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## **Official Report of Debates (Hansard)**

**Wednesday 31 May 2006**

## **Journal des débats (Hansard)**

**Mercredi 31 mai 2006**

**Standing committee on  
estimates**

Ministry of Finance

**Comité permanent des  
budgets des dépenses**

Ministère des Finances

Chair: Cameron Jackson  
Clerk: Katch Koch

Président : Cameron Jackson  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
ESTIMATESCOMITÉ PERMANENT DES  
BUDGETS DES DÉPENSES

Wednesday 31 May 2006

Mercredi 31 mai 2006

*The committee met at 1606 in room 228.*

## MINISTRY OF FINANCE

**The Vice-Chair (Mr. Garfield Dunlop):** We'll call the meeting to order. It's good to see everybody here again today.

We've got one little housekeeping item I'd like to clean up before we get going, and I think I've got agreement from both the Liberal caucus and the PC caucus on this. I am of course Garfield Dunlop. I'm the Vice-Chair of the committee. Mr. Hudak can't be here today and he has asked that we stand down his time and continue on next week in rotation. As well, during that rotation period, we will have a longer period of time, but we will also have a complete rotation, as long as the time is equal at the end.

**Mr. John Wilkinson (Perth–Middlesex):** We agree to that.

**The Vice-Chair:** Can I have a motion just to support that, John, or is that okay, Mr. Clerk, just like that? Do we have agreement on that then with everybody?

**Mr. Wilkinson:** We have an agreement that all three parties will share their time equally, given the fact that today one caucus is unavailable to do that. Then when we come back, we will continue with rotations, though more time will be allocated to the one party that's unable to be here today; as long as we all get the same amount of time and we're in rotation, so that we don't have a party holding all of their time to the end of these estimates. I'd prevail on the Chair to make sure that it continues to be fair, and we'll work in a collaborative motion with all three parties to make that happen.

**The Vice-Chair:** Do we have agreement on that, everyone?

**Mr. Wilkinson:** Agreed.

**The Vice-Chair:** Thanks so much, everyone. I want to take this opportunity to welcome the Minister of Finance to estimates today. I also want to congratulate you on being reappointed to cabinet in your old position. At that point, I guess the kind words are all done for the day.

**Hon. Greg Sorbara (Minister of Finance, Chair of the Management Board of Cabinet):** No, no, no. I simply say to the Chair that there's a new element of cordiality—

**The Vice-Chair:** I'm going to be non-partisan from here on in, as the Chair.

**Hon. Mr. Sorbara:** Partisanship but—

*Interjection.*

**Hon. Mr. Sorbara:** Well, there goes that cordiality.

**The Vice-Chair:** Now I'm going to turn it over to Mr. Prue.

**Mr. Michael Prue (Beaches–East York):** I wonder—I'm more than happy to go ahead, but we do have a member now from the Conservative caucus and I would think—

**The Vice-Chair:** It's my understanding—and I don't think Mr. Wilson has come prepared to ask a lot of questions today—our critic in this area wanted to take the lead on it. I wasn't even aware Mr. Wilson would be here today.

**Mr. Prue:** I don't think he was either, by the startled look on his face.

**Mr. Jim Wilson (Simcoe–Grey):** Did you do an agreement or not?

**The Vice-Chair:** Yes, we did. Go ahead.

**Mr. Prue:** I want to start with the fiscal gap. And I've already said what I had to say in the House: Congratulations on the way back. I don't think I've ever seen a happier politician in my life than you in the last couple of days.

**Hon. Mr. Sorbara:** Thank you.

**Mr. Prue:** But about the fiscal gap, when the Premier first started talking about the fiscal gap and you were talking about the fiscal gap, that figure was at \$23 billion. I believe in the last budget that was the figure that was still bandied around. We've heard other figures from other economists and other people indicating that the gap, although it exists, is certainly much smaller than that. What is the best estimate today of the actual fiscal gap?

**Hon. Mr. Sorbara:** Mr. Vice-Chair, let me begin by thanking Mr. Prue for his kind comments and saying, apropos of his opening comments, that obviously I was thrilled that the Premier asked me to resume my former responsibilities, but my joy was that a journey that I should tell you was difficult and bizarre and strange and never quite understood by me had come to an end, and that was as a result of a decision brought down a week ago Thursday in the Ontario court. I was just a very happy person at that time. The rest of it really didn't matter to me, but I'm thrilled that the Premier has asked me to come back and do my work. I have told him that I am going to apply myself to this job with all of the energy and enthusiasm and commitment and integrity that I can muster.

Let's now get to the fiscal gap. I guess it was about a year and a half ago, perhaps more, when our Premier began to raise the issue in a very public and very powerful way. At that time, the number the Premier and our government talked about was \$23 billion.

Just to explain to the committee, to be sure, the fiscal imbalance represents the amount of money that comes out of the province of Ontario to the federal government in one way or another, less the amount of money re-invested by the federal government in one way or another, be it by way of unemployment insurance payments, grants to universities, payments under—perhaps the largest envelope would be our federal-provincial agreement on health care.

So when you add up all the ways in which Ontarians pay funds to the federal government—that would be corporate tax, provincial tax, GST, that would be a wide variety of ways in which governments extract money from the people and the businesses of Ontario—you take that sum and you subtract all the payments that come back from the federal government in a myriad of ways, the difference is \$23 billion.

I want to make it clear to this committee that this government is very supportive of the structure of equalization within Canada. It's part of our Constitution. It's part of what joins us together as a nation.

The issue at that time, when the Premier wisely first raised this issue, was that the burden on Ontario as a result of the size of the gap was restricting our ability as a province to reach our full potential economically and in terms of the real take-home pay of individuals and in terms of the capacity of our health care system and the capacity of our universities.

To be very clear, we never suggested for a moment that somehow it was inappropriate for Ontario to bear a part of those responsibilities to other provinces through equalization. I'm going to ask Assistant Deputy Minister John Whitehead to get into the details of what the number is today, but before I do that, I want to make a couple of other points.

The first one is that that gap, over the course of the past 10 or 12 years, had grown very large. I'm just going by memory now, but I think it was from about \$2 billion back in 1993-94, that era. Over the course of about 10 or 11 years, the growth in the gap, in the differential, in the fiscal imbalance, had become very large. David MacKinnon, at one time the president of the Ontario Hospital Association—I hope I'm getting that right—I think described the gap best when he said that every working day of the year, Ontarians transferred \$100 million to other provinces to support the funding of social programs and public programs and economic programs in other provinces through equalization. He said, and I think he's right, "That's too big a burden on the Ontario economy and its engine," and that we had to come to grips with the fact that we had to reduce that.

Our view is, and I want to make this really clear, that this is not about giving the McGuinty government more money to spend. It's about the national government, in

particular in view of its surpluses, reinvesting some of, more of, what they extract from Ontario into Ontario. That's why I'll be making an, I hope, articulate and well-documented plea to the new Minister of Finance in Ottawa to look at a number of key areas where these investments can be made. I include public transit and transportation, not just under the high-profile projects we've announced, but across the province. I'll be including a plea on behalf of post-secondary education that further investments be made. I look forward to sitting down with him to see where he is thinking of reinvesting, because his own government acknowledged both before and after the election that the fiscal imbalance was a reality that had to be addressed by governments, national and provincial.

Now you asked about—

**Mr. Prue:** Just one simple question: Is it still \$23 billion?

**Hon. Mr. Sorbara:** Oh, is that the question?

**Mr. Prue:** That was the whole question.

**Hon. Mr. Sorbara:** Then I'm going to ask John Whitehead, assistant deputy minister, treasury board office, to answer that. I knew you wanted the preamble, though; I was sure of that.

**Mr. John Whitehead:** I think in the preamble to your question you noted that there have been a variety of estimates—

**Mr. Prue:** Including to the finance committee, of which I am a member. We heard 16 from one person, and 18 and 14—from three economists.

**Mr. Whitehead:** There are a variety of estimates. I think the two numbers of most relevance are the \$23 billion that Premier McGuinty has identified—I'll explain the background on that one in a second—and \$18 billion. The \$18-billion figure is actually derived from the federal publication, the public economic accounts. The \$23-billion estimate takes the \$18-billion figure and extrapolates it to a current year. It's methodology that we have applied. We got that methodology reviewed by KPMG about a year ago to just confirm that we hadn't missed anything in the calculations. I believe they concurred quite thoroughly with the way we had done the calculations. So in current year terms we would say \$23 billion.

1620

In the minister's remarks, he mentioned a number of things that are relevant to the calculation of this number, not least of which is the equalization program. The equalization program is, of course, the subject of fairly intense scrutiny nationally right now. There will be a federally appointed panel that we think will be reporting shortly. What happens to the value of the equalization program, of course, affects the value of our gap. What happens to the distribution of other funds that the federal government pays to provinces and territories—for example, a number of things that will be the subject of consultations coming out of the 2006 federal budget: infrastructure funding, post-secondary education funding and the like—all those features of federal-provincial

transfers can affect the net inflows and outflows that the minister referenced in his comments, and so I'd certainly concur that this is a complicated area to land. We're still working with the \$23-billion figure. We feel it's the most current and the most applicable, and until questions are resolved about how the federal budget proposals will actually tumble out, we'll be staying with that one for the time being.

**Mr. Prue:** Just a few things so I can get my head around all these large numbers and how they were calculated: Is the federal surplus counted in the gap?

**Mr. Whitehead:** I think the minister hit the nail on the head: It's the difference between what the federal government taxes out of Ontario businesses and people and what it returns to the province in terms of programs and services.

**Mr. Prue:** So the federal surplus, or lack of a surplus, has nothing to do with the gap?

**Hon. Mr. Sorbara:** Yes, that's right. The fact that the federal government has a significant surplus and will, by the work of analysts of every stripe and persuasion, continue to have a surplus for years and years to come if we continue on the same course—the fact that they have a surplus suggests to us that they have the capacity to deal with the gap, but whether or not they have a surplus is not taken into consideration in calculating the gap.

**Mr. Whitehead:** If I may, I think the minister is absolutely right. The confusion perhaps comes in the discussion of Ontario's fiscal gap versus the fiscal imbalance more generally in the country. The presence of a large federal surplus is often pointed to as evidence of a more general fiscal imbalance. Ontario's \$23-billion gap is more a function of how Ontario is treated within the system of transfers as opposed to the question of whether the federal government is in general taxing more than it needs from all regions for its own program and service requirements.

**Mr. Prue:** If that's the answer about the gap—which surprised me somewhat, I have to tell you—let's go on to EI. Everybody surmises, and I surmise too, that the province doesn't get as much in payments as the people of Ontario pay for EI. I think that's probably a given. But if you leave out labour market training, what is the number? How much more money flows out of the province than comes back in EI payments?

**Mr. Whitehead:** For the specific number, I'll have to look that up. The issue Ontario has raised with respect to employment insurance and a number of other federal transfer payments, both to individuals and to provinces, is the distributional qualities of those things. Part of the issue that has been raised is, are Ontarians systemically entitled to less benefits than people in other jurisdictions? A prime example of that was immigration funding, where the federal government would spend considerably more on an immigrant to the province of Quebec, for example, than to Ontario. With respect to EI, there are differential rules for the time required to qualify for the benefits and the time one is entitled to received benefits. Those tend not to tip in Ontario's favour. We'll have to look up the specific number you've asked for.

**Mr. Prue:** Obviously, because the rules are different for Ontarians, particularly for people in big cities, there must be a huge difference. I don't remember anybody talking about this.

**Hon. Mr. Sorbara:** There are two aspects to the difference. The first is that the employment insurance program now is very well funded and has developed significant surpluses. So in the sense of any insurance program, virtually every province has a negative balance when you compare what is paid in to the system and what comes out in terms of benefits.

We've heard political debate going on in the country about whether premiums should be lower, whether benefits should be increased and whether the surpluses in EI should go into the consolidated revenue fund, and that's a different debate. The issue for us in Ontario is the very one that John talked about; that is, the differential between citizens and residents of Ontario who have to avail themselves of the benefits of EI and the rules that apply to those citizens and citizens in other parts of the country. We think that needs to be addressed.

**Mr. Prue:** Okay, good. That answers the question.

**Mr. Whitehead:** My apologies for the delay in getting that to you. I'll start with a per-unemployed-person comparison, if that's all right. Our estimate is that in 2004 we were looking at an average of \$5,030 per unemployed person in Ontario versus \$7,110 per unemployed person in Canada. If we exclude Ontario from the Canadian average, the average outside of Ontario would have been \$8,340 per unemployed person for what I'll describe as the rest of Canada.

**Mr. Prue:** How many unemployed people, so I can put this into the millions or billions of dollars that—

**Mr. Whitehead:** I was just going to say if we had received all of the \$7,110 of benefits that was the Canadian average, Ontarians would have been eligible for another \$953 million of EI benefits.

**Mr. Colin Andersen:** And \$1.5 billion if we got the same as the rest of Canada.

**Mr. Whitehead:** If we had gotten the average for the rest of Canada.

**Mr. Prue:** Okay. That was the figure I was given. It seemed kind of high to me, so I just wanted to ask the experts.

So it is \$953 million if you take the \$7,110 and \$1.5 billion if you take the \$8,340. That's something Ontarians pay in but do not get back, and that's part of the \$23-billion gap. Is that \$1.5 billion of the gap we're talking about?

**Mr. Whitehead:** It's part of that whole mix. In this particular case, the calculation is the difference between what Ontarians have been able to achieve through the EI program, versus unemployed Ontarians versus unemployed individuals elsewhere in Canada.

**Mr. Prue:** I may have missed the debate in the House or maybe not read all of the newspapers every day, but has this been conveyed? I don't remember seeing anything being conveyed to the federal government that Ontarians who are unemployed deserve a fair share.

**Hon. Mr. Sorbara:** I think it has been. I think it's been conveyed in as many forms as we possibly can. In fact, Michael, it was part of the underpinning or part of the context in which we in Ontario, under Premier McGuinty's leadership, were able finally to negotiate a labour market development agreement with the federal government that provides funding for labour market adjustment programs which ultimately and perhaps indirectly come out of the revenues that come into the employment insurance fund.

My officials will correct me if I'm wrong, but I think every other province had a labour market development agreement through which hundreds of millions of dollars for labour market adjustment flowed into the provinces over the course of a number of years, particularly in areas where there were large-scale shutdowns.

We were also able to negotiate an immigration agreement. In Ontario, we bear the biggest burden of assisting recent arrivals to Canada to adapt to our labour markets, because half the immigrants coming to Canada are coming here, and we did not have an immigration agreement. Part of the argument for ensuring those two programs, the immigration agreement and the labour market development agreement, was that our residents who go to employment insurance receive less than beneficiaries in other provinces. That is all the more reason why we need to have urgently a labour market development agreement and an immigration agreement.

1630

This story does not get the headlines. You'll probably recall that when the Premier started to talk about this—and this is, I say parenthetically, really important to the people of this province—he made the comparison, and John will help me with the numbers, about how much is paid to support a new immigrant in the province of Quebec. I think it was around \$3,300, \$3,400, as compared to Ontario, where the figure was about \$850. That figure gripped the people of this province. One of the reasons why it gripped them was because we see all of the efforts going to assisting new arrivals, who are so critical to the Ontario economy, in adapting to the workplace and communities in Ontario. Those of us who are not immigrants, who were born here or have lived here a long time and are citizens, are thinking, “Now, hold on a second. In Quebec, where, relatively speaking, far fewer immigrants are settling, they're getting \$3,300 per immigrant and we're getting \$800.” This just did not sit well. It was that figure that gripped the imagination. The other figures—in UI, in the lack of per capita funding in areas of post-secondary education and health care—have not really stuck in the imagination, but they definitely have been part of the discussion and part of the submissions to the federal government.

John, did you have a final word on this or another word?

**Mr. Whitehead:** No, Minister. You've got the numbers exactly. It's \$3,400 per immigrant in Quebec and \$819 for Ontario.

**Mr. Prue:** I'm quite familiar with those, but I want to go back to EI—and I'm going to go to immigration a little later.

**Hon. Mr. Sorbara:** To employment insurance?

**Mr. Prue:** Yes. In 1996, the number of hours required by new entrants was increased from the equivalent of 300 hours to 910 hours. Has your government sought to reduce that back to 300 hours, the same as it is in most of the rest of Canada? I haven't seen anything. I'm just trying to find out whether it's been done or it's been said.

**Hon. Mr. Sorbara:** If John doesn't know that, and he may, we'll undertake to find that out. But I'm going to wait for a little bit, and it may be that John Whitehead knows whether we've made submissions in that regard.

**Mr. Whitehead:** I'll just pick up on the minister's earlier comment that, in general, the fair share arguments, if I can describe them that way, have been tabled over and over again with the federal government in discussions. The description of the immigration file is quite apt: It did capture the public imagination.

We have at various points in time made public comments about EI treatment and other things. In our discussions at the staff level, in our discussions at federal-provincial meetings, the fair share arguments have been a feature, I think culminating in the May 2005 agreement that Premier McGuinty reached with then Prime Minister Martin. There were some beginnings of work on getting some of the issues dealt with. Immigration specifically was dealt with in that agreement. There have been steps forward. Certainly not all of the files saw steps forward; EI would be one of those.

**Mr. Prue:** The Toronto City Summit Alliance published a report, and I think they're right, that only 27% of all of Ontario's unemployed qualify for EI. Is that true?

**Mr. Whitehead:** I'm not in a position to verify that figure right now. We can try; we'll come back.

**Mr. Prue:** Okay.

**The Vice-Chair:** You have about seven minutes, Mr. Prue.

**Mr. Prue:** Okay, yes. I have detailed questions, but we've got lots of time.

The immigration one you dealt with, I'll just jump to that for a minute. I remember speaking to this issue with the previous government, in the previous House, that we were the only province in Canada that had not signed an accord. Therefore, it is not surprising that we are getting the least amount for our immigrants. Quebec has had their own grid and their own system and their own immigration officer since 1976. They had a 30-year lead.

When we signed that accord, when we finally made the agreement, why did the government agree to the funding? Because the funding is still not the national average? We signed it, thank God, in the end, but we didn't sign on to getting anywhere near the national average or what Quebec gets and we take half of all the immigrants for the whole country. I don't understand why we agreed to sign on to an accord which some would consider late—better late than never—but also not on the best of terms for Ontario.

**Hon. Mr. Sorbara:** I was certainly delighted that we finally signed an agreement. I think the comparison to Quebec, to be fair to Quebec, needs to be interpreted on the basis of their greater responsibility and management on the immigration system than is the case in Ontario.

**Mr. Prue:** Undoubtedly.

**Hon. Mr. Sorbara:** One understands that, and so more cost for administration and things like that. But this was the subject of negotiations where we were trying to get agreement in a number of areas with the federal government. We think those negotiations, as the Premier said at the time, represent a good start. For us, supporting stronger and more vibrant immigration is absolutely key to our future economic vibrancy. I think not enough people realize that in the absence of a strong immigration flow from all over the world, our workforce demographically would be in pretty serious shape. In other words, to be simple and straightforward about it, we're not reproducing ourselves as a population in population growth, and so for new entrants to the labour market in Ontario we look to immigrants. Very high-quality immigrants are coming to Ontario from all over the world, but they need that adjustment.

From our perspective, it was very important to get an agreement. Now although in 2005-06 there is a differential between what is provided on average across Canada and what Ontario gets, the agreement is designed so that by 2009-10 we will be at that national average and so the agreement, from our perspective, is satisfactory. Would we have liked the whole enchilada? Of course we would, but in these kinds of negotiations the fact that we were able to get up there within a matter of three years I think made it a relatively very good deal.

**Mr. Prue:** I just want to be clear about Quebec because often the Quebec number is thrown up, and I agree with you, it is not a fair number. Every time somebody says \$3,400 for Quebec and \$800 for Ontario, the fact of the matter is that they have visa offices abroad, they have immigration officers, they have their own grid system. They do all of those things, and that absolves the federal government of having to pay for it.

**Hon. Mr. Sorbara:** Yes.

**Mr. Prue:** Was that ever part of your consideration to get \$3,400 and go that route? I question this because that might be a really good thing for Ontario. We could get the skills we need and get them fast. We could say we want engineers, we could say we want doctors that we recognize and we could say a whole bunch of stuff if we did what Quebec does and if we took the money from the federal government to do it. I often wonder.

**The Vice-Chair:** If you could just take a couple of minutes to answer—

**Hon. Mr. Sorbara:** It's not the policy of this government to establish a parallel immigration recruitment system. As a Liberal and as a very committed Canadian, I like the notion that the national government is the face of Canada as we invite people to this country. I think that's a good thing. Within that context, that historically the government of Quebec has wanted to be a more active

player is understandable, given their distinct culture and distinct language and, historically, their role in being more aggressive in that area than the rest of the country.

**1640**

**Mr. Prue:** Even constitutionally, the province has the right.

**Hon. Mr. Sorbara:** Constitutionally, we could be there. There's no doubt about that. But politically and, for me, as a matter of political philosophy, I think the face of Canada in the rest of the world should be represented by the national government. Now, could we co-operate more with them? Yes. Should we be identifying more directly? I think we have to pursue this. The labour market needs of Ontario—the federal immigration department does a relatively good job on that, but I think we could do even more. But the idea of entering that area and having a parallel system is not something that is in the cards for us right now.

**Mr. Andersen:** It's not a parallel, but I think there are some elements reflecting some of our labour market needs, and we can get back to you on some of that.

**Mr. Prue:** We'll start there the next round.

**The Vice-Chair:** Thanks to Mr. Prue. Now I will turn it over to the Liberals and the minister for their 30-minute response time.

**Mr. Prue:** They have to have fun too, you know

**Hon. Mr. Sorbara:** They always have fun. I've had my half an hour of fame, Garfield.

**The Vice-Chair:** I'm sorry. I didn't think the minister had half an hour yet.

**Mr. Wilkinson:** He opened with half an hour. We thought that was government time, so we're just going to double-check it. I thought we were just going into rotation.

**Hon. Mr. Sorbara:** No, you get half an hour now.

**The Vice-Chair:** You have 30 minutes to ask the minister questions.

**Mr. Wilkinson:** Great. I think Mr. Zimmer has the first—no? Hang on.

**The Vice-Chair:** It's my understanding, Minister, that you have half an hour. According to Mr. Arnott, the clerk, you have half an hour to respond to the comments that were made today.

**Hon. Mr. Sorbara:** I will forgo that half an hour, if that is indeed available. My understanding was that I would and I did present opening remarks yesterday to the committee. At that point, I had thought that both of the opposition parties, the Progressive Conservatives and the New Democratic Party, would be making opening remarks of half an hour. But given that they've moved right into questions, as did Mr. Hudak yesterday and Mr. Prue today, I'm just as happy to forego any response time and simply defer to my colleagues on my left.

**The Vice-Chair:** That would be for a period of 20 minutes then. For 20 minutes now, we start the rotations going. Mr. Zimmer, go ahead, please.

**Mr. David Zimmer (Willowdale):** Minister, I was struck by your comments about the demographic challenges that Ontario faces in terms of the expenses of the

population as it ages, and the decreasing population and the decreasing tax base. Interestingly, there was an article in the Wall Street Journal this morning commenting on Mr. Paulson's appointment as the treasury secretary yesterday. It made much the point that you've just made.

The article says, "Let's start with a fact about which every serious policy analyst agrees: The government budget is on an unsustainable path." Citizens "are living longer and having fewer children. Together with advances in medical technology that are driving up health care costs"—the tax base is going down—"this demographic shift means that a budget crunch is coming when the baby boom generation retires. The promises made to" the current generation for social security etc. "are just not affordable, given the projected path of tax revenues."

Then they pose two broad solutions. It says, "Policy analysts diverge, however, on what to do about it." Those on one side of the argument want to raise taxes to fund all of these promises out there on the table with our generation to look after folks in the coming years. The other side of the argument is that by raising those taxes to fund those promises and keep us all happy in our hospitals, schools, homes and so on, the distortionary effect on the economy is such that it in fact reduces the total tax revenues that are available.

Within those parameters or those choices, how have you structured this budget to meet those challenges or fall between those two broad approaches?

**Hon. Mr. Sorbara:** It's a great question. I think it takes us back to before the previous budget to the plan that we came to government with on October 23, 2003. We found ourselves confronted by a situation, a kind of double whammy: A province that had a strong economic engine had a revenue base that was deteriorating, and deteriorating very badly. The economy grew relatively strongly between, let's say, 2000 and 2003, and during that period provincial revenues from taxation actually declined. At the same time, expenses were going up in the key areas of health care and education fairly dramatically. You're on a collision course when you're confronted with that. Maybe we were not diligent enough to identify the collision course, but the previous administration had presented a budget just four and a half months before the election where they suggested that the budget was balanced. Lo and behold, the former Provincial Auditor, now the Auditor General, gave us a report that we would be inheriting a deficit of \$5.5 billion.

I'll get to the Paulson thing in a second and what the solutions are, but the great thing about what I'm responsible for in government is that there are no magic solutions. It's not as if somehow there's something that you haven't discovered yet. In dealing with a deficit, for example, one can cut services or one can raise taxes. If one is really perceptive, it's probably a combination of a number of initiatives which will start to chip away at your deficit and start to improve your services while at the same time not doing anything to impair the strength of the economy, which obviously is generating the taxes. There's no brain surgery. These equations are relatively simple. It's a matter of getting the recipe right.

When we first came to government, we raised taxes in accordance with what we had committed to in the campaign. The naysayers just threw up their hands and said, "Oh, my God. You're going to kill the economic engine of Ontario." Since that time, we have had consistent and strong economic growth—not as strong as we could have if we could deal with some of these fiscal gap and fiscal imbalance questions, but relatively strong economic growth—and we have had historically high corporate profits. What that says to me is that the economic engine had the capacity to generate in the public sector the revenues necessary to improve public services, because that was our real commitment in the campaign: We've got to find a way to reverse the trend of deteriorating public services, primarily in health care and education. I think we've gone way down the road on those two commitments. When I think of what was going on in classrooms in 2003 and the strength of our classrooms right now, I'm very encouraged by where we're going.

1650

**Mr. Andersen:** Maybe I could just add a couple of things to that. There are various forms of social security. Certainly it isn't always just the choice between increasing taxes and cutting benefits. I think another important part would be ensuring that minimizing the cost of delivery of services themselves and trying to get them organized in a way that you can get the cost efficiencies out and still deliver the services that people need.

Certainly health care in this country is a form of social security. There are a number of initiatives that are underway to encourage better integration of the service through LHINs and a variety of improvements on the primary care side of the equation: less duplication of services; better use of electronic delivery of health care, so fewer repetitions of tests and the like; better and more appropriate utilization—not over-prescribing drugs and some of those kinds of things.

On the other side, there are some things that this ministry has actually been involved in, working with hospitals on back-office and some of the supply chain management kinds of issues and improvements that could also help. So it isn't always just a matter of increasing taxes or cutting benefits to put things on a sustainable footing. It's making sure you really are looking at the cost of delivering those services in the first place and getting them as low as you can without jeopardizing the quality of the services.

**Hon. Mr. Sorbara:** Let's wrap up now by getting back to Paulson, which was your real question. One of the things I was proudest of in my first two years in this job was the report this ministry put out called *Toward 2025*, which is the first-ever long-term look at Ontario's economic prospects.

One of the things it did: Its first section dealt with demographics. Demographics is the thing that I think many jurisdictions don't pay enough attention to. Jurisdictions like Japan are facing serious demographic issues because of the lack of immigration to Japan. I think there are issues in the US as well, and I'm sure there are long-

term reports. I would congratulate Paulson for pointing to these issues.

As the deputy points out, the real magic is a more efficient public service and more effective delivery of public services. But in the US we see an annual deficit that is just in the stratosphere compared to what has been the case historically, and a balance of payments situation that is in the same stratosphere as opposed to what has been the case historically. I wish him well. I wouldn't take his job for all the tea in China, but I hope he gets it all figured out.

**The Vice-Chair:** Mr. Milloy, do you have a question of the minister?

**Mr. John Milloy (Kitchener Centre):** Minister, I had a chance to hear your opening presentation yesterday. I have been sort of subbed in and out, though; I had two wonderful years in this committee before I moved on.

I just wanted to follow up to have a bit of an explanation of the hydro debt and the fact that we've started to pay it down; I think it is over a billion dollars. Can you explain, because it is such a complicated thing—the debt presumably has come from the fact that we've subsidized hydro over the years—how this debt is accounted for on the government's books, and the strategy to paying it down; what mechanism is put in place?

I ask that to sort of get a fuller understanding, because so many constituents come to me and complain about the fact that they're paying debt charges and they certainly don't see an end in sight. Also, a lot of them don't understand what that debt represents and how it is accounted for on our books.

**Hon. Mr. Sorbara:** It's a great question. For most people in the province, it's a mystery, except that on your hydro bill every month you get a debt retirement charge.

The best person to explain this, because it is a complicated area, is Gadi Mayman, who is the CEO of the Ontario Financing Authority. That authority is the body that oversees debt management on behalf of the province and all its agencies.

Gadi, do you want, first of all, to give a little bit of background as to how the debt was created and got lodged with us and how we were able to pay down \$1.1 billion over the course of the past year?

**Mr. Gadi Mayman:** Thank you, Minister. When the old Ontario Hydro was broken up in 1999, the two operating companies that most people are aware of are OPG, the generating company, and Hydro One, the distribution and transmission company. There were debt and other liabilities that were entered into on behalf of and guaranteed by the taxpayers of Ontario, and those were put into an organization called the Ontario Electricity Financial Corp. The stranded debt, at that point, was a result of many years of the old Ontario Hydro building up debts it was not able to repay, and was left with the taxpayer.

The first part of your question, I believe, was how it is all accounted for. It's all consolidated on the province's books. It's all one number. So the \$1.1 billion of debt

that you mentioned that was paid down reduced the province's deficit by \$1.1 billion.

**Hon. Mr. Sorbara:** Reduced the province's debt.

**Mr. Mayman:** Debt and deficit.

**Hon. Mr. Sorbara:** Right.

**Mr. Mayman:** The deficit would have been \$1.1 billion higher, had that not occurred.

The stranded debt is paid for through a number of mechanisms. The debt retirement charges the minister referred to, the 0.7 cents per kilowatt hour on everyone's electricity bill, is one of the mechanisms. Coincidentally, last year that generated about \$1 billion.

All items that are related to electricity, whether it's an expense or revenue, go into the stranded debt. Most of the expenditure is on the interest side. It's the interest on the debt that's outstanding from the old Ontario Hydro that is still carried by the province. The revenues as well as the debt retirement charge are also the revenues from the operating companies—OPG and Hydro One—plus the payments in lieu of taxes that are received from these companies.

What is a payment in lieu of taxes? Because these companies are not commercial companies, are not private sector companies, they don't pay taxes. What we do in order to keep them on a level playing field and ensure that the money from the electricity sector remains in the electricity sector is charge them a payment that would be the equivalent of what they would pay in tax.

Last year, OPG had a good year relative to what they had in the past. Hydro One has consistently turned in favourable results. So because of these results, that was helpful in paying down the stranded debt. That's how it all comes together.

**Mr. Milloy:** You said it was a coincidence that we paid down \$1 billion; it's also the profit of these, so to speak, that goes to pay down the debt?

**Mr. Mayman:** That's correct, because offsetting the money coming in from the debt retirement charge, the money coming in from the profits of OPG and Hydro and the payments in lieu of tax that they pay, as well as the payments in lieu of tax that the local distribution companies pay—all of that—there's an offset to that, a big expenditure, and that is about \$1.8 billion a year in interest that has to be paid on the debt that's still outstanding, going back to 1999.

**Mr. Milloy:** So the debt retirement charge doesn't even cover the interest?

**Mr. Mayman:** The debt retirement charge does not cover the interest.

**Mr. Milloy:** Okay.

**The Vice-Chair:** Mr. Delaney, you have a question?

**Mr. Bob Delaney (Mississauga West):** I do.

**The Vice-Chair:** You've got about three minutes for the question and answer.

**Mr. Delaney:** Okay. I can ask it succinctly, and I think it can probably be answered in that. How will Ontario deliver a set of audited financial statements about a year from now, and could you describe how these audited financial statements are going to provide a clear

and consistent baseline to judge, measure or evaluate the viability of the plans and proposals of various parties prior to the 2007 election?

1700

**Hon. Mr. Sorbara:** That's a great question. I don't know if we can do that in three minutes. I know that the deputy will want to have a word about this as well. Shortly after we were elected, as you may recall, we introduced the Fiscal Transparency and Accountability Act, fondly referred as FTAA, and under that act we are required, six months before an election, to present financial statements that are audited by the Auditor General, formerly the Provincial Auditor, so that the three political parties participating in the election, and those who comment and analyze and ask questions, can all be working from the same song sheet. That is to say, no more "We know what's in the books so we know that our campaign commitments can work." My friend Mr. Delaney from Mississauga West asked, how is that going to be done and how is that going to happen? I think the deputy can shed some light on that.

**Mr. Andersen:** Obviously we're going to have to be working with the Auditor General's office to see what kind of information the Auditor General is going to require. As we've been working through all of our various fiscal planning exercises, we've been keeping them in mind and we have regular contact with them. They know that this is coming, putting the budget together, and whether or not the budget will serve as that pre-election report—the timing of it would probably mean that it would make sense for it to be that, but the act itself actually just requires that there be a report, that it provide an update from the most recent fiscal plan and that the auditor review that for reasonableness and then release a statement. Obviously we're just at a point where the current Auditor General will be finishing his term in June and then we'll be working with the next one in the run-up to getting the budget out the door and determining what kind of report that person, whoever it is, will want to do.

**The Vice-Chair:** Thank you very much to the government members for this 20-minute rotation. I'll now go back over to Mr. Prue and the NDP.

**Mr. Wilkinson:** Mr. Chair—sorry, Mr. Prue—we've got about 50 minutes left before we have vote on the opposition day, so if you want to take 25-25, we're okay with that, if that's good with you.

**The Vice-Chair:** That's fine.

**Mr. Prue:** I was going to suggest that for the next round I would just pass, but that will work even better—

**The Vice-Chair:** Okay, let's do that.

**Mr. Prue:** —because I do have to be there.

The questions I've been asking have been about the gap, and I want to continue on the gap because I'm trying to really get my head around what Ontario's not getting, what more the province can ask for, what you have been asking for, what we've been successful in, what we've not been successful in. I've asked about immigration, we've asked about EI—EI was about \$1.5 billion, which is a lot of money. I'm not sure on the immigration; how

much money was that? I know how much it is per immigrant, but how much is the gap, not from Quebec but from the national average? Because I think the Quebec one is a totally false comparison.

**Hon. Mr. Sorbara:** I think John has some details on the particulars of the Ontario immigration agreement. But let's be careful about differentiating between the current fiscal gap and the relative differentials between federal-provincial agreements between the federal government and Ontario and the federal government and other provinces. For example, if you take infrastructure as—

**Mr. Prue:** I was going to ask that as the very next one.

**Hon. Mr. Sorbara:** Okay. Well, let's see if John Whitehead can shed some light on the particulars of the federal-Ontario immigration agreement and what funds, in gross terms and in particular areas, will flow to Ontario as a result of the agreement.

**Mr. Whitehead:** I think maybe it's worth just revisiting the premise of the question a little bit. You were interested in how we stand in the national sense versus—

**Mr. Prue:** Quebec.

**Mr. Whitehead:** —the Quebec comparison.

**Mr. Prue:** Quite honestly, I think they have to be taken out of the equation, if possible.

**Mr. Whitehead:** One of the features of the discussions that we certainly had with the federal government was that Quebec kind of stood alone. The arrangements that they had with the federal government in respect of immigration funding were not replicated across the country. Ontario asked, as the minister has already noted, as a major destination for roughly half of the immigrants who arrive in this country, for an equivalent kind of deal with Quebec. That's why we chose that particular comparator.

Overall, the service changes as a result of this agreement that we're going to be looking at over the next few years will total about \$920 million. The comparison point at the beginning was not with the rest of Canada average because we felt the preponderance of immigration to Ontario—and the fact that Quebec's deal stood alone—was the relevant point of comparison.

**Mr. Prue:** My next questions were around infrastructure. What about infrastructure spending? How much does that contribute to the gap?

**Hon. Mr. Sorbara:** I think we could get almost a team of people up here to deal with infrastructure because of the variety and the complexity of infrastructure agreements between the national government and every province and certainly Ontario. For example, the previous federation government introduced the transfer to municipalities of a gas tax, five cents altogether, fully implemented. I think they're at two or three right now. If the parameters on that transfer were simply infrastructure, then that would be part of a federal investment in infrastructure. As it turned out, it was not restricted to infrastructure, and so I don't think you can include it in that.

There is the COMRIF program, the Canada-Ontario municipal infrastructure financing something or other.

It's a very significant joint agreement where the federal government contributes to relatively smaller infrastructure projects to municipalities. Applications are made from municipalities to a joint body to determine eligibility. There have been direct grants to things like the construction of major infrastructure projects. The Sheppard subway was an example of that—in fact, we have a tradition in Canada, and certainly in Ontario, of major infrastructure projects—and now the York region subway, AcceleRide in Brampton and Mississauga. The costs of those are borne on a one-third, a third, a third basis: a third municipal; a third provincial; a third federal. Then there are very large infrastructure projects, such as the new Windsor gateway and major border crossings; they're specific initiatives. And the contribution to education: some of that money goes for infrastructure.

I don't know if John Whitehead has all the details, but it is a marvellous and important area of federal-provincial relationships and federal-provincial finance. Just before—I'm sorry to go on about this. I just find it so incredibly important, particularly in southern Ontario. We're growing very rapidly. One hundred thousand people a year arrive in the greater Toronto area from other parts of the world to settle. That's a pretty big city. And when you build a city, you're building sewers, you're putting in new waterlines, you're putting in major new electricity capacity, you're bringing in natural gas, you're building roads, you're building hospitals, you're building schools. No other area of the country is growing as rapidly as this area. The Alberta economy is growing very rapidly and their workforce is growing rapidly, but they're not experiencing this increase in population. The only way for that growth to be vibrant and successful is if we can keep up in terms of the construction of infrastructure. It's not just public transit. It's roadways, it's schools, it's hospitals, it's universities, it's water systems, it's electricity, it's purification systems, it's the whole gamut.

1710

I'm a Liberal and I am a little bit concerned that the previous federal government didn't really grasp that, that it's to everyone's benefit in this province if we join hands as governments—and particularly them, because there are such surpluses—and make these investments that will ultimately, if you do them correctly, make the surpluses even bigger. Because when you put in the infrastructure, you put in the capacity for the next generation of economic activity to take place at its most efficient. I am hoping, as we establish new relationships, that I get to fall in love with the federal finance minister, Mr. Flaherty, and that he can see the wisdom of making these investments, because it doesn't matter who's in power, they have to be made. Coincidentally, if they're made at the level that is really required, they happen to reduce the fiscal gap because it's the federal government reinvesting in the nation. If you take my word for it, it really does result in medium and long-term economic growth and more taxes. The short-term costs are worth it for the long-term gain.

**Mr. Prue:** I couldn't disagree with the words. But the province of Ontario, including your government in the first year or two—the federal government was putting a lot of money forward for housing on a one-third, one-third, one-third basis, which was never spent. We never received it. How much did that contribute to the gap? There was willing money that wasn't taken.

**Hon. Mr. Sorbara:** Number one, we've taken that up. Remember that in our first year, we were dealing with a financial crisis. It's not as if we had a lot of cash, whether operating or capital, to put into these things. Now we're getting our act a little bit more together, and we are in a much stronger financial position. That's why Dwight's budget made historic commitments to transportation and transit.

The reason why it should appear so obvious to Canadians is because you look at our balance sheet and you see that we're going from red to black and we've got a plan. You look at the federal balance sheet and the federal projections, and they have the financial capacity to do this. Economists are absolutely ad idem on the federal government's financial capacity to do it. Some right-wing economists would say, "But they ought not. They ought to simply reduce taxes and put the money back into the hands of individuals and corporations." I understand that economic philosophy. My political philosophy is that public investment is the best way, ultimately, to get larger take-home pay packages in the medium and long term. John, do you want to do some numbers and expand on the programs that are part of the overall infrastructure mix?

**Mr. Whitehead:** Absolutely, Minister. I think, for all of the reasons the minister has given in his remarks, this is a very complicated area. As a general matter, Ontario has not received the same level of investment from the federal government in infrastructure programs—the myriad of programs mentioned—as other provinces. I'll use a couple of examples: Under the 2004-05 Canada-Ontario infrastructure program, Ontario's per capita amount was \$57 per person. The rest of Canada was \$69. Overall, we think—and this is an estimate—but we think we're in about the range of a \$1.2-billion gap on infrastructure investment in the province of Ontario.

This has become a more complex area by reason of some of the announcements recently in the federal budget. The federal budget some extend some of the infrastructure programs; it reforms some. There was, for example, a carve-out in the federal budget for the Pacific Gateway project in British Columbia. Ontario's equivalent of a gateway project would be Windsor. In comparison to our usual per-capita amount of 38% to 39% of the total national dollar, something like 70% of truck traffic going to the United States goes through Windsor.

So we're looking for improvements in our share of infrastructure at least up to a per-capital level, if not beyond for certain strategic purposes. But as I say, the recent federal budget does lead us to have a few questions about this, just because some of this funding is going to be the subject of consultations and discussions as the new programs unfold.

**Mr. Prue:** In the current budget and projecting to the next—I know you can't reveal your whole budget—is there going to be any difficulty matching the federal dollars? I mean, I don't want to be disturbed by saying, "We don't have enough money, and the federal government's handing over stuff for your dream and your goal," with which I agree, and all of a sudden, there isn't enough money to match it. I'm still seeing that in the housing field, mind you; I'm still seeing that in this province.

**Hon. Mr. Sorbara:** If we don't get it in during this round, we can certainly spend some time on housing. I'll have officials just go through, line by line, what we have done in housing.

On the transit initiatives, this stuff was so important for us that we created a particular trust and set aside the money for the major transit initiatives. Our money is already there, and we are now working with the city of Toronto and York region to identify how their contributions to these major transit projects are going to be developed, identified and contributed. We have not yet heard, and I hope we will hear positively, from Mr. Flaherty and Mr. Harper on these projects. I think it's a good investment and I also think it's very good politics, to tell you the truth. But it has to be a good investment.

On the larger things, Michael, I would love to be in a situation where the federal government is putting up money for needed infrastructure and we would have to stretch to find our contribution. I don't believe that will happen, but let us try to get there.

We have to make our own judgments as to the viability of the project. We are absolutely ad idem on the Windsor border crossing and the improvements in other border crossings. To the extent that our borders are impaired or slow, that has a significant impact on productivity and our ability to get products to market in the US in a timely fashion. If the federal government said, "We've decided to build a four-lane, limited-access highway from Kapuskasing to Ottawa," we'd say, "Well, we're not there for you." That's interesting, but it's not a priority for us. But we have not yet come to a situation where they're putting money on the table for infrastructure for priorities that we agree upon, and we haven't been able to come up with our cash.

**Mr. Prue:** I'm going to ask you about municipalities later, but just on this point, the federal government is awash with money and can obviously put up their one third. We may or may not have the money, and you're going to have to look at it on a per-case basis—I just heard that—and I think that's fair. Where are the municipalities supposed to find their one third? That has often, to me, seemed to be the stumbling block, especially the smaller ones. Toronto has a big budget, and they can, I guess, cut something if they need to in order to find the funding, but where do little towns, where do small cities, where do rural places find their one third, even for important things like waterworks? They write to me and they say they can't do it.

**Hon. Mr. Sorbara:** Again, the financing and funding of infrastructure is a complicated enterprise at the best of

times. There are initiatives like COMRIF and like the funding in our budget for northern Ontario bridges and repairs that assist municipalities in doing that.

**1720**

By the way, Michael, we have a very specific and very successful program called the Ontario Strategic Infrastructure Financing Authority; I think most of us know it as OSIFA. It is a mechanism by which municipalities can finance the capital cost of these kinds of projects. Of course, when you raise the capital for the projects and you can amortize the cost of that, then you're building infrastructure in the way in which it has been historically financed, whether by business or whether your individual purchase of a home and a mortgage. The problem with municipalities was their ability to raise that capital and finance it at an economic rate. That's where OSIFA has stepped in. John, you may have the figures: some \$2.4 billion in projects being financed through OSIFA?

**Mr. Whitehead:** I will have to look that up, Minister.

**Hon. Mr. Sorbara:** Yes, just over \$2 billion. So that's one of the ways. But again, it depends on what the project is and how the three levels of government participate. Did you have a further comment, John?

**Mr. Whitehead:** Just one small point, Minister. You mentioned amortizing costs, and that's certainly an important part of how we can afford public infrastructure, given the scope of some of these expenses. I will have to check the year, but municipalities will be moving to an accounting standard for fixed assets that will allow them to amortize at least some of these expenses over the life of the asset. So for major things—I think you mentioned water systems; things like that that have long service lives—it certainly helps to make the thing much more affordable. I think that's on the slate for them by 2009. I'll want to check that.

**Hon. Mr. Sorbara:** That's not to say that you're not raising a relevant point. When I did pre-budget hearings in smaller communities, sometimes the mayor and the warden said, "You know what? I know you've got all sorts of big deals going on down there in Toronto, but we've got some bridges that we can't repair, and those bridges are at the point of becoming unsafe." That's why we provided some funds in this budget and we revamped the CRF to give greater capacity, particularly to smaller and more remote municipalities, to more realistically meet their operating obligations. On capital, OSIFA and COMRIF really do play a good, strong role. That doesn't mean that capital is available for every project, and you wouldn't want it to be, because the imagination of municipal politicians is such that, "Oh, well, let's build this, that and the other thing."

I was worried, Michael, particularly in my first round of pre-budget consultations, about the burden on operating expenditures, the kind of repairs and maintenance to capital that can simply drive you crazy in terms of trying to find the money to do it.

**The Vice-Chair:** You have about four minutes; last round.

**Mr. Andersen:** I wanted to add one other thing just to clarify that \$400 million. There's no matching compon-

ent to that. That was funding that went to municipalities, with a particular emphasis on northern and rural, for them to put toward roads and bridges, and there wasn't a matching requirement.

**Mr. Prue:** Four minutes. What about labour market training? How much does that contribute to the gap?

**Hon. Mr. Sorbara:** John is going to give you specific figures on what we negotiated in that agreement. That was another area where I just think it was so unfortunate that it took so long for an agreement to be reached. We were determined that we were going to get an agreement. Labour market adjustment, labour market training, as you know, is critical to the type of economy that is Ontario. You and I know that we are seeing some challenges in the area of manufacturing. Certain components of our manufacturing system will grow smaller in terms of the workforce; others, like automotive, will grow. But this is very important.

I think John has details on the agreement and how that will impact on the gap in specifically.

**Mr. Whitehead:** Thank you, Minister. The labour market development agreement for 2006-07 was going to mean \$525 million—

**Mr. Prue:** It was going to be—

**Mr. Whitehead:** Some \$525 million a year to Ontario in the EI part 2 funding. That's beginning in 2006-07. As part of the labour market development agreement, we also have an administrative component, and that total is just under \$60 million. There is also going to be a commitment of \$25 million from the federal government to help with some information systems. That's a one-time amount.

I would note that the labour market partnership agreements stand in some contrast to that. Those are of course being re-evaluated at the federal level at this point. That's funding that is included in our list of questions, I think, following out of the 2006 federal budget.

**Mr. Prue:** How much does the amount that we're getting contribute to the gap? Does it cover the costs? Are other provinces getting more?

**Mr. Whitehead:** No. I think this represents a similar deal to the ones that the other provinces have. That's the information that we—

**Mr. Prue:** So there is no gap about labour market training. This is not contributing in any way to the \$23 billion.

**Hon. Mr. Sorbara:** Well, let's be clear on the gap. I worry that we're not clear when you say, "How does this compare to other provinces?" The gap is a Canada-Ontario relationship, how much money the federal government takes out of Ontario and how much it reinvests. The fact that Quebec has a different immigration agreement or that unemployment insurance payments are higher in other provinces per unemployed worker is an illustration of the differential relationships between Ontario and other provinces in respect to the federal program. But that's not the gap.

If, for example, the federal government in all of its revenue-raising simply stopped spending in provinces,

then there would be a fiscal gap between Canada or the federal government and every province—if they just kept all their taxing mechanisms and stopped spending. So notionally, the gap would be whatever it is. But you get into a slightly different territory when you are comparing what Ontario has with what British Columbia has, say, in a labour market agreement.

The overlay that you have to put on that is equalization, which is not really a gap story, but the commitment and the constitutional responsibility for the national government to equalize the funding of public services as between the provinces and Canada. So, Deputy, what is the common phrase, the base phrase—

**The Vice-Chair:** If you could wrap up quickly, Deputy, the Liberals want to ask some questions here.

**Hon. Mr. Sorbara:** Reasonably comparable services at reasonably comparable levels of taxation: Those are the two foundations of equalization. The structure on top of it is complex and Byzantine; it's got all sorts of various programs. But it is the equalization system that tries to ensure that, notwithstanding how strong your economy is, you are able to deliver a reasonably similar level of grade 10 education in Port Alberni, British Columbia, and Port Dover.

**The Vice-Chair:** Thank you very much for this round, Mr. Prue. We'll now go over to Mr. Delaney, who has some questions from the government side.

1730

**Mr. Delaney:** I have two, but I realize my colleagues have some questions, so I'll ask one. Maybe I'll have a chance to get the second one in shortly.

As Minister of Finance for Canada's largest province, when you prepare the budget, you sit blocks away from the majority of Canada's leading academics, economic thinkers, analysts, bank economists, private sector and public sector forecasters, brokerage houses, market watchers, thinkers and pundits of all types. One factor that manufacturers in Mississauga are coping with, of course, is the rapid decline of the US dollar versus the world's other major currencies and especially our very own Canadian dollar. I know that you consult very widely, and I know personally that you have a tendency to listen non-judgmentally to everybody who respects the value of your time and presents you with a thoughtful and coherent analysis. So here's my question: Since you became finance minister in October 2003, how many of Canada's leading experts and theorists and eggheads have correctly predicted the value of the Canadian dollar against its US counterpart?

**Hon. Mr. Sorbara:** Oh, my goodness. I think the easy answer to that is zero, because no one has been right. Let me just invite Pat Deutscher to—

**Mr. Delaney:** Expand, if you will, on the art as opposed to the science of drawing up the budget for Ontario and some of the challenges it entails.

**Hon. Mr. Sorbara:** I'm going to ask Pat, who is the acting chief economist for us in the office of economic policy, to comment on the marvellous science and art of forecasting what the economy is going to look like.

My role is fascinating, because I'm a politician and I come to this as kind of a layman. We have all this expertise, but we have to remember that this is an art and not a science. Although there is a lot of scientific methodology applied, we're trying to imagine, now that we put out forecasts for three years, what the world is going to be like three years from now. Because of the integration of our economy and the world's economy, we have to take into consideration an increasingly large number of factors and issues, integrate and imagine them all together, and then try to determine what impact they're going to have on a relatively small economy of 12.5 million very hard-working people.

You mentioned the dollar. It's interesting that in this morning's paper the head of Bombardier was really kind of blasting the governor of the Bank of Canada because, in Mr. Beaudoin's view, the governor of the Bank of Canada was not taking into consideration the high value of the Canadian dollar and its impact on the manufacturers of Canada, in particular the manufacturers of the heartland of Canada: Ontario and Quebec.

Mr. Delaney, you put it in exactly the right terms: We're talking about the deteriorating value of the American dollar and the impact that has on the value of the Canadian dollar. But whether you say it's the rising value of the Canadian dollar or the way in which you put it, it has a very significant impact on the Ontario economy, in particular the manufacturing component of the Ontario economy.

The surprising thing for me as the layperson, the politician, is how resilient Ontario manufacturers have been during this period of the rising value of the Canadian dollar relative to some of the predictions of economists like Pat and others. I'm going to ask him to verify whether any economists, any of the experts, any of the wizards, were bang on in terms of their predictions for the value of the Canadian dollar vis-à-vis its US counterpart.

**Mr. Pat Deutscher:** Thank you, Minister, for your kind words on the forecasting trade. You're quite right: None of the forecasters we survey—and that really is the foundation for how we arrive at our assumptions for the budget—would have predicted that the Canadian dollar would sit where it is today, at over 90 cents. To be fair to my profession, economists would comment on the range of possibilities for where the dollar might be, and some of them would have talked about how, yes, the dollar could be above 95 cents. Many are now commenting that it could go to parity. People talk about the range of possible outcomes, knowing full well that they aren't going to be able to predict the future with any degree of accuracy. They have to come up with specific numbers and notions of what the range around that will be in order to plan for their businesses or, in the case of government, to make plans for how our overall economy is going to develop.

If you look at forecasts for the dollar right now, to further illustrate the uncertainty, there are forecasters who have the dollar rising over the next couple of years

and forecasters in equal number on the other side who say the dollar is now overvalued and will decline over the next few years. We have to deal with that kind of uncertainty as we develop plans.

**Mr. Delaney:** Did any of the forecasters come anywhere close to the value of the dollar over the past three years, for example, using as a yardstick the Japanese yen and the euro rather than the US dollar?

**Mr. Deutscher:** I don't think so. The Canadian dollar, over this relevant time frame, has really been one of the strongest currencies in the world. Its strength has really surprised folks. It's a combination of the declining value of the US currency and the factor of commodity prices. Canada is a net exporter of commodities, especially oil and natural gas and many others. The weight of that in our exports has been a big push on the value of the Canadian dollar. Another factor that may have, and that we worry about, is that Canada is doing a bit more than its share of helping the US economy to adjust. The minister referred to the enormous current account deficit in the US economy. The Chinese, for example, have maintained a fixed exchange rate, and they're a growing trade partner with the United States. They've only allowed a very tiny adjustment, to this point, in their exchange rate against any currency, especially the US dollar.

**Mr. Delaney:** In any manufacturing jurisdiction, especially one in which people manufacture tangible things, of course, they're shipping an awful lot of their commodity work over to Asia and especially China. There's a fair amount of concern that, should the Chinese yuan rise to its true level, that would provoke as big a disruption in manufacturing, if not bigger, than we've seen with the decline of the US dollar against the Canadian dollar. Any thoughts on that?

**Mr. Deutscher:** I would say that "true level" is always a bit subjective, and people would have different estimates of what that would be. I think the biggest factor would be the speed of adjustment. If this were to come over a short period of time as a major surprise and businesses had plans in the works that they were trying to fulfill, it would indeed be quite a very serious disruption. But if it happens in a gradual way, perhaps over a couple of years, and if what you're seeing with something like that is an increase in the standard of living of the people of China—because that's ultimately what a rise in the value of their exchange rate would amount to, as long as their economy adjusts smoothly—it would reflect a major growth in the size of the Chinese market that would be an opportunity for businesses on the other side.

**Mr. Delaney:** Thanks. I think my colleagues have some questions.

**Mr. Wilkinson:** Welcome, Minister. It's nice to see you there again. Two questions, one on prudence. As someone who was on our standing committee on finance and economic affairs for the last couple of years and who is now on this committee, it seems to me that you have been criticized for actually being prudent. That strikes me as odd. It is better for someone who has your chair to be

prudent than the alternative. It strikes me that the alternative is the situation we inherited. In other words, there are opportunities for the economy, but you've always got to see the storm clouds and we have to take those into consideration. Despite the fact that the economists may not always get it right, at least by being able to see that, we can see those challenges.

**1740**

The dollar has risen. The Ontario economy has responded remarkably within increased productivity, which is what you get in a rising standard of living. It drives productivity because you're not going to win on price. You've got to be more productive. I think our stronger currency's allowed some of our companies to make investments in the mineral sector, which is booming in this province. The fact that the dollar's up is irrespective of the price that the actual commodity is up, but in places like forestry and agriculture and some manufacturing we're struggling, but in auto, which is a high value commodity, we're doing extremely well and holding our own.

I guess the question that I have for you is: Despite the political pressure to take, for example, last year's extraordinary money and use it for one-time expenses, you didn't turn around and make that part of your structural spending. It strikes me as being prudent. Could you just share with us why you think that prudence is better than politics?

**Hon. Mr. Sorbara:** I think probably everyone who has sat in my position from every political party—let me put it this way: The nature of the job requires prudence for sure, but it's kind of like a continuum. This is a crazy business. We complete a fiscal year and someone stands up, whether in the Legislature or in some other forum, and says, "You said the economy was going to grow by 2.6%, it grew by 2.8% and you've got an extra billion dollars. Why don't you resign right now?"

**Mr. Wilkinson:** Hard to believe.

**Hon. Mr. Sorbara:** "I'm going to take that under advisement. Thank you very much." It's just like if you're running a business: You always want to be able to outperform.

Your question is about prudence in budget-making. The first thing to say is that in Ontario we have built in mechanisms for prudence. Firstly, and most importantly, every year we set aside a significant fund as a reserve. Now that reserve is a very prudent measure because it's there in case things happen that you just didn't imagine. SARS was an example of something that happened that no one imagined, and the government of the day dipped into its reserve fund. That's good.

Also, in the budgeting of each ministry, there is some prudence built in and there's a contingency fund to ensure that you can deal with events that occur in the to and fro of managing government. The very structure of budget-making has some prudent elements.

The most difficult calls are the ones where—let me put it this way: A 0.1% change in economic growth: I'm going to just give Pat a heads up and say, what does that represent in terms of additional revenue or loss of

revenue, if it's 0.1% less economic growth? The number is fairly big and there's nothing wrong with, at the end of the year, having outperforming expectations. Our economic forecasts are generally somewhat lower than the private sector consensus.

You can go overboard in this business of prudence, and our Ian MacDonald visiting economist Tim O'Neill did a study recently for the federal government because there were allegations that there was just far too much darned prudence built into federal budgeting, so that at the end of the year there were always very large surpluses, far bigger than had been expected when the budget was presented. He wrote a pretty good report on prudence generally and the analysis there.

I'll give you another example of where I thought prudence had just gone a little bit too far. A year ago in May, shortly after we presented our budget, the Alberta government presented its budget. A year ago May, oil was at about \$55 a barrel. A year ago May, when the Alberta government presented its budget—your know, it was the budget where, "There's no more debt; there's no more deficit. We're rolling in dough; things are pretty good."

They, like us, had adopted the policy of forecasting out what their revenues would be for two years beyond the budget year. In their forecasts, the basis for projecting their revenues was oil at \$35 and then \$37 a barrel. Well, I think there was some degree of prudence there that went beyond the pale. Most economists say that we are going to see a reduction in the cost of a barrel of oil over the long term, and even in our figures—Pat will have the exact figure—what we're forecasting oil to be a year down the road.

But you raise a very good point about how much prudence. Too much prudence can just be you're living in a different world and you're hiding stuff. Too little prudence and a few events that you didn't forecast, at the end of the year you have a kind of Mulroney situation. During the Mulroney era, every year Michael Wilson predicted that they were going to have a very healthy surplus and every year they were billions off in their target—to the negative. I'm like the Three Little Bears. I like to have it not too lean, not too rich, just right.

**The Vice-Chair:** You have about five minutes left in this rotation, guys. Five, six minutes. Thank you.

**Mr. Pat Deutscher:** A point about gross domestic product: If economic growth is a percentage point slower than we have assumed, that on average would reduce our revenues by about \$650 million, just a little bit to the north of that, but I think an important point is that that's a very rough average. It depends a great deal on the composition of economic growth and on where the income is being generated in the economy.

One of the difficulties with revenue forecasting is the volatility of some of the important components, especially corporations tax. Corporations tax accounts for, right now, over 10% of our revenues, and one of the reasons that revenue growth has been strong in Ontario and exceeded our forecasts has been the strength of corporate profits and concomitantly the revenues that we

get. The difficulty, and a reason that we have to be prudent, is that without any changes in policy, profits, even in a growing economy, it can simply move in the other direction. You can see swings from one year to the next in the neighbourhood of \$2 billion just in changes from one year. So if you're hit with an adverse development and don't make some provision for that possibility, you can end up in real difficulties.

**Mr. Wilkinson:** I find it somewhat ironic because when I got into politics as someone with really a business background, we had people running around saying that tax cuts pay for themselves and that nothing ever went wrong. It always struck me as just a fool's dream and that eventually all of this was going to come to a crashing halt. But also what I found interesting is that the antidote that you've brought forward was widely predicted by some that somehow this was going to bring on some terrible recession and that business would flee this province. Really, you're saying that our corporate profits have been very strong in this province, despite the challenges of things that we can't control.

**Hon. Mr. Sorbara:** Yes, and stronger than forecast.

**Mr. Wilkinson:** And stronger than forecast, even on the street, which is quite amazing, because that was not the prediction made by some around here when we took office.

I come from the riding of Perth–Middlesex, a very rural riding. There was much in the press that somehow the last budget was very, very focused on the GTA. I know that in my own riding, when I made announcements coming out of the budget, people were very happy, particularly my municipalities. Just a quick question: Do you feel that the budget we presented was too focused on the GTA and didn't have a lot to say to the rest of the province, particularly in rural Ontario?

**Hon. Mr. Sorbara:** No, I think Dwight achieved a really great balance in that budget, particularly because the investments that are sort of GTA-specific are by way of a one-time establishment of a trust—we're going to use this money to build some new infrastructure there. But I think the positive impact, particularly in the area of infrastructure, is going to be felt right around the province.

In that regard, in making a budget, mostly you're saying no, no matter how strong the economy is. The requests come in—every ministry has areas of opportunity to strengthen public services; the requests come from organizations outside—and you're paring down requests and trying to shape the possible: “What can we realistically accomplish in this year?”

From the day we got elected, the major thrust of the political thinking has been, “We are here to improve the quality of public services and strengthen the Ontario economy and invest in people.” With each budget, you have to ask yourself, “Are we achieving that objective?” So in one budget year, the concentration was on education and health care and starting the reforms there; a year ago, a specific commitment in post-secondary education, because frankly every economist—I think Pat will agree with this—says that with the kind of economy

Ontario has, it's brain power and skills that really determine how well you're going to do. In this budget, the concentration was on infrastructure, all the while supporting the other things that are going on.

I'm just back, but I sort of followed the press after Dwight presented the budget. Certainly there are groups or organizations that are disappointed because their specific project did not get funding in that budget. I understand that. It's like when you're a parent in a big family. All the kids go, “Daddy, I want,” “Mommy, can I have?” Yeah, sure, but based on what we can afford.

I thought he did a great job.

**The Vice-Chair:** Do you have a quick one?

**Mr. Wilkinson:** I had a chance at the opening night at the Stratford Festival to bump into Mike Lazaridis, whom we know from RIM. We were talking about this focus on research and innovation and the fact that the Premier was at that ministry.

It seems to me that the question of productivity being created by setting up a province where innovative creativity can be harnessed right here in Ontario—you would see those as investments as opposed to expenses?

**Hon. Mr. Sorbara:** Yes, without a doubt. I think my job is very simple. I think I have to enhance on a regular basis the economic reputation of Ontario. That's not just spinning; that's doing stuff that gives us a stronger economic reputation around the world. It is noted if Ontario is seen to be strengthening its health care system and its education system and its postsecondary system. It is noted around the world if Ontario becomes a larger participant in the world of research and innovation—

**Mr. Wilkinson:** And automotive.

**Hon. Mr. Sorbara:** —and automotive. RIM, Research In Motion—BlackBerry—is known around the world. It's known that this is a technology born and raised and cultivated in and disseminated from Ontario. David has one of those in front of him now, and I'm an adherent. Every single message that BlackBerry sends to some other place travels to Kitchener on the way to its destination.

**Mr. Zimmer:** Kitchener-Waterloo.

**Hon. Mr. Sorbara:** I'm sorry: Kitchener-Waterloo.

**Mr. Zimmer:** I was born in Waterloo. I'm just giving it a plug.

**Hon. Mr. Sorbara:** Okay. Isn't that fascinating, and the fact that RIM is so determined to be a Canadian corporation with literally global reach is something that enhances our economic reputation and strengthens our ability to do business with the entire world and expand the quality of our economy in a way that nothing else could.

**The Vice-Chair:** Minister, thank you very much for your comments, and I thank the government for their round. We will adjourn the meeting and reconvene next Tuesday afternoon after routine proceedings in the Legislature.

**Hon. Mr. Sorbara:** I can't wait.

**The Vice-Chair:** I thank ministry staff for their cooperation as well.

*The committee adjourned at 1754.*







## CONTENTS

Wednesday 31 May 2006

<b>Ministry of Finance</b> .....	E-289
Hon. Greg Sorbara, minister	
Mr. Colin Andersen, deputy minister	
Mr. John Whitehead, assistant deputy minister, fiscal and financial policy / program management and estimates division	
Mr. Pat Deutscher, assistant deputy minister and acting chief economist, office of economic policy	
Mr. Gadi Mayman, CEO and vice-chair, Ontario Financing Authority	

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