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| Ontario | 30e | 3e | Discours sur le budget | 6 avril 1976 | Darcy McKeough | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

The 1976 Budget I am presenting tonight reflects the determination of this Government to keep the Province's finances in good order. It sticks to our plan for slashing the growth in Provincial spending. It reorders priorities, trims government costs and reduces the number of civil servants. And it raises taxes in selective areas. With this plan of purposeful fiscal restraint, Ontario will achieve a large reduction in its cash requirements, maintain its financial integrity, and set an example for others to follow in the fight against inflation.

Reducing the rate of inflation remains the number one objective for economic policy in 1976. The national Anti-Inflation Board has now been in operation for some six months, and I believe it is working. We must persevere to make sure that it continues to be effective. Controls will be necessary until Canada's cost and price performance is brought back into line with that of our trading partners, particularly the United States.

The lesson from 1975 surely must be that Canada cannot escape from the discipline of international economic forces. Continuing high inflation in Canada is our responsibility, hence we must devise our own remedies. One of those remedies must be to reduce government spending rather than borrowing more, or printing more money. The Government of Ontario has made the hard choice to cut back its spending and borrowing, and I am confident the people of Ontario will support that decision.

Before proceeding with the policies and prescriptions of this 1976 Budget, I would like to call attention to the supporting documents to this Statement. My overall Budget presentation includes:

• Appendices detailing the tax changes;

• Six Budget Papers which discuss the economy, health financing, expenditure restraint, the labour market, property tax reform, the auto pact; and

• A separate document on Ontario's financial assistance to local governments.

These papers provide extensive documentation and perspective on the economic, fiscal and financial policies of the Government of Ontario.

**Economic Recovery**

Mr. Speaker, the Ontario economy ended 1975 on a firm recovery note. Members will recall that a year ago at this time, we were experiencing a significant economic slowdown as the forces of world recession spilled over into Ontario. The Government responded with immediate and powerful fiscal measures. We introduced temporary tax cuts and incentives amounting to almost $600 million to reinforce purchasing power, to encourage home ownership and to stimulate the automobile industry. These 1975 fiscal initiatives worked and they worked well. Sales, production and employment bounced back vigorously in the second half, erasing losses in the first half, and building the momentum for renewed economic expansion in 1976.

Success of 1975 Fiscal Measures

Let me outline the economic returns from our bold stabilization actions in 1975, full details of which are presented in Budget Paper A.

• The temporary reduction in the retail sales tax caused a surge of buying by consumers and businesses, the benefits of which spread rapidly through the economy. Retail trade in Ontario accelerated by 17.8 per cent in the July-December period, nearly double the rate of the first half of the year. For the year as a whole, retail sales in Ontario outperformed the rest of Canada by almost two full percentage points. This major gain not only generated increased production and employment but also created a climate of renewed optimism and confidence.

• The $1,500 grant to first-time homebuyers was an over- whelming success. In its nine-month duration, 90,000 families took advantage of this incentive to acquire their first home. In 1975, first-time buyers accounted for fully 54 per cent of total housing sales as compared to about 30 per cent in a normal year. This large influx of new buyers into the housing market quickly impacted on housing starts. Whereas at mid-year urban housing starts were down by 14,000 units, more than 10,000 of this loss was recovered by the strongest second-half house- building performance in Ontario's history. And this resurgence of housing starts continued in the first quarter of 1976.

• The tax rebate on new car purchases also was a runaway success. Nearly 200,000 tax rebates were paid out under this six- month incentive. This direct bonus to private spending turned the car market around in 1975 and propelled it to a record year of sales. Sales in Ontario ended the year up 14 per cent, versus a small decline for the rest of Canada. Production of cars exhibited a similar turnaround in volume and this strong recovery in production has carried over through the first three months of 1976.

Mr. Speaker, these are welcome economic facts. They demonstrate the effectiveness of Ontario's expansionary policies. And they prove that direct and immediate incentives to the private sector are the best way to get economic results.

Prospects for 1976

I am forecasting a good year for the Ontario economy in 1976. The internally generated surge of activity in the second half of 1975 has built momentum for continued expansion throughout this year. This will be reinforced by the recovery in the U.S. economy and the strong external demand for our exports. Overall, I expect Ontario's real Gross Provincial Product to grow by 5.3 per cent, a somewhat higher increase than is expected for Canada as a whole. Price increases should moderate to 9 per cent or less, permitting real income gains both to labour and to business.

In 1976, employment is expected to increase by 3.2 per cent or 116,000 new jobs. Parallel expansion in the labour force, however, means that we cannot confidently expect any significant improvement in the unemployment rate. The Province is monitoring this economic indicator closely. For an in-depth analysis of the Ontario labour market, I refer Members to Budget Paper D.

To sum up, Mr. Speaker, the Ontario economy is back on trend. This Budget is based on the underlying strength and growth capacity of our economy during 1976.

**1976 Fiscal Plan**

In the Budget tonight, I have designed what I believe to be an appropriate fiscal policy and a responsible financial plan for the Province. Again this year, I engaged in extensive pre-budget consultations with representatives of the labour, business, consumer, farming, professional and financial sectors of the economy. Their advice and that of various economic research organizations assisted me materially, and for that contribution I would like to express my appreciation.

My conclusion is that the Ontario economy does not require government stimulation at this time. Rather, my colleagues and I believe that the thrust of Provincial policy should be to rely on private sector expansion to generate growth and employment. This does not imply a purely passive role for the Government. It requires an active role in ensuring that the necessary resources flow into private activities and are not usurped by government spending and borrowing. The expenditure policies I will now outline have been designed to accommodate this essential shift of resources into private incomes, profits and investment.

Expenditure Restraint

The first element in my 1976 fiscal plan is control of spending.

In October, 1975, the Ontario Government announced that it would limit its expenditure growth for the 1976 fiscal year to 10 per cent. The actual 1976 Estimates to be tabled by the Chairman of the Management Board come within half of one per cent of that objective. Total spending for 1976-77 is held to $12,576 million, which allows for an increase of $1,185 million or only 10.4 percent over last year's level. This represents a sharp reduction in spending growth, from the 15.9 per cent increase in 1975-76 and the 24.7 per cent increase in 1974-75. Every Minister in the Government knows first-hand what this has meant in terms of the public programs for which he or she is responsible.

There have been loud objections from almost every interest group in the province to this necessary spending restraint. Not unexpectedly, the Government has been commended for restraint in general, but castigated for the specific applications where restraint grips in. How- ever, there can be no escaping a shift in priorities, a trimming of costs and a reduction in staff if spending is to be controlled. This Government has taken these tough decisions because we are convinced that the size of the public sector must be decreased.

Mr. Speaker, the spending policy of this Government provides for the essential needs of our citizens. It also recognizes that new needs are emerging that merit funding. The allocation for the administration of justice has been increased by 19.1 per cent, support to post-secondary education has grown by 15.4 per cent, and spending on social development generally is up by 12.1 per cent. On the other hand, there is an absolute cut in our Provincial roads budget. The savings on our own programs allowed the Province, for example, to increase its contribution to the Spadina subway, from $38 million in 1975-76 to $73 million in 1976-77. The Ministry of Housing budget includes a new initiative, the Downtown Revitalization Program. It also extends for one year the OHAP incentive grants and loans to municipalities to increase the supply of serviced land. The 1976 budget of the Ministry of the Attorney General makes provision for the appointment of 46 additional judges and justices of the peace. Mr. Speaker, the Estimates of every Ministry, though restrained, make room for progress and advancement in our range of public services. For a summary of 1976 spending trends and the distribution among programs, I call Members' attention to Budget Paper C accompanying this Statement.

It would be appropriate at this point, however, to state that legislation will be introduced changing the GAINS residency criteria, which is presently five years in Canada. Effective April 7, 1976, new applicants for GAINS must meet the same ten-year residency criterion that is required for federal OAS and GIS benefits.

A key element in Ontario's policy of expenditure control is a further reduction in the number of civil servants on the provincial payroll. We are convinced, and the evidence of the past year confirms, that it does not require a growing bureaucracy to maintain and improve public services. By the end of 1976-77, our complement of civil servants will be reduced to 66,537— a drop of more than 4,200 from the 1974 level. By contrast, since 1973 the federal government will have expanded its bureaucracy by some 39,000 bodies.

Local governments are sharing the burden of restraint in Ontario. Our 1976 Estimates provide for an increase of $225 million in grants to municipalities and school boards, a growth of 7.8 per cent. In previous years, the Province could afford to go over the Edmonton commitment and provided generous increases: $291 million in 1974-75 and $558 million in 1975-76. In retrospect, these large financial transfers from the Province may have stimulated some local spending that wasn't absolutely necessary. I am encouraged, however, that local governments are cooperating with our restraint program and setting realistic budgets.

While on the subject of local government, I would like to inform the Members of two important developments.

First, I propose to establish a committee of provincial and local officials to study the scope for deconditionalization and simplification of Provincial grants. This is in response to requests from individual municipalities, the Municipal Liaison Committee and the Association of Municipalities of Ontario. It is my hope that this committee will be able to report back by this autumn so that our 1977 grant structure can be modified to allow greater freedom for local priority setting.

Second, in Budget Paper E, the Government is advancing proposals on how the property tax structure can be reformed to accommodate reassessed property values. This paper outlines 15 proposals as the foundation of a new property tax system based on reassessed values. It is the Government's desire that there be afforded the widest opportunity to participate in the development of a new tax system. A Commission, including people knowledgeable in municipal and education finance, will be appointed to receive submissions and to make recommendations on the new property tax system. The Government's time- table calls for the Commission to report back this fall, new legislation to be prepared by the spring of 1977, and a new property tax system using market value assessment to be in operation in 1978.

Reducing Cash Requirements

To complement expenditure control, the second element in my 1976 fiscal plan is to increase taxes to reduce the Province's cash requirements.

The expansionary tax cuts we implemented in 1975 necessarily required a sharp increase in our net cash requirements. Though final figures are not yet in, I estimate that net cash requirements reached $1,889 million for 1975-76. This is down $87 million from the $1,976 million estimated in Ontario Finances three months ago. The last quarter improvement was due to rigorous in-year spending control enforced by Management Board and to stronger revenue yields at year-end.

The improving economic situation permits the Province to secure a substantial reduction in its cash requirements for the coming year. Holding expenditures to 10.4 per cent while revenues expand at 15.9 per cent would go part way towards this objective. Without tax increases, I estimate our 1976-77 net cash requirements would amount to $1,560 million or $329 million below the 1975-76 level.

I believe a further substantial reduction is desirable. Accordingly, I am proposing a package of tax actions which will raise an additional $330 million in revenues.

100 per cent of the revenues from these tax increases will be applied directly to reduce the Province's cash requirements. Thus, my Budget calls for net cash requirements of only $1,230 million in 1976-77 — representing a fiscal swing of some $659 million from the 1975-76 level. I am confident that the Province can achieve this significant improvement in its finances without in any way dampening the buoyant economic expansion now underway.

**Tax Actions**

Mr. Speaker, I come now to the vital matter of tax policy. I am pro- posing a balanced and equitable package of tax changes which will raise $330 million in additional revenue this year. Let me affirm again that none of this additional revenue will be used to finance increased spending; every dollar will be used to reduce our cash requirements.

OHIP Premiums

The Government has embarked on a long-term program to reduce the cost spiral for hospital and medical services, including actions to eliminate surplus hospital beds, rationalize laboratory services and control the volume of laboratory tests. On the medicare side, the Ontario Medical Association has agreed to a fee increase of 8. 1 per cent, effective May 1, 1976. The Minister of Health will be bringing forward legislation to ensure that these economies and other constraints on health insurance spending are realized for fiscal 1976-77.

Mr. Speaker, complementary action is also necessary on the financing side. Ontario must take action now to restore an appropriate and equitable balance in the financing of OHIP. I am proposing three complementary measures to achieve this objective: an increase in OHIP premiums, increased charges for semi-private and private accommodation in hospitals, and enriched premium assistance.

The current OHIP premiums of $11 and $22 per month finance only 23 per cent of the costs of insured health services. They yielded $68 per capita in 1975-76, while costs ran in excess of $300 per capita. By contrast, in 1970-71 per capita costs were $162 and premiums amounted to $81 per capita or 50 per cent of costs. To re-establish a better balance between the charges for health services and the costs of those services. I propose to increase OHIP premiums by $5 per month (single) and $10 per month (family) effective May 1. 1976.

Budget Paper B provides a detailed analysis of the trends in health insurance costs and financing. It also shows that Ontario's health premium system contains three large elements of progressivity.

• For most people, the employer pays a large part of the health premium.

• The employer contribution is a taxable benefit under the progressive personal income tax.

• Low-income families, welfare recipients and all pensioners receive free coverage.

At present. 88 per cent of group premiums are paid by employers. Accordingly, the impact of the premium increase on most working individuals and families will be modest. Of the total new revenues of $228 million to be raised through the premium increase, I estimate that $164 million will be paid by employers, $22 million by employees and $42 million by pay-direct subscribers such as professionals, businessmen and the self-employed.

The second measure I am proposing strengthens the link between utilization and costs of health services. It involves the per diem charges for semi-private and private accommodation in hospitals. Currently, hospitals levy user-charges on such accommodation averaging $7.50 and $12 per day respectively. Effective May 1, 1976, these charges for privacy will be increased to $11 per day for semi-private rooms and $22 per day for private rooms. This will raise an additional $20 million directly from those people who receive these extra benefits. This extra revenue will be retained by hospitals and offset against their approved operating budgets.

The federal government intends to limit its financial participation in medicare and hospital services, leaving a heavier future burden of financing on the provinces. The OHIP premium increases and the increases in per diem charges I have proposed, in conjunction with the cost-cutting efforts of the Ministry of Health, will ensure that our health insurance plan does not consume an ever-increasing share of the Government's general tax resources.

Broadened Premium Assistance

Mr. Speaker, everyone in Ontario is enrolled in OHIP and is protected for the full range of medical and hospital services. Our premium assistance provisions ensure that the highest quality health care is accessible to all, regardless of income or financial circumstances. Presently, more than 1.4 million persons including all pensioners, welfare recipients and low-income families enjoy free premiums, and others are subsidized for half of the premium. Effective immediately. I propose to broaden OHIP premium assistance, to strengthen further this progressive element of our health financing system.

• All persons currently entitled to free coverage will continue to enjoy this benefit when the higher premiums come into effect.

• Free coverage will be extended to single persons having taxable incomes of $1,534 or less, and to families having taxable in- comes of $2,000 or less.

• Half premium rates will be available to single persons having taxable incomes between $1,534 and $2,000, and to families having taxable incomes between $2,000 and $3,000.

This generous enrichment in premium assistance means that an additional 363,000 people, to a total of 1.8 million, will receive free or subsidized OHIP coverage. That's nearly one in four Ontario residents. This enrichment of premium assistance will also lower the premium actually paid by many families, even after the $10 a month increase in the premium rate. For a family of four, for example, the broader assistance criteria will result in a net saving of up to $132 where gross income falls below $8,225 annually. The value of our broadened premium assistance will be no less than $279 million in 1976-77.

Cigarettes and Alcohol

The second area where I propose to secure additional revenue is from tobacco and alcohol.

Effective April 20, 1976, the gallonage tax on beer will be raised by 7 1/2 cents per gallon and the mark-ups on spirits, wine and imported beer will be increased. Mr. Speaker, this will mean approximately 30 cents on a 25 ounce bottle of spirits and 15 cents on a case of 24 bottles of beer. These increases will generate $50 million in additional revenues for 1976-77.

Effective midnight this day, the tax on cigarettes under The Tobacco Tax Act will be increased by 5 cents per package of 20 cigarettes. I estimate this will raise $50 million in 1976-77. In my consideration of the tobacco tax, I have concluded that some compensation for collection costs is warranted. Accordingly, I am also proposing that tobacco tax collectors receive compensation paralleling the vendor remuneration arrangements which apply under The Retail Sales Tax Act.

Insurance Premiums Tax

Mr. Speaker, the insurance premiums tax has remained unchanged at 2 per cent since 1 956. Effective midnight this day, I propose to increase the rate to 3 per cent. The additional tax of \ of 1 per cent applicable to property insurance will continue in effect, over and above the new base rate of 3 per cent. I estimate this measure will generate an additional $20 million in this fiscal year.

Tax Cuts for Small Businesses

Let me turn now to some selective areas where tax cuts will yield positive and concentrated benefits.

I have decided to deploy our limited capacity to finance tax cuts by providing stronger incentives to Ontario's small business corporations. In this province of opportunity the small businessman has a large role to play— as an employer, a supplier of goods and services, and as an innovator.

• Preferential Tax Rate— Effective with fiscal years ending after April 6, 1976, the general 12 per cent rate of tax for corporations will be reduced to 9 per cent on income eligible for the federal small business deduction. This preferential tax rate is a simple and straightforward incentive which will be readily understood by small corporations. As well, the benefits will be widely distributed to 50,000 Ontario companies. It will replace our present tax credit provisions which proved to be too complex for many small businesses, and reached only 20,000 companies.

The new low rate of tax for small business income will cost the Province approximately $30 million in 1976-77, about equal to what the tax credit would have cost. In addition, I am proposing transitional rules allowing small businesses to carry forward for one year unused credits accumulated under the previous incentive. This transition bonus will represent a one- time cost of $8 million.

• Exemption from Tax Instalments — As a second incentive, I intend to increase the tax threshold at which small corporations are required to pay tax by instalments. At present, corporations with estimated tax liability of $300 or more annually are required to pay the tax in six instalments over the course of their fiscal year. I propose that, effective April 7, this limit be increased to $2,000, thereby exempting an additional 25,000 small corporations from the necessity of remitting the tax by instalments. This simplification will cost the Province $2 million annually.

• Venture Investment Corporations— In the 1974 Budget, Ontario proposed the creation of Venture Investment Corporations. This proposal was designed to increase the supply of risk capital to small businesses and provide much needed managerial assistance. It involves a tax deferral as an incentive to invest in Venture Investment Corporations, and these new entities in turn would channel the funds into small business ventures.

In my 1975 Budget, I reaffirmed Ontario's confidence in the VIC concept as a viable instrument for stimulating investment in small businesses. The Province's position is reinforced by the great interest for the proposal which has been shown by the private sector and at least two other provinces. Therefore, I will table legislation tonight for first reading only, providing for the creation of Venture Investment Corporations in Ontario. It is my hope that the interest created by this legislation will prompt the federal government to recognize the merits of the program.

• Tax Relief for Non-Producing Mines — \ am also proposing changes to the paid-up capital tax to assist Ontario's non- producing mining corporations, effective with fiscal years ending after April 6, 1976. I estimate the revenue loss from this change to be about $1 million.

In summary, these four proposals will substantially assist small business in Ontario by improving after-tax earnings, increasing growth potential and reducing the complexity of tax compliance.

Timber Resource Revenue

I would now like to discuss the status of the Government's review of Crown charges. In announcing the doubling of the Crown dues in the 1974 Budget, the Government stated that this action was an interim measure pending a complete review of this revenue field to be con- ducted by a task force under the joint direction of the Minister of Natural Resources and the Treasurer. This review has been completed and the Report of the Timber Revenue Task Force was made public in December, 1975 for comments by interested parties. The recommendations of the Report and the comments received from the industry are now being considered. The Minister of Natural Resources will be introducing amendments to The Crown Timber Act before the end of 1976 to be effective January 1, 1977.

Other Tax Changes

I am also proposing three changes under The Retail Sales Tax Act to provide relief in selective areas, effective midnight this day. Together, these changes involve an estimated revenue loss of $12 million annually.

• The exemption level on prepared meals will be increased from $4.00 to $5.00.

• Insulation materials used in existing residential units will be exempted.

• The value on which sales tax is calculated for mobile homes will be reduced in order to put them on the same basis as on- site construction.

I also propose to increase the fee for drivers of uninsured motor vehicles, from $60 to $100 per annum, effective December 1, 1976.

Before concluding my discussion of tax actions, I would like to report briefly on progress made toward tax simplification as promised in the 1975 Budget. My colleague, the Minister of Revenue, has identified many areas for streamlining which will be incorporated in upcoming legislation and in improved administrative procedures. Some changes, such as those relating to succession duties have already been announced. Other improvements, such as the lower tax rate and the exemption from tax instalments for small corporations, are contained in the legislation to be introduced tonight.

To summarize, Mr. Speaker, I am proposing tax increases amounting to $353 million, as well as several reductions costing $23 million. The net result will be $330 million of additional revenue in 1976-77. These necessary tax actions along with spending restraint will substantially reduce our cash requirements and strengthen our long-term finances.

**A National Economic Policy for Canada**

Ontario's fiscal restraint program will make a vital contribution to the attack on inflation. But, our long-run prosperity will depend on our ability to come to grips with other fundamental economic issues. In this regard, Mr. Speaker, I believe that Canada is suffering from an economic malaise which goes deeper than the immediate problem of inflation.

In the last two years, Canada has been confronted with the economic challenges of energy, world recession and inflation. The Government of Ontario has developed direct and positive responses to these issues. But, with the exception of the national Anti-Inflation Program, we have been disappointed by the failure of the federal government to take effective economic leadership. It has failed to develop a realistic national energy policy. Last year it left the burden of economic stimulation policy to Ontario and other provinces, and it has been unable to control its own spending growth.

Mr. Speaker, this failure to come to grips with basic economic issues is disturbing in light of the rapid deterioration in Canada's international competitive position. In manufactured goods, our trading deficit has reached a serious level. Our industrial productivity growth has become dangerously sluggish and important investment decisions are being postponed. This is reducing the nation's potential to ensure an adequate level of employment and income growth for our people.

To confront this situation, we need nothing short of a fresh start on developing a national economic policy for Canada. This must include a recognition that it is the free market economy, not bureaucratic regulation, upon which our present standard of living was achieved and upon which our future economic growth must rely. While I want to reinforce our support for the temporary Anti-Inflation Program, we must also develop a hard strategy for a clean phase-out of the AIB when its goal has been accomplished. Now I would like to propose a basis for the development of a policy for long-term non-inflationary growth. It involves:

• even greater national efforts to cut down the rate of growth in government spending;

• development of a more realistic energy policy; and

• the development of an industrial strategy centred on productivity, and the maintenance of growth in incomes, employment and the quality of our lives.

Cutting Government Spending

First, Mr. Speaker, I would like to deal with efficiency in the public sector. If governments continue to expand faster than the private sector, I see no hope for either controlling inflation or solving other national economic problems. Too many of the talents of the nation are already locked up in government offices. The evidence is clear that our citizens do not want to pay higher taxes to buy more public services. They want higher real incomes and they want value for the taxes they already pay.

For many years, the level of government spending in Ontario has been significantly lower than in the rest of Canada. Our plan to contain Provincial spending to a 10.4 per cent increase in 1976-77 will further improve this performance.

Looking at federal spending plans, I am quite frankly disillusioned with the national government's commitment to restraint. Federal spending this year will grow at 16 per cent or by an additional $5.7 billion. If the federal government had held its spending to the same growth rate as Ontario, Canadian taxpayers could have saved almost $1.9 billion. In Ontario alone, the tax saving would have amounted to more than the $740 million cost to Ontario consumers of the oil and gas price increases imposed by the federal government last year.

One obvious way in which the federal government could achieve savings is by improving its internal efficiency and reducing the size of its civil service. Earlier in this Statement I compared Ontario's complement reduction program with the continuing increase in the size of the federal civil service. At this point, I think it is interesting to compare the relative efficiency of the two levels of government. While federal budgetary spending is roughly three times that of Ontario, its bureaucracy is five times as large.

It has been lack of fiscal restraint on the part of governments, particularly the federal government, which has made necessary the high interest rate, tight money policy of the Bank of Canada. While I cannot quarrel with the Bank of Canada's monetary policies, I would point out to Members that high interest rates are playing havoc with home- owners, businessmen and farmers. The Minister of Agriculture and Food tells me, for example, that the increase in interest rates has added 4 cents a pound to the price of beef.

Mr. Speaker, there is one further disturbing aspect of this matter of government spending. Put briefly, our growing concern is that among governments in Canada there is a lack of clarity and accountability about who is responsible for what. Competition for the delivery of services leads to needless public confusion, waste and inefficiency and inadequate attention by governments to their basic responsibilities.

As a result, and just as we are doing in our relations with the municipalities, this Government is determined, on the federal-provincial front, to pursue a policy of disentanglement.\* From the initiatives of the 1975 Premiers' Conference and the Special Program Review, we shall, in the coming months, be putting forward for intergovernmental discussion specific proposals to merge, transfer, exchange and, yes, even reprivatize public programs and areas of responsibility. Our objective will be to ensure that the taxpayers in our federation are served more efficiently and effectively by all levels of government.

More Realistic Energy Policy

I would like to turn now to the energy issue, the second element in my approach to a national economic policy. Mr. Speaker, some two years ago Canada's First Ministers met to deal with the serious implications of the dramatically changed world energy situation. Since that meeting, Canada has made some progress, but much more needs to be done.

On the plus side, the Sarnia-Montreal pipeline, which will contribute substantially to national oil self-reliance, is expected to be operating this fall. We have made progress in ensuring future energy supplies for Ontario with our participation in the Syncrude project. We are closer to our objective of securing major supplies of Canadian coal for Ontario Hydro and thereby reducing our reliance on foreign sources. On the other hand, there have been disappointments. At best, we are only marginally closer to developing arctic oil and gas than we were three years ago. Also, over the past two years we have been confronted with much more pessimistic predictions of the national deficit in oil trade. And, perhaps most disappointing, Mr. Speaker, has been the upward spiral of oil and gas prices. I need not re-emphasize the vigorous stand which Ontario has taken on this issue.

Next month, Canada's First Ministers will again tackle the issue of oil and gas price adjustments. Ontario is concerned that such a meeting could once again produce ill-timed price increases, from which far too much of the revenue will go to governments rather than towards private exploration and development activities. Last year, only 25 per cent of the additional crude oil revenue was turned back for private exploration and development.

I have already emphasized that our major economic priority must be to regain, hold and expand Canada's share of export markets. Yet, further oil and gas price increases, which regretfully are looming on the horizon, could seriously damage our competitive position by moving Canada ahead of the American energy cost structure. The inflationary impact of the last round of price increases is still working its way through our economy. And our exporters are just beginning to win their way back into U.S. markets as the recovery proceeds. Many of our industries are highly sensitive to energy price changes and, in addition, their productivity is lagging behind U.S. levels suggesting that with

respect to energy prices they need a competitive edge.

I have included a table in this section of my Statement which shows our energy cost position relative to U.S. industries, before and after a possible price hike. Clearly, Canadian energy policy must be highly sensitive to broader industrial priorities and not further hinder our export efforts at this crucial time.

I would now like to turn to the broader questions of industrial strategy and highlight what I see as the main priorities to ensure long- run productive growth in this country. These include the development of new high technology industries as well as other measures to improve our competitive position, a comprehensive planning strategy for the

Province and the strengthening of our manufacturing base, particularly the auto industry.

Developing New High Technology Industries

Productivity growth through the development of high technology industries is an objective which is actively pursued by the governments of all of the industrial countries of the world and a surprisingly large number of underdeveloped nations. Canada appears to be the exception. We have at the federal level a massive concern for industrial intervention and regulation where there should be a concerted and national drive for scientific and industrial research backed by joint public and private development of emerging high technology industries.

The Canadian market is limited. Exports are crucial to the successful survival of our technology. The competition from other national governments with low-cost loans and subsidies is intense. Frequently, these subsidies and cheap loans are blended with a foreign aid package. What Canada needs is a national effort in developing and marketing Canadian technology.

As an example, Ontario has in the past two years assembled, through the Urban Transportation and Development Corporation and with the cooperation of the Toronto Transit Commission, a first-rate design and development capacity in urban transit systems. We have supported new modes of transit, such as the GO system, and successfully developed and marketed mini-buses and a radically improved streetcar which will be operating on TTC routes next year. What can be done now is to transform this capacity into a national industry, producing national income and employment benefits through its exports to other nations. We urge the federal government to participate with us in such a venture.

Improving Productivity

Turning to the question of our ability to compete in world markets, I am deeply concerned that Canada has moved too quickly to wage and salary parity with the United States in industries where productivity simply does not match the output standards of our major competitor. Unless we can make substantial gains in our productivity performance, Canada's trade balance will continue to deteriorate and inflation will not be contained. Nothing we do, no manipulation of government spending, or taxes, or subsidies, or job-creating programs, can ever escape that simple fact. You cannot sell government programs in the export market.

Capital investment in manufacturing must be increased substantially if we are to achieve necessary increases in productivity. Much has been made of the significant capital investment requirements of the energy and natural resource industries. However, investment in secondary manufacturing has grown very little as a result of inflationary pressures and it is my feeling that this lack of investment has also been related to uncertainty about federal economic policies. To confront this problem, Mr. Speaker, I would like to see a national effort in support of applied technology and research, a concerted program to exploit the advantages of scale and size in industry, and a more positive and innovative attitude towards foreign investment and foreign technology which would not sacrifice our independence or our sovereignty.

Moreover, we must accept the fact that the international trading environment is changing. The Province has traditionally supported high tariffs for manufactured goods, a policy which has generally operated to the benefit of Canada and Ontario. Unfortunately, some industries have relied on tariffs as a permanent shield from international competition rather than as a transitional measure. The current round of GATT negotiations will provide us with the opportunity to expand foreign markets, but at the same time, it will create the challenge and the necessity to improve productivity at home. I believe we can rely on all elements of the private sector, labour and management alike, to meet this challenge.

Revitalizing the Auto Industry

I spoke earlier of the need to revitalize our manufacturing sector in order to improve our competitive position. In this regard, I believe we must start with the auto industry which supports, directly or indirectly, one in every six jobs in this province.

For eleven years the industry has been operating under the Canada- U.S. Auto Pact. While the Agreement has worked well in facilitating the development of a more efficient, integrated auto industry on both sides of the border, we cannot count on past successes. In our view, fundamental problems have developed. They threaten the long-term viability of both auto assembly and parts manufacturing in Canada and the economic well-being of this Province. An accompanying Budget Paper fully documents three major problems which exist in this industry. They are:

• a widening productivity gap;

• a declining Canadian share of auto assembly; and

• serious losses in Canadian parts production.

In the course of the past three years, the country has gone from a virtual balance in Canada-U.S. auto trade to a deficit of more than $1.8 billion. Canada's deficit in auto parts trade with the U.S. alone last year amounted to nearly $2.5 billion. Mr. Speaker, this is not just a temporary aberration. It is part of a fundamental shift in industrial activity between the two countries. We cannot be complacent, as so many seem to be, that economic recovery will restore the balance. It is clear that we must stop shying away from this growing problem and take positive action. In Budget Paper F, Ontario advocates a four-part action plan to revive the long-term health of the automobile industry.

Provincial Development Strategy

Mr. Speaker, Ontario must continue to pursue a dynamic strategy for economic growth in future, which includes improvement in the quality of life and careful preservation of our natural resources. Also, all of Ontario must participate in our development to the fullest extent possible. Later this Session, we will be tabling a set of documents which advance an economic and social planning framework for the province as a whole, as well as selected areas.

I would like to conclude this section of my Budget Statement with this thought. The country faces massive economic challenges. I believe these challenges can be met and I have outlined a program for doing just that. But, Mr. Speaker, to be successful, we must be determined and energetic in our creation of a national economic policy for Canada.

**Conclusion**

Mr. Speaker, I have set before you and the Members a strong and constructive Budget. It provides for non-inflationary growth and private sector expansion in Ontario by controlling the use of public resources. It injects new confidence to sustain the momentum of economic recovery. And it continues the record of sound financial management by the Government of Ontario.

The cornerstone of the Government's fiscal program is expenditure restraint. As I have already said, Ontario's spending for 1976-77 will rise by only 10.4 per cent and we are resolved to stick to this firm limit. I estimate this control on spending, by itself, will generate a $329 million improvement in our financial position. The tax measures I have outlined will improve Ontario's finances by a further $330 million. As a result, cash requirements for 1976-77 will amount to $1,230 million— down $659 million from the 1975-76 level.

It is imperative that governments reduce their borrowing as well as their spending. Governments cannot live on credit indefinitely any more than families can. Nor will future generations be any more able to pay the bills than is the present generation. Moreover, stable growth of the economy depends on increased investment, by big and little businesses alike. No business can finance its essential expansion if governments crowd the financial markets and take all the money.

The Government of Ontario will not, I stress, require any public- borrowing in 1976-77.

In conclusion, Mr. Speaker, my Budget is a declaration of confidence. Confidence in the dynamic economy of this province of opportunity. Confidence in Ontario's workers, farmers, enterprises and institutions. And confidence in the solid record of achievement of this Government.