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Thursday 11 April 2013

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Jeudi 11 avril 2013

Standing Committee on Finance and Economic Affairs

Comité permanent des finances et des affaires économiques

Pre-budget consultations

Consultations prébudgétaires

Chair: Kevin Daniel Flynn
Clerk: Katch Koch

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 11 April 2013

Jeudi 11 avril 2013

The committee met at 0916 in committee room 1, following a closed session.

PRE-BUDGET CONSULTATIONS

The Chair (Mr. Kevin Daniel Flynn): Soo?

Ms. Soo Wong: Okay, thank you very much, Mr. Chair. I want to be on record, Mr. Chair, with respect to, after hearing all the witnesses from all the towns and cities we visited as well as the hearings here in Toronto—to be on record from the backbencher side on what I think the government should be considering as high priorities. I'm looking around and I'm probably the only one who went to all the hearings. So I want to be on record as saying that these are the priority considerations for the minister and our government:

—First, take action to ensure that the overall business environment is favourable and sufficiently competitive to retain and grow manufacturing investment in Ontario;

—Reaffirm the target date for returning to a balanced budget;

—Match any move by the federal government to extend the accelerated capital cost allowance provisions on manufacturing machinery and equipment;

—Maintain existing manufacturing rates;

—Implement the recommendations of the automobile anti-fraud task force;

—Implement pension reform;

—Improve the health of First Nations peoples;

—Create incentives for individuals on assistance to seek employment and allow those on assistance with part-time work to keep more of their earnings;

—Introduce an earnings exemption for social assistance recipients who work so that the 50% clawback does not apply to the first $200 per month in earnings. We heard that a lot in the hearings;

—Increase the incomes of people receiving social assistance, including a $100 increase to the basic rate for single adults receiving Ontario Works;

—Commit funding to begin to address the recommendations from Brighter Prospects: Transforming Social Assistance in Ontario;

—Remove the exclusion found in paragraph 4 of subsection 31(1) of the Electronic Commerce Act, 2000, of "Documents, including agreements of purchase and sale, that create or transfer interests in land" from the protections afforded to other forms of e-commerce under the act. Remember, we heard a lot about electronic signatures;

—Seek ways within the budget process to facilitate greater job growth in the green energy sector to help bring our expertise into export markets;

—Continue to seek opportunities to strengthen Windsor-Essex county as a major transportation infrastructure hub for Ontario and Canada;

—Encourage governments of all levels to maintain infrastructure investments;

—Focus on creating good jobs;

—Implement measures contained in the 2012 Ontario budget to address the underground economy, which include strengthening administrative practices in determining employer-employee relationships and improving government procurement practices to ensure tax compliance;

—Continue advocating for a national housing strategy, including a renewed funding commitment;

—Look into issues surrounding bedbugs and whether public housing providers are prevented by Ontario law from treating an entire building for bedbugs;

—Amend the Ontario building code to remove the prohibition on six-storey wood frame buildings. This would allow the use of wood in mid-rise construction projects. We heard a lot about this in Timmins and Thunder Bay;

—Make the Ring of Fire a significant and immediate priority;

—Increase access to capital for developing knowledge-based companies;

—Continue to fund education, as the knowledge economy requires a more educated workforce. Promote apprenticeships, college and university education, lifelong learning and early literacy, which are going to be extremely important for the future of Ontario;

—Consider augmenting the mining tax—we talked about that; one of the witnesses talked about that;

—Have some kind of conversation and maybe recommend to the federal government—dealing with the home support strategy identified by one of the witnesses. One of the companies, Molly Maid, made a very, very compelling case of, around the world, what they're doing. I think it's something to consider;

—Continue the dialogue on Ontario's skilled labour shortage; and, finally,

—Increase support for public infrastructure needs.

Those are my encouragements in the report from our side. I just wanted to put that on the record. Thank you.

The Chair (Mr. Kevin Daniel Flynn): Mr. Miller and then Mr. Prue.

Mr. Norm Miller: Thank you for that. I feel like I've just had a preview of what the budget's going to be including.

Ms. Soo Wong: No, this is what I heard from the witnesses.

Mr. Norm Miller: Anyway, yes, I feel like the opposition just had a preview of next month's budget. But I do have a question. You did mention the mining tax. What specifically did you say to do with the mining tax?

Ms. Soo Wong: One of the witnesses, Norm, spoke to us, and I asked staff to do further research on it. That's why I said these are my comments with respect to—

Mr. Norm Miller: You mentioned the mining tax. What specifically did you say about the mining tax?

Ms. Soo Wong: We have one of the lowest in all of Canada.

Mr. Norm Miller: So you want to raise the mining tax—

Ms. Soo Wong: Absolutely. That's why I put that in my comments to the government with respect to—because these are my comments, what I heard from all the witnesses and after hearing all their stuff.

Mr. Michael Prue: On a point of order: Is this something that we're going to be voting on, or is this somebody's statement? This is just your statement?

Ms. Soo Wong: This my comment to—

Mr. Michael Prue: All right.

The Chair (Mr. Kevin Daniel Flynn): She just wanted to say—

Ms. Soo Wong: On record.

The Chair (Mr. Kevin Daniel Flynn): She just wanted to read it—

Mr. Michael Prue: All right. Okay.

Ms. Soo Wong: That's all. It's not voting. Just so you get—

Ms. Catherine Fife: Because I'm new, just a point of clarification: Is it standard practice—I mean, this is my first budget. I've been a part of many budget processes, and rarely is one member of a committee just allowed to do their own sort of Reader's Digest or summary of what we've heard. That's why we have this major report, is it not?

The Chair (Mr. Kevin Daniel Flynn): Well, it's anticipated—

Ms. Catherine Fife: Does it have any more weight? I think that's my concern.

The Chair (Mr. Kevin Daniel Flynn): It's anticipated that there will be attachments to the report, that there will be opinions that will come forward from the Progressive Conservative Party—

Ms. Soo Wong: Exactly.

The Chair (Mr. Kevin Daniel Flynn): —and from you and your colleagues as well, Catherine. That was probably a preview of what you might expect from the Liberal Party on this.

Ms. Catherine Fife: Okay. But would it be possible to get it in writing? We provided our—

Ms. Soo Wong: It's in Hansard.

The Chair (Mr. Kevin Daniel Flynn): Yes, it just goes in Hansard. It's recorded. I mean, if you've got anything to add, feel free, if there's something that stuck out in your mind or you thought we should be doing.

Ms. Soo Wong: Mr. Chair, just to Ms. Fife's comment: My understanding is the PC Party will be submitting something in writing—

Ms. Catherine Fife: Dissenting—

Ms. Soo Wong: —tomorrow, if I understand that piece. Your party submitted your motion, and we respect that. I just wanted to make sure, as an observer and as a participant in this committee, and I wanted to be on record that this is what I heard, what the witnesses have said, and all those committee—and I wanted to be on record; that's all.

The Chair (Mr. Kevin Daniel Flynn): Okay, any other comments? Okay. Then let me start the formal process.

Interjections.

The Chair (Mr. Kevin Daniel Flynn): Yes, it just goes on the record; it just goes in Hansard.

Okay. Are we all set to go through the formal part? Now, this is going on the record.

Shall the draft report, as amended, be adopted? All those in favour? Those opposed? That motion is carried.

Shall the final report be translated and printed? Those in favour? Those—

Mr. Norm Miller: Can I just ask: At what point do we let you know that we want to attach a dissenting report as well? Or has Mr. Shurman already done that?

The Clerk of the Committee (Mr. Katch Koch): Yes, he did last—

Mr. Norm Miller: Okay. I just wanted to make sure that whatever needed to be said was said.

The Chair (Mr. Kevin Daniel Flynn): The deadline has been established as Friday at 5 o'clock.

Mr. Norm Miller: Okay, great. Thank you.

The Chair (Mr. Kevin Daniel Flynn): And that's still good with you, Michael?

Mr. Michael Prue: Yes. I don't know that we will have a dissenting report, because the body of what we wanted has been contained within the report—

The Chair (Mr. Kevin Daniel Flynn): Oh, that's good.

Mr. Michael Prue: —but there may be something, and we leave that option open.

The Chair (Mr. Kevin Daniel Flynn): That's good.

Shall the file report be translated and printed? All those in favour? Those opposed? That is carried.

Upon receipt of the printed report, shall the Chair present the committee's report to the House and move the adoption of the recommendations? All those in favour? That is carried as well.

Ms. Fife has a motion.

Ms. Catherine Fife: Mr. Chair, I move that a copy of the final report of the Standing Committee on Finance and Economic Affairs on pre-budget consultation 2013 be presented to the Minister of Finance prior to the report being tabled in the House.

The Chair (Mr. Kevin Daniel Flynn): Very good, thank you. Any discussion? Seeing none, all those in favour? Those opposed? That motion also carries.

That's it; we're all done. Recess until this afternoon at—2 or 3?

Interjection.

The Chair (Mr. Kevin Daniel Flynn): At 2 o'clock in room 151 for the expert witnesses.

The committee recessed from 0926 to 1404.

UNITED STEELWORKERS

The Chair (Mr. Kevin Daniel Flynn): Let's get going, Erin, so we don't keep you here. You're our first delegation from the expert witnesses today. You have an hour, or we have an hour with you. You have 15 minutes to tell us what you think, and then we're going to split up the remaining 45 minutes amongst the three parties, each party getting 15 minutes.

Having said that, make yourself comfortable, and the floor is all yours.

Mr. Erin Weir: Thanks very much, and I'm very glad you're not asking me to filibuster for the full hour. But I'm happy to give you a bit of an overview of Ontario's economy and also to lay out some modest options to collect the revenue needed to pay for important public services and infrastructure in this province.

You should have in front of you a piece of paper. I'm going to start on the side that is entitled "Working Ontario." You've got a couple of tables at the top that really show what has happened in the province's labour market during the past five years. If I wanted to provide a very optimistic view of the labour market, I'd probably start the tables in 2009 and show all the jobs that have been created since then. If you wanted a very pessimistic view, you might start the table in 2008 and show that almost no jobs have been created. But I think that Peter Shurman said something about this being the no-spin zone, so I started the table in 2007 to provide a fairly accurate picture of things.

It's quite a troubling picture because Ontario's population over the age of 15 has increased by just over 700,000, yet we only have an additional 130,000 full-time jobs. We've got about 89,000 more part-time jobs and 125,000 more Ontarians unemployed. Then the big number is an additional 373,000 Ontarians who are just not in the labour force.

This is the number that really concerns me. I think often when we hear the job numbers, we tend to focus on employment or unemployment. I actually think we need to pay a lot more attention to this measure of people who aren't even counted as being employed or unemployed, people who haven't even made it into the labour force.

Another way of seeing that is the participation rate, which is basically the proportion of people that are either employed or looking for work and therefore counted as unemployed. That rate has just continued to go down even after the supposed end of the recession. You just see the participation rate continuing to decline year after year.

You might be thinking that this reflects an aging population and that's why we have fewer people in the labour force. That's why, in the second table, I looked at people between the ages of 15 and 64; in other words, excluding senior citizens. There you see a very similar story. Of course, all the numbers are smaller because we're counting fewer people, but you have a population increase in that age range of about 443,000, and pretty close to half of that ends up not being in the labour force. So we observe much the same problem even if we exclude the fact that we might have more retired people in the province.

I find this very concerning, that employment really has not increased very much, unemployment has increased by about the same amount, and then the big number is people who have dropped out of the labour force or haven't made it into the workforce in the first place.

The final table that I've shown you on this page looks at temporary foreign workers. I have to admit that I added this information because it has been such a big news story over the past week. But I think it's interesting to look, in Ontario, at the increase in the number of temporary foreign workers even though our labour market is so weak, even though there hasn't been much of an increase in employment. The biggest number of temporary foreign workers and the largest increase is in Toronto, but you also see fairly significant numbers of temporary foreign workers and fairly significant increases in other major Ontario cities. I've just got them ranked in this table based on the number of temporary foreign workers who are present at the end of 2012 according to Citizenship and Immigration Canada.

One of the most dramatic increases in the proportion of temporary foreign workers actually occurred in Windsor. The number of temporary foreign workers more than doubled between 2011 and 2012. I don't know why that happened, but I think it's something worth investigating.

Even though it's a federal program, I think it's an issue that the government of Ontario should certainly consider raising with the government of Canada, why so many temporary foreign workers are being deployed to the province of Ontario, and in particular to communities in Ontario that already have very high rates of unemployment. I think there's a real question as to whether the Temporary Foreign Worker Program is addressing genuine labour shortages or whether it's undermining job opportunities and wages in Canada.

1410

I would basically submit to this committee that we need to focus on trying to improve employment prospects in this province. That should be a major goal of our budget.

One of the main ways that the Ontario government has tried to do that is by cutting the general corporate tax rate. If you'll flip this sheet over to the side entitled "Corporate Ontario," I'll just review those figures as well.

We've seen a really dramatic reduction in Ontario's corporate tax rate. The provincial corporate tax rate has gone down from about 15.5% when the Harris government started cutting, to, as we all know, 11.5% today. Those provincial corporate tax cuts have been amplified by federal corporate tax cuts that have occurred during the same time period, so you see that the combined corporate income tax rate has actually fallen from 44.6% to 26.5%. The stated purpose of these corporate tax cuts was to prompt investment and create jobs. I think we've already seen that they haven't been especially effective in creating jobs. What this table also shows is that they haven't been especially effective in promoting investment. If you look at business investment in machinery and equipment as a share of gross domestic product, it falls pretty much in line with the corporate tax rate. I'm not arguing that business investment declined because the corporate tax rate fell; I'm simply suggesting that the corporate tax cuts didn't appear very successful in increasing business investment.

Another way of looking at this picture is to compare the profits that corporations are collecting with the amount that they're reinvesting back into the province. The table at the bottom of the page compares net corporate operating surplus, which is the new language in Statistics Canada's national accounts; it's basically a measure of corporate profits. You see that it did decline in 2009, but it rebounded very quickly, to the point where corporate profits today are much higher than they were before the recession.

In terms of business investment, though, especially outside of the housing sector, it pretty much has recovered to where it was before the recession. It really hasn't kept pace with corporate profits.

The conclusion that I draw from all this is that corporate tax cuts have opened up an awful lot of fiscal space for the government of Ontario to collect some of the revenues that are needed to pay for important infrastructure and public services in the province. I think there's a lot of fiscal space that has been opened up. I'm going to try to be very cautious and very modest in just proposing the low-hanging fruit that's available for the government of Ontario to pick up.

On the corporate tax rate itself, the Ontario government has been very concerned to stay competitive with other provinces, to match the corporate tax rates in place in other provinces. We've actually seen recently that several provinces have been increasing their corporate tax rates. New Brunswick's recent budget went from 10% up to 12%. British Columbia's recent budget went from 10% to 11%. Of course, the New Democratic Party is poised to win the upcoming election in BC on a platform of raising that corporate tax rate up to 12%. We're now in a situation where Alberta is the only province with a corporate tax rate of 10%. Every other Canadian province outside of Ontario has a corporate tax rate of 12%, or higher, in a few cases. I think there's a really straightforward case for Ontario to simply round up its general corporate tax rate from 11.5% to 12% to get into line with other Canadian provinces and avoid a race to the bottom where provinces try to cut corporate taxes to compete with each other. It seems that almost every other province has settled out at 12%, and I think it would make sense for Ontario to stand with other Canadian provinces in at least maintaining that as a minimum.

Another thing that would make a great deal of sense would be to step up compliance and enforcement efforts to ensure that existing tax rates are actually paid. This is something recommended by the Drummond commission. It's something that was talked about in the recent federal budget, but I think it's something that the Ontario government should really be pushing for with Ottawa, to make sure that companies actually pay their taxes and that tax evasion doesn't deprive the provincial treasury of needed revenue.

Another thing that was highlighted in the Drummond report was reducing business tax expenditures. It's been suggested that this is a very tough nut to crack, because the biggest, most expensive business tax expenditure is, of course, the small business deduction, the lower corporate income tax rate for small businesses, and that's something that no political party is particularly keen to undo. But I would suggest that there's space to make sure that that deduction is actually focused on small businesses. Currently in Ontario, it's completely open-ended. Any Canadian-controlled private corporation gets the small business rate on their first half million dollars of profits, no matter how large the enterprise, no matter how large the profits.

Now, what every other province and the federal government does about this is they phase out the small business deduction when a company has assets between $10 million and $15 million. Drummond proposed that Ontario should adopt that same policy, which I think would be eminently sensible.

The other thing, of course, that could be done is to go back to the system that Ontario had before the 2009 budget, which was a surtax between profits of half a million and one and a half million that essentially removed the benefit of the small business deduction for corporations that actually had profits well in excess of that half-a-million-dollar threshold.

The problem, though, is the government of Ontario took away that small business surtax without replacing it with anything, so I think the two options would be to reinstate that surtax or do what Drummond says and phase out the small business deduction when a company's assets are above $10 million.

Now, another proposal in the same vein of just making sure that benefits for small business are focused on genuinely small enterprises has to do with the employer health tax. Currently, there's an exemption on the first $400,000 of payroll, and this is one of these exemptions that's just provided to every single employer. I think it would be quite reasonable to phase it out for employers that are very large, so it's been proposed that, you know, for payrolls above $5 million, we could have a removal of this exemption, which I think would be quite an easy, common-sense proposal to collect a little bit more revenue from very large, profitable enterprises without removing the relief for genuinely small businesses.

Now, a final proposal to collect some more revenue would be—

The Chair (Mr. Kevin Daniel Flynn): You've got about three minutes, Erin, just so you know.

Mr. Erin Weir: Okay, thanks very much. I'll probably finish ahead of time, but I appreciate the warning.

A final proposal here would be—with the harmonized sales tax, when it was brought in in the 2009 budget, part of the rationale was to provide input tax credits to businesses, but following what Quebec did when it introduced the value-added tax, the government of Ontario restricted some of those input tax credits for the largest corporations. So input tax credits for things like entertainment expenses or energy that's not actually used in the production process were not eligible for these input tax credits.

What Quebec ended up doing was simply making those restrictions permanent, continuing to collect sales tax on those types of expenditures by very large corporations. I would submit that given that Ontario already has these restrictions in place and that we need the money, it would make a lot of sense to make those HST input tax credit restrictions permanent. That would collect about $1.3 billion of additional revenue for the Ontario treasury.

Essentially, what I've told you is that Ontario has some really significant problems in its labour market—not very many jobs have been created over the past five years. We've seen a troubling increase in unemployment and a far larger increase in the number of people who aren't in the labour market at all. I think the focus of Ontario's upcoming budget needs to be to try to address that social deficit, to try to create jobs for Ontarians, and if we can do that successfully, that will actually provide the revenues needed to address the fiscal deficit as well.

1420

The strategy of trying to support Ontario's economy and create jobs through corporate tax cuts has failed, but what it has done is open up an awful lot of fiscal space for the government of Ontario to recoup some revenue, and I've talked about some very straightforward ways of doing that. There are a number of ways in which the government of Ontario could collect a bit more revenue from the corporate sector to finance public services and infrastructure that are seriously needed in this province.

Thanks very much for your time, and I'd be happy to answer some questions.

The Chair (Mr. Kevin Daniel Flynn): Great. Thank you very much, Erin. The first questions of the afternoon go to the Progressive Conservative Party. Peter?

Mr. Peter Shurman: Well, I guess there's just one person here from the Progressive Conservative Party today, so it will be me.

Erin, thank you very much. I appreciated hearing your presentation. We, as you know, have heard from your organization in previous hearings in another city, so I'll dwell on the kind of material that you've—the macro material, I guess we'd call it—presented. Tell me, first of all: In your view, how important is it to balance the budget in Ontario?

Mr. Erin Weir: I think it's important to balance the budget, but I don't think that the priority should be to cut back needed government expenditures to balance the budget as quickly as possible. We're seeing the failure of that kind of austerity strategy in Europe.

I think the real way to balance the budget over the long run is to get Ontarians back to work, get people paying taxes, so that we have enough revenues to pay for these services and infrastructure that we need.

On this question of balancing the budget, I would go back to my last appearance before this committee in 2010, where I suggested that the deficit was probably a less urgent problem than was projected by budget documents at that time. I think what we've seen since then is that in every budget and quarterly financial update, the deficit has turned out to be smaller than projected.

Mr. Peter Shurman: That's an interesting answer. Let me jump off that by bringing into focus the fact that, in the past year, with what I think are arguably the lowest interest rates certainly in my lifetime—and I'm in my 60s—and probably we'll ever see, we're paying about $11 billion in interest this year. Given that the interest rates can only go up and that we are accruing deficits, unless we hear otherwise, we have to assume that in the year ended March 31, $12 billion and whatever the finance minister tables at budget time in a couple of weeks will be added to that, and the provincial debt will be somewhere in excess of $250 billion.

Having said that—and our party is fairly much on record—I think everybody is—to the effect that if interest or debt servicing were a ministry, it would be the third largest ministry of the government after health and education, in that order. That precludes $11 billion and rising in services that the government could provide or in stimulus that it could provide.

I wanted to take you up—after you've answered this question—on what you just said in terms of the deficit going forward, but I'd like to hear your answer on that.

Mr. Erin Weir: Sure. It's interesting, because this same question came up when I appeared before this committee in 2010. At that time, I made the point that one of the reasons to not panic about the deficit was that interest rates were at a historic low and that debt-servicing costs were likely to be much smaller than they have been during previous times when the province was in deficit and interest rates were much higher. The pushback I got on that observation from your party was that interest rates were likely to increase.

Mr. Peter Shurman: Oh, but they are, at some point. We have to agree on that.

Mr. Erin Weir: At some point, I agree, but I do think it's noteworthy that here we are three years later and interest rates really haven't increased.

Having said that, interest rates will increase at some point, and that's one of the reasons why I agree that we do need to balance the budget. But I don't see this as something to be panicked about—that interest rates are going to shoot up tomorrow. Part of the reason I say that is that the last time Ontario was in a recession, it was partly because of high interest rates, because the Bank of Canada had deliberately driven up interest rates to fight inflation and so the province had to run these deficits at very high interest rates. Now we're in a situation where the Bank of Canada is not likely to raise interest rates until the economy recovers, and if the economy recovers, that itself will improve the province's fiscal situation and help balance the budget. I suppose that's one of the reasons I'm a little bit less concerned about high interest rates.

Mr. Peter Shurman: Well, that's fine. I, however, am very concerned, and it's not because I'm a Progressive Conservative; it's because I'm an Ontarian. I worry about the fact that everything from an individual's mortgage—many of which have been taken out because, "Hey, if I can pay 3%, I'm going to buy that larger house that I wanted"—up to corporate investment, which you've addressed and we should be talking about in a couple of minutes—all that money that's sitting there that nobody's spending.

We are sitting in a province that has 40% of the Canadian population in it. As you've pointed out and indicated by your tables, a far larger number of unemployed people—and I'm not putting words in your mouth; these are my words—than should be are unemployed, and we're being beaten, at least in percentage terms, by our fellow provinces in terms of what has happened since 2008-09, where, without any argumentation, the economy bottomed out.

I'm interested in your take on why we've gotten in that situation, why a province with this potential and with this proven track record pre-2008 has gotten to a point where we don't seem to be able to find employment for our people, where our unemployment rate—and your tables attest to this—is, I think, probably the second-highest in Canada, after PEI. Why are we in this situation, and why can't we get ourselves out of it?

Mr. Erin Weir: I think you make an excellent point about mortgages and, while I may have come across as relatively sanguine about the government debt and deficit, I think there is a very urgent concern about household debt being at record levels. I think that's one of the reasons why we don't want to try to put more pressure on working Ontarians through austerity policies, and that we should be looking to raise needed revenue from the corporate sector instead.

Now, in terms of the question about how Ontario got into this situation: Of course, a lot of the problem was the global financial crisis, but I think added to that was a failed strategy of corporate tax cuts, where the focus has really been on trying to cut the corporate tax rate and hope that companies turn around and reinvest the money in Ontario, and that that creates jobs. It just hasn't happened. It just hasn't worked, and what I'd like to see is a much more targeted approach to job creation where—

Mr. Peter Shurman: I don't want to interrupt you, but the companies have made the money. They've got it. In one of the tables you presented, you show literally tens of billions of dollars sitting there. One of the questions—I made a little jot while you were talking—that I wanted to ask you, and it's a good point to interject so that you can amplify in your answer, is: How do you part those companies from their money? Because if you've got $60 billion sitting there in bank accounts or investment vehicles of some type, what you're looking at is the stimulus that would be provided if those companies would spend it. What is precluding them from spending it in Ontario? Something is stopping them.

Mr. Erin Weir: Well, for one thing, demand is very much depressed. As you mentioned, we have very high unemployment, so that often means that companies already have excess capacity. Corporate Ontario won't invest in building a lot of new capacity as long as it has existing capacity sitting idle, so I think we do need to try to stimulate the economy rather than cutting back. One of the problems with austerity is, it actually further reduces demand and further reduces the incentive to invest.

I think there has also been a strategy, not just in corporate Ontario but in corporate Canada, of trying to build up these cash reserves. That's a trend that has gone on for a couple of decades now. It spans governments of different political stripes; it spans the different provinces. It may be a strategy that makes sense from the point of view of those corporations, but I really don't see the public policy rationale to keep giving companies money so that they can stockpile it. I think one of the ways that we put that money into motion is actually having the government of Ontario collect a bit more of it through the tax system and invest it directly in needed services and infrastructure.

Mr. Peter Shurman: This may be counted as an aside, but I wouldn't give this government of Ontario another dime, because they don't seem to be able to manage it. But that's my opinion, as you put forward your opinion.

1430

What I'm interested in, however, is that there are a variety of things happening right now—and I'm looking at some of my notes—one of them being taxation. You talked about taxation on corporations, and I respect the fact that you have an opinion and that you've put it forward.

There's also the issue of taxes on individuals. Do you feel that there is any headroom for additional taxes on individuals? To that end, how do you feel about what has been touted lately as—these are the words—"revenue tools" to build infrastructure and transit—a rose by any other name is still a rose—which is taxes? How do you feel about people's individual ability to pay more?

Mr. Erin Weir: Well, I suppose the devil is in the details. We would need to know what these proposed revenue tools are to really be able to assess them properly—

Mr. Peter Shurman: They've been very fairly disclosed, Erin. We're talking about tolls; we're talking about taxes on parking your car; we're talking about the potential for an increase in the HST, or maybe another name for it, but a regional sales tax of 1%, if not a province-wide sales tax of 1%; and other things that are a little more arcane, but those are the main things.

Mr. Erin Weir: The main theme of my presentation is really that households in Ontario are already under a great deal of stress, and that arises from the weak job market. On the other hand, we have corporate Ontario doing extremely well, raking in these record profits and not investing very much. So it seems to me that the first place to start is to close some of these corporate tax loopholes to collect a bit more money from the corporate sector. That's where I'd be inclined to go in terms of new revenues.

Mr. Peter Shurman: Okay. Let's expand a little bit on some of the things you've said, or let's actually, first of all, bring in something that you haven't really alluded to: energy.

Energy may be called energy; it may be your electricity bill. You may not want, or one may not want, to consider it a tax. But as of this week we are, if not at then certainly approaching, the highest energy regime in North America because of whatever the government of the day has done with regard to how energy is going to run. How does that impact our ability to grow, if families—and families are one aspect of it—and corporate Ontario are being asked to pay these—my words—excessive rates?

Mr. Erin Weir: Certainly, energy is a major input to production. Ontario has a very proud history of using the provincial electric utility as a tool of economic development. I would say that the attempted privatization of Ontario hydro has turned out to be a disaster. I think one of the main problems that we're seeing right now is that the government of Ontario has gone down the path of trying to develop more green energy, which is a very good thing. It's something that's needed to put our economy on a more sustainable path. It's important in terms of creating green jobs. But the way the Ontario government has proceeded is to say that all of this green energy needs to be done by private operators, and has, in some cases, paid them extremely high premiums to do that.

I think it would make a lot of sense to try to develop more green power through the public system, through Ontario Power Generation. I think the direction we should try to go in is to use the tools we already have within the crown sector to build an electricity system that really serves the people of Ontario.

Mr. Peter Shurman: Well, since you said that, I'll say this: I think it would have been nice if, when we were dealing with the Green Energy Act, we had simply turned our faces to the east and said, "Quebec, instead of selling all that excess power to New England at four cents a kilowatt hour for 25 years, why don't you sell it to us?" But we didn't bother to do that, so here we are, paying 12-point-whatever per kilowatt hour on-peak so that we can create renewables that are then handed away, if not paid to be taken away, every weekend. That's basically where we are, and that's an unfortunate divergence of opinions between the Liberal government of the day, yourself, my party and, I guess, the general population that has to pay the bill.

Let's move on to another subject. I'm interested in getting you to expand on what you think has happened to Ontario since the recessionary period of 2008-09. That was a key element. One of the things that particularly former Premier McGuinty used to talk about is, we've come out of this recession, there's a recovery period, and now we're going to get into the recovery period, and he even went as far as to say we're in recovery. I think we'd all like to feel we're in recovery, and at best we would probably have to conclude from your figures that this recovery is fairly weak. What do you think has happened here in Ontario to make us different from our neighbours in Manitoba or our neighbours in British Columbia?

The Chair (Mr. Kevin Daniel Flynn): It will have to be a short answer, Erin. We've got about a minute left.

Mr. Erin Weir: I think that we've seen a somewhat weak recovery nationally, but certainly Ontario has underperformed other provinces. I think that's partly because the manufacturing crisis has hit particularly hard in Ontario. It's partly because electricity costs are much higher in Ontario than Manitoba or Quebec, for example. I think there are many different factors, and I probably don't have time to go through all of them appropriately.

The Chair (Mr. Kevin Daniel Flynn): Well, you probably hit on—

Mr. Peter Shurman: Thank you very much. Sorry, I don't mean to interrupt, Chair. Thank you very much. You've been very helpful.

Mr. Erin Weir: I appreciate that.

The Chair (Mr. Kevin Daniel Flynn): Thank you, Erin. Let me reset the timer. Michael, Catherine: Who's going to kick it off?

Ms. Catherine Fife: I will.

The Chair (Mr. Kevin Daniel Flynn): Go ahead.

Ms. Catherine Fife: Thanks very much, Erin. I just want to thank you in particular for sharing the temporary foreign workers' data. It's particularly timely, and I have to tell you I'm completely surprised that we have almost 1,800 foreign temporary workers in Kitchener alone, and the increase. This is certainly good information to share. It's now on our radar and I certainly will be bringing it up in the House.

What I really want to drill down a little bit deeper on is in the second chart on page 1, "Not in Labour Force," the increase to 196,000—my question to you is: Do we have a clear sense of who these people are? Because if we're trying to create jobs, we have to know who they are. Do you have any sense of that?

Mr. Erin Weir: Unfortunately, we don't, and that's part of the reason I try to emphasize that figure, because it is a bit of a mystery and I think it is something that warrants further study.

To some extent, there are always going to be people outside of the labour force: parents who stay at home, people who are pursuing post-secondary studies, people who have perhaps retired or who retired early—in the case of this table, which is up to age 64. But it does seem very surprising that almost half of the increase in Ontario's population between the ages of 15 and 64 has gone into this category of not being in the labour force. My sense is that a lot of Ontarians dropped out of the workforce during the recession and never got back in. Of course, if they're not actively looking for work, they're not counted as being unemployed.

I think there's also a huge problem of younger people being unable to get into the workforce in the first place and not necessarily being counted as unemployed, but just not being in the labour force.

Ms. Catherine Fife: Okay. A couple of the questions, actually, have already been asked by my colleague from the PC Party, and it's actually encouraging to hear that they share our concern over the dead money that's in the corporate sector. I think it is really important for us to have a better understanding of why that investment is not happening. I think that you've made a strong case for the austerity agenda as being completely counterproductive to economic stimulation.

Thanks very much for the suggestions—good feedback.

Mr. Michael Prue: A number of questions: Let's start off. First of all, you gave four recommendations at the end. One was to raise the corporate tax rate from 11.5% to 12%. How much money would that bring in?

Mr. Erin Weir: That certainly depends on corporate profitability. Based on the last quarterly update from the Ministry of Finance, corporate income tax revenues were about $11.8 billion. Now, it's not quite as simple as saying that 11.5% raises $11.8 billion, because some of that $11.8 billion comes from businesses that are paying the small business corporate tax rate, but I think we're clearly talking about hundreds of millions of dollars. Not quite half a billion dollars, but to give you an order of magnitude, it would be fairly significant.

Mr. Michael Prue: So that's half a billion dollars by raising it a half point to make it equal with the other provinces. We wouldn't have the lowest anymore, but we would be tied for the lowest.

Mr. Erin Weir: Alberta would still have the lowest at 10%, but with the exception of Alberta, we would be tied with most other provinces at 12%. I suppose the question is really whether Ontario should engage in this race to the bottom with Alberta or whether we should try to uphold a minimum with other provinces.

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Mr. Michael Prue: Okay, but Alberta is facing tough economic times themselves. The Premier is in huge trouble, from what I read, and Albertans are very unhappy with their direction. Is that—

Mr. Erin Weir: I think that's true, and I actually think part of the rationale for Ontario rounding up its corporate tax rate to 12% would be to give Alberta some leeway to do the same thing. I think if all other provinces are at 12%, that would enable Alberta to move to that rate as well.

Mr. Michael Prue: Okay. You also talked about having people pay their taxes. We've been reading in the last couple of days in the paper and seeing on television all this money offshore in the Cook Islands and Lichtenstein and some other places, but it seems to me that the federal government has been spectacularly inept at getting their money back. It's all well and good to talk about this, but what are the prospects of getting the money back?

Mr. Erin Weir: While the recent federal budget said many of the right things about stepping up enforcement to get that money back, on the other hand, the federal budget actually cut funding to the Canada Revenue Agency. So it's not clear how serious Ottawa is about really improving tax compliance, and that's one of the reasons I'd like to see the Ontario government really push the federal government on this file.

Mr. Michael Prue: Okay, but the Ontario government, a few years ago, much to my chagrin—and I voted against it—decided to send all of our tax people out of Ontario and to the federal government, so we don't really have that kind of mechanism here anymore to do it ourselves. What chance is it, given they're cutting staff and saying the right words but with the wrong actions, that we can ever expect to see any money paid from these offshore accounts?

Mr. Erin Weir: You're absolutely correct that Ontario doesn't have the capacity any longer to collect its own taxes, so it really is a matter of trying to work with the federal government. I think the prospects are not great, given everything that we've discussed, but I think the province should be holding the federal government's feet to the fire on this question. If the appropriate steps are taken, I think it is possible to collect more revenue, both for the federal treasury and for the people of Ontario.

Mr. Michael Prue: It's been said that this is in the billions and billions of dollars that are offshore, if we could ever collect them. Is that a fair amount? They've said trillions of dollars worldwide, but billions of dollars in terms of Canada alone.

Mr. Erin Weir: I think that the order of magnitude certainly is in the billions of dollars. Now, to think that we're going to be able to collect tax on it all at once is probably overly optimistic, but there's certainly a lot of additional revenue that could be collected if we were successful in pursuing those offshore funds.

Mr. Michael Prue: You talked about the employer health tax. If we did exactly as you said and took the employer health tax off for those corporations—what was the figure you used?

Mr. Erin Weir: Payrolls of about $5 million.

Mr. Michael Prue: Okay, over $5 million. How much would that bring in?

Mr. Erin Weir: That would bring in about $90 million for the province of Ontario.

Mr. Michael Prue: That's not a huge amount, but it's probably welcomed.

Mr. Erin Weir: I think it's welcomed. As I said during my presentation, I've really focused on the low-hanging fruit, things that I think would be very easy for the government of Ontario to do in this upcoming budget.

Mr. Michael Prue: The last one you talked about was the input tax credits. If we recommended to the minister that he do exactly what you said, how much would that bring in?

Mr. Erin Weir: That's a much more significant proposal. That would retain about $1.3 billion of revenue for the people of Ontario. I would stress that this is something that Quebec has already done, and these are restrictions that are currently in place here in Ontario. So it's really just a matter of leaving things as they are.

Mr. Michael Prue: We're looking here at securing an additional $2 billion, just from those four things.

Mr. Erin Weir: Yes, that's about right.

Mr. Michael Prue: I also read that provinces like Quebec will be out of deficit far earlier than us. Is that because they've done some of these things or because their manufacturers are rebounding better? Why are they getting out of deficit before us?

Mr. Erin Weir: It's a combination of different factors in different jurisdictions, but certainly Quebec has a much stronger tax system. Quebec certainly has made social and political choices to collect a lot more revenue from its population in order to fund additional public services. Also, some provinces have experienced stronger economic recoveries than Ontario.

Mr. Michael Prue: I'm looking at the temporary foreign workers, and although it's disturbing, this would make up about one tenth of 1% of the working population in Ontario, unless my math is wrong.

Mr. Erin Weir: Your math, I believe, is correct in terms of the total number of temporary foreign workers and the total number of Canadian residents in Ontario, but I might look at it in a slightly different way. Since 2008, the increase in employment in Ontario has been less than 120,000. Meanwhile we've added about 30,000 temporary foreign workers in the province. So, from that vantage point, about a quarter of all the new jobs created in Ontario have been filled by temporary foreign workers, which is quite significant.

Mr. Michael Prue: Okay. So when the government stands up and says, "We've created 300,000 jobs," a good percentage of those jobs are going to people who don't live here or may be here temporarily.

Mr. Erin Weir: I think when the government says that, its starting point is the very bottom of the recession in 2009, which is how it gets to that larger number.

Mr. Michael Prue: Oh, okay.

Mr. Erin Weir: But yes, certainly some of the employment created in the province is represented by temporary foreign workers.

Mr. Michael Prue: Okay. You also talked about—and I want to get back to this. Do I have time?

The Chair (Mr. Kevin Daniel Flynn): Oh, yes. You've got just over four minutes.

Mr. Michael Prue: Oh, my goodness, lots. The net corporate operating surplus has gone up remarkably, even if you take out 2009 and 2010 where it was getting back to itself. In 2011, it went up hugely. We're seeing this, but we're also seeing what seems to be a structural weakness in things like our stock market. The stock market in Canada has not rebounded at all in comparison to the United States. I know at the start of the recession, we were at least 1,000 points on the Toronto Stock Exchange higher than the Dow Jones Industrial Average. Now they're 2,300 points higher than us. They have taken 3,300 points—and it seems to be almost every night when I go home and look at the stock market stuff, they seem to be doing far better than us. Can you tell me why that might be? I just don't understand it because they seem to have even more problems than us.

Mr. Erin Weir: It's a very interesting question. I think at least part of the answer is that the American stock market doesn't just reflect the American economy but a lot of multinational corporations that are collecting profits all around the world. So, to some extent, indexes in the American stock market reflect the worldwide profitability of corporations. That would be one important difference.

Mr. Michael Prue: Okay, and ours is more regional. The Toronto Stock Exchange is more regional.

Mr. Erin Weir: It is, and it's more focused on just a few industries.

Mr. Michael Prue: Like mining and stuff.

Mr. Erin Weir: Yes, resource extraction, financial services. The Toronto Stock Exchange has been quite volatile as a result of that, and although commodity prices are still quite high by historic standards, they have come off a bit, and I think that's a major part of the reason that the Toronto stock market has been a bit weaker.

Mr. Michael Prue: Now, if we were to suddenly find ourselves in possession of billions more in tax revenue, you have suggested that paying off the debt would not be a huge priority given that we're only paying about 3% or so interest. Where would you spend the money?

Mr. Erin Weir: I should say that I do think that it is important to balance the budget. I just don't think it's an urgent priority to do it right away. I think it's entirely reasonable to do it—

Mr. Michael Prue: I didn't phrase that right. Okay.

Mr. Erin Weir: —to do it over a period of years, but I think there's much-needed investment in infrastructure. In particular, I think a lot of investment will be required to put Ontario's economy on a more sustainable path, to reduce carbon emissions. We're going to need a lot more transit, a lot more renewable power. We're going to need to conserve energy much more effectively. So I'd like to see public investments in those areas. I'd also like to see other public investments that could help to create jobs.

One of the ways of making up for this lack of private investment is for the province to directly invest in important parts of the economy, yes. Statistics Canada has concluded that about half of the overall increase in private sector productivity since the 1960s has actually come from increases in public infrastructure. I think there are many good uses for those funds.

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Mr. Michael Prue: Any other questions?

The Chair (Mr. Kevin Daniel Flynn): You're down to less than a minute anyway, Michael.

Mr. Michael Prue: Oh, down to less than a minute. Then I'll just let it go. Thank you so much—no. Is there anything else you want to tell us? I'll let you use your minute if you need it.

Mr. Erin Weir: Oh, my goodness: a very generous offer, but I think I'll pass and just open it up for questions.

The Chair (Mr. Kevin Daniel Flynn): That minute is 30 seconds now.

Let's move right to the government side. Who's starting? Dipika. Okay, it's all yours.

Ms. Dipika Damerla: Thanks, Chair, and thank you, Erin. I know it's not easy being in your position while we all sit here and shoot questions at you. I just want to congratulate you on a great presentation.

I'd like to begin with the debt issue, because I heard you just tell Michael that you agree that the debt ought to be paid down, but not right away. I'm curious. What would your ideal time horizon be to pay it down—let me rephrase that. The government is committed to balancing the books—actually, not balancing the books but getting rid of the annual fiscal deficit, down to zero by 2017-18, and that's what the federal government wants to do as well. I'm curious to know what your timetable would look like.

Mr. Erin Weir: Yes. I think the federal government is trying to do it a year sooner because they've got an election coming up and a bit of a political target associated with that, but I actually think that trying to balance the budget over that time frame is approximately correct. I don't think the sky would fall if it didn't get balanced until 2018-19, for example, but I do think that's approximately the right timeline on which to balance the budget.

To me, the real debate is how to balance it, and I think that balancing it through austerity and cutbacks is very much the wrong approach, because it will impose a burden on working Ontarians and also because it might not work. As we've seen in Europe, when you cut back, that weakens the economy, which, in turn, weakens government revenues. So I think a far better road to balancing the budget is to try to create jobs to try to strengthen Ontario's economy, and balance the budget through improved revenues.

Ms. Dipika Damerla: What I'm hearing, in simpler English, is that it's good to borrow and spend in the hope that that spending will mean more taxes for the government, so really it's just borrowing. It doesn't really fix the fundamental problem. It's no different from my home, where I can borrow on my credit card, saying, "Interest rates are low so it's okay to borrow," but it doesn't fix the issue that either I'm spending too much or I'm not working hard enough; one of the two.

I'm just curious, because the idea that we've got to stimulate—and I'm not saying that there isn't a role for that, but it is a short-term tool, not, I think, something that can be used indefinitely, because essentially nobody, individuals or societies, can forever spend more than they earn. Would you agree with that?

Mr. Erin Weir: As a matter of arithmetic, it is actually possible to continue running deficits forever, as long as they're small enough that the ratio of debt to gross domestic product goes down. As long as the economy is growing fast enough, it's technically possible, as a matter of economics, to continue running deficits.

I'm not even proposing that. I'm actually agreeing with you that Ontario should be trying to balance the budget over the coming years. I'm just suggesting that austerity is the wrong way of doing that and that we would be more successful in doing that by trying to promote our economy and also by fixing some problems in our business tax system to collect more revenue, as I've outlined.

Ms. Dipika Damerla: Actually, I happen to agree with you that definitely, if we have a particular tax rate, governments should do a good job on compliance, so I have no argument with you on that.

I did want to come to the issue of foreign direct investment, because earlier I heard you try to draw some kind of a connection between Ontario's low tax rates and our inability to attract investment. I understand that there's been a new report by, I believe, the Financial Times that shows that Ontario is the jurisdiction that has the third-highest foreign direct investment in North America, just behind New York and California—and let me just finish. On a per capita basis, because we're only 13 million, that actually probably puts us in the top. So clearly something is working if, in North America, on a per capita basis, we are attracting more foreign direct investment than any other jurisdiction, despite the hardship we are going through. I just wanted your comment on that.

Mr. Erin Weir: I'm not certain that it's true that Ontario is attracting more foreign direct investment on a per capita basis than any other jurisdiction; I haven't looked at those numbers. But that's an empirical question—

Ms. Dipika Damerla: Sorry, let me just—I'm not saying it's empirical, because I'm saying I'm quoting from a report.

Mr. Erin Weir: Right. I think what the report showed was that in absolute terms, Ontario was in third place. I think the reason for that is partly that Ontario is a large jurisdiction, so all of the numbers are going to be fairly large in absolute terms. Also, it speaks to the fact that the United States is suffering from a very severe recession. So to say that Ontario—

Ms. Dipika Damerla: Or does it speak to the fact that Ontario is doing well, relatively speaking?

Ms. Catherine Fife: Why can't you just let him answer the question?

The Chair (Mr. Kevin Daniel Flynn): I don't need any help—

Mr. Erin Weir: I would agree that Ontario—

The Chair (Mr. Kevin Daniel Flynn): Let's give Erin the floor. I don't need comments from this side. Dipika, would you let him answer?

Ms. Dipika Damerla: Fair enough.

Mr. Erin Weir: I would agree that Ontario is doing better, or less badly, than many American states, depending on how you choose to characterize that. But I'm not sure that simply being in less of a funk than a lot of the Rust Belt states is where we want the province to be, either.

Ms. Dipika Damerla: I take your point, but there's a saying: "Don't compare me to perfection; compare me to the alternative." It's always comparing apples to apples. We're all facing the same economic environment, whether it's the Rust Belt states or our neighbours to the south in the US that are closer to us. Given the same circumstances, I think Ontario, and this government's policies—I just want to draw out that it's not all gloom and doom, and I'm just trying to get your sense. I get a sense that you agree with some things but not everything.

Mr. Erin Weir: Sure. I would just note, though, that by that metric, one could conclude that New York and California are actually better in terms of attracting foreign direct investment, and of course, they have much higher corporate income tax rates than Ontario.

So I really do think that the figures you've alluded to mostly reflect the different sizes of the jurisdictions as opposed to how well they're doing in a proportional sense.

Ms. Dipika Damerla: So you're really saying that the US states are larger than Ontario, and the only reason Ontario has such a high FDI, foreign direct investment, is because—I know that in terms of population, which is the real determinator, if our GDP far exceeds our population size, it's because we're doing extremely well. But if you were to just go by population, Ontario is by no measure one of the largest jurisdictions in North America. I'm not sure why you keep saying that the fact that we are third-largest isn't an indicator of the fact that something's working, and something's working well, and on balance our economic climate is attracting investment.

Mr. Erin Weir: I would agree that Ontario is doing less badly than many American states. I do think, though, probably a better comparison to make would be to look at the numbers on a per capita basis. I think you yourself alluded to that possibility, and I think that that might be a more instructive comparison than just looking at the absolute numbers. With the absolute numbers, what you find is that the biggest jurisdictions get the most foreign investment, and that's not surprising.

Ms. Dipika Damerla: I just have one more question; I just wanted your thoughts. I don't know if you've seen the Mowat report that just came out. It talked about the fact that Ontario pays into the federation about $11 billion more than it gets back—disproportionately—so there's a fiscal imbalance there between the federal government and Ontario. If we did not have that, we wouldn't have a deficit right now. I bring that up because I think there was some conversation as to how well Quebec was doing, relative to Ontario, in terms of managing its deficit. But a big part of Quebec doing well has to do with the fact that they are a net receiver from the federation. Ontario, despite being hardest hit, despite having the highest unemployment rate in Canada, continues to be a net contributor to the federation. I just wanted your thoughts on that and whether you think the federal government is being fair to Ontario.

Mr. Erin Weir: When you say that Ontario wouldn't have a deficit without that imbalance, that's true only if you assume that the federal government were to get rid of redistributive programs, cuts its taxes, and then the Ontario government were to increase provincial taxes by an equivalent amount. There's a lot of ifs in that sentence.

I would note that previously when I've appeared before this committee, we were talking about a $20-billion gap, so certainly it has decreased. We have seen federal programs respond to the fact that Ontario is weaker on a relative basis.

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The other figure that I think is quite interesting is to look not just at the fiscal relationship between Ontario and the other provinces, but to look at the trade relationship. When we look at the flow of imports and exports between Ontario and other provinces, Ontario actually runs a trade surplus of more than $20 billion a year with the rest of Canada. So Ontario, I would say, actually does fairly well out of the Canadian federation. That's not to say that there might not be room for improvement in certain programs, but the Ontario economy actually takes in more money through its trading relationship with other provinces than is potentially lost through fiscal transfers.

Ms. Dipika Damerla: Did you want to go?

Ms. Soo Wong: How much time do we have, Mr. Chair?

The Chair (Mr. Kevin Daniel Flynn): Just under four minutes.

Ms. Soo Wong: Good. Okay. I have a couple of questions for you.

Thank you very much for your presentation this afternoon. I noticed you made some comments with respect to the youth unemployment rate. From your experience and your expertise in the area of economies and the economic piece, can you share with the committee some of the programs and strategies that the government should consider? Because the Premier, the finance minister and others from cabinet have expressed concern about youth unemployment. Is there any type of evidence, best practices or programs that we should be advocating for?

Mr. Erin Weir: Well, I think one of the things that we need to do is to get a better handle on what's going on with this large and growing number of Ontarians that aren't in the labour market. My suspicion is that many of them are younger people who just haven't been able to get a foot in the door. I think there's a major role for the government in investing in training and trying to provide career opportunities for younger people, so I think that this should be a major priority area.

Now, of course, we saw in the last federal budget a change in its approach to training, a removal of money from the provinces to be replaced by a training grant that is to be matched by private employers and by the province. Hopefully the province can play some role in the design of that new program, and I think it's imperative to ensure that employers can't just claim $5,000 from Ottawa and $5,000 from the province for training that they would have done anyway. It's very important to make sure that this program is incremental and that it's structured in such a way that it actually incentivizes new training, particularly for young people.

Ms. Soo Wong: We have heard at different hearings in locations across Ontario that there is a mismatch: There are jobs out there, but there are no skilled, trained workers. I want to hear your opinion and your comments. How do we address this gap? Because there are jobs, but we don't have skilled people. What are some of the suggestions?

Mr. Erin Weir: Just to put that in perspective, Statistics Canada reports that Ontario has about eight unemployed workers for every job vacancy, so there may be some vacancies out there, but that doesn't necessarily indicate a skills shortage. At any point in time, some jobs will be vacant because of turnover. The job vacancy rate is actually down around 1%, so I would question the notion of skills shortages. I know there's been a lot of complaints from the business sector, but if you look at the official statistics, they don't seem to support that story. Actually, Human Resources and Skills Development Canada recently concluded that it doesn't expect a major skills imbalance, even over the coming decade.

I think it makes sense to invest in training to ensure that Ontarians have relevant skills, but I'd also question the premise that there is this severe skills shortage to begin with.

Ms. Soo Wong: My last question to you is that I know our government has done a lot of work with regard to taxation and with regard to the film industry. Now, I want your comments, because our current taxation in support of the film industry has helped that industry. You made comments about the fact that we have one of the lowest corporate tax rates across Canada. How are we going to address—there are so many different sectors across Ontario that we do know—

The Chair (Mr. Kevin Daniel Flynn): Soo, we're going to run out of time on the question.

Ms. Soo Wong: Okay. Can you just comment quickly? I mean, you're not happy with our current tax rate, but it does seem to be working in certain sectors.

Mr. Erin Weir: Sure, and I would suggest that, for the film industry, it's not so much a matter of a low general corporate tax rate but specific tax credits for that industry. My argument is actually that rather than having across-the-board corporate tax giveaways with no strings attached, we are better off with a more targeted approach, and I think the film industry might in fact be a very good example of that. I think we would agree on that point.

The Chair (Mr. Kevin Daniel Flynn): Thank you, Erin. Thank you, Soo. Thanks for coming today, Erin, and thanks for answering the questions.

Mr. Erin Weir: Thanks very much for having me.

CONFERENCE BOARD OF CANADA

The Chair (Mr. Kevin Daniel Flynn): If we can call our next delegation, that's Glen Hodgson, senior vice-president and chief economist for the Conference Board of Canada. Glen, like Erin, we have an hour to spend with you. You've got the first 15 minutes, and in the first go-round of questions for 15 minutes each, the questions will go to the NDP, Michael and Catherine. Once you get settled, I'll start the clock.

Mr. Glen Hodgson: I think I'm settled, Mr. Chairman. First of all, it's my first chance to appear before the committee. I've done this many times in Ottawa for the House of Commons finance committee. It's nice to be here. What took you so long? And I'd love to come back any time.

We speak on the public record. We really are a non-partisan research organization, and what I'm going to say today is pretty much what I've told ministers for many years and what I would tell any of the three parties around the table.

I thought I'd start with the economic outlook. I spent a lot of time watching the global economy because we forecast from the world down to the local communities in the country. It's really an exceptional period of global turbulence right now. We've just had Cyprus flare up in Europe after three years of dealing with a European crisis. So I think that sort of uncertainty and the fear factor are still rippling through the global economy, and that's leading growth forecasts to be marked down, lowered almost every place.

We're one of the forecasters of record for Ontario finance, and I'm going to give you some numbers today that are preliminary but reflect our latest forecast round. We're estimating that Ontario's real GDP growth this year will be 1.5%; a little bit stronger next year, 2.5%. If you look at our most recent forecast online, that's a reduction of about half a percentage point this year. Governments tax nominal income. So you have to add inflation in. So our nominal GDP forecast for this year is 3.1%, and 4.3% next year.

I've spent a lot of time recently trying to educate leaders on what I call the world of mediocre 2% growth. I'm afraid Ontario's already there, or is going to be there very soon. You may have noticed a study we did about this time last year, in advance of the Drummond report, where we estimated the long-term growth potential of the province. Our number after 2015 is 1.9% real growth on a sustained basis. That's going to be hard, frankly, because we're used in this province—and I'm an Ontario taxpayer—to having growth between 3% and 3.5% on a sustained basis. In fact, if you go back a decade, we had a couple of years where growth was nearly 4%—lot of money coming in, able to fund a lot of different programs, and I'm afraid the rules have changed.

On a going-forward basis, I think Ontario really has to plan against kind of a 4% nominal growth track, and the challenge is going to be how to rebalance the books and then live within a world where nominal GDP's growing at 4%. Revenues may grow a little beyond that, because there is some income creep built into the tax system, but it's a very different planning framework for the provincial government.

On the fiscal strategy, I must confess that I spent 10 years at federal finance. I represented Canada at the IMF in Washington. I'm a bit of a fiscal hawk; I'll come right out and say that. So my advice is, stick with the plan. I think it's realistic, given the position that the government found itself in going into the recession, to have a five-year plan. I don't like plans that go beyond five years, by the way. Even five years for me is the outside edge. In our estimation, in our research last year, we were hopeful that we could stick within five years, but sticking to the plan, rebalancing the books in 2017-18 we think is really important. Of course there's room for a little bit of slippage. It's frankly not that big a deal when it comes to the debt-to-GDP ratio, but I think having a hard anchor is really important for a credible fiscal policy on a going-forward basis.

I enjoyed your questions on Quebec to Erin because it's really striking for me that here we have a Péquiste government in Quebec and even Madame Marois appreciates the value of balancing the books next year. Why is that the case? Well, Quebec has the highest level of public indebtedness by province. They're at 51% of GDP now and they're afraid of losing their credit standing. They're already way below a AAA standing and they don't want to pay more for debt, and that message I think really resonates with every province in the country.

As you do a budget, I would counsel the government, and therefore the committee, to use very conservative planning assumptions. I gave you our numbers, and I know that you look at consensus in setting the track.

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And, frankly, build some buffers into the budget. Federally, I used to say, build in about $5 billion of a shock absorber inside the budget, so actually have reserves built in. For Ontario, I'd say a number like $2 billion built in, whether it's explicit or implicit, and it's not wiggle room. It really is a shock absorber, in case revenue turns out to be weaker; you have weaker revenue growth.

I would much rather see a budget disappoint on the high side in terms of stronger growth and smaller deficits than the other way around, but that's part of my experience at federal finance. I was there in the bad old days of $40-billion deficits. It was a very salutary learning experience.

Mr. Chair, I thought I'd give you sort of some free advice, and four actionaries as well.

I'm going to start with health care, which is nearly half the provincial budget. We created a centre of the Conference Board two years ago with a way-too-long name called the Canadian Alliance for Sustainable Health Care, or CASHC. It was better than "Show Me the Money," I thought. It's funded by the private sector, by hospitals, but also by a series of provincial governments and the federal government, and it's really trying to use our research capacities to look at transformation and creating a more sustainable health care system. Controlling compensation is a starting point, but clearly the conversation doesn't end there. There's actually more to be done.

We're producing research now—it's all on our website, conferenceboard.ca. We're really doing research in three areas: around population wellness and dealing with chronic disease, which is unfortunately taking off across North America; with better management, better design and management of the health care system itself; and then with wellness within the workplace. Some of the broad assumptions or the broad conclusions we're drawing right now are around system redesign, so things like creating more family health teams, and I know that started in Ontario. We think that should be the core model when it comes to primary care: Build family health teams, create incentives for doctors to go from sole practice or small practices to creating these collective teams, and a lot more weight on home and community care.

We spend a very small share of—well, every province spends a small share of their budget on home care. Most chronically ill people, most elderly people, would much rather be at home than in an institution. So one of the big challenges is getting people out of institutions, which are very expensive, and getting them into the community where they can be actually cared for at a lower price.

We think that the system itself has to be constantly rethought. We have to stop pretending we can have a hospital in every community that can do everything, put a lot more weight on specialization, focus the practice, and then have better management practices within hospitals in the system.

On education, again, we have to get beyond compensation as the debating point. I think we have to avoid false economies. Human capital is going to be the driver of Ontario's economy forever. Therefore, at least maintaining the real spending level by student has got to be a critical point, and, frankly, finding a way to better integrate the whole system from kindergarten or sort of early childhood education all the way through post-secondary. All the pieces have to fit together, talk to each other.

For example, we have a big challenge between universities and colleges where they have to move from a competitive model to much more of a co-operative model. There are some communities, like Guelph, for example, where that happens, but in too many other places you don't see the flow, and yet students are blind to the difference between universities and colleges. Some start at university for knowledge and then they go to a college to get a job. That's a perfectly natural sequence, and we have to really build bridges between the institutions.

On my third point, "invest in infrastructure," we put a report out earlier this week commissioned by Ontario finance, I believe, that actually showed the productivity benefits of greater investment in public infrastructure. It's about a thousand bucks a head in Ontario in terms of higher productivity. So we can discuss how we fund infrastructure, but I've had a chance to travel the world. I keep wondering, where's the train from the airport in Toronto? I compare the footprint in Toronto to Montreal, which has five Metro lines—there's two here—not to mention Madrid or a lot of other great cities in the world. People sitting in their vehicles on the 401 or the QEW wasting time, for example, whether it's leisure time or work time, there's got to be a better model—

The Chair (Mr. Kevin Daniel Flynn): Okay. There are a number of conversations. Maybe we can hear Glen.

Mr. Glen Hodgson: Sorry, Chair.

The Chair (Mr. Kevin Daniel Flynn): No, you're doing the right thing. Everybody else is doing the wrong thing.

Mr. Glen Hodgson: I think we have to have a serious conversation and make some serious investment in public infrastructure going forward. By the way, public infrastructure does not pay for itself. So a user-pay model—if you think you're going to do it that way, it's not going to work It can be part of the solution, but ultimately, the fare box is going to rely upon the taxpayer. There are good social reasons for investing in public infrastructure, not just to pay for the service itself.

Lastly, on tax reform, we were openly supportive of the elimination of capital taxes, sales tax harmonization, but also reductions in corporate income tax. We can discuss what the right level is, but I also think that there's a need for a national conversation about comprehensive tax reform. We're on the record saying this repeatedly. There's very little traction around the idea right now. We keep adding on more and more incremental changes to the system, and the system is not coherent inside. We are not bad; we've done some of the right things to foster business investment, but I think we have to step back and look at the functioning of the whole system.

I thought, Mr. Chairman, that I'd finish with one big idea, which is, I would love to see a debate and even some action in Ontario about a guaranteed annual income as an alternative to our existing welfare system. I think it's actually a big idea where it's really come time for a debate. Senator Hugh Segal is the champion in the country on this. I like what Senator Segal has said. If you actually look at the literature—I've written about this. In fact, I actually talked to someone at Maclean's magazine this morning about, "This is an idea."

The real savings are not in the budgetary outlays for people with low income; I think they're probably in health cost savings and in getting people into the labour force faster. If there is one big idea I'd leave with you, maybe it's time for Ontario to do an experiment. Choose one community, one area, and try it out. There was actually an experiment in Manitoba back in the 1970s when I was an undergrad at U of Manitoba called Mincome. Research is finally coming out—it has taken almost 40 years—but the evidence is that there was no change in people's underlying social behaviour, but they went to the doctor less often because they were generally healthier, and their kids got into the labour force faster.

That, to me, is a bit of a leading indicator. It poses some interesting questions, because clearly Ontario is going to have to do governance and government very differently going forward. So there's a big idea for you to debate—if not today, maybe at some point down the road.

I look forward to your questions.

The Chair (Mr. Kevin Daniel Flynn): Great; thank you. We maybe have some questions on your big idea, starting with Catherine and Michael.

Ms. Catherine Fife: Thank you very much for the presentation. Actually, I'm a little surprised by some of your comments. I think that's really refreshing. To bring an annual income to this table and this debate I think is really timely.

But I want to better understand: When you take this idea—because it's a big idea—of an annualized income, where do you see the major points of reference for resistance to that, and can you also articulate the positive? I know both sides, but I'd like to hear it from you, please.

Mr. Glen Hodgson: I think the single-biggest point of resistance is those who have a stake in the status quo, in the existing welfare system, whether it's practitioners, people who benefit from it along the way—there's also, clearly, a huge fear factor, a fear of the unknown, what would this alternative system look like? People on the right have tended to worry about the financial costs but also whether it would corrupt people's moral behaviour, and on the left, wonder about the level of income support. I've heard criticism on both sides, but I've also heard supporters on both sides. The fact that somebody like Hugh Segal, who actually worked here at Queen's Park early in his career, has become a champion intrigues me. But I've done my own research on this, and it actually goes back to Milton Friedman, of all places, who called it a negative income tax: trying to use the tax system as a way, in a really administratively simple way, to give income to people, rather than having a frankly paternalistic, controlling welfare system, with all sorts of welfare walls built in where if you earn income, you lose benefits from the system—and very hands-on to administer. So as an economist, I find it an intriguing idea. I don't think it's a silver bullet, by any means. But I do think that we would benefit from having an Ontario almost-experiment, like a pilot, done in one community.

Ms. Catherine Fife: Glen, we're talking about phasing in $1.3 billion of restricted HST input tax credits. I wanted to know what your thoughts were around how that potentially could encourage investment and job creation. Could you comment on that, please?

Mr. Glen Hodgson: Well, I must confess, I'm a bit of a purist. Having been at federal finance when the GST was created, and seeing the debates in-house about whether one doughnut was a confectionery item but six were a food item, I would actually rather keep the system as transparent and simple as possible and steer away from that—

Ms. Catherine Fife: And this would make it less transparent? How so?

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Mr. Glen Hodgson: Whenever you start adding advantages for one, you're actually creating disadvantages for somebody else. Having as clean a system as possible—and I'm not an expert in this; we haven't examined it in great detail, but I would prefer something which really mirrors the federal system as much as possible. Then if you want to deal with individuals, you do it through income support, through the tax credit.

You see, the conceptual thinking that we have is, use the tax system as much as possible and avoid exceptions because they've really taken us into a very difficult place where governments, both federally and provincially, are losing a lot of revenue right now that would be very nice to have with a $12-billion deficit.

Ms. Catherine Fife: There's no doubt that we need to increase the revenue.

In your presentation, you broached a really problematic area, and that's the area of health care and the need for transformation. I'd be interested to know where the board is with regard to privatization. Because of privatization of some services in the health care sector, we're looking at a breach around quality, especially with regard to the chemotherapy drugs that were distributed to 1,100 patients. There's risk to privatization.

When you're looking at health care transformation, are you injecting the privatization conversation in there? Do you have a preference? Because your areas of research you've referenced—the current system is not sustainable.

Mr. Glen Hodgson: It's interesting, because we actually don't use the word "privatization" at all in our research.

Ms. Catherine Fife: Well, why not?

Mr. Glen Hodgson: First of all, let's look at the funding side. Some 30% of health care is already funded by the private sector. Most employers have private benefit programs, whether it's through diagnostics, whether it's through various forms of support. On the delivery side, we have virtually no private delivery, but we do have private clinics, for example. I know, for example, that there are people downtown here who have been subcontracted by hospitals within the system as the centre of expertise.

I've always found it curious, as a point of philosophy, that we have a publicly funded education system but we allow people to have private schools, and we don't offer the same alternative when it comes to health care. I have a hard time seeing how that erodes the publicly funded health care system. People still have to pay taxes. It might actually improve service delivery. But we're not actually doing any explicit research on that right now; maybe we will, down the road.

All of our research is going to be out in the public domain, by the way. We had a conference here in Toronto back in October, and we'll have another one again. We have people from various perspectives talking about delivery of health care.

I do think we have to put our thinking caps on a lot and be a lot more creative on how health care is actually delivered. Clearly, the single-payer model is much more efficient than the private insurance model of the United States. The Americans waste 7% of GDP on private health care, through insurance—through a competitive, inefficient-scale insurance model. We would clearly not be in favour of privatization if it means doing away with the medicare system that was built up over 50 years.

Ms. Catherine Fife: The public option.

Mr. Glen Hodgson: But I do think there's a lot of room for creative thinking around alternative delivery models.

Ms. Catherine Fife: Okay. I think that right now we're mostly concerned about quality control as well, in that model.

This may seem like a bit of an unfair question—and please tell me—but you were here for the previous presentation, and it was suggested that a very simple increase in the corporate tax rate to 12% would in fact bring almost $400 million to $500 million in revenue. We'd be pretty much where other provinces are and the rest of the country. What are your thoughts on that option, and is it worth considering?

Mr. Glen Hodgson: First of all, I try really hard to avoid critiquing other organizations—other think tanks, advocacy organizations—so I'm not going to go there directly—

Ms. Catherine Fife: You should be a politician.

Mr. Glen Hodgson: —but I'll go there inadvertently.

Interjection.

Mr. Glen Hodgson: I think it's a little bit like Solomon and the baby, in that—

Ms. Catherine Fife: Who? What? Solomon and the baby?

Mr. Glen Hodgson: The Solomon-and-the-baby analogy about where you draw the dotted line to cut the baby in half. Ontario clearly has gone through a really difficult period in the last five to seven years, with new competition from China in manufacturers, with the dollar going to par and getting stuck there, with the really wrenching adjustment that happened in the auto sector, which is the backbone of manufacturing in Ontario. So something had to be done, and that's why we like what the government has done in terms of adjusting corporate taxation. But also, we're mindful of the fact that the American system of corporate tax is totally messed up, and the posted rate is much higher than in Canada. So it's really a question of how much of an advantage do you need to actually attract your fair share of investment from the private sector? I don't think there's a specific right number or right answer. So if I were to sort of give you a single piece of advice, I think the government's decision to kind of tread water until the budget is balanced is probably the advice that I would have offered.

Ms. Catherine Fife: Okay.

Mr. Glen Hodgson: But I wouldn't leap at all to saying, "Gee, BC is raising rates, therefore I can," either. Because I think BC, frankly, shot themselves in the foot.

Ms. Catherine Fife: One final question: You know, my colleagues here, the PCs, earlier also expressed dismay and frustration—I think it's well-placed frustration; we certainly feel it over here—that the net corporate operating surpluses are at $83.6 billion. It's a challenge to incentivize that investment. The common word or description now is "dead money" or "limp" or "flaccid." What are your thoughts—

Mr. Glen Hodgson: Which radicals like Mark Carney and Jim Flaherty have talked about.

Ms. Catherine Fife: Yes, it's dead and we need to put that money into play. What are your thoughts on incentivizing that money from an investment perspective?

Mr. Glen Hodgson: I think it flows back to the learnings of the last five years around access to credit and instability in the world. The truth is that the global banking system shut down in October 2008 and it didn't really start up again until the middle of 2009. You couldn't go to the commercial-backed paper market in Canada; it was shut down. So if you're a rational treasurer in a company who thinks that maybe you don't get access to credit markets—you actually can't finance your payroll through things like that—you start hoarding cash. Then you look at what's happened in terms of the very bumpy global recovery for the last almost four years now. In times of uncertainty it's people putting money in their mattress.

So I think the single most important thing in fact is to build a really stable platform in terms of taxes, in terms of regulations, in terms of people having confidence and stability. That will begin to induce behaviour. Because I guarantee shareholders are not happy with corporations sitting on so much cash. It's sort of rational short-term behaviour but really dumb long-term behaviour for so many companies to be buying back their own shares as a way to prop up the share price. It's almost like they have no other alternative, because they've put so much weight on the fear factor that they've kind of forgotten how to take a risk.

There was a very good piece in the Globe this morning, written by a colleague from Alberta, talking about that, how do we actually get companies to take risks anymore. But I don't think that using a stick—meaning, threatening them with taxation or with punitive actions—is the way to do it. I think it's really a matter of, step by step, rebuilding confidence. Things like staying on-course, a five-year plan to rebalance the books, for me is confidence-building, unlocking some of the cash in Ontario firms.

Ms. Catherine Fife: And do you think that this province is on track to balance the budget by 2017-18, as proposed in the current—

Mr. Glen Hodgson: We think for the most part the government's used very prudent assumptions. We like the fact that we're a little bit ahead of plan. We'll have to see what the final number is. But I would also really counsel the government, whoever it is, because minority settings are unusual, to stay on course. If you find yourself a little bit behind plan, do something to stay on track. It's not good enough for me to say, "Oh, we'll do it next year." You know, I was a fed for 10 years when we said it for next year, and it took 13 years to get back to a balanced budget.

So, yes, I think it's doable, but you have to make course corrections along the way. That's a really important piece for us in restoring confidence in good fiscal management in the province.

Ms. Catherine Fife: Thank you very much.

The Chair (Mr. Kevin Daniel Flynn): You have about three minutes, Michael.

Mr. Michael Prue: Okay. There are many ways to avoid taxes if you have lots of money, and lots of corporations like to move their money around, not only branch plants sending the money back to the United States, but also within Canada, sending it between the various provinces, so they can get sort of the best tax deal by offsetting their gains in one place and their losses in another. It seems to be costing Ontario a lot of money. Could you comment on that?

Mr. Glen Hodgson: In truth, we don't have any particular expertise on that. I agree with you, as a point of principle, that we need more transparent systems, less complex systems, so people see the way through. Globally, this is a big issue right now as well. I mean, there's been a lot of research and dialogue recently about global tax avoidance in massive numbers.

Mr. Michael Prue: Trillions of dollars, I've read.

Mr. Glen Hodgson: Trillions of dollars. In fact, governments everywhere lose because of that, because of offshore tax havens. But we don't have any particular expertise on that. That's part of the reason why we like Ontario having a competitive, overall, corporate tax regime to ensure that if there's a bias, it's a bias in favour of declaring income in Ontario, doing business activity in Ontario.

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Mr. Michael Prue: In terms of this—

Mr. Glen Hodgson: Of course, if I can go on—appreciate the fact that we've counselled the province of Alberta not to rely so much on royalties as a source of revenue and actually begin to increase their own source revenue through things like tax increases for individuals and corporations. We're trying to be symmetrical in the advice that we give.

Mr. Michael Prue: Obviously, Alberta wasn't buying that.

Mr. Glen Hodgson: Well, I did sit in Minister Horner's office in advance of the budget. He didn't take that advice directly on. But part of our job as a think tank, I think, is to feed the conversation, open up people's minds to alternatives.

Mr. Michael Prue: How does—and I posed this question to the last deputant as well—Ontario collect those monies which we find out are owed? It doesn't seem to me that with the evidence from Lichtenstein, where we were handed a disc with hundreds and hundreds of people, not one of whom has been prosecuted, and the slow reaction on the take-up of what's happening in the Cook Islands—we don't have a bureaucracy anymore. We gave it away, stupidly. How do we try to collect that money or do we just kiss it off?

Mr. Glen Hodgson: First of all, I think having one tax administrator in the country makes a lot of sense, and I'd say the same thing in Quebec City, if I was sitting there as well. So I don't think it was stupid at all to have a consolidation for revenue-gathering capacity.

Mr. Michael Prue: If they gather it.

Mr. Glen Hodgson: If they gather it, and that really comes down to, how can Ontario/Canada play a leadership role looking for higher standards globally, putting more pressure on tax-avoidance havens, pushing for more transparency, and really taking very punitive action against anybody who has shifted offshore taxes that should have been paid? I mean, a public hanging, frankly, gets people's attention. Hopefully, CRA and others will have the ability to do that, if we discover Ontarians and Canadians have actually shifted taxes that should have been paid here into other jurisdictions.

Mr. Michael Prue: Can the CRA do that with the impending 25% reduction in their numbers of workers?

Mr. Glen Hodgson: We haven't studied that at all, but I suspect that they'd be—given that they're now your tax collector, they should be invited to come and testify.

Mr. Michael Prue: Okay.

The Chair (Mr. Kevin Daniel Flynn): From public hangings, we'll go to the government side. Who's up?

Mr. Glen Hodgson: Mr. Chair, that was a turn of phrase.

The Chair (Mr. Kevin Daniel Flynn): I know. I'm just having some fun.

Ms. Soo Wong: Thank you so much, Mr. Hodgson, for coming down to Toronto and for your presentation.

I have a couple of questions, first starting with your view and your remarks about the health care transformation. As you know, Minister Matthews has started that process. I just want you to further elaborate, because there have been several witnesses before the committee who see that the health of our community is dependent on those hospital beds. But what you're saying here, in your presentation to us, is that that's further from the truth.

Mr. Glen Hodgson: Yes.

Ms. Soo Wong: From your expertise and from your experience, can you elaborate on your comments about the interest of the community and the evidence to show that it's better in the community? Can you elaborate on that further?

Mr. Glen Hodgson: I'll start by saying that I think most analysts agree that our health care systems as currently struck here and in every other province across the country were designed for another era. It's an acute-care system designed for a period when access to specialists was really the core need of the community. What has happened in the last 25 years, of course, is that we've seen a tremendous rise in chronic disease linked to an aging of the population. We've got a Cadillac system designed for treating what actually isn't the real need, which is to try and improve wellness, deal with obesity, prevent people from getting hypertension, diabetes and all those sorts of things.

So then the issue becomes, okay, if your system is actually misdesigned for what the real needs of the community are, where do you begin to make changes? We've just started a research plan, so we're kind of halfway through, but our initial learnings—and there are going to be more—are that clearly we've underinvested in things like wellness strategies—actually keeping people healthy, ensuring that we have the proper diet, we have exercise, we're walking, we deal with the socio-economic determinants of health, things like poverty, bad housing—because if you don't deal with that, then you get pressure on the system.

Then, within the system itself, over time we would like to see a reallocation of resources away from just hospitals. So things like freezing budgets for hospitals may be very painful for administrators in the short term but it's a really important signal, we think, to where resources have to be reallocated towards home and community care.

We don't have the final answers yet, but we are part of the conversation now and we'll be working with other players in the field, like the home and community care associations, to try to give better advice and make the case for, particularly, dealing with elderly people and people with chronic illnesses: Get them home, and find a way to care for them at home.

Ms. Soo Wong: In your presentation, you talked about investing in infrastructure. When you talk about investment, what percentage, what number, are we talking about that is sound, that will not further put us into deficit? Can you elaborate on this investment in infrastructure?

Mr. Glen Hodgson: I don't have an Ontario number, but I'll start with a number that we didn't create; this comes from the Federation of Canadian Municipalities. They estimated a few years ago that Canada had a collective infrastructure deficit of $125 billion to $130 billion—underinvestment in roads, in water systems, in a whole variety of other things.

We think governments are now finally getting the message and are moving in the right direction. We've seen greater investment in Ontario. We're seeing the federal commitment after 2015, where Mr. Flaherty just put $40 billion on the table going forward. But we have a huge stock problem. We're starting to change the flow of resources, but the stock problem still remains.

I think what Ontario has done in the last number of years is really important. The move to PPPs—private-public partnership—not having the treasury fund directly, but looking at much more creative models where you're engaging the private sector as a delivery vehicle. I think the evidence that's building up is that the province has made great progress when it comes to schools, hospitals and public buildings going to a PPP model. The challenge is, how do we now extrapolate that out and do it around things like public transit? Metrolinx has access to serious money to deal with the gridlock that clearly exists in southern Ontario.

Ms. Soo Wong: You commented about the system integration from junior kindergarten to 12 with post-secondary. Can you elaborate on that "with post-secondary" piece for me, please?

Mr. Glen Hodgson: I'll reveal a secret here: Our research model, more and more, is to get funded research centres, where we mix private sector investment, government investment and universities around a big idea. We have one on health care, we've got one on the north—in fact, Ontario has invested in a variety of them.

Our next centre, we hope, will be around the post-secondary education system, looking at the current state, benchmarking Canada against other leading countries, and then asking some really profound questions about the integration between colleges, universities, on-the-job training. It's a work in progress for us, but we think we have to look at this as a fully integrated system—asking questions about apprentice programs, for example. I heard you asking questions about how to get young people into the workforce. There's no silver bullet, but clearly we're underinvested in things like apprenticeship.

I think we can all point to really good examples of university programs that give you on-the-job experience—I mean, Waterloo's mark is now top science, mathematics and computer science—but also that training experience that students have.

We're going to build a research centre to try to give you more profound questions.

I'm not the in-house expert on this, but my new president was the dean of the business school at UBC for the last 15 years, so he's coming from an academic background.

We are committed, as an organization, to doing a lot more research to try to help governments form better policy around post-secondary.

Interjection.

Ms. Dipika Damerla: Thanks, Soo.

I really enjoyed your presentation, Mr. Hodgson. I was in agreement with a lot of things you said.

I want to ask you a question that's actually something I've been thinking about for a bit, and I wanted your expert thoughts on it. I know that a lot of the conversation around balancing the books—you hear people saying, "Well, you can't just focus on the spending side; you have to focus on the revenue side." Often, the revenue side for government translates into more taxes. Ideally, it should not be just about raising the tax level, but growing your GDP so that you have a broader number of companies and more income to tax, so you can keep the same tax rate but get more revenues. When I see something like the 1.5% real growth, that tells me that there isn't that much capacity in terms of increasing our revenue compared to what our aging population needs.

To me, that is the crux of the issue, and it really is highlighted by something I read in the newspapers about a month ago, which was that Canada launched a couple of satellites recently. So that's really, really high-tech. I also read that they were very miniature—really small—ones, so that just goes to show you how well we're doing. Then I read further on that they were actually launched by the Indian Space Research Organization, because that's what they do for a living, and the reason we used the Indians is because they do it cheaper and better and reliably. That's the crux of the issue, because it's not just about losing the manufacturing auto jobs to India or China; we are now uncompetitive in an area that we think we ought to own, which is launching satellites. How much more high-tech does it get?

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But if you're not even competitive there, that brings me back to the 1.5% growth, and how do you solve that? Because when I hear issues around, "We are losing jobs to temporary workers," it all comes down to the cost of doing business. We can insulate ourselves, surely, within Ontario, through laws, but in the end we compete in the broader market. I keep wondering what is the answer, and I'm curious what you would say.

Mr. Glen Hodgson: My goodness.

Mr. Steven Del Duca: You have one minute.

Mr. Glen Hodgson: A very long time ago, I sat in a room like this doing a PhD oral exam, and I feel like I'm sort of back in front of the examiners.

The Chair (Mr. Kevin Daniel Flynn): Well, there could be big money if you get this right.

Mr. Glen Hodgson: I'll give you kind of a theoretical answer; then we can talk about Ontario specifically. Economic growth is a function of three things, right? It's a function of labour force growth, so people, who are both supply of skill but also create demand; private investment, and that's why getting a really competitive tax regime, I think, is really important for Ontario; and then productivity.

We know what's happening on the people side: We're getting older, labour force growth is slowing. Fortunately, Canada and Ontario have an aggressive immigration policy as a way to at least try and buttress some of that slowing labour force.

Private investment actually recovered fairly well, we think, after the recession. I mean, we had fairly strong numbers in 2010-11. They faded last year; they're fading again this year. That's an area of concern. But of course, you don't have a counterfactual. You don't know what would have happened absent all the tax adjustments.

The real issue for me and for Ontario is around productivity and innovation. The fact was that we did very well in this province on a model where with the dollar at 63 cents we could sell the Americans everything we made. That really was the model from about the early 1990s until 2003. Then the rules changed. Then China grew up, commodity prices took off, the dollar went to par. So for us, that's the context that Ontario is facing right now.

You can go sector by sector. For example, in the auto sector I think the rules have really changed fundamentally. It's not at all surprising. It's actually a pleasant surprise when you hear a manufacturer like Toyota saying that they're going to bring in a new product line, because we also see what the Detroit Three are doing. They're pulling back capacity to the US. We know that we're probably going to lose the OEM assembly to the US and Mexico on a going-forward basis. But at the same time, we know that Ontario has tremendous skills, a lot of creativity. So it's a matter of, how do you put together a total environment that sparks that?

I was at an event at MaRS on Monday on health innovation that was sponsored by a major drug company. I think MaRS is the core of a great idea, building critical mass around incubators, around sharing ideas. MaRS is focused on biotech, life sciences, but can we have even more MaRS in the province as a way to create hubs and catalyze ideas? Because Ontario's not going to get rich on resources. We've had that period; that was 50 years ago. The challenge going forward is going to be around human capital, smart people, innovation, and seeing whether big or small clusters grow up across the province and finding a way to get ideas out of the lab and into the market. So our big challenge around commercialization of ideas and whether we have enough venture capital, those are the debating points right now.

I think for the most part we're moving in the right direction, but it's a question of the pace, and ensuring that we have a really competitive tax and regulatory environment to foster the development of new ideas, knowing that parts of the old economy, frankly, are fading and they're going to keep fading.

Ms. Dipika Damerla: Sorry, I missed that.

Mr. Glen Hodgson: Well, parts of the old economy—and there I would point to the auto sector. We will still have assembly in Ontario, we will still have tool and die makers, we'll still have big ideas, but it's not going to be the growth frontier, we don't think, for the Ontario economy. The growth frontier is going to be around big new ideas coming out of labs on campus and out of places like MaRS.

Ms. Dipika Damerla: So you've given me, like you said, the theoretical answers, and I want some idea of what does the government have to do in practice to hit those things that you say we need to do, which is increase productivity so that we are competitive at par, just as an example? What do we have to do? And you said we have to be a more innovative society. I've been hearing that since I've been in university: Be more competitive; we have to be more productive and we have to be more innovative. But what do we have to do as a government? In your opinion, are we doing those things? What else can we do?

Mr. Glen Hodgson: Let's start within the budget, because this is the finance committee. Don't let health care crowd out everything else. That's job number 1. That's why we fully support the idea of pulling back health care spending to growth of, whether it's 2% or 2.5%. But frankly, it's got to grow more slowly than the economy to ensure that we don't underfund infrastructure, innovation, education—a lot of other things that really matter.

Secondly, and this is very much the kind of research I brought to the Conference Board, I think Ontario needs an open environment, within Canada, within North America and globally, to prosper. So be in favour of getting rid of barriers at provincial boundaries. Why wouldn't Ontario sign on to the TILMA? It's kind of sad, frankly, that Canada had to have a free trade agreement between two provinces, between BC and Alberta, to allow free movement of people, goods and ideas. Why don't we stretch it across the whole country? Why don't we become like—the EU screwed up big time in a lot of ways, but one of the areas where the Europeans got their act together was getting rid of barriers within Europe. I think we should be doing that within Canada. I think we need another phase of free trade negotiation with the Americans, not on tariffs, but on what are called non-tariff barriers, which are regulations, norms and standards. We don't have to harmonize. We have to find a way to avoid having cars built in Oshawa that have different specs for seat belts in Canada than they do in the United States. That's just stupid. That's a way to render yourself uncompetitive. And big-time support for a free trade agenda, understanding that a trans-Pacific partnership would be good for Ontario, but also free trade with India and a lot of other countries.

The Chair (Mr. Kevin Daniel Flynn): Thank you. Time to switch questioners. Peter?

Mr. Peter Shurman: Thank you very much, Glen. This is most interesting. One of the things that I find when we sit in committee, and especially when we hear witnesses who are brought before us as experts but nominated by different parties, is that no matter what party nominates whoever speaks, and I've seen it with Erin and I see it with you, there are nuggets and pieces that transcend the party aspect of it. I hope that all of us, regardless of who's in power, are smart enough to adopt the ones that are the real gold nuggets.

I'd like to focus for a minute with you on the issue that you began with, which is the economic outlook and real GDP growth. You're looking at 1.5% in 2013, and you say 2.5%, so a bit of a blip, in 2014, and then settling in at 1.9% sustained for some period that you don't want to go past five years estimating. So I—

Mr. Glen Hodgson: Well, actually we go out 25 years.

Mr. Peter Shurman: Okay. That's fine.

Mr. Glen Hodgson: We do a long-term forecast for the province. After 2015, our number would be about 2% or a little bit below that.

Mr. Peter Shurman: Okay, so let's just take that as the given, and that's your view and that's what you're here to give us. But then you go on to say that 4% is typically what governments have taxed, which means that the issue of bringing our province into balance and therefore creating what can be called a balanced regime, where people would say, "I want to settle there; I want to work there; it's going to be a good place to expand my company or put my company," any of those things—small businesses, large businesses—that's all predicated on what we would call stability.

How do you think we're going to get to a point where governments can say to themselves, in creating budgets, "We're prepared to rein in"—and it's not a rein-in as in one year—"our expectations for revenue"—because that's what you're talking about when you talk about GDP growth—"for the foreseeable future"? How is that going to be done? You're now the adviser to the government, because that's what you're here for. What do you tell Charles Sousa, the finance minister?

Mr. Glen Hodgson: I guess you have to separate between the immediate budget and the longer-term plan, first of all. In the very short term, you may have to do things which aren't in your long-term interests, and I think things like artificially constraining funding in certain areas would be that. But I think the real solution is around opening up your mind to transformation, doing government very differently. That's why I offered up the guaranteed annual income as an example, where—and this would not be popular with public servants, necessarily, but you could literally reduce your payroll significantly on the ground in a lot of communities and offer up a tax-based solution there; maybe spend the same money on the transfers, maybe have a payback in terms of less demand for health care from low-income people and even more people in the workforce. But are you prepared to go there? Are you prepared to actually think about that transformative change?

1550

It's the same sort of thing in the questions on the health care system. Are we really prepared to maintain a freeze or very slow growth of hospital budgets, but empower hospital managers to be really creative, like private sector managers? Or are we hamstringing them with compensation increases, with other rules, with mechanisms that really don't give them the operating freedom?

In the current budget, you have to do things to stay on track. But the real challenge is almost, can you transform the way the province of Ontario offers public services?

Mr. Peter Shurman: Well, we don't disagree with you. And by the way, I don't think when I say "we," although I'm speaking for the PC Party, that it's exclusive to the PC Party; because whether we're in power or they're in power or the third party is in power, it doesn't really matter. The transformation you talk about is coming because it's going to be an exigency imposed upon whomever takes power in the province of Ontario, I think, and probably a lot of other jurisdictions like it.

That being the case, let me ask you a very pointed question on transformation: Would you suggest through what you seem to be saying that transformation would include something like beginning to pare down—maybe it's by attrition, maybe it's by proactive moves—the size of the public sector and look for competitive bids, for example, to supply services that are used by governments at the broader public sector level?

Mr. Glen Hodgson: I think transformation means opening your mind up to a whole variety of alternatives.

Mr. Peter Shurman: That's a short answer, and I'm going to read into it and I'm going to ask you to amplify. I'm going to take that as a "yes," actually.

Mr. Glen Hodgson: I think we've reached the point, for example, where you look at entities owned by the provincial government and you have to ask yourself, "Do we really need to keep offering those services within government, or could the private sector do it?"—absolutely.

Mr. Peter Shurman: I want to make it clear for the record that I didn't invite you here, okay? Just so you know. That was not a left-handed compliment.

Glen, can we move to the ability to absorb more taxes? You know, because of what you do for a living, what the popular—and by that, I mean what the ability of the population is to sustain more taxes—because if you're not bringing in the revenue, which your GDP suggestions suggest, and you have to transform, but you're not doing it fast enough, then you have a spending problem. No matter who's in power, that's necessarily the case. That being the case, you have to get that money somewhere. How much more can our population, between the various aspects of what it's called upon to pay, mandated to pay by government, whether we call it a tax or we call it the cost of energy or whatever it is that is paid through government or para-governmental agencies—is there any headroom?

Mr. Glen Hodgson: I'll go back to your opening premise. It's not just about rates; it's not about energy costs. I would actually go back and think about the system, and the design of the system as the starting point.

I probably have spent more time thinking about this federally, because they're the ones who ultimately are the chaperones of the tax system, but the feds lose about $100 billion a year through tax exemptions. That's part of the reason why we start there, saying, "Are you really getting rate value for money by having 200 different exemptions for individuals and businesses?" So before you have a conversation about rates—and I hear you on things like power rates across the province—I think you have to really go back to the fundamentals, and design of the tax system is the starting point.

But I heard your earlier question, for example. We know that our next-door neighbour, la belle province du Québec, has a surplus of—

M. Peter Shurman: Tu parles français, OK.

M. Glen Hodgson: Je parle un bon français parce que j'ai représenté le Canada à l'outre-mer plusieurs fois.

Mr. Peter Shurman: Excellent. Go ahead in English. We wanted to put them to work for a minute.

Mr. Glen Hodgson: They probably have to translate it back.

Mr. Peter Shurman: Yes, probably.

Mr. Glen Hodgson: But I think now is the time when governments everywhere really have to take off the blinkers and be much more creative about how they're offering public services. Things like buying power from another supplier—we don't generate all the electricity consumed in Ontario in the province right now. We have all sorts of sharing schemes with other states and provinces. Ironically, we don't have a grid that goes across Canada that would allow provinces like Manitoba and Quebec to actually supply enough power—

Mr. Peter Shurman: Well, interestingly, we do have two power corridors between Ontario and Quebec that are just kept warm, but they could be used a lot better.

Mr. Glen Hodgson: They could be used a lot more. But that's a matter of taking the blinkers off and getting much more creative in how we're forming public policy.

Mr. Peter Shurman: Thank you.

Mr. Monte McNaughton: Thank you very much, Glen. I've enjoyed your presentation. I wonder if you could comment a bit back to my colleague Peter's point about the growth post-2015. How does Ontario compare to other provinces and even other US jurisdictions?

Mr. Glen Hodgson: Well, let's do inside Canada first. Very quickly, east to west: Atlantic Canada has old populations, and they probably have a growth potential of between 1.25% and 1.5%. Quebec: We actually just did a re-estimation. We estimate Quebec's long-term potential at 1.5%, so almost half a percentage point below Ontario. There's big, big challenges, which is why Quebec has already started raising sales taxes and other taxes. Across the board, Quebec's taxes are much heavier than Ontario's. Western Canada starts getting better. They have the benefit of strong commodity prices, they came through the recession in better shape, and there's net migration within Canada now, people moving from Atlantic Canada and Quebec—not certainly Ontario—westward. A province like Saskatchewan or Alberta probably has potential of around 2.5%.

But all of them have potential below where we were a decade ago, and that really reflects fundamental demographics. That's a consequence of—you're probably younger than I am—we boomers getting older and starting to get ready to leave the labour force and having lower fertility rates and not replacing all the born-in-Canada workers. That's why we've been strongly supportive of a very activist immigration policy in the country, which will not totally fill the hole but at least will go some way to mitigate the impact. We're looking at a cross-Canada scenario, different by region and by province but with slower growth.

The US has been in a mess now for five years. They basically forgot to invest for about three years, and that has an impact on potential. But they also have stronger sort of in-country population growth than we do. They have higher fertility rates. The Latino population, in particular, is still having three to three and a half kids per female. So if America got its act together, which is a big question mark, they could have potential growing at, say, 3% in 2020-25. But right now my story on America is there has been a private sector recovery. The trouble is that Washington is so messed up, they're destroying confidence and really holding back the US recovery. It's a very mixed story with lots of different parts moving.

Mr. Monte McNaughton: To go back to the deficit here in the province of Ontario, the research that we've done—we've been going through the budget numbers for a while. We don't have confidence that the government actually is going to balance by 2017-18. Post-2015, there's a lot of numbers missing from their projections. I wondered, if you were advising—and as my colleague Peter said, you are advising—the government, would you recommend that the government balance sooner than five years? We think it's possible. In fact, we've committed to doing that if we're in government. I come from a business background, and the sooner the books get balanced, I think the more confidence that instills in the business community.

Mr. Glen Hodgson: My opening position is the same as yours: Balancing earlier is better. But that said, the Ontario economy is still fairly fragile, and if you put your foot on the brakes too hard, you may end up getting conditions you don't really want which actually impede your ability to balance the books.

Maybe the most striking example of this right now is what's happening in the UK. I was at the IMF for three and a half years. It's extraordinary for the IMF to come out and tell a government not to work so hard to balance the books, because they're actually creating a double-dip recession right now in the UK. It's really a fine balancing act where if you squeeze too hard on the fiscal accounts, you end up crushing out any growth in the public sector and actually having a negative effect on private investment.

I guess our judgment is that the five-year plan that was put in place is probably the right time frame, but you've got to stick to the plan right now because you've really created an expectation—

Mr. Monte McNaughton: And if the government of Ontario doesn't balance within those five years and it's longer, what risk does that pose to Ontario, in your opinion?

Mr. Glen Hodgson: It depends whether it's one year longer or five years longer. I saw this story at the federal level, where we always promised to balance two years out and therefore didn't do enough in the first year to actually get there. If you slip by a year, frankly, in dollar terms it's not a big deal. Ontario's debt will probably plateau in the next year as a share of GDP and start falling. But I think it does have a negative effect on confidence and on credibility of government management. Putting all that together, we think balancing in 2017-18 is pretty important, regardless of who's in office.

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Mr. Monte McNaughton: The view that we're taking, our caucus, is that we need to make Ontario the number one jurisdiction, bar none, to do business in. We need to attract companies. We need companies here to expand, and we think having that attitude will bring jobs to Ontario.

I wanted to get you to comment more on corporate tax rates here in the province. We were going to go to 10%, and I believe the government, in the last budget, kept it at 11.5%. What's the benefit on jobs to continuing to lower corporate taxes? Do you have any statistics—1% creates more jobs?

Mr. Glen Hodgson: We haven't done that kind of detailed analysis, and it may not be a linear relationship, so I'm not sure I have an answer for you. If I was sitting with the minister right now and he said, given the choice between whether it's $200 million or $400 million in revenue and reducing corporate taxation to create an even more competitive environment, I'm not sure I know what the answer is. I personally would put more weight on the rebalancing side. I understand why they sort of capped the reductions at that point.

Then the issue really becomes for me: how competitive you want to be within a North American space. I started to delude myself to think the Americans were actually going to reform their tax system when we saw the debate around the fiscal cliff. I didn't believe they'd actually get to sequestration, but they truly are not capable of having a grown-up conversation about tax reform in the US. Their posted rates are very high, but there are massive exemptions in the American system, so I think it's really hard to say. I can estimate the marginal effect of tax rate for corporations, but all-in, I'm not really sure whether we've reached the optimal point or gone beyond it. I do think the reductions that have happened were an important signal that Ontario is trying to be more tax-competitive.

Mr. Monte McNaughton: Thanks.

The Chair (Mr. Kevin Daniel Flynn): Thank you, Glen. Thank you very much for attending today. I think you provoked some interest from all three parties.

Mr. Glen Hodgson: Good. If I'm invited back, I'd be very happy to come.

The Chair (Mr. Kevin Daniel Flynn): That would be a good sign. You did a good job.

PROGRESSIVE CONTRACTORS ASSOCIATION OF CANADA

The Chair (Mr. Kevin Daniel Flynn): Apparently we're going to be voting at 4:20, so what I'm going to suggest we do is that we hear from Sean; I see you in the audience there. If you'd like to come forward, we'll give you 15 minutes to make your presentation, and then we go to each party for 15 minutes to ask you some questions. What I'm going to suggest is that we do the 15 minutes and then we adjourn to go to the House and do our voting, and then we come back and finish up. I see no other way of doing it, as a matter of fact. Sean, when you're comfortable, I'll start the clock. The questioning this time will start from the Liberal side.

Mr. Sean Reid: All right. Thank you, Mr. Chair, and good afternoon, ladies and gentlemen. I want to first thank you for the opportunity to present to the committee as part of the 2013 pre-budget consultations. My name is Sean Reid. I'm the director of federal-Ontario affairs for the Progressive Contractors Association of Canada.

The PCA is the voice of progressive, unionized employers in Canada's construction industry. Our member companies employ more than 25,000 skilled construction workers across Canada, represented primarily by the Christian Labour Association of Canada.

Since our founding in 2000, PCA has worked to ensure fair access to work opportunities for our members by promoting the legislative framework and industry practices that establish a level playing field for all construction industry participants. Fundamentally, PCA is committed to ensuring that Ontario's construction industry is one that allows for fair and open competition of companies, reflecting various labour models in which no sector is given artificial and unfair advantage over another on the basis of union affiliation or lack thereof.

For the 2013 budget, our organization strongly recommends that the government of Ontario focus on the following priorities:

—continuing to place a strong emphasis on infrastructure spending;

—maximizing taxpayer dollars by creating an environment where all businesses and workers can compete for publicly funded projects;

—promoting the skilled trades to address labour shortages; and

—spurring job creation by reducing unnecessary costs, bureaucracy and red tape that limit new entrants into our workforce.

Let's start by talking about infrastructure spending. Just to put this into context a little bit more, our members—right now, I think we're building about 35 water and waste water treatment plants across the province, except for a handful of major municipalities in the province, that I'll speak to a little bit later.

In other parts of Canada, particularly out west, we're building about 50% of all construction in the Alberta oil sands. About 40% to 50% of all unionized industrial construction in British Columbia is done by our members.

Historically, government spending on infrastructure has been unpredictable, used often as a recession-fighting tool rather than as a stable and constant investment strategy for long-term economic development. There are inherent problems with this approach, namely, the full economic benefit of this type of investment is not being realized, it passes on the costs of rehabilitation and replacement to future generations, and it compromises the health and safety of Ontarians. The end result of this type of approach is a loss of competitiveness and a decreased rate of economic growth.

The province of Ontario has fallen victim to this type of investment approach in the past, which has resulted in the accumulation of a substantial infrastructure deficit, estimated by the Consulting Engineers of Ontario to be in the neighbourhood of $100 billion, when you combine provincial and municipal infrastructure.

In recent years, the Ontario government has been investing, in unprecedented amounts, into Ontario's infrastructure—and that's welcome—and has started to address the critical situation with our infrastructure. However, we still have a long way to go, and we need to continue to invest in valuable and vital infrastructure across the province.

Our position is supported by the Commission on the Reform of Ontario's Public Services, headed by economist Don Drummond, which was cautious to note that despite the fiscal shape of the province, "Postponing needed infrastructure projects until after" 2017-18, "a technique governments often use to balance their books in the short term, is no solution," said Mr. Drummond. "The province would simply slip back into deficit later on as it tried to correct an infrastructure deficit."

This point was further underscored in a report released today, I believe, by the TD Bank which identifies infrastructure and gridlock as two of the key challenges facing the GTA.

Investments in infrastructure are necessary for the continuation of basic services and to ensure that we remain competitive. Investments in infrastructure, as you heard from the last presenter, also boost the economy, causing revenue to flow back to government and creating jobs. PCA's members hope the government will take the advice of the experts and industry professionals and continue to invest in our province's infrastructure in a predictable, stable and consistent manner.

But investing in infrastructure is only one piece of the larger infrastructure picture. Another vital piece is ensuring that the dollars that are spent are spent in a competitive and open manner and a fiscally responsible manner that maximizes the value for the crown and for taxpayers.

In our industry, current legislation has allowed for the creation of labour monopolies that exclude workers purely on the basis of union affiliation. Labour monopolies already exist in several municipalities, including Toronto, Hamilton and, potentially soon, in the region of Waterloo, as well as school boards and other public employers throughout the province.

When a public employer, like a municipality, is subject to a labour monopoly, the costs of construction projects can escalate by as much as an estimated 40% and prevent over 70% of the local workers and contractors from participating in those projects. The 40% cost escalation adds no value to the project or for the taxpayer. It is purely an additional expense that is lost due to the lack of competition.

1610

The figures that I've quoted may seem high, but I assure the members of this committee that they are real. The 40% cost-escalation figure comes straight from a staff report composed by the city of Hamilton when it was itself caught in a labour monopoly and has remained so since the mid-2000s.

Further, when the current monopoly threat to the region of Waterloo came to light a few months ago, we did some analysis to see what the impact would be on competition. What we found by looking at the data for water and waste water projects in the region of Waterloo was that if they became subject to a labour monopoly, the number of eligible bidders for these projects would be reduced—just to back up, these are water and waste water projects since the beginning of 2010. It's about $140 million worth of projects for the region of Waterloo only. Twenty-seven companies pre-qualified for those projects. If this labour monopoly existed, only two of those companies would actually be qualified to bid on those projects. That's over 90% of contractors and workers who actively work on projects in the region being shut out. The independent think tank Cardus also did some analysis and estimated that the cost impact to that municipality would be around $78 million annually.

For the 90% of contractors and the workers they employ, this issue is about more than statistics. Labour monopolies threaten the jobs and futures of their families. The owner of a large, independently unionized construction company in St. Marys, Ontario, who does a lot of work on infrastructure projects in the region of Waterloo, said that a possible labour monopoly in the region was the worst news that he had received in his company's history, which is over 45 years in business.

The policy that is in place in Ontario that creates these types of labour monopolies boils down to, actually, a loophole in the Ontario Labour Relations Act. The problem is caused when a public employer like a municipality is being forced by the current rules for construction to adopt a province-wide collective agreement if any of their employees are certified by an affiliated construction union. Province-wide collective agreements were put in place for the ICI sector to address the transient nature of traditional construction employers. Municipalities and other employers are not traditional transient construction employers and should not be subject to a provincially negotiated collective agreement that contains restrictive contracting-out clauses creating labour monopolies.

Our position on open and fair tendering is consistent with the Municipal Act and its monopoly clause, which restricts municipalities from voluntarily entering into an agreement which unfairly favours one group over another. This legislative loophole can easily be corrected in the interest of the public. The manner in which we recommend addressing it would protect our tax dollars, create a fair and competitive environment for all workers and contractors, and preserve the right of workers to freely associate with a union should they choose to do so.

This loophole in the existing legislation is unfair, and it's preventing the government and taxpayers from obtaining the value for each dollar spent on infrastructure projects. Accordingly, we are asking the province to make a legislative change in the budget bill that ensures that each contractor that meets the standards set forth by the province or a public employer for bidding on public projects can do so regardless of who their workers have chosen to be represented by.

Along with creating a fair and competitive market for our valuable infrastructure dollars, we also need to ensure that we are supporting and promoting our skilled trades, which will complete this essential work for Ontarians.

The Chair (Mr. Kevin Daniel Flynn): Sean, just so you know, you've got about three minutes left.

Mr. Sean Reid: That's fine. I won't belabour this last point.

The shortage of skilled trades workers is not a new topic for the province, and it's one that decision-makers from all parties have spent a lot of time debating, most recently yesterday in the Legislature.

I think people in this room may be familiar with my position and the position of our association on the

Ontario College of Trades. I'm not here to belabour that point. I would suggest, though, to this committee that we have a labour shortage in construction alone of about 40,000 tradespeople over the next eight years; so says BuildForce, formerly known as the Construction Sector Council.

We actually have a job opportunity in this province. We need to do whatever we can to reduce the barriers—whether they're cost, bureaucracy or red tape—to allow for more people to access job opportunities in the skilled trades. To the extent that we are able to make those adjustments within institutions like the Ontario College of Trades—to reduce the bureaucratic burden, to reduce the tax burden on workers—this will certainly welcome more tradespeople into our industry, and we need to be looking at that.

With that, I think my time is up, and I will be happy to answer any questions.

The Chair (Mr. Kevin Daniel Flynn): That's wonderful. Thank you, Sean. You've left about a minute, and then we go to the rotation. Soo?

Ms. Soo Wong: Mr. Chair, before we recess to go upstairs for the vote, there are a couple of items I spoke of this morning that are not captured in what has been handed out. I want to be on record about—

The Chair (Mr. Kevin Daniel Flynn): Maybe we can look at that during the break, then.

Ms. Soo Wong: Yes, because I talked about the mining tax. It's not here. I alerted the Clerk. I spoke about working with the federal government dealing with the potential strategy dealing with one of the witnesses talking about Molly Maid, and it's not captured here. I just want to be on record that this could be corrected for the Hansard in their final report.

The Chair (Mr. Kevin Daniel Flynn): Thank you very much, and thank you, Sean. We're going to go and vote. That can take anywhere from—

Interjection.

Ms. Soo Wong: You can watch us up there.

The Chair (Mr. Kevin Daniel Flynn): —hopefully no more than five to 15 minutes.

Interjection.

The Chair (Mr. Kevin Daniel Flynn): That's right.

But if you want to make yourself comfortable, we'll come back and we'll end this off. Okay? Thank you. We're recessed.

The committee recessed from 1616 to 1646.

The Chair (Mr. Kevin Daniel Flynn): Okay, we've got somebody here from each party now. We have enough to begin. Thank you for your patience, Sean.

We're going to go through a little question-and-answer period, and we're going to start with the government side. Soo.

Ms. Soo Wong: I just want—because on the agenda, through you, Mr. Chair, to the witness—can you share with us your education background? Because my question, what I'm going to ask—it will determine if I'm going to ask the question. So can you share with us—

Mr. Sean Reid: I can tell you that I'm not an economist. My background is political science and public affairs.

Ms. Soo Wong: Okay. Given your background, I'm not sure you're going to be able to answer my question. I will rest, Mr. Chair. Maybe my colleagues have questions. Thank you.

Mr. Steven Del Duca: No questions.

The Chair (Mr. Kevin Daniel Flynn): Okay. Let's move on to Peter.

Mr. Peter Shurman: Thank you. Sean, thank you for your presentation. I'd just like to know a couple of things. We don't want to keep you long; it's a late afternoon for us and for you. First of all, is the lack of consistent spending on infrastructure which you described for us, in your mind, a chief factor in the difficulties that we find ourselves in in Ontario now, from a budget perspective?

Mr. Sean Reid: Without question. There is a need for long-term, predictable funding, both from a planning standpoint—as well, frankly, from the supplier side, in terms of understanding what the needs would be on the labour side.

I would also just add to that that as much as long-term or consistent, stable funding is required—also taking every measure to ensure that the most cost-effective use of that money is also taken into account and that that money is not overspent by unnecessary monopoly, as I addressed in my presentation.

Mr. Peter Shurman: Okay. You mentioned briefly gridlock, and gridlock of course lends itself to the discussion of infrastructure, because if you unlock gridlock, then you have to spend money on infrastructure, obviously. Are you familiar with the term the Big Move?

Mr. Sean Reid: No.

Mr. Peter Shurman: The Big Move is the Metrolinx plan that takes us 25 years into the future and spends $50 billion, and there's a list of projects as long as your arm—that's fine.

Are you familiar, then, with the discussion around a build-out of new measures to address gridlock in the greater Toronto area?

Mr. Sean Reid: I'm certainly not an expert on the specifics of this—

Mr. Peter Shurman: Then we'll move on.

Let me talk to you for a minute about labour monopolies, which you raised. You mentioned a figure of 40% as the overage cost—these are my words but I want to be sure that we're on the same page—for building projects or construction projects that come under the labour monopolies versus what would happen if there were a more open system.

Could you elaborate a little bit on what you mean and what you would recommend?

Mr. Sean Reid: In the municipality of Hamilton, in the city of Toronto, potentially in the region of Waterloo, at Ontario Power Generation, at Hydro One, there exist monopolies whereby only contractors affiliated with particular labour affiliations are able to bid on those projects. In the case of Hamilton, only contractors affiliated with the carpenters' union are able to bid on most ICI infrastructure projects. As a result, for example, in water and waste water, where our members have a particular expertise, bid lists that once maybe had 12 companies or, in the case of Waterloo, had 27 companies, are shrunk down to two or three bidders. It doesn't take a rocket scientist to know that that lack of competition inflates the costs. In fact, the city of Hamilton itself identified that those costs, especially on the complex, larger industrial projects, infrastructure projects, can be inflated as much as 40%.

What can be done and what should be done—I should say, there have been attempts or proposals in the past about addressing this. Most of those are what I would consider to be kind of, frankly, anti-union and the atomic bomb of solutions in some way. There are measures for essentially saying that these institutions are public employers; they're not construction companies. That does not preclude workers who are in-house at those institutions from affiliating with the union of their choice.

What we would simply do is make an amendment within the Labour Relations Act that would close the loophole and simply say that those institutions must negotiate directly with the union with which their workers are affiliated, not within these provincial collective agreements that exist in construction that have these restrictive tendering clauses. I don't want to belabour the technicalities of the Labour Relations Act, but what happens is that these municipalities end up being subject to agreements that they don't have any meaningful input into, and those agreements contain these restrictions on contracting.

Mr. Peter Shurman: Thank you very much.

The Chair (Mr. Kevin Daniel Flynn): Thank you, Peter.

Catherine? Michael?

Ms. Catherine Fife: Thank you very much. The two other presenters who have come here this afternoon have given us some advice on addressing the deficit and about revenue streams and about generating and inspiring the economy.

I was wondering what your opinion is on the southwestern development fund and how the Liberal plan has—if it's been effective in any way, shape or form in stimulating the economy. Are you familiar with the southwestern—

Mr. Sean Reid: I don't have a particular opinion on the southwestern development fund.

Ms. Catherine Fife: You don't know—

Mr. Sean Reid: No, sorry.

Ms. Catherine Fife: Okay. Thank you.

Mr. Michael Prue: I heard your answer to my colleague Soo Wong that you don't have any real economic expertise or education around the issue, but does your organization have any opinion on economic stimulus or on immigration levels or of the other things that we've heard today?

Mr. Sean Reid: Sure, yes. We are a construction association, so we certainly have an understanding of the need for long-term strategic infrastructure. I'd be curious to know what your specific questions are around immigration. We certainly have some thoughts on that as well.

Mr. Michael Prue: The first deputant—I don't think you saw him—was talking about the explosion of temporary foreign workers in Ontario having gone up, really quite an increase in the last year, an extra 25,000 people working in all kinds of manners of sites, including construction sites. Does your organization have any input on that?

Mr. Sean Reid: Absolutely. There is no question in our mind that there are companies, not only in Ontario but also across the country, that default immediately from, "I can't find the workers here in my local area" to temporary foreign worker solutions. We actually believe and are of the view that addressing the labour shortages in our industry and the job opportunities required is a three-pronged approach. We don't believe that there will ever be a situation whereby there will never be temporary foreign workers. There will be specialized requirements, particularly on high-labour-intensive projects. However, we don't believe that we have done enough yet to spur local development of trades workers in our area, and done even less on mobility of workers either within this province or from other parts of the country, reducing the barriers and reducing the stigma associated with mobile work in the trades. We think that's an area that we'd like to see some advancement in.

Mr. Michael Prue: So your organization would be, I think, somewhat opposed to the way that the Royal Bank has recently dealt with the importing of foreign workers to displace Canadian ones?

Mr. Sean Reid: We have no opinion on the Royal Bank specifically. I would say that, as a rule in the construction industry, it is true that some companies have too quickly defaulted to the temporary foreign worker option without adequately looking at other areas for mobility and for development of trades workers locally.

Mr. Michael Prue: Okay. Thank you very much.

The Chair (Mr. Kevin Daniel Flynn): Thank you, Michael, and thank you, Sean, for being here today. Thank you for your patience and waiting.

Mr. Sean Reid: No problem.

The Chair (Mr. Kevin Daniel Flynn): We appreciate it.

That's it. Any other business of the committee? If none, all those in favour—well, we're adjourning; I'm not even asking. We're adjourned.

The committee adjourned at 1657.

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