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# Official Report of Debates (Hansard)

# Journal des débats (Hansard)

**Wednesday 15 September 2010**

**Mercredi 15 septembre 2010**

**Standing Committee on Estimates**

**Comité permanent des budgets des dépenses**

Ministry of Finance

Ministère des Finances

Chair: Garfield Dunlop
Clerk: Douglas Arnott

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

# STANDING COMMITTEE ON ESTIMATES

# COMITÉ PERMANENT DES BUDGETS DES DÉPENSES

Wednesday 15 September 2010

Mercredi 15 septembre 2010

*The committee met at 1628 in room 151.*

MINISTRY OF FINANCE

**The Vice-Chair (Mr. Robert Bailey):** Routine proceedings being finished, at this time I'll call the meeting of the estimates committee to order. We're here today for consideration of the estimates of the Ministry of Finance, for a total of seven and a half hours.

The minister and staff are here with us. The ministry is required to monitor the proceedings for any questions or issues that the ministry undertakes to address. I trust that the deputy minister has made arrangements to have the hearings closely monitored with respect to questions raised so that the ministry can respond accordingly. If you wish, you may at the end of your appearance verify any questions and issues being tracked by your research officer.

Any questions before we start?

I now call vote 1201. We will begin a statement of not more than 30 minutes by our minister, the minister who's here today, followed by statements of up to 30 minutes by the official opposition and the third party. Then the minister will have up to 30 minutes for a reply. The remaining time will be apportioned equally among the three parties.

Minister, welcome to the committee today.

**Hon. Dwight Duncan:** Thank you, Mr. Chair. I'm joined at the table today by my deputy minister, Peter Wallace. Peter has a long and distinguished career in the public service and has served continuously since 1981 and so has served a variety of governments of different political stripes, and I think represents all the finest that's in our public service. He is joined by a number of his colleagues behind us whom I shan't introduce individually.

The Ontario economy has pulled out of recession as the auto sector is rebounding and domestic demand led by housing is gaining strength.

I wanted to start with that paragraph to kind of set the tone for the entire speech because there are positive signs in the economy, and I'll take you through more of them as we go through, as well as some of the risks on the horizon in the clouds.

I want to thank the members of the Standing Committee on Estimates for the opportunity to speak to you today. Like other governments around the world, Ontario was deeply affected by the most severe global economic recession since the Great Depression. After three straight balanced budgets, the global recession caused Ontario, like other jurisdictions in Canada and around the world, to go into deficit in 2009.

The economy of the United States, our biggest trading partner, has markedly slowed, and that has obvious implications for Ontario. While no single industry or individual government is responsible for this global crisis, each of us has a responsibility to act.

Despite these difficult times, Ontario persevered. Our government worked tirelessly to create jobs, stabilize the economy and protect our schools and hospitals.

When our government introduced the 2010 budget in March, we announced that the province is moving forward with its five-year plan to attract new investments and create new jobs. The Open Ontario plan builds on progress made over the past seven years to support job creation and enhance the programs and services that Ontarians value, including education and health care. We are committed to investing in Ontarians, in their education and training that will strengthen their skills and prepare them for new ways of doing work, and in the infrastructure and systems that will make our province more globally competitive.

Our government has been prudent and as open as possible, keeping spending to budget projections. The 2010 budget laid out a realistic and responsible plan to cut the deficit in half in five years and eliminate it in eight years. I'm pleased to say that the province is on track to meet its fiscal targets and that our approach to fiscal planning is yielding results.

Our approach has been well received by markets and rating agencies. Let me begin with what the private sector forecasters are saying. They are optimistic about Ontario's future growth prospects, calling for real GDP growth of 3.9% in 2010 and 2.8% in 2011. Rating agencies and investors throughout the world recognize Ontario as a secure and safe place to invest, giving Ontario a double A1 rating with a stable outlook.

In June 2010, RBC's Provincial Highlights said, "Ontario's economy entered 2010 with renewed vigour, carrying its strongest momentum in almost six years."

At about the same time, the Bank of Montreal's Provincial Monitor said, "The Ontario economy has pulled out of recession as the auto sector is rebounding and domestic demand, led by housing, is gaining strength."

Although these are welcome and positive signs, we are proceeding with caution, leaving the revenue forecast unchanged at this time. We continue to govern with a balanced plan that does not put job creation at risk by cutting too much too soon, nor are we spending as if there is no deficit. We are working towards fiscal balance through effective fiscal management while protecting services and supporting economic growth.

Last month, the Ministry of Finance released Ontario's public accounts. Those are Ontario's audited financial results for the 2009-10 fiscal year, which ended on March 31, 2010. The audited financial results were better than expected from our interim estimates.

At $19.3 billion, the deficit is $5.4 billion lower than what was forecast in the 2009 fall economic statement and $2 billion below the forecast for 2009-10 in the March 2010 Ontario budget.

Our job numbers are also showing positive signs of recovery. Ontario employment rose by 6,300 net jobs in August. That means that, since May 2009, Ontario has seen 211,800 net new jobs created, recovering almost 85% of the jobs lost during the recession.

One of the underlying causes of the recent global financial crisis was a failure of risk management across different types of financial institutions. I am pleased to report that on Monday, we made a joint announcement with the federal government about our plans to support the launch of the Global Risk Institute in Financial Services here in Toronto. The institute will build on Canada's growing reputation in financial risk management. Our government and the federal government are each providing $10 million towards the institute's initial funding, in addition to private sector donations.

The global risk institute will be a world-leading organization focused on risk management, applied research and education in financial services. It will promote collaboration between university researchers, regulators and practitioners in finance, economics and related fields. The institute will help further strengthen the risk management practices of Ontario's financial institutions, as well as help enhance Canada's growing reputation in financial risk management. Its location in Toronto is an important part of our financial sector strategy to make the Toronto region one of the top 10 financial centres in the world by 2015.

Our government is constantly building new opportunities to grow our economy and create high-quality jobs. We are choosing to invest in Ontario and Ontario families, a decision our government stands by today and as we look to the future.

We know that several sectors of the economy have been severely hit by the recession, some more than others, affecting not only individuals but entire communities as well. Over the past two years, demand for employment and training services has increased sharply. In response, the McGuinty government, through Employment Ontario, has committed about $1.6 billion in 2009-10 and 2010-11 for jobs and skills training. Last month, new one-stop online access was introduced to the Employment Ontario service delivery structure. This will make it easier for jobseekers and employers to obtain the full range of programs and services that they need. For unemployed older workers, the federal-provincial Targeted Initiative for Older Workers agreement will support skills training projects in hard-hit communities.

Despite setbacks in employment, records show that the last decades of the 20th century saw major improvements in the incomes of older Canadians and a reduction in poverty among seniors, but already there are challenges as the retirement income system becomes more and more important for people with and without pension plans. Our government is actively engaged in the reform of our Pension Benefits Act and playing a leading role in the national discussion on the retirement income system reform.

The Pension Benefits Amendment Act, 2010, is the first major pension reform in more than 20 years. Our reforms are intended to balance the diverse interests of pensioners, pension plan members and plan sponsors. As I announced in August, we are planning the next reform package to our pension system in the fall.

To ensure that Ontarians have a strong retirement income system, we need our pension system to be stable and sustainable. We will continue to build on recommendations from our Expert Commission on Pensions and subsequent consultations with stakeholders to improve our pension system. This will, in turn, help strengthen our retirement income system. For example, the reform package will look at improving funding for benefits that a pension plan provides and matching funding rules to benefit and governance structures.

After addressing a number of long-term policy challenges, we are taking the next steps to implement reforms that address the concerns of workers, retirees and employers.

As you know, another concern for Ontarians is the high cost of auto insurance. Auto insurance reforms took effect on September 1. These reforms balance the needs of Ontario drivers so that they receive adequate protection as well as ready access to auto insurance. These changes are designed to reduce excess assessment costs in the auto insurance system, and ensure more accident benefit dollars go to treating accident victims.

This will help to further stabilize auto insurance premiums in Ontario.

**1640**

Ontarians now have more choice and flexibility to purchase coverage that best meets their protection needs and budgets. Together with the insurance industry, health care providers and consumer groups, we are getting the word out to drivers so they will understand their new choices in auto insurance and will be able to make more informed decisions. A number of the changes will reduce costs in the system as the process for applying for benefits will be streamlined. Claim forms will be simplified and regulatory requirements will be reduced to assist both consumers and insurers. Assessments and transaction costs will also be reduced to make the automobile insurance system more efficient. This will ensure that more accident-benefit dollars go to treating accident victims while stabilizing premiums.

Furthermore, Ontario's standard medical and rehab benefits remain the most generous in Canada when compared to other provinces with similar auto insurance marketplaces.

The pension and auto insurance reforms are just the beginning of our Open Ontario plan. We are investing in Ontarians openly and responsibly by managing spending in spite of escalating and competing demands for scarce resources. This means protecting priority investments and sustaining the progress made in schools and hospitals. We're eliminating the deficit caused by the global recession in a realistic and responsible way—balancing the budget while building the foundation of the Open Ontario plan and leading by example. This means the prudent management of resources and securing the province's long-term financial sustainability.

Another key element of the Open Ontario plan is our government's long-term planning in post-secondary education. Through the plan, the McGuinty government will increase Ontario's post-secondary education attainment rate to 70%, ensuring that every qualified Ontarian can find a place in a college or university. Starting this September, new funding of $310 million annually in post-secondary operating grants added 20,000 new spaces to colleges and universities.

Another key element to Open Ontario is helping to open up northern Ontario. While many people and businesses in Ontario have been hurt by the recession, those in northern Ontario have been particularly hard hit. The McGuinty government has committed to supporting northern Ontario through new investment and jobs while providing relief to northern industries and residents for their higher energy costs.

Among our government's programs for the north is the recently launched northern training partnership fund. This is a three-year, $45-million project to help aboriginal peoples and northern Ontarians participate in and benefit from emerging economic development opportunities. To support industries, a three-year northern industrial electricity rate program, averaging $150 million annually, will reduce electricity prices by an average of about 25% for qualifying, large industrial facilities. Also, a new, permanent northern Ontario energy credit will help eligible low- to middle-income northern residents with the higher energy costs they face.

We have also established a new Ring of Fire coordinator who will lead the collective effort in advancing the economic promise in the Ring of Fire, an area with potentially large deposits of minerals such as chromite, nickel, copper and platinum.

In addition, we are partnering with Thunder Bay and Sudbury to establish pilot economic development planning areas in the region.

Furthermore, to ensure our northern communities receive adequate health care, we opened the Northern Ontario School of Medicine in 2005. In the spring of 2009, the school celebrated the graduation of its first 55 students.

An allocation of nearly $1.2 billion will strengthen northern communities by improving highways, hospitals, water and waste water systems and other infrastructure.

An educated and healthy population is also critical to Ontario's prosperity. This month, about 600 of our schools introduced full-day learning for four- and five-year-olds, benefiting up to 35,000 children. Full-day kindergarten provides children with the foundation they need for future learning. It supports student achievement and builds on the government's success in lowering primary class sizes and increasing the graduation rate.

Our government's goal is to have early learning fully implemented in all Ontario elementary schools by 2015-16. This will employ up to an additional 3,800 teachers and 20,000 early childhood educators and benefit some 247,000 children. This initiative will help to ensure that working parents continue to have access to quality child care and play an active role in the labour force.

Also in time for school opening, the Premier and I announced the children's activity tax credit, a new measure to help children get involved in sports, arts and other activities. We want to ensure that Ontario's children and youth succeed and reach their full potential from a diversity of experiences and opportunities. The children's activity tax credit is a permanent, refundable tax credit that would allow parents to claim up to $500 of eligible expenses per child and get a refundable tax credit of up to $50 per child or up to $100 for a child with a disability. The tax credit would put $75 million back into the pockets of parents and will benefit more than 1.8 million children in 1.1 million families. It would apply to any eligible expenses incurred on or after January 1, 2010. Unlike the federal children's fitness tax credit, the Ontario credit would be refundable, and low-income parents, who pay little or no tax, would benefit.

Furthermore, it applies to a comprehensive scope of activities, not just sports. These activities include dance, music, wilderness studies, language classes and programs promoting interpersonal and intellectual interactions. Our government is also stepping in to permanently fill the gap left by the federal government, with an investment of $63.5 million a year to preserve some 8,500 child care spaces.

As we provide our citizens with the resources they need for the changing times, we are also modernizing and expanding the province's public infrastructure to build on our future prosperity. Our government has fully allocated its short-term stimulus investment programs for municipalities, colleges and universities.

As you travelled through your favourite places in Ontario this summer you may have noticed the construction on the ground. Roads are being reconstructed, water mains are being replaced and arenas are being upgraded. Playgrounds and sports fields are being improved. Upgrades to social and affordable housing are also under way and new projects will be considered on a case-by-case basis. Record infrastructure investments in 2009-10 and 2010-11 are helping to create and preserve more than 300,000 jobs. According to the Conference Board of Canada, the extra boost to infrastructure spending saved 70,000 jobs at the height of the recession and helped lift Ontario's real GDP by almost one percentage point in 2009. It is expected to add a further 0.4 percentage point in 2010.

At the same time that the government begins to wind down its stimulus investments, the tax plan for jobs and growth takes effect. These tax measures, announced in the 2009 budget, will transform Ontario into one of the most tax-competitive jurisdictions in the industrialized world for new business investment.

As you know, on July 1 the harmonized sales tax replaced the retail sales tax. Unlike the RST, most businesses can claim input tax credits for the HST paid on purchases made during the course of their commercial activities. Reimbursing businesses for the HST on most of their business inputs will help foster capital investment and result in significant savings due to the lower tax burden on businesses.

At the same time the HST came into effect, we eliminated the capital tax, resulting in annual savings of $1.6 billion for businesses.

**1650**

On January 1 of this year, we cut personal income tax for 93% of income taxpayers and enhanced sales and property tax credits for low- to middle-income families and individuals.

In June, eligible Ontario residents received the first of three sales tax transition benefit payments. The next payment will be delivered this December and the last in June 2011.

These payments, totalling up to $300 for single people and up to $1,000 for families, will help 6.6 million families and individuals adjust to the HST.

Small businesses will also benefit from $400 million in one-time support to help with the transition to the HST.

We've also reduced corporate income taxes for large and small businesses.

Overall, the tax changes will lower the costs of operating a business and lead to new investments and jobs.

In addition to the HST, our government has undertaken a number of measures to modernize public services and create efficiencies in our own operations. This includes eliminating the deficit caused by the global recession in a realistic and responsible fashion.

Other measures to reduce the overall cost of government include:

—delaying a number of long-term capital projects, resulting in more than $5 billion in capital appropriation savings and reduced borrowing costs;

—moving to the harmonized sales tax, saving approximately $100 million annually in salaries and overhead;

—reforming Ontario's drug system to maintain affordability and reinvest in health care;

—modernizing government services to improve customer service and efficiency; and

—launching a comprehensive expenditure management review process. This review will be done on a continuing basis, to ensure that major programs and services are focused on new jobs and growth, protecting the environment and supporting the health of Ontarians, especially the most vulnerable.

To address the current fiscal challenge, the budget included measures that would freeze internal operating expenses at or below 2010-11 levels over the next three years, and hold program expense to an annual average of 1.9% beyond 2012-13.

We extended the freeze on MPPs' salaries to three years from one year.

We are freezing the compensation structures of non-bargained political and Legislative Assembly staff for two years, and restraining compensation growth in the Ontario public service and broader public sector by freezing compensation structures of non-bargained employees for two years. This will help redirect up to $750 million towards schools, hospitals and other public services.

Our budget plan also included a policy statement that new collective agreements are expected to be in force for at least two years and provide no net increase in compensation.

On July 20, I announced that we would pursue talks on new contracts that are agreeable to all parties, as existing contracts expire. We want to work with our partners so that we can hear their views, opinions and proposals and reach agreements that are acceptable to all.

Fifty-five per cent, or more than $50 billion, of all government program expenses goes to compensation either directly or through transfers. We simply cannot manage the deficit without addressing the single biggest line in our budget. Our goal is to make our partners aware of our fiscal challenge in a detailed way, clarify policy compensation and discuss solutions towards a mutual agreement. We've already seen some success in negotiating contracts within this framework.

We will continue to work with all parties as we align our resources and focus our talent to grow the economy, create new jobs, attract new investments and eliminate the provincial deficit.

We are governing at a difficult time in Ontario's history, when even our best-laid plans can succumb to global forces beyond our control. But it is also a time of great opportunity, and the Open Ontario plan for jobs and growth will give Ontarians a leading edge as we emerge from this recession.

We are building a new economy, and all Ontarians have a stake in it.

We are working to eliminate the deficit without putting job creation and economic growth at risk by cutting too much too soon.

The Open Ontario plan lays the foundation of our government's plan to position the province for new opportunities, new jobs and new economic growth. It is about reassessing how Ontario does business and how it can best prepare for the times ahead. It is about maximizing existing resources—consisting of people, programs and processes—to the best they can be, as economic recovery takes hold. Ontario is a strong province with a proud tradition. By working together, we can continue that tradition and build for an even better tomorrow.

**The Vice-Chair (Mr. Robert Bailey):** Thank you, Minister. You have about four minutes left, but if that's okay, we'll move on.

We'll move to the official opposition. Mr. Miller, you have 30 minutes.

**Mr. Norm Miller:** Thank you very much. I'm not going to use the time to make a speech; we'll just move right into asking some questions. I guess I would like to start with the big picture, and that is, just the consistency of your predictions, particularly in terms of deficit numbers.

My question is: How can we believe or how can the public believe your forecasts when they seem to change on pretty much a monthly basis? If we look back at that last year, you started out at the beginning of the last financial year predicting roughly a $14-billion deficit—feel free to correct me if I get the numbers wrong. Then it went up to $18 billion—I believe it was in the summertime that it switched to $18 billion. In early fall, in September 2009, you switched the deficit prediction to $24.7 billion. As we got closer to this year's budget, you predicted that it would be $21.3 billion, and then, in the end, it turned out to be $19.3 billion. That's an awful lot of changes in one year, and I just have to ask: What's the validity of making budgets if the numbers change on a weekly basis, and can you explain why these numbers change so often?

**Hon. Dwight Duncan:** Yes. Two years ago yesterday, Lehman Brothers collapsed, and there was a major shock to the world economy.

Forecasts are difficult. That's why, the day I announced that Ontario had a deficit coming, Prime Minister Harper said that the federal government would not see a deficit, and that turned out not to be accurate. We did make adjustments, and in the interest of openness and transparency, as numbers adjust, we adjust them and we share them with the public.

You will see that overall, in normal times, our variances in the broader budget numbers are usually within 1% or 2%. The numbers are enormous because of the size of our budgets, but the fact of the matter remains that forecasting was particularly difficult in the last two years, the years that you have cited, and that was a phenomenon that—

**Mr. Norm Miller:** To correct, that was just this past year I was talking about.

**Hon. Dwight Duncan:** Yes, but that's the outcome of the last two years. You will see, as well, that that happened, I think, in virtually every jurisdiction. In fact, Ontario was the first in Canada to acknowledge a deficit. When we first did that, again, in the interest of openness and transparency, I remember in the fall of 2008—I think it was November when I first went public and said, "We're now projecting a deficit"—the federal government said that they would have a balanced budget throughout the future. That, of course, changed. And we knew that wasn't accurate, because Ontario is 40% of the Canadian economy.

I would suggest that you will see greater stabilization of the numbers and the forecasts as the economy returns to growth, but I will give you a "for instance." Another factor that happened that year and the year you quoted: our corporate tax revenues dropped by half. It was unprecedented, and nobody could predict that.

So governments around the world had these challenges, and you saw it right in Canada. These are the challenges that I think one would anticipate, given the economic upheaval that went on, and when you look at Ontario's record with respect to these kinds of forecasts, I think you'll find that overall we were very consistent with what we were seeing across the country and around the world.

**Mr. Norm Miller:** I actually went back and looked at all the budgets since you've been in power, since 2003, and with the exception of one year, they've been fairly far off the mark.

But on that topic, I would simply say that the meltdown happened in October 2008, you were doing the budget in March 2009, and surely you must have had, with all the smart people here in the room, some predictions that things weren't that stable, even leading up to the meltdown.

**1700**

**Hon. Dwight Duncan:** I'll just share a quote with you from Doug Porter, the chief economist at BMO, who at the time said that trying to make projections about the economy right now is like trying to sell your house while the kitchen is on fire. Everybody experienced the same problems. Again, when you look over time and compare against other governments, we all have the same challenges.

I remember, I think the year before 2008, we had an unanticipated surplus. Numbers came in stronger than projected. They were, then, what I would call very reasonable variances on the revenue and expenditure side. The numbers, in an absolute sense, are large. When you look at them relative to the overall revenue or expenditure profile as a percentage, they are, generally speaking, within what I would call acceptable variances.

The year you reference—you're absolutely right. We now have hindsight. The economy bottomed out, we think, around May 2009. That was literally when we were in the middle of it. So, as you forecast and you try to put pen to paper about future events, you do the best you can using the best advice that you can.

I should remind you, we also rely on the advice of 12 private sector economists to help us with determining growth rates. We utilize what I would call principles of conservatism in those estimates. We will tend to forecast based on a scenario that's a little bit—we generally will set growth a couple of points below what the private sector consensus is. We also build in contingency and reserve, which is designed to help offset those unanticipated fluctuations.

I think our record stacks up quite well compared to certainly all other Canadian provinces, the federal government and what we've seen across the world in the last two years.

**Mr. Norm Miller:** The meltdown happened in October 2008, and we're in 2010 now—pretty much two years distant—and you're just now starting to talk about restraint. You're starting to now deal with about half of your budget, which is the public sector wages, especially unionized workers. What took so long? I heard one of the Toronto Star reporters ask that of the Premier last week. What took so long for you to start down the line of trying to show some restraint? This year, you've got $107 billion of revenue. That's a record revenue for the province of Ontario. Unfortunately, you plan to spend $127 billion. Why has it taken two years to start the process of negotiating with the unions?

**Hon. Dwight Duncan:** With respect, we have restraint measures in every budget. They've been outlined, carefully detailed—and in public accounts and through our reports to the Legislature, report back on restraint measures that have met with success and, candidly, those that have not. Not all measures have met with success.

We made deliberate choices not to lay off people, not to put people out of work at a time when the economy was contracting. If you look across Ontario, in most of our major urban centres, with a couple of exceptions, the public and broader public sectors are the largest employers in those communities. We moved this year, as we move back into growth, to restrain compensation, but we also, over the course of the last number of years, have, for instance, got rid of a number of the consultants your governments hired—consultants who were paid more than the employees you fired.

We have taken steps to invest in health care and education, and yes, we did hire nurses and we chose not to lay off nurses and teachers. When you speak of public servants, when you speak of public payroll, that's who you're talking about: You're talking about nurses; you're talking about teachers; you're talking about firefighters, environmental inspectors. You're talking about a range of people across the province whose incomes help support local economies.

Now we have moved to freeze compensation in the non-bargain sectors, and we are moving through what I would call constructive but challenging discussions with situations where collective agreements are in place.

I think all of us at the table are interested in preserving and enhancing our public services. The final commitment we made is that as we achieve these savings, those savings will be left in the broader public sector—that is, in hospitals and schools—so it's not a matter of the government clawing back the money and taking it out of those institutions.

Where it does benefit us down the road is—and to your earlier questions about the time lag between events and the outcome of those events—this will take future pressures down on government in the areas of health care and education, and help to manage future pressures.

We are taking what I would call a methodical approach to this, one that is designed to get us back to balance. We laid out a balanced budget plan; we've exceeded the target on our first year. That plan has been well-received by the credit-rating agencies. Ontario managed to retain its credit ratings throughout this period of time. There will no doubt be other challenges, but we will continue to build on that record.

I should again remind the member that our expenditures have been within a very close variance of budgets predicted, certainly over the last two years.

**Mr. Norm Miller:** I'll have to bring for the next meeting the record of the past six years.

I would like to ask a question about future liability. I know that in one of your first budgets, the Auditor General came in—you had the budget, and I think you had written off about $4 billion of NUG—non-utility generators. The Auditor General came in and had you restate that after the fact.

Your government has been entering into the Green Energy Act, and a big part of that is the feed-in tariff agreements you're making. I call that the buy-high/sell-low program, where you're buying electricity at 80 cents a kilowatt hour for rooftop solar, down to roughly 14 cents a kilowatt hour for wind power. Those are 20-year contracts, with escalators built in.

What is your estimate, or have you done an estimate on the future liability of those contracts and what that's going to cost? Because we've seen in the past that NUGs did cost the province a lot of money.

**Hon. Dwight Duncan:** Every year, we engage with the auditor on a range of issues around proper accounting. For instance, when we came to office, there was a hidden $5-billion deficit that your government left behind—

**Mr. Norm Miller:** Excuse me, if I may. I happened to be on the estimates committee in 2003. I sat here when Gerry Phillips was in my position; it was June. He did a pretty good job, I have to commend him, because he estimated at that point in June that he thought there was a risk of about a $3.5-billion deficit, and he went through why he thought that: because of SARS, and then of course the blackout came after that.

I'm sorry; I disagree with you. I think there was the risk of a deficit probably more on the line of $1 billion to $2 billion, as your finance critic at the time correctly pointed out.

Then your government did everything in your power—including the way you accounted for the NUGs—to inflate the number to the number you had picked in advance, which was $5.6 billion—

**Hon. Dwight Duncan:** I think the people of Ontario passed their judgment on that budget through an election. The auditor, Mr. Peters, whom we brought in—we had to restate the books the following year. We had to pass something called the Fiscal Transparency and Accountability Act, which you folks resisted for many years, to ensure that no future government, in the run-up to an election—I want to maintain parliamentary language—could not publish financial information that may not reflect the real situation.

Next year, I will have to submit my budget numbers to the auditor in advance of the election, and he will have to attest to their veracity. I'm hoping that in this election, unlike in the last one, your party will submit its campaign documents to the auditor to try to attest to the veracity of those numbers.

But back to your question about the liabilities; I'm going to ask my officials to try to respond to that.

As you know, one of the initiatives, three budgets ago now, was that we consolidated a much greater number of institutions on to our books, and the public sector accounting rules have changed quite dramatically over the course of the last seven years—they're designed to provide greater accountability and transparency. I should tell you—and you would be aware—that the federal government and provincial governments around the country actively engage with PSAB around these rules. There is some controversy in them, because it is our view—and I think the view of all provincial governments; there's a common front on this—that some of the rule changes have in fact perhaps not provided the accountability and openness that I think were intended. So we will continue to work with provincial governments from across the country and the federal government and participate in those.

**1710**

But, with respect, Deputy, I'll ask you on the specifics around the feed-in tariffs.

**Mr. Peter Wallace:** As the minister says, the accounting for the public sector continues to evolve. The liabilities and any costs or issues associated with feed-in tariffs or, at this point, the energy sector in general, are actually a function of the energy sector. They are incurred within the context of the energy sector and incurred within the context of the rate base, so under the current—and I think for the foreseeable—accounting structures, are not liabilities of the province of Ontario.

**Mr. Norm Miller:** Who are they liabilities of, then?

**Mr. Peter Wallace:** It's a question that is probably more appropriately addressed to the Ministry of Energy, but the Ontario Power Authority is the primary holder of those contracts.

**Mr. Norm Miller:** And the Ontario Power Authority is an agency of the government of Ontario.

**Mr. Peter Wallace:** Yes.

**Mr. Norm Miller:** So it seems to me that the people of the province are still responsible for it, whether it's an agency of the government or not.

**Mr. Peter Wallace:** And all of these agencies, as Ontario Power Generation or Ontario Hydro before that, are instruments that are, of course, linked into policy direction set by governments of Ontario really since time immemorial, so that remains consistent.

**Mr. Norm Miller:** Sure.

**Mr. Peter Wallace:** But in terms of the specific question and the accounting rules and the liabilities, these are not liabilities that are incurred directly by the province of Ontario or reflected on our books.

**Mr. Norm Miller:** So if I could ask research or the ministry to endeavour to find out what the value of those future liabilities is, I would appreciate it.

Now I'm going to switch topics. Of course, there was a demonstration going on today—two demonstrations today. They were in fact a little bit mixed up, I hear, at one point. We had the Far North Act, Bill 191, demonstration going on and Nortel pensioners also outside the Legislature today.

I guess my question—I think perhaps the member from Mississippi—what's the name of Norm's riding?

**Mr. John O'Toole:** Carleton–Mississippi Mills.

**Mr. Norm Miller:** The member for Carleton–Mississippi Mills may show up here to ask a question as well, but I did want to ask about Nortel pensioners. I know they've come to me, and I'm sure they must have gone to the Ministry of Finance. They're very concerned about their pension being wrapped up on September 30 and individual annuities having to be purchased and the cost involved with the purchasing of those individual annuities and the loss that they're going to face as a result of that. They also point out that there will be costs to the pension benefit guarantee fund from that process going on.

They've put forth their alternative, which is this financial sponsorship model that they say will save the pension benefit guarantee fund money, save the cost of these individual annuities—and they also question whether Ontario has the capacity to do all these annuities at one time—and provide for more income for the pensioners. The way they portray it, it's a win-win situation: It saves the Ontario government money on their liability in this pension benefit guarantee fund, they end up with more money, and there's less money spent on these annuities.

What's your opinion about their proposal?

**Hon. Dwight Duncan:** We didn't agree with them. We had a close look at it. There are a number of issues around this, and these have been tried elsewhere, particularly in Great Britain. When you boil it down to the essence of the proposal—and I actually went to Ottawa to meet with them some months ago. At the time, we expressed our very real concerns about it, and we've met subsequently, both officials as well as members of my staff. We have looked at this very carefully.

There are a number of issues. First of all, the implication of what they're proposing is that at windup, on September 30, which was agreed to by all parties under the federal bankruptcy act, so that can't be amended—in fact, the pensioners themselves were signatories to the agreement. They're basically proposing a system or a plan that would invest in riskier assets, which could lead to higher returns. It could also lead to a loss of principal, which is why there was a substantial division within the Nortel community itself among disabled employees particularly, as well as some other people who were worried about the integrity of the principal that's still left—$2.5 billion.

I'll remind you that this is a pension plan that was horribly mismanaged, not by the government, not by FSCO, but by Nortel, and it is horribly underfunded.

You raise a valid point about the size of the Canadian annuity markets, but that can be properly managed. We have provided $250 million to ensure that the first $1,000 of benefits for all Nortel pensioners will be guaranteed. That will cover off a very substantial portion of all pensioners, and I may ask Steve if he's got that number handy; if not, we can provide it to you.

**Mr. Norm Miller:** Just on that, I thought the number in the budget was that $500 million was transferred—

**Hon. Dwight Duncan:** That's for all PBGF. There have been other claims against the fund—

**Mr. Norm Miller:** So there was $500 million in this year's budget that was transferred to the pension benefits guarantee fund—

**Hon. Dwight Duncan:** No, no—there was—yes, but for all claims. Nortel represented half of that.

**Mr. Norm Miller:** On that point, the report recommended that any money being transferred to the pension benefits guarantee fund be a loan, not a grant. Why did you not follow that advice?

**Hon. Dwight Duncan:** Because, first of all, the auditor—you were talking about audit standards, and the potential of repayment was not there.

**Mr. Norm Miller:** Okay. I interrupted your response on that. Go ahead.

**Hon. Dwight Duncan:** We disagreed with it. We agreed with the disabled people from Nortel who were worried about their principal. We looked at it very carefully. We looked at the experience in Britain. I quoted some of the findings in the House today around that issue, and we moved to put 250 million taxpayer dollars in to protect the first $1,000 of benefits, which was essential. I'll provide you with the numbers. I don't know, Steve, if you have them handy. If you don't, we'll—

**Mr. Steve Orsini:** At least a third would be fully protected.

**Hon. Dwight Duncan:** At least a third would be fully protected, that is, they would see no decline in their pension. The reason is, it was pensioners of more modest pensions that are under $1,000 who were worried about the decline or the potential risk associated with what essentially was a plan to invest in riskier assets in hopes of a higher return.

**Mr. Norm Miller:** I did go out and speak to some of the leaders out at the rally today. What they said to me was that the substantial division of which you speak is of the disabled pensioners, of which there are 400. That's some 30, 35 pensioners of the 18,000, I believe, Nortel pensioners. So I wouldn't classify that as a substantial division, if what they tell me is in fact correct.

**Hon. Dwight Duncan:** Quite apart from that division is our fundamental disagreement with the recommendations. It is risky. It is moving in the exact opposite direction that we are trying to move in with pension reform, and that is to protect the viability of pensions. What this fundamentally represents is taking the principal and investing it in higher-risk assets, which may yield a higher return but, as so many have learned in the last few years, it can also lead to dramatic undervaluation of pension.

The final point I should make is that even if we were to agree that the plan would yield the results they believe it would yield, it would require a change in the federal Income Tax Act and a change in the federal bankruptcy act, neither of which have been guaranteed or recommended.

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So for all those reasons, we decided to put $250 million into the PBGF to protect Nortel pensioners on the first $1,000 of their monthly pension, but have unfortunately not been able to concur with their analysis about the benefits of this proposal. In fact, it is our view, and the view of my officials and those of us who have been looking at this carefully, that in fact it could lead to much greater risk for those pensioners who at least will want to rely on the income they will receive as a result of investments in annuities.

**The Vice-Chair (Mr. Robert Bailey):** You have five minutes.

**Mr. Norm Miller:** Thank you. So the substantial division, though, that you were speaking of, that's the 30 to 35 people. Do you disagree with that?

**Hon. Dwight Duncan:** It's much larger than that. The final point is, Nortel pensioners across the country would have to agree to this, and no one has even attempted to speak to them. Again, that's driven by federal requirements. And I just want to stress that even if that division wasn't there, it would not have changed our decision. This fundamentally would not protect people who have already, in my view, been very unfairly left with this very unfortunate circumstance, and I would simply not concur with them as to the prudence of this approach, or that they would see a return to what we would all like to have seen. None of us wanted this to happen, and we've done what we believe is appropriate.

**Mr. Norm Miller:** When I went out and spoke to some of the leaders of the group today, I asked them what they'd like me to ask you and they said to ask about this. They heard your response earlier in question period and how you were talking about increased risks. They wanted you to define that risk, because I think what they see is pretty much certain devaluation of their pension with the way things are going—I don't know what the number is, 35%—and they're concerned about this annuity situation. They point out that in England, where this has occurred, the price of annuities has actually come down substantially. So they wanted me to ask you to define this increased risk and what exactly you mean by that.

**Hon. Dwight Duncan:** What it means is that the $2.5 billion that's left, which is nowhere near enough to cover the liability, will be invested in much riskier assets, in assets that a pension normally wouldn't be invested in. Frankly, these people have been victimized already by this, and our view is, candidly, that it is not in their interest. They disagree with us. We respectfully disagree.

By the way, the other part that is of concern is that it would likely require the government to backstop these investments. That would be an enormous challenge as well.

**Mr. Norm Miller:** Sorry. On that, they claim that it would save—I think they said $100 million on—

**Hon. Dwight Duncan:** They're wrong.

**Mr. Norm Miller:** —on the pension benefits guarantee fund.

**Hon. Dwight Duncan:** Their numbers are wrong. Our view is that the kinds of choices that we've made will actually help protect those pensioners from a further erosion of the principal associated with their investments.

**Mr. Norm Miller:** I know Mr. Sterling wants to ask, in the two minutes that we have left—you're late.

**Mr. Norman W. Sterling:** Mr. Duncan, I'm concerned for the Nortel pensioners. Basically, it's their money, the $2.5 billion. They have hired experts who have said that the model that they've put forward is viable. They've measured the risk. They say that they're willing to accept that risk, but you're acting like the godfather who is saying to them, "Notwithstanding that it's your money, I'm going to measure the risk and I'm going to impose upon you a solution," which is going to produce a much lower pension benefit then they believe that they will receive by their own choice over their own money. Why are you imposing this on them when it will be their decision?

**Hon. Dwight Duncan:** Well, actually, there's now 250 million tax dollars in this, just to get to a minimum. That's number one. Number two, there's no—

**Mr. Norman W. Sterling:** But they claim, Mr. Minister, that that will be less of a draw with their particular plan than with your plan.

**Hon. Dwight Duncan:** We respectfully disagree with that.

**Mr. Norman W. Sterling:** Well, why don't you have open hearings in the public so that people can weigh in?

**Hon. Dwight Duncan:** We've met with them, heard them out and responded in writing. We've got a piece of legislation coming to the House on the Pension Benefits Act—

**Mr. Norman W. Sterling:** Which has nothing to do with their issue.

**Hon. Dwight Duncan:** Well, it does.

**Mr. Norman W. Sterling:** It doesn't because it will not deal with their issue.

**Hon. Dwight Duncan:** With all due respect, these people have been hurt badly already by a mismanaged pension. I think we all agree to that. We have put $250 million in, so the taxpayers do have a lot of money in this already.

Number three, it is unlikely that this type of plan could go forward without government guaranteeing. You will, in fact, be putting the government—because this plan will not have a sponsor, the government will have—

**Mr. Norman W. Sterling:** Well, make that a condition. So you will not guarantee it?

**Hon. Dwight Duncan:** The advice we've had is that we can't make that a condition and that the government will ultimately have the liability associated with any losses. So what we have done is we have moved to protect the first $1,000 of pensioners' income, and that represents—at least a third of pensioners are at that level.

The final point is—and I apologize, I said this prior to your arriving—even if we agreed with them, we would require a change to the federal Income Tax Act as well as the bankruptcy act in order to give effect to this, and then Nortel pensioners from across the country, as I understand it, based on the bankruptcy act, would have to agree to this.

**Mr. Norman W. Sterling:** Don't we agree? Don't we think we should try?

**Hon. Dwight Duncan:** We don't. We think that puts them at greater risk.

**The Vice-Chair (Mr. Robert Bailey):** We have to move to Mr. Tabuns. We went a couple of minutes over. I didn't want to interrupt when you were trying to finish your answer.

Mr. Tabuns?

**Mr. Peter Tabuns:** Good afternoon, Minister. Just following on pensions for a moment: Harry Arthurs and his expert commission recommended that the government increase the monthly benefit guaranteed by the pension benefits guarantee fund to $2,500, and as I understand it, your government is not doing that. Can you tell us why?

**Hon. Dwight Duncan:** Yes. Mr. Arthurs also recommended that you have to pay for it. And that would require, we estimate—and we've done detailed actuarial studies—about a 1,000% increase in premiums. We have decided not to move on that at this point in time. We have not outright rejected it, but we felt that at this point in time we had to stabilize the fund and, again, do more work on it.

A couple of issues that were raised by Professor Arthurs in his dialogues as well as by stakeholders, both on labour and management sides—one that is broadly categorized as the moral hazard. That is, if there's that much insurance there to protect it, it could actually incent bad behaviour in terms of the management of a pension; and secondly, the concern that the 1,000% increase in, essentially, the insurance would be a disincentive to employers offering defined benefit plans. Professor Arthurs is pretty clear about that as well. That is part of the challenge you have.

I just remind the member that Ontario is the only subnational jurisdiction that has a pension benefits guarantee fund. The Americans have one and the United Kingdom has one, and they're both underwater as well. So the challenge associated with funding it is a big concern, and it's because of the two points I've raised: the moral hazard associated with, "Well, you know, so we're having a bad few years"—and we've seen this happen in Ontario—"but it's insured, so we just won't worry about putting money in it."

The balance of the regulatory changes we're making to the Pension Benefits Act are also designed to alleviate the need, or at least reduce the risk associated with conventional defined benefit pension plans.

**Mr. Peter Tabuns:** You referred to an actuarial study that was done. This was in addition to the Arthurs report? It was done through your ministry?

**Hon. Dwight Duncan:** Yes. He recommended that we do an actuarial study. We've done that. We've published it, it's available and we can share that with you.

**Mr. Peter Tabuns:** If you've already published it and it's available, could you just give me the URL so that I can check it out? I see nods in the audience; this is good.

**Hon. Dwight Duncan:** Yes, it's there.

**Mr. Peter Tabuns:** Okay, thank you.

This question about Nortel: You've answered fairly extensively. I'm not going to cover all the same ground, but Harry Arthurs, again, recommended that an Ontario pension agency be set up that would allow orphan plans like Nortel's to be managed back to solvency. I understand you're not proceeding with that. Can you set out your reasoning?

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**Hon. Dwight Duncan:** Cost. I mean, there's an enormous cost to taxpayers. Only about a third of us are covered by a defined benefit pension plan or any pension at all. Again, we have not rejected that, but we have to look very carefully at how you pay for it and who becomes liable for—well-defined term—an orphan pension. The Nortel plan as of September 30 will not have a plan sponsor, so there are a number of legal issues associated with that, not the least of which is that it would require a change in the federal Income Tax Act. I'll perhaps ask one of my officials to address that in greater detail if you'd like.

**Mr. Peter Tabuns:** Yes, and I would appreciate that.

**Hon. Dwight Duncan:** While we have moved on—and by the way, again, Mr. Arthurs has also recommended that these things have to be paid for. What we want to be careful of is that the cost associated with paying for this doesn't become a disincentive to employers to offering a pension, particularly a defined benefit pension plan, which many people across both the political and economic spectrum, including former Governor Dodge and others, advocate for: greater coverage defined benefit pension plans.

So, in theory, yes, we're not quibbling with that concept. The issue becomes the construct and ultimately how it's paid for and what the consequence of essentially a high premium or a high contribution rate would be, both from the perspective of moral hazard as well as the liability associated with those orphan plans.

**Mr. Peter Tabuns:** And do you have a person available—

**Hon. Dwight Duncan:** Steve, are you here to handle that?

**The Vice-Chair (Mr. Robert Bailey):** I'd just ask you to identify yourself for the record.

**Mr. Steve Orsini:** My name is Steve Orsini, associate deputy minister of the Office of the Budget, Taxation and Pensions.

**The Vice-Chair (Mr. Robert Bailey):** Thank you.

**Mr. Peter Tabuns:** So you have many hats?

**Hon. Dwight Duncan:** And, by the way, the new Deputy Minister of Revenue.

**Mr. Steve Orsini:** I'd just like to expand the minister's comments in a couple of areas. As part of the minister's announcement earlier in August about putting the PBGF on a sustainable track—it was the $500 million grant, strengthening the funding roles, a modest increase in assessments, and looking at dealing with the moral hazard issue in terms of any recent benefits improvements would be excluded when you calculate the claim for the PBGF. That's really important before any new agency is considered, moving forward the PBGF and putting it on a sustainable track.

The other point about the role of the federal government: There's a number of things we're working with the federal government and other provinces on on retirement income. This is the 70% of those that do not have a registered pension plan. There are a number of rule changes that Mr. Arthurs recommended that we're actually working with the federal government on, because he did point out that there's a strong role for the federal government to make a number of those changes. Coming out of the meeting in PEI with finance ministers, officials were tasked to develop a number of papers: One is a modest increase to CPP, one is pension innovation. That is a key piece going forward to put the entire retirement income system more in a stable, sustainable track.

**Mr. Peter Tabuns:** Fair enough. Thank you. Mr. Orsini may be called back but I'll try you first, Minister. The CPP enhancement announced by yourself and Minister Flaherty in June in PEI: What's the status of that enhancement and when are we likely to see any enhancement enacted?

**Hon. Dwight Duncan:** Steve just reported that a group of officials from the provinces and the federal government have been tasked to bring back a report. Do you recall when our next meeting is?

**Mr. Steve Orsini:** By the end of December.

**Hon. Dwight Duncan:** By December of this year we expect to have that report back.

**Mr. Peter Wallace:** Last year it was on the Saturday before Christmas in Whitehorse. We're hoping for a little bit better timing this year.

**Hon. Dwight Duncan:** So we'll have that report back. There could be considerable disagreement among various provinces and the federal government, depending on what comes out of that, so I don't want to give you a hard and fast date as to when those reforms will come about. Suffice it to say, there appears to be a broad consensus that we need to move forward. Now we have to give definition to what we mean by that, and to your point, then, definition as to how long it would take to do that. So it's difficult for me to answer that right now.

**Mr. Peter Tabuns:** The status of the second part of the PEI agreement with Flaherty, the multi-employer defined contribution that was being proposed by the insurance industry: Are there interprovincial talks going on on this as well?

**Hon. Dwight Duncan:** I'll ask Steve to comment on the officials level, but yes, these conversations go on all the time. I did a series of consultations across the province in the spring. I heard from a range of interests on these issues. These are all part of what is being considered as part of what I would call the broader post-retirement income agenda, because again, so few of us actually have a registered pension plan.

There is considerable disagreement with respect to the effectiveness of those kinds of plans. What we have agreed on is that there needs to be a modest adjustment to the Canada pension plan, but there is a range of other issues that governments across the land are looking at that requires both federal and provincial input, legislation.

So the short answer is, yes, those are talked about. There's no consensus on whether to move forward or how to move forward, even if you have that consensus. Again, this is one of the reasons why I think anything that deals with pensions or post-retirement income tends to be a fairly long process, and, as I'm sure you know, with very defined positions between employers, employee groups and so on.

**Mr. Peter Wallace:** Just to add to that ever so briefly, I think there's a pretty good understanding among the officials who work on this, along with the government's leadership—all governments—that these aren't issues that developed overnight; these are issues that have developed over a considerable period of time. CPP is certainly going to be a critical part of the answer and it's something that we need to work very closely with other governments on to make sure that our position is understood. In fact, the position agreed to has been respected and it continues to move forward.

There are critical aspects as well, because the CPP will fill part of it, but not all of it. There are aspects of private sector roles, pension innovation and a variety of other things that need to be brought in. That's a very active conversation, but because of the complexity of it, as the minister says, it will take a little bit of time to sort that through. There is, within that context, the occasional different view, and we do need to move towards a consensus on that.

**Hon. Dwight Duncan:** Peter, we're both politicians, and the other interesting aspect in this whole debate is that there are governments of all political stripes at the table—Conservative governments, Liberal governments, NDP governments from across the country. There's a remarkable degree of unanimity on the need to improve things. Of course, there will be disagreements as to how and then, obviously, the construct, but one of the interesting aspects of federal-provincial conferences is that you do have that cross-section. I have to tell you, I've been quite struck by what I would term a broad consensus at a high level about the need to make sure we get this right.

**Mr. Peter Tabuns:** No, I'm not surprised. I think it's coming at all of us in a very big way.

In the next question, I'd like to pursue a different line, setting pensions aside for the moment. You're facing a very large deficit—Ontario is facing a very large deficit—and yet you've brought very substantial corporate tax cuts. When the previous administration was in power, you spoke out against those tax cuts and, I thought, made some very good arguments about why it would be better to spend that money dealing with health and education as a way of building the base for our economy rather than increasing the price-to-earnings ratio. What's your rationale in shifting from one position to the other?

**Hon. Dwight Duncan:** The consistent advice we've had is that because of recent corporate tax cuts in other jurisdictions here in Canada, we ran the risk, if we didn't proceed, that we would see what the economists call tax leakage or seepage to other jurisdictions. As one economist put it to me, we can sustain a one- or two-point difference in the percentage between, say, Alberta, British Columbia and Ontario, but we cannot sustain a four-point difference.

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We are taking our time on the implementation of them. We've laid out a longer timeline. We've brought the manufacturing rate down from 12% to 10%. That was well received, for instance, by the automotive sector, vehicle manufacturers, the forestry industry. The example I'm most familiar with is the auto sector. It makes them more competitive in attracting product mandate to our plants. A number of them have publicly said that that was part of their rationale for some of the new product mandates.

You're right: We did stop them moving forward I think in our 2004 budget. Again, there was the unexpected deficit of $5 billion, but since that time, other jurisdictions have cut their corporate taxes more. There is the race-to-the-bottom argument that I've heard many times. Unfortunately, we are subnational jurisdiction. The risk associated with not doing that, with not proceeding and staying competitive, was great. It's designed to maintain and hopefully, over time, create jobs.

**Mr. Peter Tabuns:** Let me understand a bit better. Your interest here is in making it more cost competitive for corporations that operate out of Ontario and export their goods or take part in national and international markets in other ways?

**Hon. Dwight Duncan:** It is designed to maintain our overall competitiveness in attracting new investment, in keeping investment that's here—what our officials term "leakage." Because of the nature of capital today, you can move a great deal of money very quickly with the touch of a computer button.

It is designed to maintain our competitive position. It is one of a number of factors. Our greatest strength, I think most economists and others would say, is the highly skilled nature of our workforce, the quality of our workforce, quality-of-life issues. There's a range of them. That is one of them.

Again, the strongest advice we had from economists across the spectrum was that we had to make sure we stayed competitive, especially as other—New Brunswick, as you know, is moving to an 8% corporate tax. That will put still further pressure, although we wouldn't be able to move any further than we have. We have tried to do it in a way that is over a span of approximately three years, but we do it simply to maintain our competitive position, particularly within the Canadian context.

**Mr. Peter Tabuns:** Are there other elements in Ontario that you think are critical to us being competitive?

**Hon. Dwight Duncan:** Yes. As I just spoke of—

**Mr. Peter Tabuns:** You said education. I understand the corporate taxation rate—

**Hon. Dwight Duncan:** Our health care system is still a competitive advantage: Employers don't have to pay health premiums. Our natural resources are a competitive advantage as are, again, our human skill sets. Our public infrastructure is extremely important.

Whether you're talking about public transit or whether you're talking about roads and bridges and highways, that's one of the reasons we made some of the investments we did as part of our infrastructure plan. We see that as an important component of productivity and what is broadly being spoken of as the productivity agenda. That's one area where Canada does tend to lack.

Productivity is not as strong as I think most of us, again of all political stripes, would like to see. I had the opportunity with the Premier to meet with Prime Minister Harper and Jim Flaherty in Ottawa, and among other things that we talked about that day was what was broadly categorized as the productivity agenda.

I think most economists agree that we need to become more productive and more efficient and improve our relative position in the world. The last study I saw said we're, I think, 16th, and that poses challenges.

We also have new dynamic industries, high-tech industries, everything from digital imaging through to the BlackBerry and others—vibrant. By the way, an industry that is growing in different parts of the province saw a great digital animation studio in Sudbury; they're in Niagara region and Ottawa, as well as, of course, right here in Toronto.

Human skill sets, public health care, a competitive tax environment, good infrastructure, a good school system, good post-secondary education—all of those are factors. In addition, the tax cuts, from our perspective, are a very small part of it and really designed more to be about competitiveness. The real investments are in education, health care and those public services and public infrastructure that serve the broader interests that we believe, over time, will enhance our productivity.

**Mr. Peter Tabuns:** Why is it that, in your assessment, we're falling behind on productivity? I don't want to go on at length, but I'll just say, I talk with a lot of people. You're from Windsor. Working people in Canada work very hard; they're not slackers. They are, generally speaking, well educated, having been myself raised in schools that were run by Bill Davis. We have all of those things. Why are we falling behind?

**Hon. Dwight Duncan:** One of the reasons that has been cited is business investment in capital. For many years, it was difficult to make investment in new machinery and equipment, for a whole variety of reasons. That's one that has been cited to me by economists.

I remember, I toured one pulp and paper company—I won't name them. They had at the time three lines. On one of the lines, the equipment had been there since 1977. So investment in productive machinery—I don't believe it's the human element. The experts I've had the opportunity to talk to speak of investments in new machinery and equipment. And it's not about working more, it's about working smarter, and that's why we're investing a lot of money in post-secondary education, in higher levels of attainment, higher skill sets, to adapt to the new economy.

I worked in those auto plants when I was in school. I put myself through school working in auto plants. When I was a kid there I used to put valves in the cylinder heads as they went by on the line. Now the same employee runs a computer that manages that. So the skill set that is needed is much greater. The training associated with that is much greater.

Who would have thought of a BlackBerry even 15 years ago? And yet there are thousands of people working in Kitchener–Waterloo and other parts of the province on that. Our investments in education are designed to ensure that our workforce continues to have the skill set that will attract the best and highest-paying jobs.

The Premier says from time to time in speeches that we will not be able to compete with Vietnam or China or India in some of the more traditional manufacturing or assembly functions that are done there, but we can compete here and we can lead, and we are, in many instances, leading. So I think those kinds of investments—you'll see that through our Reaching Higher plan, you'll see that in what we talked about in terms of the additional college and university spaces we're providing. Those kinds of public investments are important to future productivity.

**Mr. Peter Tabuns:** I have to say I'm worried about the strategic assumptions in part of what you have to say. When I look at China and India, they are not slacking off when it comes to post-secondary education. They are graduating large numbers of engineers and scientists. Recently, IBM made an investment in China in a renewable energy lab that they could have put anywhere in the world, but they decided that because the manufacturing was there, the market was there—in a way, far more extensive than anything we have here—they were going to put their brain investment in China.

I think we're bright enough here, but I think an assumption that we will be in the lead intellectually is one that is pretty risky. I think it's part of the component or part of a strategy you have to have, but I don't assume that India and China and Vietnam are going to do the simple assembly work in the future; they have the intellectual capacity to go far, far beyond that.

**1750**

**Hon. Dwight Duncan:** There are more students in China studying engineering than there are students in university in the United States. You're absolutely right, but—

**Mr. Peter Tabuns:** But—

**Hon. Dwight Duncan:** —we still have to make our investments in education. Indeed, we are reaching out, and we discovered, among other things, that one of Australia's largest industries is educating foreign students.

**Mr. Peter Tabuns:** Yes.

**Hon. Dwight Duncan:** That is part of our Open Ontario plan. There is going to be greater integration into the global economy.

There are also really bright signs. I'll give you an example: Merrill Lynch opened an in-house software development office here in Toronto about a year and a half ago, right as things were starting to go south—maybe a little more than a year and a half ago. I was invited, along with Mayor Miller, to the ribbon-cutting for this.

Just a couple of observations: One, I raised the average age in the room, because the employees—about 150 at the time—were probably in their mid-twenties. They were the faces of the world. They were very much reflective of Toronto and this great diverse community, but they were all educated in our universities. Merrill had a competition to locate this in any number of places in the world and they chose the Toronto region because of the quality of our universities and the quality of the people coming out of those universities and their diversity. They are supplying software, literally, to their offices around the world. They need to communicate in a range of languages. They need to understand a range of cultures. So we're competing and winning, but that puts an even greater onus on governments to invest in the factors that will allow us to continue to compete.

The University of Waterloo is one of the few universities that Microsoft routinely recruits out of. Bill Gates has come up there. This speaks, again, well to the kinds of investments that need to be made.

In my 2006 budget, we made a $50-million investment in the Perimeter Institute, something that Mike Lazaridis set up. If you get a chance, I'm sure he'd be delighted to give you a tour, if you haven't already seen it. That's where Stephen Hawking is right now. It's fascinating. We're attracting the best physicists from around the world.

Those are the kinds of investments where I think that government particularly has a role to play, and that's one of the reasons why we continue to emphasize those investments.

**Mr. Peter Tabuns:** Given all of that—and I think there's a lot of logic in what you had to say—my understanding is that we're in 10th place in Canada in terms of spending on students and post-secondary education. How do you square those two realities?

**Hon. Dwight Duncan:** Well, we have the largest denominator—

**Mr. Peter Tabuns:** No, per capita.

**Hon. Dwight Duncan:** Yes, I know. That's what I'm saying. It's the denominator. We also, in absolute terms, spend more. I think what is fair to say is that our universities are among the best in the world, and we just created a number of other spaces. I'm always cautious about those numbers because of the sheer size of our population. It also speaks, by the way, to what I would call the efficiency quotient.

There's more to do, but we have certainly improved that figure. I think the results, in terms of our universities and their place in the world and their place in Canada, speaks well, as well as our community college system.

**The Vice-Chair (Mr. Robert Bailey):** Mr. Tabuns, you have three minutes.

**Mr. Peter Tabuns:** Can I have a copy of your opening remarks from today?

**Hon. Dwight Duncan:** Absolutely.

**Mr. Peter Tabuns:** If they could be circulated to the committee before the next meeting, that would be very useful.

Just finishing up on post-secondary education, when I talk to people—my son, who's a university student, my partner, who teaches at York University—and when I talk to other people who work in the system, what I get consistently is talk about a system in a state of tension, of stress, of an inability to deliver the services that students want and that teachers believe are necessary to be delivered. I understand the argument you make about scale; if you've got 100 students in the room, as opposed to 10, you can have a lower cost for operations. But I think the reality is, when you talk to people who work in the post-secondary system, they are extraordinarily stretched.

If your strategy is predicated on investment in post-secondary education and making us among the smartest in the world, it's not a bad strategy. I don't see how you can justify what appears to me to be an underinvestment in post-secondary education.

**Hon. Dwight Duncan:** I hear the opposite. I meet regularly with the leaders in our post-secondary system. I meet with faculty, I meet with students all the time. My son just completed first year at the University of Windsor, and I hear the opposite.

Agreed, there's more to do. One of the reasons we made the largest investment in post-secondary education in the postwar period through the Reaching Higher plan was that we had fallen quite far behind. But we're seeing innovation, we're seeing success across the province, whether it's in a small regional teaching school or a large institution that spends more on post-doctoral work and research.

So I think there have been tremendous strides. We've heard that repeatedly from across the province. Most recently, in the last budget, we are creating another 22,000 spaces in post-secondary. We have invested huge amounts of money in both the human and physical infrastructure needed in post-secondary institutions. We have new medical schools being built, satellite medical schools, engineering faculties right across the province.

I will acknowledge there's always more to do, but I think we've made good steps forward and really helped the system. Again, I hear that repeatedly from people within the institutions, managers, presidents as well as faculty and students.

**Mr. Peter Tabuns:** Those presidents tell me very different things, I'll tell you that now.

**Hon. Dwight Duncan:** I'll get you the quotes.

**The Vice-Chair (Mr. Robert Bailey):** Thirty minutes is just about up. You've got about 15 seconds.

**Mr. Peter Tabuns:** If I can have a copy of the opening remarks, that would be great. If we could have them before our next meeting, that would be wonderful.

**The Vice-Chair (Mr. Robert Bailey):** Thank you, Mr. Tabuns. I'm going to suggest, with the committee's permission, that we start clean on next Tuesday morning, if that's okay with you, Minister—

**Hon. Dwight Duncan:** Do I get my half-hour rebuttal time?

**The Vice-Chair (Mr. Robert Bailey):** —or Wednesday, next Wednesday. Sorry, we'll be at the plowing match.

**Hon. Dwight Duncan:** Am I not entitled to have my half-hour rebuttal?

**The Vice-Chair (Mr. Robert Bailey):** If that's okay with the committee, and I'm sure it's okay with the minister and his staff.

I'd like to thank the minister, the deputy ministers and all the staff who came today. It was very informative for me, as well.

With that, we'll reconvene on Wednesday afternoon.

*The committee adjourned at 1757.*

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