falls—that's how strongly we believe in it, because we know we can make it work. We know there are people out there who want to invest money into that town, but we need co-operation and we need a vision. Only the government can do that, and you folks are the government.

Mr Christopherson: In fairness, Mr Kwinter's comments are absolutely correct. Likewise, though, the OFL is entitled to come here whenever we do these things. You presented a brief that talks about the issues. If you decide to use your time talking about a specific issue, that's pretty much your call and your right and, hopefully, one of the Tories here might take it upon themselves to see if they can give the process a nudge.

I had a question with regard to this. The local government, are they onside? Do they play a role? Have they involved themselves in this?

Mr Carr: Yes. I've had several meetings with the community of West Nipissing, both with Mayor O'Connor and more specifically with the CAO. I feel that they've been acting co-operatively, but one of our biggest problems is that you need the feasibility study. We need access to the facility itself, and that's where the municipality has been running into problems. That's where FedNor, the federal economic development wing, has been running into problems, and there is the special assistance—I'm trying to think of the name of the Ontario structure that was set up specifically for that, the "something something adjustment." I'm not talking about workplace adjustment or community adjustment structure. There's a committee that they sit on, that FedNor sits on, that the municipality sits on, and they've been wanting to—we've got money for a feasibility study. Weyerhaeuser won't open the door yet. I apologize. I'm trying to think of the name of it, but it is in fact—

The Chair: It's not the heritage board?

Mr Carr: No, it wasn't the heritage board. It's "something" community adjustment program, to $5 million per project, focused on this particular city. So there's money there, the brains are there, there's the muscle of the local community and there's the union that wants to play. It's just that there's a major multinational corporation and somebody needs to give them a nudge and say, "By the way, play fair with the community of West Nipissing."

The Chair: Thank you. You have it clearly on the record. I'm sure you appreciate that Mr Samuelson has given up their time for this case.

Mr Samuelson: I know the time is up, but this is somewhat emotional because there's an election coming and some of you may not be here. So I just want to say, for those of you who may be leaving, how much I've enjoyed—

Mr Beaubien: Think about what you just said. None of us represent northern Ontario. Think about what you just said. How much sense does it really make?

The Chair: Hang on. Order. Let Mr Samuelson finish.

Mr Beaubien: None of us are from northern Ontario.

Mr Samuelson: So you don't care about it? That's pretty bizarre. I thought you were part of the government.

My point was that I must say I've enjoyed my visits here every year.

The Chair: Thank you, Mr Samuelson. Thank you, Mr Carr.

Mr Carr: I'm serious.

The Chair: The meeting will now adjourn until 9 am tomorrow morning.

The committee adjourned at 1600.

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