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| Ontario | 29e | 5e | Discours sur le budget | 7 avril 1975 | Darcy McKeough | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

At the outset, I would like to deal briefly with the economic outlook on which the budget plan is based. Along with other major economies, Canada has experienced high rates of inflation for some time, while more recently it has begun to feel the effects of a worldwide weakening in economic growth. The development of policies to meet this twin challenge requires the fullest understanding of current and prospective economic developments in Canada and Ontario, and on the broader international scene.

Consequently, the Government has engaged in extensive consultations with representatives of a wide cross-section of the economy. As part of this dialogue, I met with representatives from industry and commerce, from finance, farming and small business, as well as of consumers, the labour movement, the legal and accounting professions, and independent economic research organizations. I would like to express my appreciation for the contribution they have made.

Without going into the details of these discussions, there was general agreement on two main points: first, that the Ontario economy is basically sound; and second, that the present slow-down is temporary and the economy has good potential for a revival in the near-term future.

I believe — and there is widespread but not unanimous agreement on this — that, with sound policies at all levels of government, with reasonable international recovery, and with responsible conduct by the private sector, we can anticipate an economic upturn in the latter half, and especially in the last quarter, of 1975.

The most commonly expressed concern was that the strength of inflationary pressures constitutes the main threat to Canada's economic stability and international competitiveness in the years ahead.

The budgetary policies I am about to announce articulate this Province's determination to do its part to make the recovery a reality both in the near and long term.

I will list briefly some of these key policies.

• I propose a substantial reduction in the retail sales tax.

• I propose the elimination of the retail sales tax on production machinery and equipment.

• I propose payment of grants to first-time home buyers and other measures to increase the availability of housing in Ontario.

The budget plan involves the use of the Province's resources in a balanced set of general and selective actions which will stimulate the economy immediately and will work to increase investment and productivity. In so doing it will relieve longer-term inflationary pressures. It also provides leadership in combating inflation through the achievement of the Government's social and economic objectives within a framework of overall restraint in the growth of the public sector in

Ontario.

Mr. Speaker, I would like to draw the attention of Members to the Appendices and Budget Papers which accompany this Statement. Provincial-local and federal-provincial matters are dealt with in the Appendices, as well as the details of tax and other changes. The economic outlook is discussed in Budget Paper A which also examines the impact on the Ontario economy of increases in natural gas and oil prices. Budget Paper B provides an overview of Provincial and local government spending.

**I Reinforcing Incomes and Purchasing Power**

I believe the economy needs only temporary stimulation to ensure its recovery to a higher level of performance by the end of 1975. Three areas which most require strengthening are consumer spending, investment and housing. I shall deal first with my proposals to stimulate consumer spending.

All consumers have felt the effects of inflation on their purchasing power and those on fixed or low incomes have had difficulty in making ends meet. The impact of waning consumer confidence has been felt throughout the whole economy. Automobile sales have been slow, and sales of major appliances and home furnishings have been affected by the housing slowdown. Therefore, I am proposing two sets of measures to reinforce incomes and purchasing power.

Sales Tax Cut

To stimulate consumer spending, the basic retail sales tax rate will be reduced from 7 per cent to 5 per cent, effective midnight this day. This tax cut will remain in effect until December 31,1 975.

The benefits of this action will spread rapidly throughout the economy. Initially, it will stimulate spending on cars, stoves, refrigerators, colour televisions and so on. This increased activity will flow into distribution, manufacturing and other industries and generate increased production and jobs. The tax savings to the consumer will be substantial. For example, the saving on the purchase of a new automobile will be about $100 and on appliances and furnishings for a home up to $125. The direct benefits to consumers from this tax cut will amount to $230 million this year.

In addition to benefitting indirectly from increased consumer spending induced by the tax cut, Ontario business will enjoy $100 million in direct cost reductions on the purchase of taxable items. To supplement this action, I shall propose tonight additional incentives to strengthen business investment and productivity.

**Increased Income Security**

The second set of actions which I am proposing tonight will bolster consumer incomes through selective income tax cuts, enriched guaranteed annual income payments and new health benefits.

Over the past three years, the Ontario Government has implemented major tax relief and income support programs. In 1972, Ontario launched a comprehensive property tax credit system to channel tax relief to those most in need. This was achieved by linking property tax burdens to the ability-to-pay principle of the personal income tax system. In 1973, this program was broadened to include sales tax credits and pensioner tax credits, and in 1974 further enrichments were made to offset the adverse effects of inflation.

• 1972 : Value of Ontario tax credits : $ 1 82 million

• 1973: Value of Ontario tax credits: $305 million

• 1974: Value of Ontario tax credits: $375 million

Ontario's tax credit system has served as a model for other provinces and is the first major application of the refundable tax credit approach to achieve meaningful tax reform in Canada.

In addition to providing major tax relief, the Government has implemented other selective measures to assist those who are least able to cope with rising costs during this period of high inflation. The Provincial Guaranteed Annual Income System (GAINS) was introduced in July 1974, for those who have reached retirement age and those who are unable to participate actively in the economy due to disability or blindness. Last year, this program delivered over $84 million in direct financial benefits to more than 300,000 people in Ontario. A complementary program of free prescription drugs was implemented in September 1974, providing $17 million in benefits to pensioners in Ontario and to all Provincial social assistance recipients.

Mr. Speaker, income guarantees for the elderly and disadvantaged and income protection for low-income taxpayers remains a foremost priority of this Government. Tonight, I shall announce three important measures which will provide increased income support, new health benefits and further tax relief to Ontario citizens.

*GAINS*

First, I am proposing to raise the Ontario GAINS guarantee to $240 a month per person effective May 1st. This brings our guaranteed income standard to $2,880 annually for a single pensioner and to $5,760 for a married couple. This will increase GAINS payments to 303,000 beneficiaries currently on the program and extend new benefits to an additional 7,000 pensioners. The higher guarantee will deliver an additional $13 million in benefits, raising the total value of GAINS payments for this fiscal year to $138 million. As a result, Ontario will offer the highest guaranteed annual income to pensioners anywhere in

Canada.

*Free Drugs*

Secondly, Mr. Speaker, I am proposing to extend the free prescrip- tion drug program to all pensioners in Ontario, effective August 1, 1975. The Drug Benefit Plan, introduced last September, has made available free of charge nearly 1,400 essential prescription drugs to 340,000 low- income pensioners and to 306,000 social assistance recipients. This program has operated efficiently at a relatively low cost of $59 per pensioner on an annual basis. Accordingly, I am proposing to extend this program to all Ontario residents aged 65 years and over at an additional cost of $ 1 5 million this year. Ontario's free prescription drug program will benefit one million people, or one out of every eight people in the province.

*Income Tax Cut*

Finally, I am proposing to remove 450,000 people from the Provincial income tax rolls in 1975. As a result of the last federal budget, these people were removed from the federal tax roll yet remained liable for Ontario income tax. I am proposing to eliminate completely the Ontario income tax liability of these individuals in 1975, at a cost of $1 1 million.

As a result, a family of four with income of $6,033 will pay no income tax. Moreover, this same family will receive $262 in Ontario tax credits. Above the $6,033 income level, tax credits will be more than the Ontario income tax liability up to an income level of $8,275, where the Ontario tax credits will exactly offset provincial income tax. Beyond this tax-free threshold level of $8,275, the family of four becomes a net taxpaying unit.

Similarly, no income tax will be levied and substantial tax credits will be paid to single individuals having up to $3,583 income, married couples with up to $5,323 income, or single pensioners with up to $5,547 income. Above these income levels, Ontario's tax credits will offset Provincial income tax liability, to produce a tax-free threshold of $5,570 for a single individual, $7,480 for a married couple and $8,890 for a single pensioner. These high tax-free thresholds ensure that Ontario's income tax and tax credit system remains the most generous in Canada.

Mr. Speaker, I would call attention of the Members to two important collateral benefits of this income tax reform. Elimination of the Provincial income tax liability for these 450,000 low-income individuals means that their Ontario tax credit refunds for the 1975 year will automatically increase. Equally significant, by reducing their 1975 taxable income to zero, it means that these people will be entitled to full premium assistance next year under our health insurance plan. This represents a further significant advance in the total equity of Ontario's tax structure.

In summary, the income security measures I have outlined will deliver an additional $39 million in benefits in the 1975-76 fiscal year. They provide further protection against inflation to low-income families, and help Ontario's elderly citizens to enjoy a reasonable standard of living and freedom from the burden of drug costs in their retirement years.

In total, my proposals to reinforce incomes and purchasing power will cost $369 million in 1975-76.

**Strengthening Small Business and Farming**

Mr. Speaker, I shall now introduce important proposals designed to help the province's small businessmen and farmers. The place of the small business in our economy is an important one. Over half of all Ontario corporations have gross revenue of less than $100,000. By providing special assistance to nurture the early growth of these small enterprises, we ensure a dynamic and diversified economic base for future generations. The farming community plays an equally important role in our economy and special measures are needed to encourage farming and to maintain food production.

Incentives for Small Business

My new proposals for small business include the enrichment of Ontario's Small Business Tax Credit and a measure to compensate small business for the cost of the collection of the retail sales tax. In addition, the Province will renew its request that the federal government adopt our 1974 Budget proposals concerning Venture Investment Corporations. Federal participation is essential both to ensure that this incentive is sufficiently powerful and to prevent unnecessary differences between the Ontario and federal tax systems.

*Small Business Tax Credit*

In the 1974 Ontario Budget my predecessor, the Honourable John White, introduced an investment-related income tax credit for Ontario small businesses. Corporations qualifying as small business are able to claim a tax credit equal to 5 per cent of the increase in their invested capital in Ontario to a maximum of $3,000 annually. I now propose that Ontario double its small business credit limit from $3,000 to $6,000 annually. This generous enrichment of the incentive will cost about $15 million in 1975-76. It will alleviate the burden which inflation is imposing on growing companies.

*Compensation for Sales Tax Collection*

Mr. Speaker, the Government has received many requests from small business organizations and associations to compensate vendors for the cost of collecting the retail sales tax. I have been persuaded by the merit of the arguments advanced regarding the time-consuming task of collecting, recording and remitting of sales tax by small vendors.

Consequently, I am now proposing the following compensation to all vendors for collection of retail sales tax, effective July 1 , 1 975 :

• 3 per cent of the tax collected per return, and

• maximum compensation of $500 in each fiscal year.

This should substantially offset collection costs of small business. Vendors with sales of about $300,000 per year will receive the maximum amount of $500. The cost of this measure in 1975-76 is estimated at $11 million.

*Tax Simplification*

The Government will also make a major effort to streamline and improve its tax administration during the year ahead. Our objectives will be to reduce the costs of compliance, to simplify forms and procedures, to follow wherever possible the federal administration, and to speed up rulings and decisions. These changes, which should be of benefit to large and small business alike, will be carried forward by my colleague, the Minister of Revenue. For my part, I shall propose later in this Statement a number of policy changes which bring Ontario's tax legislation into closer harmony with that of the federal government.

Farm Assistance

In addition to the continuing support provided by the Ministry of Agriculture and Food through several assistance programs, a number of important tax incentives have been introduced over the past four years to assist the farming community. These include:

• substantial reductions in property taxes for farmers through the farm tax rebate;

• forgiveness of succession duties for family farms; and

• reduction in the paid-up capital tax for family farm corporations.

This year my colleagues, the Minister of Agriculture and Food and the Minister of Natural Resources, will be introducing legislation to implement the following new programs to provide support to the farming community.

*Cost of Production Guarantee*

The Agricultural Products Stabilization Act currently before Parliament will be supplemented as necessary by the Province. We recognize that costs of production, such as fertilizer and energy, are escalating dramatically and that price stabilization measures per se may prove insufficient. Provision has been made in the Estimates of the Ministry of Agriculture and Food for first-year funding of $20 million.

*Property Tax Relief for Tree Farmers*

Since 1973, the Government has repaid to Ontario farmers 50 per cent of property taxes on farms. The Government now proposes to make the same rebate available to the owners of managed forests who are resident in Ontario. Fifty per cent of property taxes on forests which meet certain management criteria will be rebated, at a cost of $2 million in 1975-76.

**Succession Duty and Gift Tax**

Since 1 969, Ontario has successively reduced the burden of succession duties, and in particular has exempted all transfers between spouses. However, in some circumstances succession duties can still be onerous on families operating farms and businesses. To ensure the continuation and growth of our family farms and businesses in Ontario and to allow for the impact of inflation generally, I propose the following improvements to our succession duty and gift tax, effective midnight tonight.

• The basic $150,000 allowance will be increased to $250,000 and will become a deduction for all estates.

• The present forgiveness period for family farms will be shortened from 25 years to 10 years.

• The succession duty payable in respect of assets of small family businesses will also be forgiven over 10 years. To qualify for forgiveness of duty, the business must remain in the family and must remain an active business.

• The basic exemption for gift tax will be raised from $2,000 per recipient and an aggregate of $10,000 in any one year to $5,000 per recipient and a total of $25,000 in any one year. The purpose of this change is to recognize the impact of inflation on asset values and to facilitate the transfer of capital to children and grandchildren — for example for the purpose of a down- payment on a home.

• The once-in-a-lifetime special exemption for farmers under The Gift Tax Act will be raised from $50,000 to $75,000.

• Under a new provision, Ontario family businesses will also enjoy a once-in-a-lifetime gift tax exemption of $75,000.

These reforms will reduce the number of taxable estates and ensure that every taxable estate in Ontario will enjoy tax savings, at a cost of $8 million annually.

To summarize, Mr. Speaker, the package of measures I have proposed tonight to strengthen small business and farming will provide $56 million in important benefits.

**Increasing Investment and Productivity**

As I have already stated, I am confident that under the impact of the temporary consumer and housing measures proposed in this budget, the economy will be moving to higher levels of activity by the year end. Nevertheless, in the longer term our competitive position in the world economy remains a major problem. Consequently, I am proposing additional measures which are designed to:

• encourage investment and strengthen the productivity of the Ontario economy;

• reduce production costs and enhance the ability of Ontario to compete in export markets; and

• provide protection against a resumption of inflationary forces through increased productive capacity.

The federal government has enacted some long-term measures to assist the manufacturing and processing sectors. Ontario has supported this federal action by extending its fast write-off provisions to the end of 1976. I now propose a further extension of these provisions to the end of 1977 to allow more time to build up essential production capacity. I am also proposing additional incentives to expand investment and productivity in Ontario over the longer term.

Sales Tax Exemption for Production Machinery

Effective immediately, the retail sales tax will be eliminated on purchases of production-related machinery and equipment. The exemption will apply to purchases for the period ending December 31, 1977. To qualify, businesses must meet the following criteria:

• orders for machinery and equipment must be placed on or after April 8, 1975 and before January 1, 1977; and

• delivery must take place on or before December 31, 1977.

This measure will encourage investment, broaden the industrial base and modernize Ontario production facilities.

The construction, manufacturing, mining and logging sectors will experience major cost reductions. Examples of tax savings on important pieces of machinery used in these industries follow.

This bold action will improve the competitive position of Ontario business in both domestic and foreign markets, at an estimated cost of $410 million over the full term of the program. For the 1975-76 fiscal year $108 million of revenue will be foregone, even taking into account the new reduced rate. Over 25 per cent of this amount will benefit export-oriented industries. The tax appendix to this Statement sets out the major details of this incentive.

Fuel Cost Reduction

Currently, gasoline and diesel taxes apply on industrial, commercial and institutional uses of these fuels as well as on their use in licensed vehicles. I propose to further reduce costs of production by eliminating the gasoline and diesel fuel taxes on the industrial, commercial and institutional uses immediately. This move will also strengthen the competitive position of industries consuming energy for productive purposes. It will alleviate some of the rising costs experienced through inflation and be of particular benefit to industries in Northern Ontario. This measure will also result in major cost savings to schools, hospitals and other institutions, and simplify our tax administration. The estimated cost of this tax relief is $19 million in the current fiscal year.

Pollution Control

The extension of The Pollution Abatement Incentive Act proposed by my colleague, the Minister of Environment, and enacted by the Legislature, is designed to stimulate investment in pollution abatement equipment. This measure, which will be in effect for a further one-year period, is expected to provide an additional $1 .5 million in tax-equivalent grants to purchasers of qualifying equipment.

I also propose a two-year extension of the fast write-off on environ- mental protection equipment to parallel the federal extension. This incentive, which will cost about $2 million in each of the two years,

will encourage industry in the purchase of water and air pollution control equipment. These measures should further extend the basic protection of the environment from the effects of industrial wastes.

Tax Coordination

Mr. Speaker, it is the policy of this Government, on evaluation of federal corporate income tax changes, to maintain consistency between the federal and Provincial tax structures wherever feasible. In some cases, uniformity may benefit the corporate taxpayer by eliminating uncertainty and reducing the costs of compliance. I have studied the changes introduced in the federal budget of last November and I now propose that this Province parallel the following changes.

International Income

In my 1972 Budget I announced that Ontario would not parallel the international provisions of the federal tax reform legislation at that time. Those international provisions were too harsh and threatened the desirable expansion of Canadian-based multinational companies. I expressed the hope that the federal government would recognize the need to moderate these provisions so that our multinational companies would be able to compete in international markets.

The federal government has now recognized the need for changes in its international tax provisions. Recent amendments result in an acceptable set of rules for the taxation of international income and should curtail the use of foreign tax havens. I recognize that the federal legislation is complex. The intent of the new rules and the practical advantages to Ontario corporations, however, have convinced me that Ontario should parallel these provisions in its own legislation.

Acceleration of Corporations Tax Payments

The federal budget moved the due date for the final payment of corporations tax from three months after corporate fiscal year-ends to two months. Small businesses were not affected by this change and can continue to make final payment within the three-month period.

For Ontario tax payment purposes I propose that this federal action be paralleled. This will apply to corporations with year-ends after July 31, 1975 and will result in a forward adjustment in the Province's cash flow of approximately $100 million.

Other Federal Changes

I am also proposing that Ontario parallel a number of other corporate tax changes contained in recent federal legislation.

• Oil and gas royalties will be disallowed as a deduction for Ontario corporate income tax purposes. I estimate that this measure could produce $30 million in revenue in this fiscal year.

• The capital cost allowances on new, multiple-unit residential rental buildings started after November 18, 1974 and before December 31, 1975 may be claimed against other income.

• A 15 per cent capital cost allowance will be applied to timber limits, rights, or licences to cut timber, after May 6, 1974.

• The tax-free reserves of large financial institutions will be reduced from 1^ per cent to 1 per cent on eligible assets exceeding $2 billion, effective January 1, 1975.

• There will be unlimited deduction for scientific research expenditures, and carry forward of any unclaimed amounts

• Federal provisions relating to corporate reorganizations and rollovers will also be paralleled.

*Exceptions*

I do not propose to parallel federal moves in two important respects.

The federal government has disallowed carrying costs on land held for development as a deduction against other income. This measure will not accelerate significantly the availability of serviced lots over the short term. Over the longer term, it may hinder careful planning and indeed, ultimately lower supply and increase the final price of such lots.

Ontario will maintain its policy of allowing full deduction of all Canadian exploration and development expenses, as a measure to en- courage future expansion of the resource industries. This is in direct contrast to the recent federal changes, which limit the annual deductibility of development expenses to 30 percent for mining and petroleum companies.

**Encouraging Home Ownership**

Mr. Speaker, you will recall that in 1973 the Ministry of Housing was established to mobilize resources and expand the supply of reasonably-priced housing for Ontario residents. Consequently, over the past two years, the Government has more than tripled its financial support to this Ministry. For 1975-76, the Province's total funding for housing programs and townsite development will amount to $526 million. Unfortunately, our strong action has not been matched by the federal government. Indeed, it appears to have taken advantage of our increased financing to reduce its own commitment in this area. Over the past two years, CMHC allocations for Ontario have increased by only 7.5 per cent from $412 million in 1973 to $443 million in 1975.

My colleague, the Minister of Housing, will be providing full details of Ontario's housing actions. At this time I shall highlight only the major program enrichments for 1975.

Basic Housing Programs

The 1975 budget allocation for the Ontario Housing Action Program grants and loans to municipalities has more than doubled from $19 million in 1974-75 to a funding level of $43 million in 1975-76. Advances to the Ontario Mortgage Corporation (OMC) will be increased from $133 million to $208 million for OHAP, HOME and socially assisted housing programs.

In conjunction with the above initiatives, the Government will also take steps to broaden the mix of new housing through its Home Ownership Made Easy program (HOME) for moderate income families.

In support of our senior citizens and low-income family households, the Government has augmented its budget in this area by some 57 per cent to a total of $87 million. With complementary federal financing, this will generate 10,600 new senior citizen and subsidized units for 1975-76. Even if the necessary federal financing is not forthcoming, Ontario pledges to hold to this target.

Increasing Supply

In addition to expanding its basic housing programs, the Government is taking action on other fronts to increase the supply of serviced lots. Capital investment in water and sewer facilities has been increased from $81 million in 1973-74 to $138 million in 1975-76. This provides for expansion of sewage and water treatment plants and construction of major trunk lines to service new and growing communities.

Mr. Speaker, this Government accepts the important responsibility of ensuring good housing for all of our people, and we intend to discharge that responsibility. Our Ministries have joined in a concerted effort to assist the Ministry of Housing in tackling the urgent job of expanding the supply of housing. Regional and local municipalities also have a vital role to play in achieving this objective. I recognize that our municipal partners may feel their responsibility is primarily to their residents. But we trust them to take a broader view. We expect they will work with the Ministry of Housing so that the necessary new housing will be provided for our growing population.

$1,500 Grant for First Home Buyers

In my opinion, the federal program of $500 grants announced in November 1974 is having only marginal effects in Ontario because of the limited size of the grant, the restriction that the home must be a new home and the unrealistic price criteria. The legislation I will introduce tonight will be considerably more powerful.

Effective tomorrow, Mr. Speaker, anyone purchasing a first home in Ontario will receive a $1,000 grant from the Province, plus an additional $250 in each of the two succeeding years for a total grant of $1,500. This First Home Buyer Grant program will remain in effect until December 31, 1975. It will cover new and used homes and apply regardless of the price of the home or the income of the purchaser. I estimate that this program will pay out $55 million in grants during the balance of this year.

The major features of Ontario's new First Home Buyer Grant are contained in Appendix B.

Cost Reductions

In addition to the new First Home Buyer Grant program, there will be other spin-off benefits to housing from the sales tax cuts I have already announced. I estimate that the reduction in the retail sales tax to five per cent will itself provide $25 million in cost savings on building materials used in housing. Moreover, additional benefits will accrue through tax savings on construction equipment, and through increased employment in the building trades.

As mentioned earlier, Ontario has matched the federal capital cost allowance for rental units. In view of the shortage of rental accommodation, I strongly urge the federal government to extend this pro- vision beyond 1975. I further urge the federal government to reconsider its decision to disallow carrying costs on land held for development.

Mr. Speaker, the housing industry has demonstrated consistently its ability to expand Ontario's stock to meet the needs of our growing population. At this time, there are signs of a resurgence in the industry. I believe there will be an ample supply of mortgage funds available at somewhat lower rates. These factors, combined with the powerful measures I am introducing in this Budget, will — I am confident greatly improve the outlook, providing new homes and new jobs. With a comparable degree of federal commitment and municipal support, I expect that 90,000 new units will be started in Ontario this year.

Regional Planning

Before leaving the subject of housing, Mr. Speaker, let me spend a moment on the important related matters of land use planning, regional development and decentralization of growth in Ontario. These long- run policies will shape the future of our society and will make a major contribution to the quality of life in Ontario in the decades ahead.

We have assembled land for three new towns.

The creation of industrial parks will support our regional planning objectives. The Government of Ontario recognizes the need to diversify industrial development more broadly throughout the province. This will relieve the pressures of growth on the metropolitan areas and expand job opportunities in the slower growth regions. Thirty million dollars has been set aside in 1975-76 for the funding of industrial parks. This will provide for the completion of the Edwardsburgh acquisition and the purchase of land for industrial purposes in Northern and Eastern Ontario in a program to be announced by my colleague the Minister of Industry and Tourism.

Within the next month, we expect to table the interim plan for the Parkway Belt West and the area to be covered by development controls in the Niagara Escarpment planning area. The cost of acquisition of the public-use lands in both the Escarpment and the Parkway Belt is very high. For example, it is estimated that over $500 million will be necessary for the purchase of such lands in the Parkway Belt West alone.

Before the end of the session I intend to place before the Legislature development plans for Northeastern and Eastern Ontario, together with a planning strategy for the province. These will set out alternatives for our future development. Because the ultimate choices that are made will affect the lives and the livelihoods of many people, the Government seeks the widest possible public response.

**Government Leadership and Restraint**

The measures I have just outlined are designed to generate immediate expansion in the private sector of the Ontario economy. Members will note that each of the major measures that I am proposing to stimulate the economy is temporary and is designed to avoid an over- response when the economy regains its customary momentum. I would also stress that this Government has resisted the temptation to take up the current slack in the economy through increased government expenditures. Such a course would have been counter-productive by locking the Province onto a higher spending plateau.

In planning this Budget, I have kept at the centre of my attention the long-run problem of productivity and the role that government spending at all levels has played in the inflation process. I am convinced that one of the root causes of the current inflation problem in Canada is excessive government spending and unnecessary growth in the size and complexity of the public sector. This has shifted an increasing share of our total resources out of private production uses in the economy, and has eroded the taxpayer's hard-earned income.

With this budget, therefore, Ontario continues and extends its tough measures to curb the growth of government.

Controlled Public Sector in Ontario

Mr. Speaker, I am sure that all Members recognize that the high inflation of recent years has had a substantial impact on provincial and local government expenditures. Like the private sector, governments as employers and as purchasers of goods and services have been faced with rapidly rising costs of materials and with escalating wage and salary demands. Nevertheless, we have managed to control the growth in our spending so that the public sector claim on the total output of the Ontario economy has not increased.

In 1971, federal, provincial and local government spending in Ontario accounted for one-third of our Gross Provincial Product. In 1974, the size of the public sector remained at one-third of the economy as a whole. By contrast, the public sector has steadily increased in size for Canada as a whole, rising from 36 per cent of Gross National Product in 1971 to 37.5 per cent in 1974. This record of public sector stability in Ontario versus growth in the rest of Canada is documented in Budget Paper B.

**1975-76 Expenditure Growth**

In the development of the 1975 Budget, a prime objective has been to continue our restraint on expenditure growth. Accordingly, the 1975 expenditure Estimates to be tabled by my colleague, the Chairman of the Management Board, call for a 16.8 per cent increase in budgetary expenditure, and an overall increase in budgetary plus non-budgetary spending of only 12.2 per cent.

I believe that continuing restraint on spending is an obligation for all governments at this time, in order to set an example of responsible leadership to the community at large. In this way, more of our total resources will be available for expansion of private output, and government operations themselves will not contribute to inflationary pressures.

Reduction in Civil Service Complement

The Government's plan of expenditure control concentrates on its own operations and has four main elements:

• Ministries have reviewed their civil service complement to achieve an overall reduction for the Government of 2.5 per cent.

• Ministries will be required to absorb within their 1975-76 Estimates all in-year cost increases resulting solely from inflation.

• All programs are being reviewed with the view to eliminating those, such as the Emergency Measures Organization, which have outlived their usefulness.

• Provincial building projects have been postponed wherever feasible, except in the highest priority areas of housing and environment.

Reduction in civil service complement is a cornerstone of our plan to control government costs and improve operating efficiency. Management Board has reviewed the staffing in all Ministries and has already achieved a reduction in the Government's total complement to 69,221. Therefore, since 1972, the Ontario civil service complement has grown by only 3.2 per cent, which is well below the growth rate in total employment in the province. Over the same period, the federal civil service has grown by almost 19 per cent or substantially faster than the increase in employment in the Canadian economy.

Reducing or even holding the line on civil service growth is not only a practical way to control costs but also a way to release resources to be put to better use in the private sector. The cost savings from Ontario's complement cuts will amount to $15 million in the first year alone and this measure will produce even greater economies in future years.

Ontario Hydro, all other Provincial agencies and commissions, and local governments are being urged to re-examine their administration, overhead and staffing costs with the objective of achieving com- parable savings.

Local Government

Mr. Speaker, I should now like to devote a few moments to the local government sector. In 1974, total spending by local governments in Ontario reached $5 billion, or about the same level as the total Provincial budget in 1970. The property tax contributed less than $2 billion of this $5 billion in local spending, most of the balance being provided by the Province. Increased Provincial financial support, in fact, has been the major factor in insulating ratepayers from the brunt of rapid spending growth by school boards and municipalities.

Present indications are that local spending in 1975 will grow more rapidly than in previous years. I have no illusions, given this kind of spending growth and the limited resources of the Province, that mill rates can continue to be held. Last fall, my predecessor warned local governments that the Province could only increase its aid in line with its own revenue growth. The federal government has the fiscal resources to relieve the pressure on local government financing, but so far no progress has been made at Tri-Level Conferences to secure new forms of tax sharing to meet the needs of local governments.

For the 1975-76 fiscal year, the Province has reviewed its financial assistance within the context of its revenue-sharing commitment. Last year's transfers fell short of the level dictated by the revenue growth rate ultimately realized. The Ontario Government will honour its revenue-sharing commitment, including the shortfall during 1974-75. As a result, the Province will be able to increase total transfers to local governments and agencies by a total of $380 million, an increase of 16.3 per cent over the previous year. This contrasts with the 13.2 per cent growth in the Province's own on-going programs. I am including a table which displays how the commitment is fulfilled.

Much of the increase will go to conditional grant programs, such as school board grants and transportation subsidies. However, there will also be scope for the Province to increase unconditional grants by $65 million. Tomorrow, I shall table in the Legislature a comprehensive document on Provincial assistance to local governments and taxpayers. This document contains complete details on the 1975-76 revisions to the unconditional grant programs.

There are two major revisions to our 1975-76 unconditional grants package. To maintain high standards of law enforcement, the Province will emphasize the per capita grant towards policing costs. The Government will also enrich its special assistance to Northern municipalities.

People in Northern Ontario experience considerably higher costs for many of their requirements. We believe, therefore, that reduced property taxes are the best way to provide compensating benefits to Northern residents. The special Northern grants will increase by almost 42 per cent over last year. As a result, the average residential tax should be $90 lower in Northern Ontario than in Southern Ontario in 1975.

Mr. Speaker, some local government expenditures are vital to our basic economic development. Other expenditures are less important at this time of escalating mill rates. Therefore, I take this opportunity to urge local governments, both school boards and municipalities, to restrain spending wherever possible. I have asked the Ontario Municipal Board to review the capital spending applications of the municipalities to see which capital projects can sensibly be deferred.

Some projects, such as sewerage, water, roads and transit are obviously of higher priority than others. Municipalities will need to undertake that kind of works if we are to have the supply of housing lots needed in nearly all parts of the province. As I indicated earlier, this is one of the most important long-term solutions to the cost of housing. Other types of projects, on the other hand, can perhaps be deferred unless they will have an immediate and desirable impact on local construction employment.

I also call on school boards and municipal councils to carefully examine their staffing, overhead and administration expenses. Restructured governments, in particular, should examine closely both complement and salary levels in relation to the changes and reductions in their responsibilities. Given the record of spending over the past four years, shown in Budget Paper B, I believe that regional and local governments can achieve substantial economies in both complement and payroll. Success in such spending restraint delivers dollar-for-dollar benefits to Ontario ratepayers.

**Conclusion**

Mr. Speaker, the strong fiscal actions I have put before you will cost the Province some $430 million in this fiscal year. In the absence of these substantial initiatives, our net cash requirements for 1975-76 would have been about $1.2 billion or only modestly higher than in 1974-75. In total, therefore, I am estimating our overall cash requirements at $1 ,669 million, which is well within the capacity of the Province to finance. Pension funds will generate $1,125 million of internal financing and the balance will be raised through judicious use of cash reserves and the capital markets.

Our fiscal plan will materially assist Ontario's economic recovery in 1975 and build a sound base for strong expansion in 1976. Given the anticipated upturn in the U.S. economy and appropriate policies by Ottawa, I believe that the Ontario economy will rebound to higher levels of growth by year-end.

In conclusion, this budget sets out a powerful and constructive fiscal plan to counteract slack in the provincial economy without adding to inflationary pressures. It reinforces the inherent strength of our private sector through the controlled use of public resources on both the taxation and expenditure sides.

• It cuts the sales tax during 1975 to increase consumer purchasing power.

• It establishes a $1,500 home buyers grant to stimulate the housing market in 1975.

• It launches a longer-run incentive to expand investment and productivity and to create new jobs.

• It harmonizes provincial tax legislation with that of the federal government to produce greater certainty and lower compliance costs for Ontario business.

• It raises the guaranteed income of Ontario pensioners and eliminates income tax on low-income families.

• It enriches incentives and support to the small business and farming communities.

• It reduces civil service complement and holds down government spending to facilitate private production, investment and consumption.

I am confident that this budget will be an important factor in restoring Ontario to its accustomed prosperity and in ensuring that all of our people share in that prosperity.