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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 29e | 4e | Discours sur le budget | 9 avril 1974 | John White | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

The most important problem facing us today is inflation. The year 1973 was one of record growth in Canada and in Ontario, but excessive price rises eroded much of the benefit which should have accompanied this strong development. Prices have accelerated steadily and we are faced with the prospect of 10 per cent inflation in 1974. This worldwide phenomenon is threatening the stability and growth of the economies of the industrialized world. The growing shortage of basic raw materials and energy supplies is adding to inflationary pressures. There is little prospect for an early return to price stability unless all jurisdictions employ the powers at their disposal with new determination and courage. The Government of Ontario is willing to use every practical measure within its constitutional jurisdiction to combat inflation, in the expectation that other responsible organizations in the public and private sectors will do the same. This is our promise and this is our challenge.

The forces of inflation are durable and persistent. To beat back these forces requires concerted action by all levels of government. Ontario will provide leadership by initiating a course of forceful action which includes:

• new measures to offset the effects of inflation,

• new measures to restrain inflation,

• new measures to stimulate supply,

• new measures to share with the public the profits from inflation. and

• new measures to share resources with local governments.

Our success in controlling inflation will depend on the cooperation of the wage earner, the consumer and the businessman. But it will also depend greatly on leadership and action by the federal government to puncture the myth that inflation is inevitable, and to restore confidence in the belief that every Canadian will share in rising prosperity.

Measures to Offset the Effects of Inflation

All Members are aware of the inequitable impact of inflation on low-income families and other groups on relatively fixed incomes. The first part of the Government's strategy for dealing with inflation consists of proposals for substantial new programs to offset the effects of inflation. These are:

• a new guaranteed annual income program for the elderly, blind and the disabled;

• free prescription drugs for elderly persons with low incomes and for all individuals on social assistance;

• enriched tax credits, including a doubling of the property credit to take into account the increased cost of heating; and

• a broadening of exemptions under the retail sales tax.

Ontario's Guaranteed Annual Income System (GAINS)

I am proposing a new Guaranteed Annual Income System, to be known as GAINS, for the elderly, blind and disabled in Ontario. The GAINS program will guarantee an income of $50 a week for all single persons and $100 a week for all married couples who are aged 65 and over, and for those who are blind or disabled and receive Family Benefits. This represents a guaranteed annual cash income of $5,200 a year for a married couple and $2,600 for a single person. In future, the guaranteed income levels will be increased periodically in order to maintain the purchasing power of benefits. This program will commence July 1, 1974. In this fiscal year GAINS will provide $75 million in increased cash income for people in need.

More than 310,000 people will receive Ontario GAINS cheques in July 1974. This will include 270,000 pensioners who are eligible for the federal Guaranteed Income Supplement (GIS) and a further 10,000 low-income elderly who are ineligible for GIS because they do not meet the federal residency requirement often years. No fewer than 120,000 pensioners will receive the maximum GAINS entitlement. With the introduction of this program, blind and disabled people will be entitled for the first time to the same income guarantee as those who are over age 65.

Free Prescription Drugs

In addition to GAINS, Ontario will initiate a new program to remove the burden of high drug costs on needy pensioners. For all people who receive the Guaranteed Income Supplement and those on Provincial assistance programs, the Government will provide free prescription drugs. This program will begin in September and will cost $12 million in the current fiscal year. Details will be announced by the Minister of Health.

Enriched Tax Credits

Mr. Speaker, I am also proposing a substantial improvement and enrichment of Ontario's tax credits to minimize the burden of shelter costs for those families most vulnerable to the eroding power of inflation;

• the Property Credit will double from $90 to $180;

• the Pensioner Credit will increase from $100 to $1 10; and Ontario Budget 1974

• the maximum tax credit entitlement will be raised from $400 to

$500 and the offset rate will be increased from one to two per cent of taxable income.

These improvements will ensure that maximum benefits flow to those most in need of relief from rising living costs, including home heating, and will further reduce the burden of property taxes. Ontario's fair sharing tax credit system will now provide $375 million in benefits to Ontario families and individuals compared to $305 million in 1973.

It is also becoming increasingly important to increase the scope and flexibility of the Ontario tax credits so that the administration of the Tax Credit System and GAINS will be fully integrated. Initially GAINS will be administered separately by the Ontario Ministry of Revenue.

However, in recognition of the advantages which accrue in the long run through the integration of the income security and tax credit systems, Ontario plans to assume the full administration of its tax credit system.

Retail Sales Tax Exemptions

As a further measure to help restore the purchasing power of the consumers' dollars, I am proposing to remove the retail sales tax from a broad range of items. First, I propose to exempt a number of personal hygiene items such as toothpaste, baby powder, soap, deodorants and feminine hygiene products. Secondly, I propose to exempt a broad list of household products used for washing and cleaning purposes. A detailed list of the new exemptions is included in Appendix A to this

The value of these sales tax exemptions is estimated to be $28 million in this fiscal year. Ontario's exemptions are more extensive than those granted by any other Canadian province employing sales taxes, or by neighbouring states in the U.S.A.

Thirdly, I am proposing the full exemption of all footwear sold for $30 or less. This will remove the sales tax from all children's shoes and most adult shoes, as well as from lower-priced skates, cleats and athletic footwear. Until now children's shoes up to size 6 have been exempt. The value of this new exemption is estimated at $15 million a year. Children's clothing presents a taxation problem similar to that for shoes. The use of a size criterion for exemption inevitably means that the sales tax bears on clothing for larger than average children, while the exemption is enjoyed by smaller adults. The Government is interested in correcting this situation so that all children's clothing is free of the retail sales tax. I am considering a tax credit mechanism but invite any other ideas to achieve this desired result for the 1975 budget.

These sales tax cuts will lower the cost of many important items to Ontario consumers by $43 million in this fiscal year. The changes will take effect after the necessary legislation is passed by the Legislature. Mr. Speaker, the proposals which I have made for decreasing the effects of inflation are comprehensive and long-lasting. The sales tax exemptions will be of benefit to all of our people. The GAINS program will ensure that Ontario's elderly citizens enjoy a good standard of living during their retirement years, and that our blind and disabled people are guaranteed equal income benefits. The enriched tax credits will further reduce the burden of property taxes and home heating costs and free prescription drugs will provide significant assistance to those in need.

The GAINS program and the improved tax credit system are an important step towards a comprehensive guaranteed income system for Ontario citizens. The Government intends to build on these advances and invites the suggestions of interested groups for improvements to these programs in the future.

In summary, the measures I have proposed involve an additional $200 million to offset the effects of inflation.

Measures to Restrain Inflation

Mr. Speaker, I should now like to describe three important new measures to restrain inflation. They are designed to stabilize land prices, encourage Canadian ownership of Ontario real estate, and freeze public transit fares.

Land Speculation Tax

One cause of present inflation is the rapidly escalating price of land. Some increase in land prices is to be expected because of the steady process of urbanization and the need to accommodate 100,000 new families in Ontario each year. There is no doubt however that speculation both by Canadian residents and by non-residents bids up prices artificially, increases the cost of housing and generates unwarranted windfall gains.

Therefore, Mr. Speaker, I am proposing a new tax to discourage this speculative activity. This tax has two objectives:

• to reduce the escalation of land and housing prices; and

• to recover for the public a major share of windfall gains from land speculation.

The land speculation tax will go into effect at midnight tonight. It will impose an additional 50 per cent tax on the increase in value realized on the sale of designated land. Over and above this tax, normal personal and corporate income taxes will apply. The speculation tax is designed to bear most heavily on owners of land and properties which are purchased and resold without any real value being added.

The Government does not wish to discourage development and construction of industrial, commercial or residential buildings. Accordingly, exemptions will be provided in the following instances:

• sale of property used for commercial and industrial purposes including tourist establishments will be exempt;

• sale of property where the vendor has complied with a subdivision agreement and constructed residential or commercial premises will be exempt; and

• sale of property where the vendor has purchased serviced land and constructed residential or commercial premises will be exempt.

Homeowners will be exempt from the land speculation tax on their principal residence, including ten acres of land. A principal recreational property including twenty acres of land will also be exempt. This latter

exemption will not apply, however, where the purchaser of the recreational property, such as a cottage, is a non-resident of Canada. People who trade in non-principal properties will be taxed on any gain which they realize from sale of these non-principal residences. Persons who effectively dispose of land through transfers of corporate shares will also be required to pay the tax.

Family farms will be exempt from the land speculation tax when the farms are transferred within the family and continue in agricultural use. When disposed of outside of the family these farms will bear the tax on the appreciation in value after April 9 in excess of 10 per cent compounded annually. This feature will help to retain land in agricultural use and also ensure that the tax does not apply unfairly to farmers, whose income, capital and pension stream is largely tied up in the form of land.

The following features will also be incorporated into the land speculation tax:

• acquisition cost will be the fair market value on April 9, or the actual cost if purchased after April 9, 1974;

• in determining the increase in value after April 9, capital improvement costs and reasonable carrying charges not exceeding 10 per cent per annum will be allowed as eligible deductions. These eligible deductions also apply to family farms; and

• the land speculation tax will not apply in the case of expropriations, sales to all governments and agencies thereof, nor to Canadian resource properties in Ontario.

The Government of Ontario recognizes that strong measures are required to curb the excessive land speculation now occurring. We are determined to proceed with firm action. At the same time we recognize that this is a complex matter and unforeseen problems may emerge in administering this new tax. Thus during the first year of operation I envisage a series of amendments and refinements to the land speculation tax bill. This bill will be tabled immediately after this address by my colleague the Minister of Revenue.

By introducing this land speculation tax I hope to deflate or at least slow down land price increases, and thereby contain costs for housing and other development projects in Ontario. The success of this speculation tax will be inversely related to its revenue yield—the smaller the revenues the greater the desired impact on curbing speculation. For this fiscal year the revenue yield from the speculation tax can be little more than a rough estimate, which I have set at $25 million in keeping with my optimism that the tax will indeed produce the anti-speculation result the Government is seeking.

Half of the revenue from this new tax will be shared with Ontario municipalities utilizing a method to be designed by the Provincial- Municipal Liaison Committee. Recent experience with the Fiscal Arrangements Sub-Committee of the PMLC has proven the value of this form of provincial-municipal cooperation. I will require that these additional local revenues be correlated with the municipalities' success in providing new housing at reasonable cost for our people. The Government of Ontario expresses its appreciation to the Co-Chairman and members of the PMLC for their cooperation in financial and legislative matters during the past year.

Land Transfer Tax

In examining the problem of rapidly rising prices for real property in Ontario, it has become increasingly apparent that large-scale acquisition of land by non-residents of Canada is a significant factor. The matter of control of non-resident ownership of Canadian land is a current constitutional issue which has not been fully resolved. The problem has been studied, however, and has been reported on recently by Ontario's Select Committee on Economic and Cultural Nationalism.

The Government of Ontario recognizes that positive action on this matter is required now in order to maximize Canadian ownership of our real estate. The Government has decided therefore to take interim steps using the instruments at its disposal. Accordingly, I am proposing to increase substantially the land transfer tax on purchases of land by non-residents of Canada, to 20 per cent from ^> of 1 per cent, effective at midnight tonight.

In proposing this measure, I wish to emphasize that we continue to welcome the flow into Ontario of mortgage and debt financing from abroad. I emphasize also that it is not our intention to penalize industries which seek to locate or expand in this province, although we would encourage these established companies to broaden Canadian equity participation.

To ensure that industries which contribute substantially to the Ontario economy will not be penalized, I propose to establish a review procedure whereby the additional transfer tax may be rebated in certain instances. The Minister of Revenue will table the bill immediately after my Budget Statement.

In order that the tax on non-residents does not curtail the operations of foreign companies which play an important role in developing our stock of housing and commercial realty, I propose to forgive the additional tax when vacant land bought by a non-resident is sold back to Canadians within five years, in the form of housing or developed commercial premises. The increase in land transfer tax to 20 per cent on purchases by non-residents will complement and reinforce the land speculation tax.

Speculative pressure on land prices will be relieved at both the purchase and sale points. I estimate that this increase in land transfer tax will yield an additional $60 million in 1974-75.

Transit Fare Freeze

On November 22, 1972 Premier Davis clearly enunciated Ontario's policy to encourage public transit when he said: "The Province will shift emphasis from urban expressways to a variety of transportation facilities which will put the people first."

Accordingly, the Government has created new forms of financial assistance to translate this policy into action. They comprise capital grants to cover 75 per cent of the costs of new buses, streetcars and subways. We also assist in the financing of the operating deficits of transit authorities. Under this policy, public transit facilities have expanded considerably, the extent and quality of service has been improved, and Provincial operating subsidies have grown from $5 million in 1971-72 to $18 million in 1973-74. Rising costs of running transit services are now creating financing problems for municipalities. Without additional financing support from the Province, transit fares would have to increase. To prevent fare increases, while at the same time limiting the resulting burden on local governments, I am proposing an important enrichment in our financial support towards public transit. The Government of Ontario now proposes a plan which consists of removing the ceilings on the Province's present operating subsidies and substituting full sharing of the deficit burden with local authorities. This means that Ontario will increase its operating subsidies to $35 million in 1974-75, which compares to $20 million if the old formula had been continued. This level of funding is based on the existing fare structures and the participating municipalities will be required to freeze all transit fares at their present levels. Following are some examples for the estimated increase in Provincial support of transit operations:

Metropolitan Toronto $11,250,000

Ottawa $2,145,000

Hamilton $910,000

Oshawa $263,000

Thunder Bay $235,000

London $159,000

This initiative will produce two beneficial results. First, costs of getting to work and other destinations will not increase during this period of high inflation. Secondly, there will be an increased incentive to expand and improve public transit services in this province. The Government of Ontario is grateful to municipal officials for their cooperation in the deliberations leading to this new Provincial subsidy program.

These three initiatives to restrain inflation will be carefully monitored for their effects on the provincial economy and they will be adjusted, if necessary, to attain the desired objectives.

Measures to Stimulate Supply

Mr. Speaker, I should now like to introduce proposals to stimulate small Canadian businesses, and to encourage residential and non-residential construction by increasing grants for water and sewerage projects and by rationalizing Government land development operations. Small businesses play an important role in our economy. It is a social and economic role which justifies special incentives to encourage new and existing small enterprises to develop and expand their operations, thus creating new and challenging jobs for Canadians. Two major problems encountered by small business are availability of venture equity capital and its high cost. I am therefore proposing a new program which will help overcome these problems.

Small Business Tax Credit

The first part of this program is an investment-related incentive designed to encourage the growth of active Canadian-controlled private corporations which qualify for the federal small business deduction. These corporations will be entitled to an income tax credit equal to 5 per cent of the increase in their capital in Ontario, to a maximum of $3,000 annually. Relating the incentive to increased capitalization will ensure that the tax savings are used to finance corporate growth. Increases in plant, inventory and similar assets are reflected in the amount of paid-up capital and such increases thereby qualify for this investment credit. This change will be effective with fiscal years ending after April 9, 1974. I estimate the revenue cost of this incentive to be about $15 million in 1974-75. The accompanying example in the text of this Statement illustrates the effect of this new credit.

The second part of my program to assist small Canadian businesses is designed to motivate private sources of venture capital to provide funds to small enterprises. The Government of Ontario appreciates the cooperation of the Financial Executives Institute of Canada, the Ontario Chamber of Commerce, the Canadian Manufacturers' Association, and the Investment Dealers' Association of Canada in developing this program. The new incentive which I am proposing provides for a tax flowthrough for a new type of corporation, termed a "Venture Investment Corporation" or VIC. This corporation will participate in the financing of small Canadian enterprises qualifying for the federal small business deduction. Corporations investing in a VIC would be allowed to deduct such investment from their taxable income and thus defer income taxes as long as the investment is kept in the VIC. The incentives recommended in this proposal affect only the Ontario corporate income tax. Ontario, however, has limited scope to ensure the full success of this proposal if the federal government does not participate.

• First, the low 12 percent Ontario corporate income tax rate is not sufficiently large by itself to attract substantial investments in VICs since the resulting tax deferral would be relatively small.

• Secondly, investments by individuals in VICs, which constitute a major potential source of financing, would not be eligible for the tax incentive.

I invite the federal government to participate by adopting this approach with respect to federal income taxes. I will initiate discussions with the federal Minister of Finance as soon as possible on ways of jointly implementing this proposal and I will bring forward enabling tax legislation during 1974.

Mortgage Investment Corporations

Having requested the federal government to parallel our proposal concerning Venture Investment Corporations, I am pleased to announce that we in turn intend to parallel the federal tax treatment of Mortgage Investment Corporations. This tax change permits the flow-through of funds to the investor without corporate tax, then treats payments received by the investor as interest rather than dividends. This will encourage the flow of funds into the residential mortgage market from small investors and supplement other efforts to increase the supply of housing.

Paid-up Capital Tax on Family Farms

As an additional measure to assist small business, I am proposing a reduction in the paid-up capital tax on family farm corporations to a flat rate of $50 annually. To qualify, the farm corporation must meet essentially the same conditions required for the forgiveness provided under The Succession Duty Act for bona fide family farms. This change means that family farm corporations will pay only the $50 minimum capital tax. I estimate the revenue cost of this measure to be $250,000 in this fiscal year.

Succession Duties and Family Farms

Mr. Speaker, at the request of Members of the Legislature, I propose to introduce amendments to The Succession Duty Act, which will extend the definition of eligible assets for purposes of forgiveable farm succession duties. These changes will be retroactive to April 12, 1973 when the concept of forgiveable farm duty was introduced. Changes will also be proposed with respect to the once-in-a-lifetime gift affecting farm families so that the gift may be made in several annual instalments. Let me reiterate the Government's policy on succession duties. We intend to continue to tax large accumulations of wealth, while at the same time ensuring that the tax does not bear on citizens of average means. Accordingly I should like to take further steps to ensure that inflation does not drive people of moderate means into this tax. I am proposing the following changes in The Succession Duty Act, effective with deaths occurring after midnight tonight:

• that the basic exemption of $100,000, below which an estate is not taxable, be increased to $150,000;

• that the exemption for surviving dependent children be raised from $2,000 to $3,000 for each year that the dependent is under 26 years of age;

• that the exemption for orphaned children, currently at $4,000 for each year that the dependent is under 26 years of age, be increased to $6,000; and

• that the exemption for invalid or infirm dependents be raised from $4,000 to a new and higher level of $6,000 for each year the individual is under 71 years of age.

These changes will affect all estates and will cost $6 million in this fiscal year.

Municipal Water and Sewerage Grants

To increase the supply of serviced lots, the Government is proposing to make available to restructured municipalities a 15 per cent grant in respect of capital costs for regional water and sewage projects. All projects which are now under way, including the York Pickering trunk lines, will be completed by the Province and the assets turned over to the restructured municipality at 15 per cent less than the cost to the Province. The estimated cost of these changes is $1 1 million in 1974. To increase the supply of housing, the Government, through the Ministry of Housing, will implement a number of new programs, and expand existing programs in order to ensure continued expansion in Ontario's housing supply. In 1973 there were more than 110,000 housing starts in the province, a 7 per cent increase over the 1972 level, the largest number of housing starts in our history. This year, $19.8 million has been allocated to the new Ontario Housing Action Program which will increase the supply of serviced lots available for residential construction. In addition, funds available through the Ontario Mortgage Corporation will be increased in order to help families with moderate incomes to purchase homes. The Government has also initiated a number of programs to rehabilitate neighbourhoods and residences, including the Ontario Home Renewal Program and the federal-provincial Neighbourhood Improvement Program, which together with the Community Sponsored Housing Program have been allocated $17 million for the fiscal year. The Ontario Housing Corporation's program for rental accommodation for pensioners and low-income families, which currently provides more than 60,000 units, will expand significantly in 1974. More than 8,000 units are now under construction and are expected to be occupied within the year. An additional 19,000 units are in various stages of development.

The Ontario Land Corporation

In recent years, the Province has been increasingly active in the purchase of land to meet a number of social and economic objectives In future we expect there will be significant expansion in this activity with important financing implications. It is imperative, therefore, to lay the groundwork for improved coordination of Government land activities involving development and resale or lease of land for industrial or residential purposes. Accordingly, I intend to bring forward legislation this year to establish an Ontario Land Corporation which will be given the financing and coordinating responsibilities for the Government's land development operations.

The new Ontario Land Corporation will have the power to acquire, service and develop land in the province for resale or leasing on a longterm basis. The Corporation would not hold any lands in perpetuity. In addition to increasing the supply of housing, the Corporation would also be involved in the establishment of industrial parks to nurture development in certain parts of the province. It would also purchase and lease back land and buildings to the Ministry of Government Services in competition with the private sector. It would acquire the assets of projects such as the North Pickering Community Development Project and possibly other new towns. The Ontario Land Corporation would enable the Government to make better use of the special skills and entrepreneurial talents available in the private sector. I envisage the financing of the Corporation to be similar to that of Ontario Hydro. Land acquisition will be financed by current revenues, by Government loans, and by own-account borrowing guaranteed by the Province. I am inviting proposals from the investment community to form a new syndicate for the financing of this corporation, using imaginative debt instruments and introducing a new note of competition into the capital markets. By bringing together major land purchases of the Government in this manner, it will be possible to plan for the development of regions in the province on a coordinated basis and to increase the impetus of development in Eastern and Northern Ontario.

Measures to Share Profits from Inflation

Mr. Speaker, I should now like to describe proposals designed to secure for the public of Ontario a larger share of profits from mining and forestry resources.

Taxation of Mines

During the past two years a worldwide shortage of raw materials has developed on an unprecedented scale. Increased demand by major industrialized countries has resulted in sharply higher metals prices and substantial windfall gains for the mining industry in Ontario. With the prospective demand for minerals likely to sustain current price trends into the future, it is only fair that we secure for the people a higher return from our natural resources. For legal and financial reasons, I have decided to increase the mining profits tax rather than impose a new royalty on our resources. The mining profits tax has the advantage that it takes into account the expenses of extracting the ore and, consequently, it does not discourage the mining of low-grade ore. A royalty system, on the other hand, tends to encourage high-grading, that is the mining of only high-grade ore. I am proposing, therefore, to double the revenue yield of the mining tax. This is to be achieved by replacing the present 1 5 percent flat rate tax with a graduated rate ranging from a zero rate on the first $100,000 of profits to a rate o\' 40 per cent on profits in excess of $40 million. This new initiative would secure a large share of windfall gains without imposing an unfair burden of taxation should metals prices and profits decline. The low initial rate of the graduated tax will be of assistance to the smaller mining companies whose operations often provide the only major source of employment in isolated northern communities. In addition to doubling the mining tax. I am proposing other measures to increase income tax revenues from the mining industry.

These are:

• abolition of the three-year exemption for new mines;

• disallowance of the deduction of mining taxes and mining royalties for corporate income tax purposes; and

• removal of the mine and mill allowance under the capital tax. At the same time, I am proposing changes which will increase incentives for exploration and development and processing in Ontario.

These changes are:

• the depletion allowance will continue to apply automatically to all operators and non-operators;

• the fast write-off provisions under the federal Income Tax Act will be paralleled by Ontario for new mines, major expansion of existing mines and associated processing facilities;

• full deduction of pre-production expenses will be allowed under The Mining Tax Act; and

• full deduction will be allowed under The Corporations Tax Act of exploration and development expenses incurred in Ontario by non-principal business corporations.

The last provision means that a corporation not in the mining industry will be entitled to decrease taxable income for Ontario corporation income tax purposes by the amount of the expenses incurred in exploring for and developing mining properties as has been the case in the past for mining companies only. The federal government will be asked to consider similar provisions affecting their corporate income tax.

In addition to the above tax incentives, the Ontario Government is considering the expansion and modification of the Mineral Exploration Assistance Program to cover the whole province. The Government is also considering the establishment of a Crown corporation to undertake exploration activities in Ontario. The Minister of Natural Resources will announce full details of these programs later this year. In a full year, the net impact of these changes will be to increase Provincial revenues from the mining industry by $50 million, from $75 million in 1973-74 to $125 million in 1974-75.

Timber Resources

In addition to doubling the yield of the mining tax, I am also proposing to double the Crown dues which the Province receives from the cutting of timber on Crown lands. These dues are the main form of revenue from Crown timber. It has been many years since they were last increased. Some increase in revenue will also result from a reduction in the large number of different rating groups for these dues. The combined addition to revenue is about $12 million in a full year. This will raise the present level of revenues from $12 million to $24 million in 1974-75.

This doubling of Crown dues is an interim measure, pending a complete review of this revenue field. The review will be conducted by a task force under the joint direction of the Minister of Natural Resources and myself. It is our intention to implement a system which will be more responsive to changes in forest company profits, revenues rising with increasing profits and declining with decreasing profits.

Mr. Speaker, the extra $62 million which will be raised from the mining and forest industries represents a fair return to the people of Ontario from these natural resources.

Measures to Share Resources With Local Governments

Let me now turn to the Government's measures to share Provincial resources with local governments. In developing these measures, I have had the pleasure of extensive discussions with representatives of local government. Particularly, I had many useful meetings with the Municipal Liaison Committee and its Fiscal Arrangements Sub-Committee. These discussions contributed greatly to the Government's revenue-sharing arrangements.

Review of 1973 Performance

In 1973, local governments were faced with a $140 million financing deficiency and the need to increase mill rates on average by 8 per cent. Concerned about the prospect of eroding tax reform gains already made, the Province increased its assistance dramatically to prevent increases in the property tax. In the 1973 Budget, $180 million in new forms of local support was announced. The key element in this reform program is the Property Tax Stabilization Plan. This plan is a balanced program of different types of unconditional grants, involving a degree of equalization, an incentive to restrain and economize in spending, and recognition of special burdens and cost factors. In retrospect, this plan has proven to be successful and effective. I am very pleased with the degree of cooperation from local governments in passing on the benefits of these transfers to their taxpayers. Property tax rates were in fact reduced during 1973 by more than 5 per cent on average from 1972 levels. As a result, 1973 became the first year the Provincial transfers to local governments exceeded the total revenue from property taxes.

Mr. Speaker, I believe it will be of interest to the Members and others to gain additional insight into the distribution of funds under this plan and the impact it has had on local spending and taxes. I am making available, therefore, in a separate document on the property tax stabilization program a number of summary tables which display the distribution of the new grants, the local spending growth rates and the changes in property tax rates. The main effects of the program are summarized in the following table.

It is interesting to note the success of the expenditure restraint introduced by the Province in keeping municipal spending growth rates, on average, below historical standards in spite of the rate of inflation. This expenditure constraint combined with new assistance ensured a substantial benefit to local taxpayers in reduced property taxes.

The Local Government Financial Outlook

The grant reforms introduced last year were based on a comprehensive analysis of the financial outlook for local governments. In aggregate, the reforms more than covered the anticipated local deficit.

For 1974 we have re-examined the financial outlook of the local government sector which will again be significantly underfinanced. Local finance tends to deteriorate more rapidly the higher the rate of inflation in the economy, because municipalities' own revenues are not responsive to inflation.

After allowing for maximum prudent borrowing, the local government sector is expected to incur a $182 million financing deficiency in 1 974 in the absence of any new grant enrichments. To meet this deficiency, local mill rates would have to be raised, on average, by 10 per cent.

The Ontario Revenue-Sharing Plan

The implications of these prospects are considered undesirable by the Ontario Government. We propose a new revenue-sharing plan which has the merits of greater certainty about future assistance, of protecting tax reforms already achieved and of stabilizing property taxation in the total tax system. The broad outlines of the Ontario Government commitment were announced by me at the National Trilevel Conference held in Edmonton in November 1973. The three parts of the Ontario Government's revenue-sharing commitment are the following:

• the Province will increase its transfers to local governments and agencies at the rate of growth of total Provincial revenue;

• the Province will pass on to local governments the full benefit of any net gains in new unconditional tax sharing by the federal government; and

• the Province will give municipalities access to funds generated by the Ontario Municipal Employees Retirement System to permit better use of credit capacity.

I am pleased to announce in this budget $124 million in grant enrichments. This amount reduces the potential financing deficiency to $58 million or the equivalent of an average increase in property taxes of 3.2 per cent instead of 10 per cent. This deficiency would be further reduced by whatever new revenues are realized from the municipal half of the Land Speculation Tax.

Unusually large increases in Provincial assistance such as the 1973 reforms cannot be repeated every year because they are quite obviously beyond the financial capacity of the Ontario Government itself. It is our suggestion that the federal government play its part in further alleviating the pressures on property taxes. As shown in Budget Paper B, a modest improvement in federal tax sharing would meet the balance of anticipated local financing deficiencies and, through the Province, further reduce municipal dependence on regressive property taxes.

The Province's revenue growth rate of 11.7 per cent is applied to basic transfers of $2,049 million in 1973-74. As a result, the Government will make basic transfers in the 1974-75 fiscal year of $2,288 million, which is an increase of $239 million. This total increase includes $124 million for new Provincial transfers, of which $3 million comes from the deconditionalization of nine existing transfer programs. (See Appendix B). Land speculation tax revenues are not included in those amounts.

OMERS

The third commitment to local government announced at the National Tri-level Conference was the Government's intention to provide local government with access to some of the funds generated by the Ontario Municipal Employees Retirement System. As you know Mr. Speaker, the Government has, since the inception of OMERS, provided a special investment vehicle which has enabled the System to develop a sound actuarial base. As OMERS matures there is a general realization that this assistance can be phased out. Therefore, I propose that in 1975 up to 20 per cent of OMERS net receipts be made available to the System for wider investment opportunities, with the balance to be invested in special Ontario debentures. This percentage will be increased from year to year as investment experience is developed by the OMERS organization. This proposal is in accordance with the recommendations of the Study Group established by me to review OMERS' investment policies. I expect that OMERS will take full advantage of the Government's flexible position with respect to the investment of these funds to achieve the primary objective of further improving the level of pension benefits to the System's members in future years.

I also propose that municipal employee and employer representation on the OMERS Board be increased while the number of Ontario's public servants on the Board be reduced. The 1974 Property Tax Stabilization Plan In transferring the $124 million in new assistance to local government, we have taken account of several objectives and situations concerning local government. We have introduced five new regional governments, we have recognized the realities of urban transit problems, we have continued an equalizing role, and we have provided universal assistance to local government to meet the 1974 financial requirements in the face of slow-growing local revenues. We have designed a package of enriched unconditional assistance which meets these requirements. The main vehicle for the Province's larger transfers is the Property Tax Stabilization Plan, comprising resource equalization grants, general and special support grants as well as per capita grants.

The Resource Equalization Grant

The resource equalization grant was the most important component of the 1973 Property Tax Stabilization Plan. The Government intends to increase this grant by a number of changes in the formula. These changes are summarized as follows:

• the standard of equalized assessment per capita will be raised to $ 1 0, 1 00, reflecting the increased average per capita assessment in Ontario;

• the grant rate will be raised from 50 per cent to 60 per cent of the relative deficiency below this average;

• the base of the grant will be the 1973 net general dollar levy, which will be broadened to include grant entitlements under

The 1973 Property Tax Stabilization Act; and

• the maximum rate of this grant will be raised from 20 to 25 per cent of the 1973 net general dollar levy as adjusted for last year's grant entitlements with further adjustments for former recipients of mining revenue payments.

The above enrichments of the resource equalization grant will transfer an additional $15 million to resource-deficient municipalities in the province, bringing the total funds committed by the Province in 1974 for resource equalization to $71 million.

The General Support Grant

In 1974-75, the Ontario Government will enrich significantly the general support grant. This grant is available to all municipalities and it is responsive to tax effort as well as to local economies in spending growth. The grant rate schedule has been revised to take into account the predicted rate of inflation without removing the incentive to restrain spending. Last year, the lowest grant rate of 2 per cent corresponded with a spending growth rate of 12 per cent or higher. This year, the lowest grant has been raised to 3 per cent and will correspond to a spending growth rate of 14 per cent or higher. The schedule increases the grant rate by 1 per cent for every percentage reduction in expenditure growth below 14 per cent so that the maximum grant rate of 9 per cent is earned when the spending growth is held to 8 per cent or less. All upper and lower tier municipalities in new regional municipalities will receive a flat grant rate of 7 per cent of their 1974 net general dollar levy. The estimated increase in general support grants in 1974-75 is $33 million, raising the total value of this grant to $82 million.

Northern Ontario Special Support Grant

The special 10 per cent support grant to Northern Ontario municipalities has provided significant relief to local government and taxpayers in the remote parts of the province, where costs substantially exceed those in other parts of the province. The Ontario Government has decided to increase the rate of this special support grant from 10 to 12 per cent of the net general dollar levy. This higher rate will provide an increase in special assistance to Northern communities of $4 million in 1974 from $9.9 million last year to $13.9 million in 1974-75.

Per Capita Grants

The per capita grants for both regional and other municipalities will be simplified and increased. Regional governments will receive a 10 per cent increase plus an additional 20 cents per capita to assume responsibility for local planning. This amounts to an increase from $8 to $9 per capita which is 12.5 per cent. The scale of payments for per capita grants for non-regional municipalities is increased by a similar percentage together with a reduction in the number of population ranges. Both types of per capita grants will be calculated on a two-year advance in the population base.

The Per Capita Grant Towards Policing

The grants made towards the cost of policing will also be increased for 1974. and will be made on the same updated population base as the main per capita grant. The rate of grant will be increased from $3 to $5 per capita for non-regional or regional lower-tier municipalities providing policing services and from $5 to $7 per capita for regional municipalities with regional police services. The additional cost of these enrichments will amount to $17 million to a 1974-75 total of $42 million.

Other Forms of Assistance

Having recognized special problems in the large urban areas, the Ontario Government proposed to recognize unusual situations which have arisen in rural areas. In recent years, spending restraints of the Province have increasingly resulted in municipal spending on roads without the benefit of financial assistance towards part of this activity. This has become a particular concern in those smaller communities which cannot realistically ease their road spending requirements by public transit solutions. To meet this pressing problem, the Province will allocate a special $17 million to assist the smaller municipalities in rural areas in financing their needs for roads. This brings the Province's total road building and maintenance grants to $229 million in 1974-75 from $199 million in 1973-74.

Lastly, we intend to improve the arrangements by which the Province subsidizes public libraries and museums. A total of $16.5 million will be set aside for these purposes compared to total grants of $13.5 million last year.

Summary of 1974 Assistance to Local Government

Mr. Speaker, I think it might be of assistance to the Members if I summarized at this point the increases in Provincial grants to local government. The Province expects to increase its total direct transfers to local governments by $239 million, $124 million in new grants and $115 million in increases to existing transfer programs. The Ontario Government is channeling most of the new resources into unconditional grants. These measures provide for substantial sharing of our limited resources with local governments.

Financial Plan for 1974-75

Mr. Speaker, the Government's financial plan for 1974-75 aims at:

• a neutral economic impact with spending growth of 14.2 per cent;

• a balance in tax increases and tax cuts;

• stable net cash deficits as this term is defined; and,

• a substantial reduction in the public debt resulting from cash receipts in excess of cash disbursements and from decreases in our liquid reserves.

Expenditures

Budgetary expenditures are forecast to increase by 14.2 per cent in 1974-75. This is a higher rate of increase than in 1973-74 but it is below the average of the last five years in spite of inflation. This inflation has raised the costs of existing programs and has also necessitated increased Provincial transfers. Following the procedure adopted last year, the Estimates are again being tabled separately by the Chairman of the Management Board on the basis of policy fields and the responsible Ministers will provide a detailed description of expenditure plans when the Estimates are debated.

The Province's 14.2 per cent expenditure growth compares favourably with other provinces and the federal government. Once again, the increase in expenditure closely matches the rate of growth in the provincial economy. Consequently during the past three years the Government's share of total output has not increased. In contrast, federal spending increased by 24 per cent in 1973-74 and a further increase of about 18 per cent is expected in 1974-75.

Revenue Impact of Tax Changes

I estimate that the tax changes proposed in this budget will have little net impact on revenues. In 1974-75, I am forecasting budgetary revenues to grow at 12.1 per cent including the revenues from the land speculation tax.

Stable Deficits

The net cash deficit, so-called, is estimated at $708 million in 1974-75, which is lower than last year. The budgetary deficit will increase from $421 million in 1973-74 to $625 million in 1974-75, while the non budgetary deficit will decrease from $300 million in 1973-74 to $83 million in 1974-75.

The Province's net cash requirements will amount to about 1.3 per cent of Gross Provincial Product (GPP) in 1974-75, the lowest in five years. Throughout the past decade net debt as a percentage of GPP has remained well below the 9 per cent guideline recommended by the Ontario Committee on Taxation. In addition, it would now require less than six months' revenue to pay off the net debt, compared with nine months' revenue a decade ago. In other words, after a decade of financing rapid growth and expansion in essential public services, and financial aid to municipalities the financial integrity of the Province is as sound as ever.

Financial Management

Mr. Speaker, when I became Treasurer of Ontario some fifteen months ago I set myself the objective of reducing outstanding public debt. I am pleased to report that I accomplished a reduction in the outstanding public debt of $225 million in 1973-74. To assure the maintenance of the Province's high credit standing, our debt reduction program will be accelerated. In 1974-75 I am planning to retire $99 million of maturing public debt. In addition, I intend to begin a special debt reduction program with a potential target value this year of $350 million thereby providing a total target for debt reduction of $449 million. This program will be designed and conducted to minimize any disturbance of the market for our bonds. It will relieve pressure on Canadian capital markets and provide borrowing capacity for Ontario Hydro, private sector and local government financing.

Conclusion

Mr. Speaker, I have described a bold attack to meet the challenge of inflation. When the federal government joins Ontario with equally positive actions we can anticipate success in the battle against inflation.

To recapitulate, this budget:

• guarantees an annual income for those most in need;

• secures a fair return to the community from our natural resources;

• reduces the tax burden on the consumer;

• discourages speculation in land and real estate;

• encourages Canadian ownership of Ontario land and buildings;

• provides for a fairer distribution of the tax burden;

• shares Provincial revenues generously with local governments;

• strengthens the Province's financial planning; and

• introduces greater equity in the progressive Province of Ontario.

The measures proposed in the 1974 budget befit a strong and compassionate Province. I am confident that with these initiatives Ontario will remain in the forefront among progressive and dynamic jurisdictions anywhere in the world.

Thank you.